

Pennsylvania House Democratic Policy Committee Hearing

January 11, 2012

Point Park University

Testimony of Stephen G. Bland, Chief Executive Officer

Port Authority of Allegheny County

Thank you Mr. Chairman and Members of the Committee.

I am Steve Bland, Chief Executive Officer of the Port Authority of Allegheny County. The Port Authority is the second largest transit operator in the Commonwealth of Pennsylvania, carrying over 225,000 passenger trips each weekday. We are one of 10 public transit operators in the Pittsburgh region, but carry about 95% of the total transit ridership in the region.

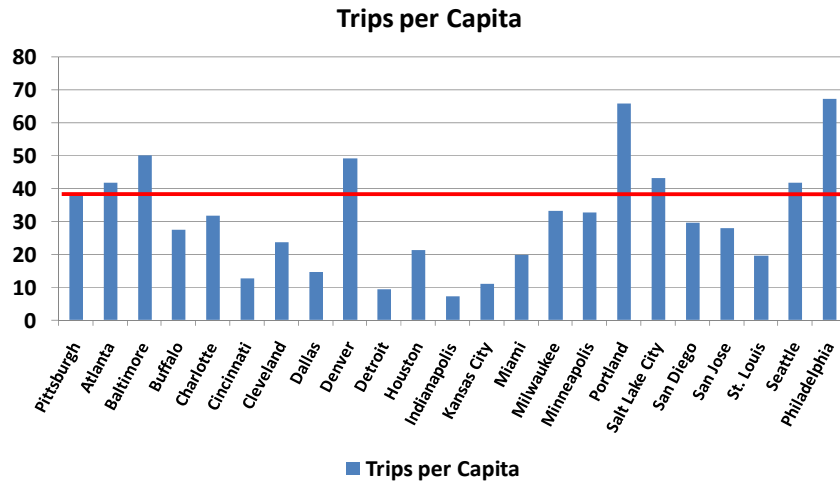
I appreciate the opportunity to follow Secretary Schoch and District Executive Dan Cessna this morning. Our partnership with PENNDOT in terms of both transit funding and multi-modal planning has been a significant element contributing to the overall mobility of the people of Southwestern Pennsylvania. Secretary Schoch also played a key leadership role in Governor Corbett's Transportation Funding Advisory Commission, a body whose work will factor into my comments this morning.

I wanted to keep my remarks fairly brief today, in the hope that I can address any questions you might have, but I did want to touch on three issues: (1) The crucial role that public transportation plays in Southwestern Pennsylvania, particularly in its economic core of Downtown Pittsburgh and Oakland; (2) Steps the Port Authority has taken over the past 5 years to improve efficiency and become better stewards of scarce resources; and (3) our view of what it will take to preserve and sustain the vibrant and effective transit system we have in Pittsburgh today, but risk losing before the end of this year.

In market research conducted in 2010, the Pittsburgh Downtown Partnership found that 51.1% of all downtown commuters used public transit to get to and from Downtown Pittsburgh. This percentage had actually increased compared to their earlier research in 2003, when it was about 48%. With downtown parking facilities at typically over 90% occupancy on weekdays, the crucial role that public transportation plays in the Commonwealth's second largest economic generator – Downtown Pittsburgh – is beyond doubt. Likewise, Southwestern Pennsylvania's largest concentration of high-tech employment – Oakland – sees approximately 25% of its workforce arrive each day on public transportation. Coupled with the 7.4 million annual trips taken by the students, staff and faculty of the University of Pittsburgh, Carnegie Mellon University and Chatham University; it becomes clear that Port Authority services are central to the survival and thriving nature of Oakland as the Commonwealth's third largest economic generator.

Simply put, it is difficult (if not impossible) to envision how the Pittsburgh region could survive in its current form without a vibrant public transportation network.

From a national perspective, people in the Pittsburgh region are much more likely to use public transportation than residents of similar sized cities. Using data published by the Federal Transit Administration for 2010, the chart below illustrates that people are more likely to use transit in the Greater Pittsburgh region than in 15 similarly sized cities, including much larger cities such as Dallas, Houston or San Diego.



Source: FY2010 National Transit Database Report published by USDOT.

With the overall importance of public transportation to the region, it is crucial that the Port Authority manage its resources in as efficient a manner as possible.

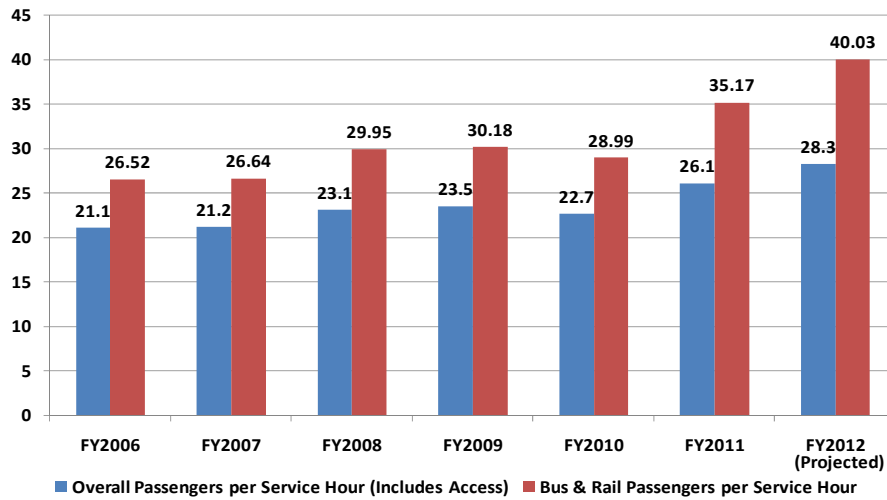
In 2006, Governor Rendell’s Transportation Funding and Reform Commission Report issued performance audits on seven public transportation agencies, including Port Authority. In the 5 years since that report was issued, our Board and Management have used it as a blueprint for improving the efficiency and overall operation of our agency. I’d like to highlight several key findings and our progress to date:

1. The Commission found that the productivity of Port Authority’s service (when compared to similarly situated peers around the nation) was the lowest in that group. Further, the Commission found that the Authority made “little or no use of analytical data to support service decision making, resulting in overall service productivity that fell below almost all peers, and even some much smaller transit agencies in Pennsylvania.”

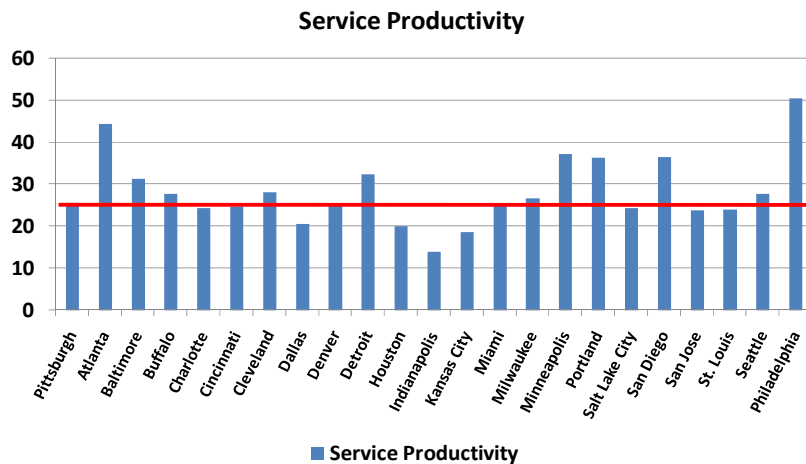
Since that time, the Authority has spent considerable effort improving its data collection and analysis techniques with respect to patronage information, including the utilization of data derived from Automated Passenger Counters and our new Automated Fare Collection System. In 2009, the Authority’s Board adopted a “Transit Development Plan” resulting in the most

sweeping service redesign of any large public transit agency in the Country. In addition to a “heavy dose” of the analytics called for by the Reform Commission, we conducted dozens of public meetings engaging thousands of riders, residents and other stakeholders. This redesign of services was completed last year. Although it was not easy, it was successful, resulting in a 25% improvement in service productivity (as illustrated in the graphic below). In addition, although budgetary constraints have mandated that we reduce 30% of our service hours since 2007, we have retained 94% of our pre-service reduction ridership.

Service Productivity History (Number of Passengers per Service Hour)



Transit Service Productivity

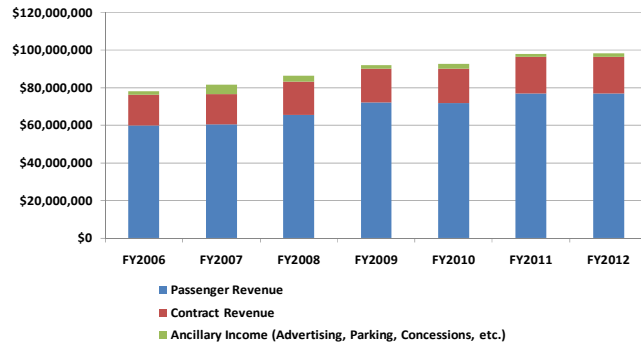


Source: FY2010 National Transit Database Report published by USDOT.

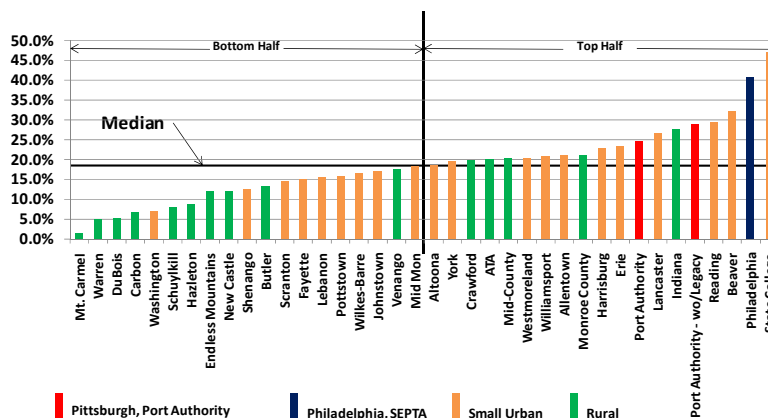
Again, as with service utilization, Pittsburgh has moved well up in its peer group as is shown in the graphic above. Where (in 2006) it ranked near the bottom of this listing of cities, we are now in the middle of the pack, and continuing to improve. In fact, many of the cities ahead of us in this chart (Philadelphia, Atlanta, Baltimore, Portland and San Diego) have a greater capacity for productivity due to their extensive high-capacity rail systems. Here in Pittsburgh, our light rail line (though very productive) only accounts for approximately 12% of our total ridership. We are, first and foremost, a bus system.

With respect to revenue, these efficiencies, along with three fare increases over the past five years, a doubling in contract income derived from our University partners, and an increased focus on ancillary income sources on the part of our Board of Directors has led to a 25% increase (\$20 million) in annual operating income since 2006. This growth history is illustrated below, and results in a very competitive cost recovery profile (the percentage of total operating costs recovered through the farebox and other operating revenue sources) relative to other agencies in Pennsylvania, as well as our peer systems across the nation.

Port Authority Operating Revenue History



Farebox Recovery (% of Operating Expense Paid by Passenger Fares)



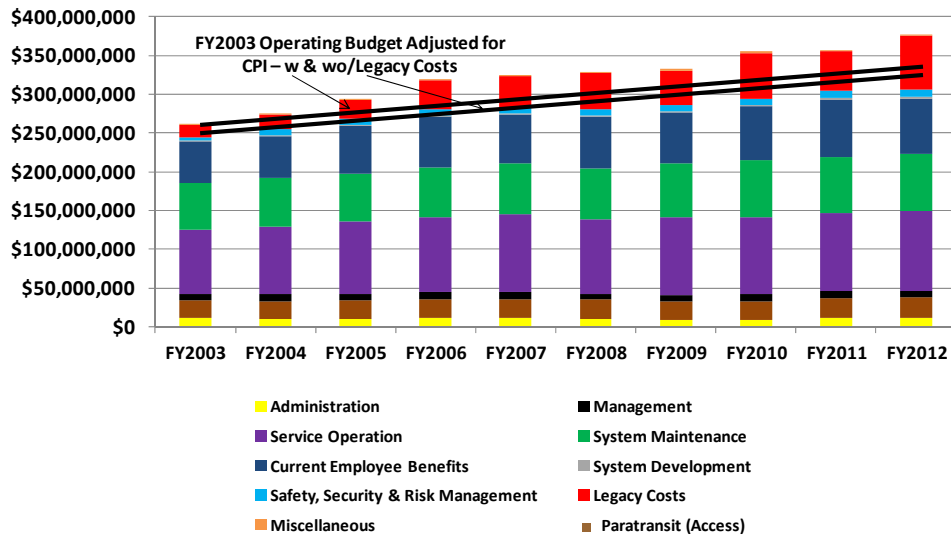
Source: Pennsylvania Public Transportation Annual Performance Report, FY2009-10; published by PENNDOT.

Note: Port Authority wo/Legacy illustrates Port Authority's farebox recovery if 2 specific items were eliminated from its expenses: (1) Retiree Healthcare (cash) and (2) Portion of Pension Contributions Covering Unfunded Liabilities for Current Retirees.

- Another area that the Funding and Reform Commission identified was the Authority's extensive "legacy costs." Without doubt, and to this day, the cost of post-retirement benefits for our employees remains a millstone around the neck of the Authority. With retirees now outnumbering active employees, this issue is much more difficult – and long-term – in nature than most that we face. However, it is crucial that we do face it proactively.

In FY2003, legacy costs (specifically, retiree healthcare premiums and Authority pension contributions) made up about 6% of our operating budget. By way of contrast, in the current fiscal year, these items make up about 19% of our total operating budget, as each other area of expense has grown smaller as a percentage. Excluding our pension and retiree healthcare expenses, the total expenses of the Authority have grown at well below the rate of inflation over the past 9 years, as illustrated in the graph below. During the same period, legacy costs grew – on average – by over 30% per year.

9 -Year Trend in Cost Elements Total Annual Operating Expenditures



So, what has the Authority done in this regard?

Well, although there is still much to do, I can report to you that much has been accomplished.

As of today, the primary burden of our pension plans are the devastating asset losses experienced in the stock market collapse of 2008. In fact, although the pension plans lost (on average) about 30% of their assets in this recessionary collapse of the market, resulting in a significant unfunded liability, and tremendous increases in required contributions; the “normal” cost of our pension plans (the cost created by benefit levels and retirement patterns) has actually dropped significantly over the past 5 years.

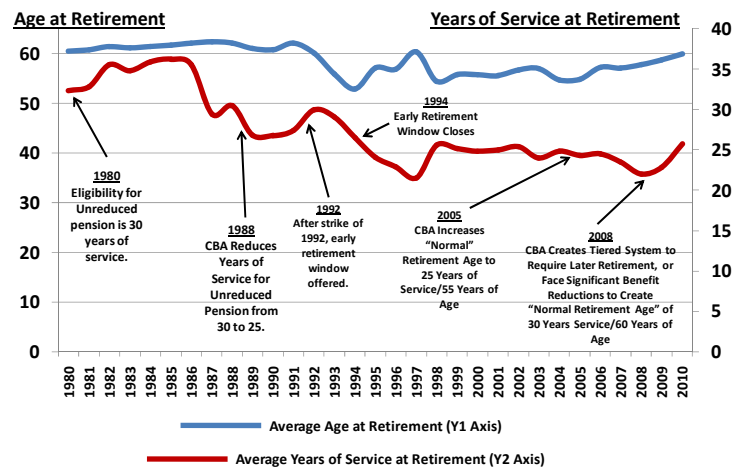
This has been achieved, along with sharpened reductions in projected future liabilities for retiree health benefits, through a sting of actions with the common theme of aiming to have employees who are eligible for such benefits work for more years, to a higher age. Specifically, we’ve:

- a. Eliminated the availability of post-retirement healthcare for all non-represented and Police employees, about 12% of our workforce.
- b. Converted all future employees (about 14% of our workforce) in our non-represented, Police and IBEW units from a defined benefit pension program to a defined contribution style plan.

- c. Negotiated changes in our collective bargaining agreement with Amalgamated Transit Union Local 85 in 2008 increasing the normal retirement age to 60, and years of service to 30 for unreduced benefits; as well as insuring that all future retirees eligible for healthcare will pay whatever current employees pay for coverage. These changes resulted in a \$27 million reduction in the Authority's annual liability accrual for future benefits. Of even greater importance to short-term savings, they have had the desired (and intended) impact of retirements occurring at a higher age, after more years of work, as illustrated below.

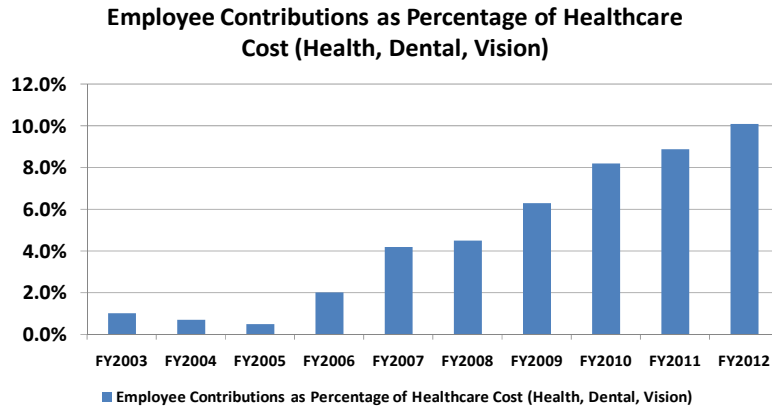
Port Authority Retirement Profile

Age and Years of Service by Retirement Year

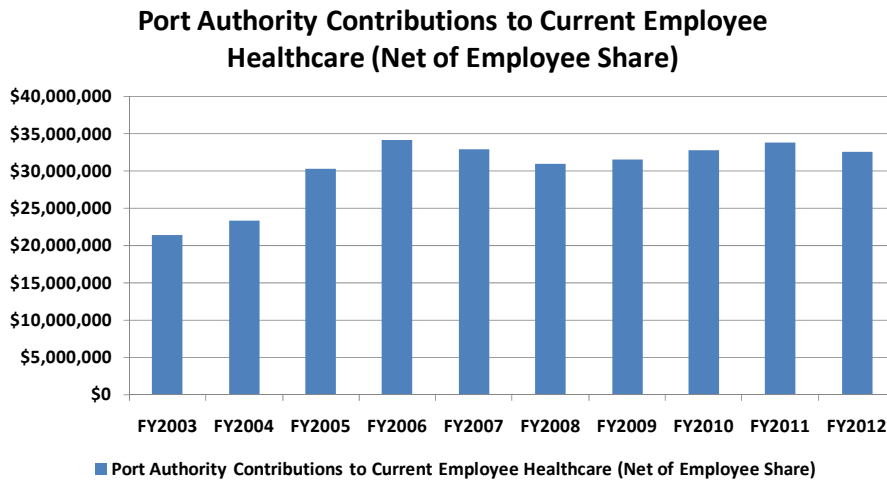


- d. Through aggressive rate negotiation with our insurance carrier, wellness and other loss control programs and bargained changes in plan design, we reduced the cost of coverage by over \$2 million annually in 2008, and are moving into our 3rd year of a rate freeze.
- e. Active employee contributions to healthcare have tripled over the past 4 years, and now account for approximately 11.2% of total premium cost. Up from less than 1% just 6 years ago.

Historical Percentage Employee Contribution to Healthcare Expense (Health, Dental, Vision)



History of Port Authority Contributions to Employee Healthcare Net of Employee Contributions (Health, Dental, Vision)

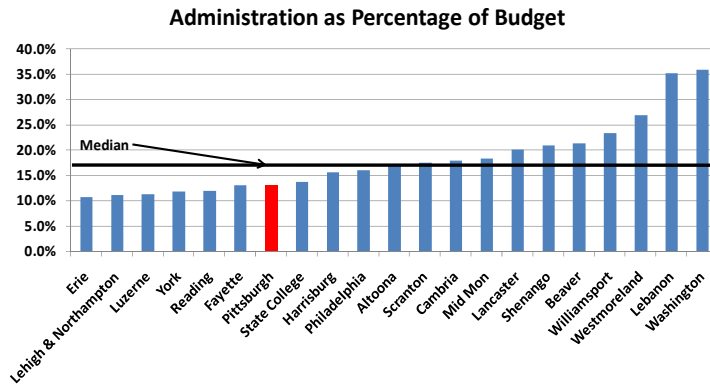


As illustrated in the figures above, the reductions in Authority workforce coupled with health insurance rate growth of ½ the regional average and significantly increased employee contributions to healthcare have led to very little growth in current employee healthcare spending since 2006.

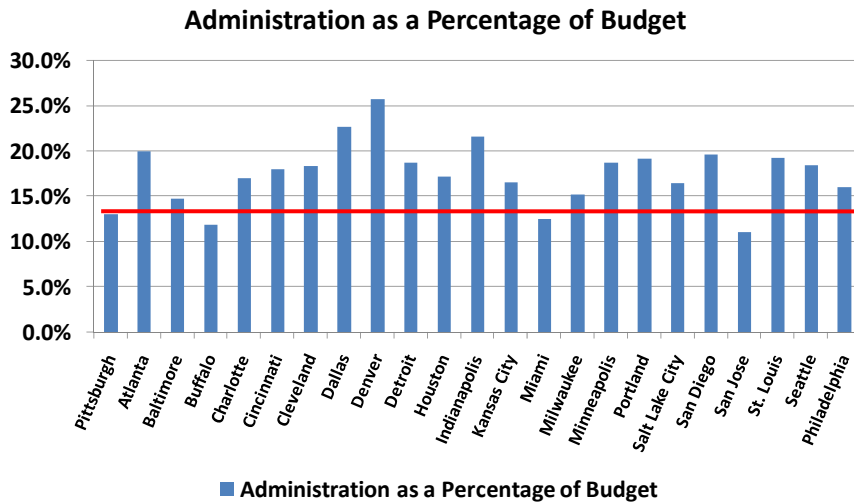
Finally, with respect to efficiency, I'd like to touch on overhead and administration. Regrettably, the Authority's service levels have been reduced by about 30% over the past 5 years. However, this has come with a commensurate reduction in management, administration and overhead, as over 70 management and administrative positions (over 30% of the total) have been eliminated in that time frame. Between 2007 and 2010, the Authority's spending on administration has decreased from 15% of total budget to 13.1% of total budget – 7th lowest

among the 21 reporting transit agencies in Pennsylvania; and 4th lowest among 24 peer systems around the country.

Percent of Operating Budget for Administration Pennsylvania Urban Systems



Percent of Operating Budget for Administration



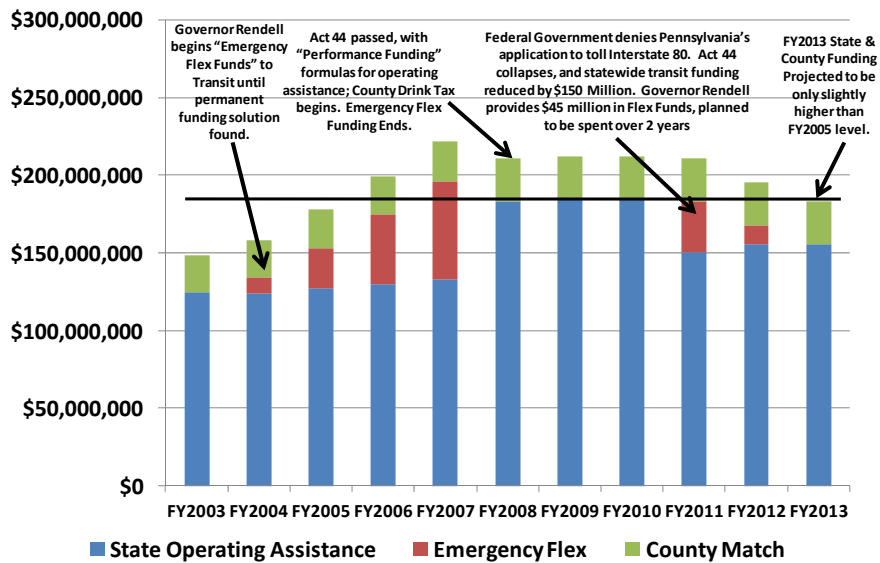
Source: FY2010 National Transit Database Report published by USDOT, Table 12.

Unfortunately, despite these efficiency gains and increases in operating revenues; the Authority faces yet another prospect of draconian service cuts this coming September. Next week, our Board of Directors is expected to release for public comment a proposal to further reduce our service levels by 35%, as well as increase fares, in the face of a projected \$64 million deficit for FY2013. This 35% service reduction may portend the “beginning of the end” of public transportation as a dominant travel mode in Pittsburgh, as it is expected to be eliminated over 40 of our 102 routes and cost us 20% of our daily ridership, or about 45,000 daily one way trips for about 20,000 individuals. It is also expected to result

in the elimination of between 500 and 600 positions, requiring 400 to 500 layoffs; and the closure of one (and possibly two) additional bus operating divisions.

This tragic necessity comes about directly as a result of the collapse of Act 44 due to the Federal Government's decision not to allow the tolling of Interstate 80, in concert with factors such as radically increasing pension contributions resulting from the stock market collapse of 2008. It also mirrors difficult cutbacks in other public services such as education and public welfare as States and localities grapple with budget shortfalls. In terms of State funding, Port Authority is projected to receive no more support for operations from State resources in our FY2013 than it did in FY2005, as illustrated below.

State & County Operating Assistance History



This begs the question about what we can do to avoid such a catastrophic impact on our region's transit service. The answer is not that complicated, but will be difficult.

First, the Port Authority clearly has an obligation to continue building on the efficiencies I've reported here, and continue to reign in legacy costs. With negotiations successfully completed with our Police and IBEW Unions this past year to move toward defined contribution programs and sharply reduce future post-retirement benefits, we now turn our attention to negotiations with our largest Union – ATU Local 85 – this year. While this unit has made concessions in past contracts (as I have described), more needs to be done. This fact has been acknowledged by their leadership publicly on more than one occasion, including several months ago in a joint legislative briefing we held with ATU Local 85 President Pat McMahon for our Allegheny County State Legislative Delegation in Harrisburg.

However, the Union alone cannot possibly offer enough concessions to prevent draconian service cuts, as well as fare increases, in September. The Commonwealth must move forward with the recommendations of Governor Corbett's Transportation Funding Advisory Commission. In establishing the Commission, Governor Corbett (in his Executive Order) acknowledged both the critical nature of

Pennsylvania's road, bridge and transit infrastructure to Pennsylvania's economic well being and the fact that current funding levels have fallen well short of need for the entire, statewide transportation infrastructure.

The recommendations of the Commission – a broad, bi-partisan body representing an array of transportation and financial expertise – have been widely endorsed by groups ranging from organized labor to the business community, as well as gaining the editorial endorsement of many significant media outlets statewide, including the Post Gazette Newspaper here in Pittsburgh.

The bi-partisan nature of the recommendations could not be more vividly demonstrated than its endorsement by representatives in both parties through the introduction of legislation. Senator Jake Corman, a Centre County Republican, introduced Senate Bill 1327, along with two companion bills, that (if enacted) would implement the recommendations of the Funding Commission. More recently, Democratic State Representatives Mike Hanna of Clinton County and Dan Frankel of Allegheny County have introduced similar legislation on the House side enacting the recommendations of the Commission. We commend Senator Corman and Representatives Hanna and Frankel for their leadership in this regard.

While there are indications of broad support for a comprehensive package to sustain transportation for the mobility betterment of all Pennsylvanians, some have also expressed a reluctance to act now due to the precarious state of our economy, and the financial challenges being faced by many Pennsylvanians. Though this concern is understandable, I would argue (as many others have) that the cost of enacting the recommendations of the Commission now will be a fraction of the cost to Commonwealth residents of putting this issue off another year. Most visibly here in Pittsburgh, we can anticipate the loss of a job to 500+ Port Authority employees in September this year, as well as the loss of a ride to work by about 20,000 Southwestern Pennsylvanians. While many of these 20,000 folks may have another means of transportation, many others will not. For those who do have other options, make no mistake that their alternative will cost them significantly more.

I thank you for the time you've allowed me today. You've put together a very impressive panel of speakers. If I may answer any questions you have, I would be happy to do so at this time, and I pledge to continue to work with you and my peers around the Commonwealth and at PENNDOT to improve mobility services for all Pennsylvanians.

Thank you.