



HOWARD COUNTY OFFICE OF TRANSPORTATION

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Ms. Ashley E. Hofmeister
Assistant City Attorney
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160 Duke of Gloucester Street
Annapolis, MD 21401

Re: The Central Maryland Regional Transportation Agency

Dear Mrs. Hofmeister:

While I was encouraged by your email and our conversation on Friday, I begin this communicate with a fact; we are almost out of time for a decision as to whether the City of Annapolis will participate in the Central Maryland Regional Transportation Agency (RTA). We have less than 119-days to go before July 1, 2014 and those days will go by very quickly.

Through the vote of your City Council almost a year ago to the meetings we have had recently with City representatives to the positions of the various transportation organizations to the findings of the Anne Arundel Transportation Commission and the Howard County Transportation Commission the message has been singular: there needs to be a different approach to how public transportation is provided in Central Maryland. There is also unanimity in the position that if we are to improve public transportation throughout the region and operate these services as efficiently and effectively as possible, we need to ride a different vehicle. The RTA is (pun intended) that vehicle.

Because the new contract for public transit services for Howard County will be provided through First Transit, Inc., the transition for Anne Arundel County, Howard County, Prince George's County, and the City of Laurel (the Connect-a-Ride and Howard Transit services) will be relatively painless as all the employees and operation are already managed by First Transit. Albeit these are different First Transit divisions (transit contracting vs. transit management), it is still the same company.

The situation is much different if the City of Annapolis joins the fray. The City will have to officially notify the employees and the union of the change. First Transit will need to negotiate with the union. We need to develop procedures for purchasing, accounting, reporting, etc.

And we are down to 119-days.

I am not going to relive the numerous benefits of having the City participate in the RTA. This has been done to death and we would hope that, by now, everyone understands what these benefits are. This letter, instead, will focus on what we see will be the changes to the existing employees, opportunities for new employment, and the financial savings for the City.

We truly want the City of Annapolis to be part of the RTA. But the days of modifying MOU's and questioning the impact on employees and attempting to quantify the cost benefit down to the last penny must end. If the City wants to partner on this exciting journey, the decision needs to be made soon.

The RTA without the City of Annapolis will be an exciting, cost effective, and dramatically different solution to the transportation challenges in Central Maryland. With the City of Annapolis, it can become something special.

With that said...

Recitals:

There continues to be some confusion on what will happen with the current employees of Annapolis Transit. To begin our discussion, please consider the following:

1. **Everyone of the existing bargaining unit employees will have an opportunity for employment with the Corporation that will be operating the RTA service.** There are no exceptions to this!

Each employee will need to complete an application and pass a background and drug test; which they needed to do to be hired by the City. The wages and benefits may be different; however, every effort will be made to minimize this difference while achieving one of the goals of reducing operating costs.

So we are clear (as this question keeps getting asked), there are no existing bargaining unit employees who work for Annapolis Transit today, that we are aware of, who will not have employment on July 1, 2014 doing essentially what they are doing today.

2. **Every employee who currently receives less than \$14.33 per hour will be receiving an increase in wage.** This represents the living wage of Howard County and our contract with First Transit mandates what the minimum wage will be for any employee hired through this contract.

This will benefit almost one-half (1/2) of all of the Annapolis Transit employees.

3. **First Transit will need to complete negotiations with the existing bargaining unit (ASFCME).** Consequently, we are not in a position to provide a definitive cost savings on wages and benefits as this will be determined by the negotiations. However, we will make some assumptions based on experience with similar transitions and provide you with a range.
4. **A total of six to eight (6 – 8) new jobs will be created in the City of Annapolis immediately!** This is due to the planned location of the telephone customer service operators at Annapolis Transit. These will be entry level jobs and we will be coordinating with the City on your “2nd Chance” program to secure required staff.
5. **A reduction in administrative staff will occur;** however, this reduction will be minor as whether the Annapolis transit operation is part of the City, or is part of a regional effort, there will still be a need for administrative staff at the location.

Cost Savings:

Because First Transit has not completed negotiations with ASFCME, our savings projections are simply that: projections. We have developed various options that will provide the City with a range of savings. However, these projections are based on the assumptions that we have made and any changes in the assumptions will impact the final cost savings.

NOTE: *It is very important to understand that participation in the RTA will reduce direct expenses for administrative activities while, at the same time, not eliminating the need for these activities. As part of the partnership, the City will be funding a percentage of overhead costs for the RTA. For example, the City will no longer be responsible for financial accounting for the Annapolis Transit services. Still, such accounting will be required and will be added to the administrative functions of the RTA. The City will consequently fund approximately 25% (assuming all jurisdictions are participating) of these administrative activities. In our cost savings scenario, these additional costs have been included.*

1. Administrative Personnel

As outlined in the report submitted to the City on April 30, 2013, “Rethinking Public Transportation in Central Maryland – Cost Reduction Analysis – City of Annapolis,” the cost savings for the City in the administrative personnel line item should range between \$308,622 and \$324,349, fueled by the following:

- The removal of the Director position
- The addition of a Division Superintendent
- The removal of the Administration Office Assistant position
- The addition of an Administrative position
- The removal of the Transportation Specialist position (already occurred through resignation)
- The allocation of Grants/Purchasing activities
- The removal of the Planning position
- The allocation of Planning activities
- The removal of the Accounting position
- The allocation of Accounting activities

The original concept included the removal of the Brand Manager, however as this is a fully funded position through advertising the thinking is to continue with the position.

As increases in salaries have occurred since the report was provided to the City in 2013, therefore, it is likely that the projected savings shown above will actually increase.

2. Transportation (Operators)

Of all the projected savings, this is the most difficult to quantify. The total savings will be directly related to the negotiations of a new agreement with AFSCME. Notwithstanding the above, some general thoughts and savings can be expressed.

Prior to the review of projected savings, it is important to recognize that the disparity between the pay for the operators at Annapolis Transit is significant and much greater than what is typical of a union agreement with a transit company. The part-time drivers are making \$12.48 an hour and several of the drivers are making \$26.51 an hour. Given driver wages in the State of Maryland (not including the Maryland Transit Administration), the highest wages are well outside the norm.

At the same time, as each of the part-time employees will receive an increase of almost \$2 per hour due to the Howard County Living Wage, the difference will be reduced. While this higher minimum wage will offset some of the cost savings, at the same time it may make it easier for the transit operation to retain employees, thereby reducing training and insurance costs.

To complete the projection of cost savings for the operators, First Transit has run five options. All of these focused on the reducing the higher wages and have been based on conversations with Paul Rensted, Director of the Human Resource Department for the City:

- Red-line wages at \$21 per hour and everyone else below \$21 per hour takes a \$2 per hour pay reduction = savings \$183,724. The red-line would impact 16 of the current 28-full time drivers. The drivers at step 10 would be most impacted. Nine of the 16 drivers impacted are at step 10.
- Red-line wages at \$21 per hour and everyone else stays the same = savings \$134,658.
- Take \$2 per hour off every full-time operator = savings \$115,625
- Red-line at \$23 per hour and take \$2 per hour off everyone else = savings \$72,258.
- Red-line at \$23 per hour and everyone else stays the same = savings \$68,213.

While negotiations with AFSCME will have a great deal to do with the final cost savings, direction from the City will also have an impact. For example, the City may choose, based on the significance of the other cost savings, to minimize impact on the drivers' wages thereby reducing the cost savings in this line item.

Offsetting the projected savings shown above will be the cost of increasing the minimum wage to \$14.33. This is estimated by First Transit to be approximately \$55,000.

3. Maintenance

Savings in maintenance come from two sources. First, as outlined in the earlier report, Annapolis Transit has eight mechanics for 25-buses. This is a very liberal ratio. Three (3) of these mechanics are employees of the City; five of these mechanics are contract employees.

Therefore, the first cost savings under maintenance is a reduction in the number of mechanics. Although it may be possible to maintain these buses with three mechanics, the recommendation from First Transit is to fund four (4) positions. Through simple calculation, four of the five contract employees would therefore be removed. As they are currently making \$27 per hour (with no benefits), an annual savings of \$224,640 is achieved.

Of the three maintenance employees who are City employees, two are very well compensated. Again through discussions with Mr. Rensted, First Transit has projected a savings of \$31,200 through a reduction of \$5 per hour for each of the three mechanics. This would bring the mechanic's wage rate into line with most city transit operations.

Offsetting the projected savings in maintenance from the two sources is a belief that a dedicated bus cleaner is needed. Currently, the drivers are responsible for cleaning the insides of the buses and, as is the norm throughout the Country, drivers do not make good cleaners. Therefore, First Transit believes that a cleaner should be hired at the \$14.33 rate and that this cleaner should also be part of the City's "2nd Chance Program." It is possible that this position will be part-time (less than 30-hours.)

4. Benefits

In some respect, this is the most difficult area to project savings as any savings will be determined by the negotiations with ASFCME. Still, the following should be considered:

- Medical = No Savings – The City medical plan is excellent and relatively inexpensive. Until the negotiations are completed, and the Corporation secures its medical plan (which requires the ages of employees which cannot be provided until the decision to participate is made), it is virtually impossible to project any savings in medical.

As a preface, the percentages of contribution from each employee will likely match what the City is requiring currently. This is in line with most transit operations throughout the County.

- Insurances = No Savings – As with medical, until negotiations are completed and the Corporation can provide detailed information on its employee group, estimating any savings in insurances cannot be completed.
- Pension = \$133,000 – Assuming that we are correct on our assumption that the City employees contribute 6.5% of their wages into the pension program and the City matches with 8.5%, then a significant cost savings will be achieved in this line item.

For most transit operations, the employees and the company both provide 3% into the pension program. Consequently, the employees would benefit by 3.5% (which would help offset the reduction in wages for employees with the higher wage rates) and the City would benefit by 5.5%.

Based on the existing salaries and wages for Annapolis Transit (\$2,413,000), which includes overtime, a reduction of 5.5% in pension cost would reduce City costs by almost \$133,000. As this is based on the report completed last year, it is possible that the salaries and wages are actually higher which, consequently, increases the cost savings.

NOTE: *While it is clear that a reduction in funding, and therefore benefits, will occur in pensions, it should be noted that currently 17 of the 28 bargaining unit employees are already vested in the City (State) program.*

5. Insurance (Casualty & Liability)

In the report provided to Annapolis last year, it was noted that the City included in the FY14 budget a line item for "General Liability Insurance" which totaled \$325,075. We have no idea what that includes, however, as part of the contract with First Transit, the Corporation will be

required to carry its own insurance. For the City of Annapolis the estimate is \$208,193 plus \$10,958 for Officers and Directors.

Like all insurances, the final amount will not be known until such time that the group is clearly identified. However, based on the above, another cost savings to the City of \$105,924 is achieved.

6. Administration – In-Direct

While it is not possible for us to determine the financial impact of moving administrative activities from the City to the Corporation that will be operating the service, the savings must none-the-less be considered. Based on the last budget for Annapolis Transit, the City includes \$673,000 for “Administrative – In-Direct” expenses.

While we can project (with the caveats) what the savings in operating costs for Annapolis Transit will be; what we don’t know is if there will be a measurable reduction in costs for the City and what those costs would be. For example, accounting for the Annapolis Transit services will be handled by the Corporation. Will that result in a decrease in the number of personnel needed in the financial department of the City? That is an analysis that the City will need to make.

If the City determines that the burden of the transit operation on the financial department is such that a position can be removed, then a real cost savings for the City in in-direct expenses will occur. If the City determines that the work load in the financial department is such that a reduction in staff cannot occur, however, the department can be more efficient and effective, then a real cost savings will not occur, however, there may still a benefit for the City.

The same analysis needs to be completed for other departments and other activities. The legal costs for the Corporation will be self-contained. Will that impact the City staffing? The purchasing will be self-contained in the Corporation. Will that impact the City staffing?

We will provide a total for the various savings projections that will not include any savings from in-direct and then provide the “potential” based on the reduction of the in-direct savings. What that number could eventually be will need to be determined by the City.

7. Total

Based on the above, the City of Annapolis should expect a reduction in costs for the Annapolis Transit operation by a minimum of \$864,011, as follows:

Combined Savings

Line Item	Range	
	Min	Max
Administrative Personnel	\$ 308,622	\$ 324,349
Transportation (Operators)	\$ 115,625	\$ 183,724
Transportation (HC Living Wage)	\$ (55,000)	\$ (55,000)
Maintenance (Contractor Reduction)	\$ 224,640	\$ 224,640
Maintenance Personnel	\$ 31,200	\$ 31,200
Benefits (Pension)	\$ 133,000	\$ 133,000
Casualty & Liability Insurance	\$ 105,924	\$ 105,924
	=====	=====
Total Cost Reduction	\$ 864,011	\$ 947,837
Administrative - In-Direct	\$ 673,000	\$ 673,000
	=====	=====
Total Potential Cost Reduction	\$ 1,537,011	\$ 1,620,837

NOTE: *Option 3 for the operators was used as the minimum instead of the two lower options based on conversations with the Human Resource Department for the City of Annapolis.*

Summary:

It is important to remember that these cost projections are based on a moving target. Until we know exactly who is in the RTA and until the Corporation is created and until the negotiations with the two labor unions are completed, many of the cost savings discussed in the letter are estimates; nothing more. Once the RTA is up and running we will certainly be able to project future funding requirements with a great deal more accuracy. For now we can only speculate on what the final cost savings will be.

That there would be a cost savings to the City is unquestioned and the fact that the savings will be significant is also unquestioned; the only question is exactly how much.

We also know that there will be costs that occur with the RTA that will offset some of the savings. Because the City will only fund 25% of such costs, the impact on the City will be minimal. For budgeting purposes, I would recommend that the City reduce its projection of cost savings by \$100,000, resulting in a projected cost savings in a range between \$750,000 and \$850,000.

Conclusion:

We (Howard County and our project partners) believe that the RTA with Annapolis is a much stronger, and very different, RTA than it will be without Annapolis. This communication provides additional support to a concept that is already strongly supported.

Conversely, the City of Annapolis, should it decide to remain outside of the RTA, will be required to continue to support the current operation and be isolated from the region while the RTA creates a new vision and opens new opportunities for the region that it will serve. This is not to the benefit of anyone, including those who do choose to partner in the RTA.

But the time for discussion and analysis must end. If the overall benefits of participating in a regional effort, along with the projected cost savings that have been provided in this letter and previous reports, do not convince the City that participating in the RTA is to its benefit, then it is time for all of us to move on.

Based on our conversations with First Transit, and our review of the transition plan, we need a decision by the City no later than **March 14, 2014**. Given the support by the Administration, the City Council and the other transportation organizations throughout the area, and based on the information included herein, this decision should be straightforward. But it has to be made and the MOU, that is intended to be nothing more than an agreement to work together to shape a new approach to public transit throughout the region, needs to be signed.

For everyone concerned about transportation throughout our region, which includes about everyone and every organization in the region, I hope that the City will join the RTA. To that end, I am, as always, on call for questions and will gladly make all necessary meetings.

Sincerely,

A handwritten signature in black ink, appearing to read 'John W. Powell, Jr.', with a stylized, sweeping flourish at the end.

John W. Powell, Jr.
Administrator