HAMPTON ROADS TRANSIT

October 11, 2013

The Honorable John McGlennon
Chairman, Transit Service Delivery Advisory Committee
c/o Virginia Department of Rail and Public Transportation
600 East Main Street
Richmond, VA 23219

Subject: Capital Budget Analysis Assumptions and Methodology and future work on Performance-Based Operating Assistance Allocation Methodology

We thank the TSDAC for all the work to date in deliberations over new approaches to statewide capital and operating allocations. Please accept these comments offered regarding the above captioned matters.

<u>Capital Budget Analysis Assumptions and Methodology</u>

In some TSDAC-related work to date, particularly related to discussions concerning capital programs, there has not been a common awareness and widespread understanding of assumptions upon which various working documents have been based. In light of this, we appreciate the communication dated October 7, 2013, which depicts Capital Budget Analysis Assumptions and Methodology. As future work is done in which TSDAC, VDRPT and transit stakeholders across Virginia share an interest in evaluating and discussing, we believe that there is an ongoing need to clearly outline assumptions and provide written explanations such as this. Such clarifications greatly enhance everyone's ability to understand and analyze the information presented. We also appreciate the complete and timely work of VDRPT staff in maintaining the agency's webpage related to SB1140 and the work of TSDAC. This has been and we are sure will continue to be very helpful in terms of transparency and for easy, ongoing access to information.

<u>Performance-Based Operating Assistance Allocation Methodology</u>

We thank Governor McDonnell and the Virginia General Assembly for making new statewide transit funding available (HB2313) and we welcome the consideration of performance metrics to be incorporated in new allocation methodologies (SB1140). Further, we thank the Virginia Department of Rail and Public Transportation (VDRPT) and the Transit Service Delivery Advisory Committee (TSDAC) for their work toward initial implementation. The challenges of developing and deploying new funding schemes have been discussed at length throughout the preceding SJR297 study process and TSDAC deliberations. These challenges persist, and we commend the TSDAC for its work to date. Moving forward, Hampton Roads Transit requests to formally participate in each working group noted in the plan. Thank you.

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We recognize the proposed implementation plan takes a phased approach. We support this approach. Specifically, Phase III of the plan recognizes that TSDAC and DRPT "have identified several items, as discussed below, that will require additional time to fully contemplate, discuss, and test before the TSDAC's performance based operating allocation assistance model for post-FY2015 allocations are finalized." These items expressly include:

1. "The performance-based operating assistance allocation model may require refinement, validation, and testing necessary for longer-term implementation" (page 5). The "action item" here notes that "refinements may include modifications to the size weighting factor, modification to the performance metrics to address perceived shortcomings of the three performance metrics already present in the model . . . [and] the possibility of incorporating a cap on the percent of increase or decrease of funding that one agency may receive in a fiscal year".

We support the Phase I implementation as proposed, while we strongly underscore the importance of continuing work to make warranted improvements to the initial model and method. We believe this work may require additional analysis and work beyond the June 28, 2014 technical report which is referenced under the action item on page 5.

2. "Sizing of Transit Systems: Issue: Ensuring that systems receive their relative share of funding requires the sizing of systems on a metric (or weighted metric as TSDAC has chosen for the transition allocation – operating cost and ridership weighted equally)." The "action item" notes that "Consultants will identify other possible size weighting factors and the rationale for the possible inclusion of each as part of a size weighting factor."

As reflected in the plan, we concur with the recognition that the initial sizing of systems using the 50/50 hybrid of operating cost and ridership is for the "transition" allocation. While these two metrics "are seen as metrics that will be retained" in future years, we agree that additional work to identify and possibly incorporate other size weighting factors is necessary and that this may require additional analysis and work beyond the March 28, 2014 "final report" noted under this action item on page 6.

This work to consider and adopt improvements to the use of size weight factors would need to be unique in the case of overall system sizing as well as for the use of size weighting and/or other factors as applied to performance metrics.

3. The plan notes that some transit operators may be "currently operating at a very high level of performance" and that such operators "have a relatively small window to show improvement and their percentage improvement will not

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> compare favorably to operators with more substantial opportunities for gains in their metrics." The "action item" calls for "recommendations [that] will allow for existing high performance to be rewarded just as other systems are rewarded in the TSDAC performance-based operating assistance allocation model."

Here and elsewhere, the plan recognizes differences among transit systems. There are many factors which contribute to the uniqueness of each transit system and its operating environment which have direct relation to how each system "performs" according to the three metrics (riders per mile, riders per hour, and net cost per passenger) which the transition plan focuses on.

The immediate concern noted in this item is that some operators already operate at high levels of efficiency. In Hampton Roads Transit's case, we would submit The Tide light rail as a prime example of a mode operating at high efficiency. Virginia's first and only light rail has been operating two years and one month, and average weekday ridership is exceeding projections by 55%. Costs are closely tracked and controlled. As with Virginia Railway Express and WMATA rail service, The Tide has the immutable characteristic of operating on a fixed guideway. However, the commonality of operating on a designated rail right-of-way is about the only similarity between these three systems. Each is a rail system, but each operates with different hours, fare structures, available track miles, vehicle capacity, number of vehicles, number of stations, and intermodal and park-and-ride connectivity. This is to say nothing of population and population density. The Tide operates with one-car sets on a 7.4 mile alignment, compared to other systems that can run 6-, 8- or 10-car train sets on extensive track systems.

In Phases III analyses and future work, various factors which contribute to the unique nature of each system should be considered as part of the process when evaluating what is "efficient" and "effective" service and the utility and merit of the selected performance metrics.

Analyses should consider modifications and revisions to the transition allocation methodology as warranted. Critical questions persist such as, how can selected performance metrics be applied uniformly across the spectrum of rail services? And, how can selected performance metrics be applied uniformly across the spectrum of different modes of service? Modifying factors may need to be employed.

The validity of not segregating modes should be evaluated. The validity of not accounting for differences within the rail mode should also be examined. While we support the phased approach as outlined in the transition plan, we are critical that

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performance metrics and size weighting contained in the transition plan are essentially blind to these differences. This work should not preclude also providing for possible modifications to sizing and weighting within the bus mode. This work may require additional analysis and work beyond the March 28, 2014 "final report" noted under this action item on page 6.

Since efficiency is a major focus, Phase III analyses may also consider the use of Operating Cost to Operating Overhead ratio. Use of an operating cost to operating overhead ratio may mitigate the "negative incentive for cost effectiveness" cited in the "Technical Assessment of Allocation Test Model Components" (DRPT consultant report, June 17, 2012). That assessment notes that "agencies with high operating costs have the potential for a larger proportion of revenue" and this "could have a negative incentive for cost effectiveness." As with all metrics, DRPT would provide definitions required for what would be calculated within operating costs (e.g., fuel, labor, etc) and overhead.

Finally, we support excluding tax revenues from cost calculations of performance measures based on cost (e.g., cost per passenger). This is referred to as "Net Cost" in the Net Cost per Passenger metric. We believe SB1140 is strongly intended to promote more efficiency and effectiveness in terms of lesser reliance on public subsidy and to reward operators who are able to achieve these ends. The recommendation to use Net Cost is also recommended and defined in DRPT's "Study of Transit-Related Issues in the Commonwealth" (10/17/12, p.37).

Using Net Cost to focus in on agency-generated revenue (i.e., not including what is brought to the table in terms of federal, local and regional taxes) is one means to normalize across the widely disparate funding scenarios that different transit systems have with a focus, in all cases, on lessening dependence on public subsidy.

We truly appreciate the work of all involved to help shape the future of state transit funding. Thank you for your favorable consideration to incorporate and address the items shared above.

Sincerely,

William E. Harrell
President and CEO

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