

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
10	08/14/17	Open	Action	08/08/17

Subject: Employment Contract Amendment General Manager/CEO, Henry Li

ISSUE

Whether or not to amend the Employment Contract between the Sacramento Regional Transit District and General Manager/CEO, Henry Li.

RECOMMENDED ACTION

Adopt Resolution No. 17-08-____, Approving the First Amendment to the Employment Agreement with Henry Li as SacRT's General Manager/CEO.

FISCAL IMPACT

Budgeted:	Yes	FY18 Base Salary	\$	264,750
Budget Source:	Operating			
Funding Source:	Operating	FY18 Benefits	\$	97,611
Cost Cntr/GL Acct(s) or Capital Project #:	510010 – 520108, 690050			
Total Budget:	\$ 362,361			

DISCUSSION

After a nationwide search for the most qualified applicants, the SacRT Board of Directors selected Henry Li as SacRT's General Manager/CEO (GM/CEO), effective July 1, 2016.

The Board met, in closed session, on June 12, 2017 and July 24, 2017, to conduct its evaluation of Mr. Li's Fiscal Year 2017 performance and make a determination regarding potential changes to Mr. Li's compensation and benefits package. The Board appointed Board Chair, Andy Morin, as SacRT's negotiator. Within parameters provided by the Board, Chair Morin has reached terms with Mr. Li regarding salary and benefit enhancements. The proposed amendments to Mr. Li's employment contract, along with the amount of Mr. Li's performance bonus, are subject to Board approval.

By way of background, the Board's selection of Mr. Li involved a degree of risk – though he had ample transit leadership experience, Mr. Li had no prior experience as a GM/CEO. This risk was reflected in Mr. Li's negotiated base salary. At \$216,000 per year, Mr. Li's base salary is essentially a "probationary" rate of pay, falling well below the industry norm for transit GM/CEOs among SacRT's peer agencies. In fact, according to salary studies reviewed by SacRT, it appears that Mr. Li's initial base pay is the *lowest* salary among SacRT's peers.

Approved:

Presented:

Final 08/09/17

General Manager/CEO

Chief Counsel

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The table below summarizes SacRT’s findings following research of the estimated pay projected to be received by GM’s at comparable agencies for FY18:

Agency	Projected GM Base Salary
BART (SF/Oakland, CA)	\$396,838
San Diego Metro (San Diego, CA)	\$376,698
OCTA (Orange County, CA)	\$352,561
San Jose VTA (San Jose, CA)	\$348,580
Denver RTD (Denver, CO)	\$347,875
Golden Gate Transit (SF, CA)	\$337,458
Sound Transit (Seattle, WA)	\$327,800
Tri-Met (Portland, OR)	\$319,180
AC Transit (Oakland, CA)	\$308,000
Austin Capital Metro (Austin, TX)	\$299,479
SamTrans (San Carlos, CA)	\$298,702
Omnitrans (San Bernardino, CA)	\$284,834

The average salary derived from the table above is \$333,167.04 per year – nearly 35% above Mr. Li’s current salary of \$216,000 per year.

Under Mr. Li’s leadership, SacRT has changed its performance vector from a slow and consistent decline to continuous improvement. Substantial improvement has occurred in every area identified by Mr. Li and the Board in setting the GM/CEO’s annual performance goals. Attached as Exhibit A is a copy of the SacRT “Year in Review” that captures the remarkable achievements attained by SacRT through Mr. Li’s relentless efforts. The Board’s decision to hire Mr. Li as the GM/CEO has proven valuable to the agency and to the region as a whole.

Given the foregoing, the probationary nature of Mr. Li’s initial base salary, at well below the industrial average, does not accurately reflect Mr. Li’s value to SacRT and to the Sacramento Region. The conclusion of Mr. Li’s performance evaluation is an appropriate time to recognize the value of a healthy SacRT and reasonably compensate the GM/CEO.

With Board approval, the following are the proposed compensation and benefit adjustments:

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First, Mr. Li's base salary would be increased, retroactive to July 1, 2017, from \$216,000 to \$248,500, annually, and would be further increased from \$248,500 to \$281,000, annually, on January 1, 2018. This salary increase will bring Mr. Li's salary into general alignment with his transit GM peers. However, it is noted that this salary remains approximately 15.6% below the industry average.

Second, Mr. Li's base salary would increase, annually, at the same rate as SacRT employees in the Management and Confidential Employee Group ("MCEG"). Therefore, Mr. Li's increase would be identical to that which is received by SacRT's Chief Counsel, Executive Management Team, Directors, Managers, Administrators, and supporting staff.

Third, Mr. Li would be able to participate in SacRT's to-be-established 401a Plan and SacRT would make an annual contribution, retroactive to July 1, 2017, of \$29,000 per year, increasing annually at the percentage rate that the Internal Revenue Service (I.R.S.) cap on contributions to such plans increases. For example, the current I.R.S. cap is \$54,000. If the I.R.S. cap for 2018 increases to \$55,000, this would represent a cap increase of 1%. Therefore, for the period of July 1, 2018 through June 30, 2019, SacRT's contribution to the 401a for Mr. Li's benefit would be \$29,290 (29,000 x .01).



Regional Transit

Sacramento Regional Transit District
A Public Transit Agency
and Equal Opportunity Employer

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Route, Schedule & Fare Information
916-321-BUSS (2877)
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sacrt.com

Public Transit Since 1973

May 15, 2017

Dear Board of Directors:

During the past 12 months, SACRT has moved at the speed of light rail to transform the culture and focus of the organization to provide our customers with the quality service they expect and deserve. We have made a solid, rapid and comprehensive turnaround and transformation.

Thank you for entrusting me to lead SACRT on the road to excellence. During my brief tenure, I have immersed myself in building an organization that operates like a true business; one that is transparent, accountable and puts customers first in all that we do. With your strong leadership and collective support, as well as the dedicated SACRT team now in place, we have made tremendous strides in enhancing the reputation and public image of the organization, and we are steadfast in making it all it can be.

Key to our early success has been our ability to make inroads on five major initiatives, which we identified in collaboration with the Board that were critical to SACRT's transformation. They are:

1. Enhancing performance and accountability to make excellence the norm instead of the exception;
2. Maintaining a clean, safe and secure transit system 24-hours a day, seven days a week;
3. Providing convenient and reliable service to Golden 1 Center (G1C), our opportunity to demonstrate our value to the community and make a lasting impression on new customers;
4. Stabilizing the District's fiscal position by identifying immediate and long-term cost avoidance areas, as well as innovative new revenue streams; and
5. Elevating internal and external communications to provide total transparency at all levels of the organization, and building stronger partnerships with regional stakeholders.

While we have not yet reached our potential as a best-in-class transit district, we are miles ahead of where we were. Please allow me to elaborate on how far we have come since I began last summer.

1. A new SACRT is moving the region with a team of employees who have a refreshed attitude about our goals, our objectives and our mission to provide excellent service with a new business model.

We know that a transit district is only as good as the team of employees who operate it. That's why, in the first month as CEO, I implemented an initial Executive Leadership Restructuring to mobilize a team that would instill a sea change within the Agency. With the new leadership structure in place, my executive team is focused like a laser on the following key functions:

- Accountability & Performance
- Transit Services & Operations
- Communications & Partnerships
- Safety & Security
- Strategic Planning & System Development
- Administration & Finance

Through open communication with staff about our goal of putting customers first and operating like a business, the executive team was able to attract and retain employees who deeply believe in that mission. Today we all share the common goal to inspire, build capacity, seek continuous improvements and align responsibilities to create a more stable, flexible and resilient organization.

Although the reorganization resulted in the elimination of 22 administrative and management positions, the layoffs were handled fairly. Many of the affected employees were eligible for, and elected, retirement.

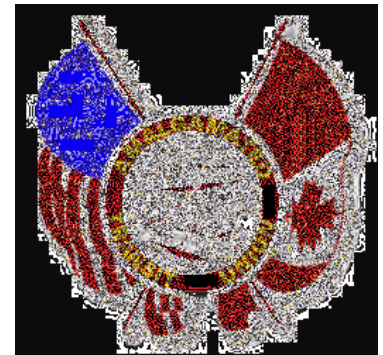
By breaking down silos and building stronger partnerships throughout the organization, employees realize the integral role they play in our overall success and they have performed beyond expectations. Together, we - union and nonunion employees - are combining all of our strengths to do more and better with less.

In addition, my management team has been developing a comprehensive performance metric system for all key functional areas that clearly states what is expected of staff to eliminate guesswork and enhance transparency.

2. We strengthened SACRT's fiscal stability by operating on a lean budget and by identifying new revenue sources that will generate millions of dollars for the District in coming years.

SACRT's previous decisions resulted in nearly zero cash reserves, a negative bond rating, declining revenues and a looming fare increase that made customers question if it was worth it to use our service.

We managed to turn the negative tide around by maintaining a cash reserve of \$6 million in only eight months - despite significant drops in revenue sources - with a goal of reaching \$8 million-to-\$10 million in reserves by the end of this calendar year. The savings is unprecedented for SACRT and we did it without compromising our level of service to the customer.



For example, SACRT saved \$1.75 million through a combination of staff restructuring and a reduction in administrative staff salary increases from 5 percent to 2 percent. We entered into a collaborative agreement with the Sacramento Area Council of Governments (SACOG) and the Sacramento Area Air Quality Management District, that generates approximately \$2.1 million in operating funds for G1C services for the Sacramento region. Through substantial efforts related to the Traffic Congestion Relief Program (TCRP), we received more than \$40 million in cash. That money was used to reduce the debt service obligation on the District's bonds from \$5.5 million to \$3.5 million over the next 20 years, a move that resulted in Moody's upgrading our bond rating from "negative watch" to "stable." During the first three fiscal years, FY17 - FY19, the debt service is reduced to zero.



After charging my executive team with the task of identifying every possible new funding source for the District to increase our financial outlook well into the future, they did a superb job by accelerating our Joint Development program which has a potential of generating up to \$20 million in surplus property sales revenue. Additionally, advertising for our light rail trains and stations generated \$1 million in up-front cash, as well as future minimum annual guarantees, plus a revenue share. We have also implemented a Station Naming Rights program that we expect to be a good revenue generator for the organization.

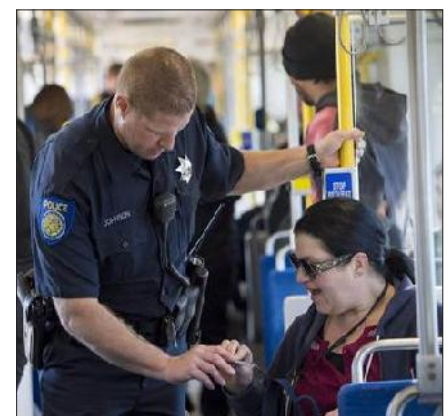


Like many transit authorities, SACRT lost money year-after-year from fare evasion. We counteracted the trend in FY17 by hiring 25 new transit agents, installing new fare vending machines, promoting our mobile fare app, and by placing new fare boxes on buses. As a result, fare evasion has dropped from almost 20 percent to 5 percent already this year.



Although we were not able to avoid a fare increase in July 2016, it was done without complaints from customers or stakeholders because of the extensive preparation we made before the increase went into effect. The fare increase was anticipated to generate an additional \$2 million in fare revenues, though currently we are exceeding the goal by more than \$1 million.

Moving into FY18, cost containment and revenue enhancement opportunities will likely generate nearly \$8 million to stabilize our fiscal position. This will be accomplished by paring down the operating budget, freezing additional administrative positions, achieving an agreement with the Amalgamated Transit Union (ATU) to reduce the annual salary adjustment from 4 percent to 2.5 percent, and by renegotiating our contracts with service providers, which will result in a 20 percent reduction.



In addition to aggressive cost containment efforts, we implemented various risk mitigation measures. Examples include resolving more than a dozen long-standing employment claims at a minimal loss, reducing 80 percent of union grievances and boosting employee morale. These successes will further enhance SACRT's financial stability in the future.

We are, therefore, proud to submit an FY18 budget to the Board that is less than the current year while maintaining current service levels with no additional increase in fares. This budget gives SACRT the ability to show cost avoidance figures of greater than \$10 million in FY18 and up to a cumulative \$70 million over the next 5 years.

3. Our motto at SACRT is “Customers First.” Period. Providing excellent customer service is critical to enhance the public transit experience for both transit dependent and occasional riders.

We can build it. We can operate it. And, we can run it seven days a week. But if our transit system isn’t satisfying the needs of our customers, they won’t ride it. Providing transportation excellence through enhanced customer service is our No. 1 mission. The District made great gains in promoting a Customers First culture with the launch of our G1C service last fall. This golden opportunity gives SACRT more than 200 events per year to transport event attendees on our system, 50 percent of whom tend to be first time riders, and it was the cornerstone of our Clean, Safe and Convenient Ridership Campaign benefiting all riders everywhere.

The SACRT team left no stone unturned when it came to implementing amenities and improving service to elevate the customer experience. For example we:

- Launched a mobile fare app to make purchasing fares easier;
- Kicked-off Station Link – a First Mile/Last Mile Pilot Program with Uber, Lyft and taxi service;
- Extended customer service and sales center hours for special events and increased train frequency during events to quickly disperse crowds;
- Instituted a 24-hour customer response policy and address most customer concerns within two hours;
- Developed an aggressive station and vehicle cleaning policy, cleaning 52 stations, 228 buses, and 97 light rail cars, seven days a week;
- Increased cleaning staff by 120 percent;
- Completed a fleet-wide conversion to vinyl seats to make the ride more comfortable;
- Created a comprehensive service disruption plan to minimize customer inconveniences in the event of an accident or equipment failure;
- Wrapped trains to make them look more inviting and user-friendly; and
- Held events at key stations through our Station Activation program to encourage the public to try transit in partnership with SACOG. These events were part of our plan to make the transit experience more enjoyable on the way to the G1C.

4. Maintaining a safe and secure system for our customers and employees is among our paramount concerns. We took measures to strengthen it everywhere possible and will continue upgrades and enhancements on an ongoing basis.

One of the most innovative security measures we implemented in FY17 was the Alert SacRT mobile safety application that enables customers to send pictures, text messages and six-second videos to police if they see suspicious activities. Users can also call transit police directly with the app. The technology is already hugely successful and gives riders the comfort of knowing help is in the palm of their hands.



We have installed more security cameras (system-wide, there are more than 2,000 cameras) throughout the transit system and made millions in investments for improvements and renovations to key light rail stations. The improvements, the first significant system upgrade in more than 30 years, include the installation of LED lighting, new fare vending equipment and additional wayfinding signs that are placed at key travel decision points to minimize customer confusion.



The 25 new transit agents we hired have increased inspections at transit stations 400 percent; there has also been a correlating increase in citations by 600 percent. Co-locating with the Security Operations Center and working closely with the City of Sacramento Police Department to ensure the safety of our riders on trains, buses and at light rail stations has helped enormously in heightening safety perceptions.

5. SACRT is becoming a regional leader in the community. Through collaboration, open dialogue and a shared goal with stakeholders, we are striving to make public transit the best commuting option.

Our organization was honored to receive an award for Regional Collaboration for the G1C opening from SACOG. Throughout the year, we worked hard to build trust and confidence among the public, elected and government officials and the business community for the transformation we are undergoing. SACOG was our strong partner in our system-wide improvement effort and our G1C Station Activation program.



We also formed successful partnerships in the community. For example, we painted and refurbished sound walls along our light rail line in partnership with the City of Rancho Cordova, and rehabilitated bus stops and shelters in the City of Citrus Heights prior to their critical Christmas retail season. Both the Rancho Cordova and Citrus Heights renovations were completed ahead of the promised schedule. We made nearly \$2 million in renovations to other light rail stations through a community collaboration and we continue to make station improvements system-wide.



SACRT partnered with the City of Sacramento (COS) and the Sacramento Kings on the G1C Transportation Management Plan, and furthered that partnership by collaborating with the COS and the G1C to augment bus service and provide a transportation option for G1C employees.

Additionally, we worked with the Downtown Sacramento Partnership to increase the number of goodwill ambassadors who help customers navigate our light rail and assist with keeping our downtown stations clean. We are members of, and actively support, many property and business improvement districts throughout the region.

SACRT successfully resolved an outstanding "Buy America" requirement with the Federal Transit Administration (FTA), which initially required the District to back-pay the FTA approximately \$3 million to \$5 million. Through extensive research and dogged persistence, we successfully demonstrated that the required reimbursement should only be \$74,000, providing significant savings on our Blue Line to the Cosumnes River College project. SACRT played a key role in helping to secure passage of SB1, the \$5.2 billion annual transportation funding package that state legislators approved after many years of debate.



We have worked diligently with critics of SACRT and with the news media to tell our story, to provide transparency about what we are doing and our stewardship over public funds to illustrate that this is a new day at the District. Our efforts have been rewarded.

SACRT has received extensive positive news coverage in the last 12 months for our efforts to run the organization like a business and for putting customers first. Perhaps, one of the biggest testaments to our success is turning so many of our critical opponents into strong supporters – a turnaround that came only after our efforts convinced the critics that SACRT makes good on its promises. We have been featured in the California Transit Association’s (CTA) newsletter and APTA Passenger Transport (a top national transit publication) for our transformation and implementation of best practices. Because of our innovative approach to challenges, I was invited to be a panelist at CTA’s annual meeting last November to discuss our first and last mile solutions. Additionally, I was a panelist at the general session at the APTA Bus and Paratransit Conference this May discussing our G1C success and route optimization.

Early this year, by working collaborately with key stakeholders in the region, staff proposed a clear and ambitious strategic vision adopted by the Board, which laid a solid foundation for us to take SACRT to the next level.

The Road Ahead

My quest, my promise to you, the Board of Directors, was to turn SACRT from good to world-class. Our roadmap is clear and we have the right people in the right seats on the right train to take us there. Our biggest challenge, now, is to keep the momentum going!

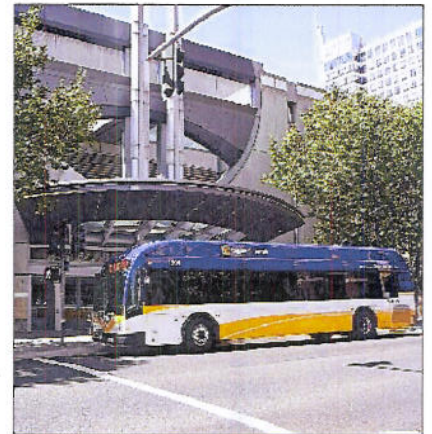
With your continued support and leadership, during FY18 and beyond, SACRT will continue to pursue excellence on all fronts and make progress on improving service reliability; optimizing routes to make them reflect 21st century commuting patterns; securing additional local funding; advancing our State of Good Repair initiative; increasing service frequency; expanding our service area; and launching technology advancements to enhance safety, security and amenities for customers. We plan to do all this while keeping fares affordable and stable.

Customers first, transparency, business optimization and partnerships – SACRT will never be the same. Thank you for allowing me to be your CEO.

Sincerely,



Henry Li
General Manager/CEO
Sacramento Regional Transit District



RESOLUTION NO. 17-08-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

August 14, 2017

**APPROVING THE FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT WITH
HENRY LI AS SACRT'S GENERAL MANAGER/CEO**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the First Amendment to the Employment Agreement with Henry Li as the
Sacramento Regional Transit District General Manager/CEO is hereby approved.

ANDREW J. MORIN, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary