

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
8	09/11/17	Open	Action	09/06/17

Subject: Approving the Fifth Amendment to the Contract for Operational Assessment and Implementation of Recommendations for Cost Reduction and Revenue Growth Services with Douglas Carter and MBO Partners, Inc.

## ISSUE

Whether to approve the Fifth Amendment to the Contract for Operational Assessment and Implementation of Recommendations for Cost Reduction and Revenue Growth Services with Douglas Carter and MBO Partners, Inc.

## RECOMMENDED ACTION

Adopt Resolution No. 17-09-\_\_\_\_, Approving the Fifth Amendment to the Contract for Operational Assessment and Implementation of Recommendations for Cost Reduction and Revenue Growth Services with Douglas Carter and MBO Partners, Inc.

## FISCAL IMPACT

Budgeted:	Yes	This FY:	\$	125,000
Budget Source:	Operating	Total Amount:	\$	125,000
Funding Source:	Operating			
Cost Cntr/GL Acct(s) or Capital Project #:	CC17, GL #630003			
Total Budget:	\$125,000			
Original Contract	\$ 95,810 - Diagnostic Review of SacRT's Cost and Revenue Opportunities*			
1st Amendment	\$113,550 - Detailed Analysis of Specific Complex Issues and Recommendation Development*			
2nd Amendment	\$ 65,514 - Development of Fiscal Policies, and Analysis and Recommendation of Fare Change*			
3 <sup>rd</sup> Amendment	\$ 25,000 - Immediate Connect Card Support*			
4 <sup>th</sup> Amendment	\$ 95,000 - Implementation of Major Cost Savings Initiatives*			
5 <sup>th</sup> Amendment	\$125,000 - Implementing Strategy and Plans, Executive Coaching, and Cultural Change			
Total Contract	\$519,874			

\*See attachment for accomplishment details.

## DISCUSSION

On August 28, 2017, SacRT staff presented an item to the SacRT Board requesting approval of the Fifth Amendment to the Contract for Operational Assessment and Implementation of Recommendations for Cost Reduction and Revenue Growth Services with Douglas Carter and MBO Partners, Inc. The SacRT Board continued the item to the September 11, 2017 meeting and directed staff to provide additional information on Mr. Carter's specific accomplishments during his time working for SacRT, as well as more details on the deliverables and timeline for the proposed 5<sup>th</sup> amendment to the agreement with Mr. Carter. The information provided in

Approved:

Presented:

Final 09/06/17

General Manager/CEO

VP, Planning & Accountability

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**Attachment 1** outlines in detail Mr. Carter’s accomplishments and proposed cost saving measures under his previous contract amendments.

## Scope of Services

With this 5<sup>th</sup> contract amendment, Mr. Carter plans to help SacRT’s General Manager/CEO accelerate change to realize the transition vision and goals developed by the Board, with a particular focus on cost reduction and revenue increase. Mr. Carter will leverage the lessons learned and understanding he developed of SacRT’s people, business processes, labor agreements, policies, operations and cost structure over the past 24 months to perform the work. The approach to this work is as important as its scope. He will provide strategic guidance, advice, analysis and best practices based on his wide experience in the transit industry. SacRT will provide managers and staff with whom to collaborate at all stages to complete work. Mr. Carter will coach executives and staff in both strategic and technical skills in each task, seeking to further accomplishment of vision goals, and building capability for the future of the agency. The intent is to strengthen SacRT’s capabilities, transfer knowledge vital to improved performance now and into the future, and provide meaningful results.

Staff coordinated with Mr. Carter on a similar approach in evaluating and analyzing driver attendance improvements, engaging Operations, Human Resources, Legal, Labor Relations, Payroll, and Information Technology (IT) to change long established practices, tools, information and procedures to improve results. As the consultant, Mr. Carter provided industry experience, best practices and advice tailored to SacRT’s people, processes and tools. SacRT staff conducted investigation, analysis, planned improvements, implemented changes, collaborated with labor, and delivered solutions (e.g., IT software changes, training for new supervisor roles and responsibilities, employee access to information and tools, and a new attendance policy). Similarly, in supporting SacRT’s first fare change in seven years, Mr. Carter has worked with staff to develop a best practices fare projection model, estimate fare elasticities for each of the rider groups, and interpret the analysis. Through this collaborative process, SacRT developed internal expertise and tools to conduct future fare change analysis without outside assistance. This work will proceed in a logical manner, linking all activities to the Board endorsed strategic vision and plan.

### A. Contracted Service Opportunities

As a result of significant improvements in SacRT’s service quality, fiscal stewardship, business processes, and partnership collaboration, SacRT may have the opportunity to expand operation of transit services under contract for one or more government and/or private entities. Entering into the contracted services business presents SacRT with both opportunities and challenges. Mr. Carter has supported contracted service start-up planning and implementation for more than 70 transit services, most in the United States. He has served for the life of the Private Public Transportation Network as an advisor to transit agencies preparing to contract for service. He has also developed new contracted service commencement plans, policies and business process

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manuals for the two largest private transit providers in the United States, and has tremendous depth in anticipating and mitigating potential start-up problems. Note that SacRT hired Mr. Carter to diagnose and improve the light rail start-up plan many years ago given his reputation in this area. He has completed some initial work looking into potential contract services including understanding different labor markets (contingent employment comprises 40.4% of all US jobs, but is new to SacRT), capturing existing employees, building in operational flexibility between current services and new to the benefit of both, exploring new shift types, addressing vehicle and fleet strategies, and seeking cost and performance advantages unique to SacRT. There is much additional work to be conducted and successful transition is tantamount to SacRT’s future service restructuring, grant funded shuttles, and labor negotiations.

*Deliverable and Timeline:* Mr. Carter will prepare an issue paper addressing cost reduction opportunities, retention strategies, and flexible operations approach. This work would be conducted between September and December 2017.

## B. Grant Funded Community Shuttles

Mr. Carter has met with staff and begun helping with planning for potential term limited community shuttles (e.g., federal and/or state funded for a specific time period like two years). Grants are competitive in nature and SacRT needs to articulate a strong strategy, demonstrate the ability to deliver value, and think differently about services and labor for these term limited service opportunities. The shuttles can be an early visible benefit for the community, occurring in advance of the service restructuring plan, and allow SacRT to explore new services, labor markets and business processes that will benefit the service restructuring effort. Hiring, developing, retaining and transitioning staff on term limited services is difficult, and Mr. Carter will help SacRT accelerate its learning from the experience of others. If employment is contingent on service funding and need (and it usually is for demonstration projects like grant funded shuttles), SacRT needs strategies to keep staff motivated and working until the final day of service. Doing so requires a fair and reasonable transition and benefit to those who stay. He will help the agency to formulate cost effective strategies that result in reliable and quality services to the public, while responsibly managing costs and labor.

*Deliverable and Timeline:* The primary deliverable is a staffing strategy discussion paper addressing staff recruiting, retention, and transition options, with analysis of effectiveness. Work to be conducted between September and December 2017.

## C. Route Optimization Study

Mr. Carter will help SacRT with getting the most out of the route optimization study, focusing on linkages to other strategic initiatives (e.g., labor contract strategy, capital planning, public outreach and education). He will help estimate potential unit costs of new service types and profiles with existing resources under current and changed labor agreement and business processes, allowing

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the project team to define what improvements are possible with current resources going forward. Gaining and delivering some lower cost service enhancements is essential to building support for SacRT (and its future funding) through the restructuring effort. He will also help SacRT identify potential funding partner strategies for shuttles and local connector services (e.g., business park shuttle, home owners’ association, retail mall, airport/warehouse employee shuttle), which can help share and defray costs of some service improvements with existing funding. Mr. Carter will also help with operational flexibility planning for sponsored or partially sponsored services, to provide both a local look and feel and regional interchangeability of vehicles and staff as appropriate.

*Deliverable and Timeline:* Deliverables include issue papers on unit cost range considering potential labor contract opportunities, and partner funding strategies. The unit cost work is to be completed by January 2018, and the partnership paper by April 2018.

## D. Implementing Strategy and Plans

The SacRT executive management team has developed a comprehensive strategic plan based on the Board’s visioning exercise. There is clear responsibility for ownership of each major initiative, and the opportunity for even greater impact by collaborating across initiatives to increase impact from each. Consider, for example, the route optimization study. This effort will benefit by supporting changes to the labor agreement tailored to the new service profile and needs (e.g., more smaller community buses changes the mix of drivers, more weekend service is benefitted by longer part- and full-time shifts, more peak service is helped with part timers and split shifts). Mr. Carter can help with translating labor strategy into unit costs for the service restructuring study (how can new labor provisions increase how much service we can afford with current funding), and use restructuring plans to mold labor strategies (e.g., what provisions most help us with tomorrows service needs). In addition to reflecting service demands, the labor strategy should attract and retain employees, motivate and reward best behaviors, provide responsible stewardship over public funds, build partnerships with labor, and deliver high quality services to customers. Another initiative, the capital investment plan, is also impacted by service restructuring. As vehicles have a long useful life, changing the fleet mix is a long lead time process. Starting early, through coordination with the route optimization team long before plans are final, makes change possible faster. So, while each of these (Route Optimization, Labor Strategy and Capital Planning) are separate initiatives with their own goals, early and frequent coordination makes each more successful. Mr. Carter will help identify opportunities, processes and safe guards to engender collaboration without bogging down each initiative.

*Deliverable and Timeline:* Each major task will produce an issue paper on findings and recommendations. Work to be completed by June 2018.

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**E. Cost and Revenue Initiatives**

Over the course of this contract, additional issues may arise which are of strategic importance, have significant potential for cost and/or revenue impact, and leverage Mr. Carter’s specific skills and experience (e.g., improving results under the new attendance policy, assisting the new internal audit function with plans and investigations strategy, specific cost reduction initiatives). SacRT executive management may engage Mr. Carter on similar items within the scope and budget of this amendment.

*Deliverable and Timeline:* Work will result in a memo summarizing findings, analysis, recommendations and implementation requirements. He will work both flexibly and responsibly to deliver value as directed between September 2017 and June 2018.

Mr. Carter has served as a valuable part of the SacRT team for the past two years, and we have invested a lot of time, effort and money to build his understanding of the organization and leverage his unique insight and expertise. He brings a perspective gained through more than 35 years of experience advising transit agencies on matters of strategic importance, and has worked under seven different SacRT CEO’s over four decades. We only reach to him where he has proven expertise and we have a defined and real need. His all-inclusive hourly rate of \$225 per hour is highly competitive for his seniority and experience, and it has remained unchanged since March 2015. We believe that continuing to leverage his expertise as we enter new markets (e.g., contracted services, term limited shuttles), restructure our existing services for the future, and explore new labor provisions to meet the needs of the Sacramento region will provide substantial returns.

The proposed Fifth Amendment to the Contract increases the scope of work as noted above and increases the total consideration by \$125,000 to \$519,874. Staff recommends that the Board approve a Fifth Amendment to the Contract for Operational Assessment and Implementation of Recommendations for Cost Reduction and Revenue Growth Services with Douglas Carter and MBO Partners, Inc.

## KEY ACCOMPLISHMENTS

### COST REDUCTION AND REVENUE GROWTH SERVICES CONTRACT

#### Initial Contract

The Initial Contract for a diagnostic review of SacRT's cost and revenue opportunities with Douglas Carter and MBO Partners in the amount \$95,810, dated March 26, 2015, was the result of a competitive proposal process. SacRT was facing its sixth consecutive year of spending more than it earned, reserves were nearly depleted, and national credit rating agencies downgraded our rating twice. Collaboration with the business community conveyed dis-satisfaction with service quality and a lack of confidence in SacRT's ability to fix significant problems quickly. SacRT was, and continues to be, committed to sustainable improvement, and Mr. Carter's expertise has proven helpful in reversing our fortunes. The contract award required an interim report of high level cost savings and revenue growth opportunities over a twenty-week period. The contract anticipated additional detailed analysis, recommendations and work beyond this diagnostic review, but did not have sufficient insight to scope and budget that work. As a result, the proposal and resulting contract provided a reasonable way to modify the scope and budget if justified by need at future dates.

Mr. Carter produced an Interim Report detailing opportunities to reduce cost and increase revenue across the enterprise, including more than 40 recommendations to capture:

- One-time revenue opportunities totaling between \$6.2M and \$13.1M,
- Recurring annual revenues between \$12.2M and \$34.5M, and
- Recurring annual cost savings of \$13.2M to \$21.4M.

He also recommended assessing and restructuring business processes around budgeting, expenditure approvals, financial reporting and fiscal goals to guide decision making to reverse the 6-year trend of spending more money than earned annually.

SacRT effectively captured many of these opportunities over the subsequent 6 to 12 months without additional analysis, including:

- Sold buses beyond their useful life, generating revenue, reducing maintenance costs, and reducing spares to the Federal Transit Administration maximum (i.e., sold vehicles did not require replacement). Buses with remaining useful life were sold to other transit operators; and those vehicles not operable were sold as scrap.
- Removed and sold safe CNG tanks with remaining useful life from scrapped vehicles (six tanks per vehicle).

- Sold non-revenue vehicles beyond their useful life to reduce the fleet size, reduce maintenance costs and realize revenue.
- Actively explored the real estate market for selling excess property with no current or anticipated future need or use.
- Registered and sold federal carbon credits for CNG use on the EPA national marketplace, generating \$210,588 in FY16 and \$258,983 in FY17.
- Registered and sold California carbon credits for CNG use, generating \$1,398,302 in FY16 and \$1,085,682 in FY17.
- Completed requirements to earn and sold LRT carbon credits (Mr. Carter advised SacRT in developing a formula for our credits involving passengers, distance traveled and electrical power consumed).
- Switched from natural gas to bio-fuel produced CNG therms to reduce California fuel taxes paid.
- Partnered with non-governmental organizations (NGO's) to clean station areas, remove trash and power wash platform and stop areas.

SacRT also started on additional revenue and cost recommendations which required partnerships with labor, and/or additional analysis to proceed.

Key deliverables included:

- Diagnostic Report to the Board and Management
- Diagnostic Cost Tables which detailed each opportunity, calculated potential benefits, recommended implementation steps, responsibility and schedule
- Diagnostic Revenue Tables which detailed each opportunity, calculated potential benefits, recommended implementation steps, responsibility and schedule
- Diagnostic presentation to Ad Hoc Committees.

### **1st Amendment**

The contract was amended on August 12, 2015 to add \$113,550 in additional resources to the \$36,110 remaining from the initial contract. The scope was expanded to conduct more detailed analysis of specific complex issues and develop recommendations, as anticipated in the proposal and initial contract. Results included:

- Mr. Carter conducted a detailed analysis of SacRT's expenditures, revenues, budgets, budget amendments, proposed service and fare changes, decision processes and fiscal decisions over the prior six years contributing to fiscal decline. He outlined a series of policy and procedure improvements to fiscal data and reporting, visibility of upcoming budget issues, and timeliness of reporting on variances. He also addressed the need for clear guidelines, targets and direction to help staff in performing to financial expectations. Another area he addressed was fare policy – both the role of fares in overall finances and expectations for future fare changes (note that the fare had been unchanged for seven years at that time while expenses grew with inflation). He provided issue papers detailing

current practices, issues, industry experience, opportunities and recommended changes.

- Mr. Carter developed a blue print for cultural change, conducted workshops with the EMT, and assigned responsibilities for execution. Significant parts of the plan included articulating a Board approved vision, translating the vision into action through development of a strategic plan, increased communications with middle management and staff, deploying cross functional problem-solving teams on initiatives to reduce silos, eliminating barriers to outside hires (we need a mix of home grown and staff familiar with different and better ways to do things), and celebrating successes along the way to build momentum. The cultural change is a journey that SacRT has embarked upon with visible progress made over the past 18 months. Periodically, Mr. Carter coaches the executive managers on improvements to how we do things to further evolve our culture (e.g., explore alternative ways of doing business with an expectation of improvement – better, faster, cheaper).
- Mr. Carter connected SacRT leaders with carefully selected peers for detailed discussions around labor contracts, work rules, shift types, attendance policies, fare inspection, and fine collection practices. He used his knowledge of SacRT and the peer agencies to identify specific labor provisions, and barrier-free fare collection practices which could help us achieve our goals. He conducted an analysis of what they did differently, and how their successes could be tailored to SacRT, while avoiding mis-steps. We benefitted from this sharing of best practices and applied lessons learned to the new attendance policy, design of ticket agent position, fare enforcement practice changes on light rail, and customer service roles of the ticket agent.
- Mr. Carter developed issue papers to support collaborative discussions with labor on ticket agent and part time cleaner positions proposed to include role, qualifications, recruiting, retention, compensation, deployment, field support, inspection process, work supervision, customer service training, and citations. Mr. Carter supported our managers in engaging with labor leaders, addressing questions and concerns, and offering cohort contacts and procedures at other agencies. The ticket agent position was fully executed to great benefit in terms of customer service, passenger security, reduced fare evasion and increased revenues. The part time cleaner position was negotiated with labor leaders, but failed to pass a general membership vote at this time. We will re-engage on this opportunity in the next contract negotiations.
- The diagnostic review identified total absences as both a service quality (missed trips) and cost efficiency issue. Mr. Carter conducted a detailed assessment of absences by type (including both chargeable and non-chargeable incidents), duration, frequency, seasonality, and statistical relationships (e.g., unscheduled overtime and unplanned absences). The detailed understanding helped define targets for improvement (e.g., what types of absences across what groups of employees), and potential cost savings from improvement. This effort also



identified a backlog of more than 100 driver absence interventions that should have occurred by policy but did not due to lack of visibility in reporting, differences between manual and payroll records, insufficient resources for intervention, and limited schedule overlap between supervision and employees. Mr. Carter recommended immediate resource help with data mining, use of the payroll system data as the authoritative source, analysis and employee notification of pending intervention, which was implemented and we eliminated the backlog within 60 days.

- Mr. Carter met with the Ad Hoc Business Groups and SacRT management to explore problems, progress and solutions related to service quality improvements globally, fiscal sustainability, and Golden 1 opening. His contributions included changing meetings from progress reporting based to action planning, decision making, and identification and removal of obstacles. The private sector participants gained respect for SacRT through engagement in the decision-making process which was previously invisible to them. Meetings became more productive as useful tools for planning, mitigation and action.
- Mr. Carter also worked with SacRT staff in standing up a project management office (PMO) function to track and measure the cost and revenue recommendations provided in the Interim Report, as well as the additions developed through the detailed work areas. The active tracking and measurement added commitment and urgency to successful implementation efforts, also contributing to positive cultural change. Staff reported progress to the Board monthly, until nearly all recommendations were implemented. Mr. Carter provided advice in trouble shooting cost and revenue initiatives that stalled or failed to produce desired results in the first attempt.

Key deliverables include:

- Fiscal policy needs, issues and solutions report to the Board and management
- RT Culture of the Future Report
- Cultural Aspirations Discussion Notes
- Peer agency contracts, side letters, policies and practices along with contacts
- Ticket Agents Position Paper
- Part Time Cleaners Position Paper
- Detailed analysis of operator absences by type (spreadsheet)
- Driver absence discussion paper with trends, costs, targets for improvement and relationships (e.g., working day off overtime and sick leave)
- Input to Business Ad Hoc presentations
- Design and review of PMO function.

## 2<sup>nd</sup> Amendment

On December 1, 2015 SacRT amended the contract by repurposing unused resources from the final report and peer review tasks and adding \$65,614 in new resources focused on two areas where immediate assistance was desired – development of fiscal policies, and analysis and recommendation of the first fare change in seven years. A final report wasn't deemed particularly valuable given SacRT was monitoring implementation of recommendations through the PMO, and peer data, analysis and calls provided by Mr. Carter negated the need for a peer visit.

Mr. Carter's analysis of fiscal processes, controls and decisions crossed all departments and activities, representing a step function change in the way SacRT would manage its fiscal house. Management strongly supported the recommendations, and wanted assistance in converting them into the final fiscal policies for adoption, and in educating departments and staff in their execution. Mr. Carter's expertise and understanding of SacRT fiscal decision making and processes across departments made him an ideal candidate to author the comprehensive new policies. Mr. Carter held multiple meetings with all departments, drafted comprehensive fiscal policies (i.e., fiscal sustainability, comprehensive reserve, farebox recovery and fare change), and helped departments identify changes to processes and procedures to improve visibility of financial position, unknowns and threats, decision triggers for timely action, expected performance, changes to Board reporting, the budget amendment timing and process, and stronger caps on spending. Management and staff embraced the policies understanding the benefits, and SacRT spent less than it earned (adding modestly to reserves) for the first time in six years. Fiscal stewardship is embedded as a part of the culture and performance expectations across departments and activities. The policies serve as anchors for the change in fiscal stewardship, guiding current and future Board, management and staff fiscal procedures and decisions.

Our fare structure and pricing was held constant for seven years, and any skills or tools supporting the analysis and recommendations for fare change had atrophied and been lost to time. Mr. Carter helped us rebuild an internal fare analysis capability to support the then current and future fare analysis and proposals. He provided best practices for fare modeling and projections to include specific formulae and a detailed review of the model developed by staff using his formulae. He worked with planning on segregating ridership into relevant cohort groups, and developing fare elasticities for each, teaching staff the methods and techniques for current and future use. He examined fare proposal alternatives with our staff, provided advice to expand alternatives to include structure as well as pricing changes, inserted a multi-year outlook to projections and needs, and strengthened our analysis and interpretation of results. Mr. Carter developed management and Board presentation materials, made presentations to the Board, and addressed public questions and comments. Our Board adopted a solid fare change proposal, that when coupled with cost savings initiatives fully met our financial needs. Mr. Carter also served as a member of our fare implementation planning team, helping to streamline our process effectively reducing

the time to implement new fares by half. Strategies included changing what we printed on paper media, how we distributed fare media to our customer organizations and third-party vendors, and how we communicated changes to drivers and customers. Our staff now have the skills, experience and competence to apply best practices in addressing fare pricing and structure changes going forward. Mr. Carter helped build our long-term capability in fare change policy analysis, planning and implementation.

Key deliverables include:

- Draft and Final Fiscal Sustainability Policy
- Draft and Final Comprehensive Reserves Policy
- Draft and Final Farebox Recovery Policy
- Draft and Final Fare Change Policy
- Fiscal Responsibilities Implementation Report to the Board, Management and Staff
- Modeling and arc elasticities equations materials
- Review of ridership and elasticities by cohort group
- Multiple issue papers evaluation fare options, analysis and results
- Board presentation on fare policy options and process
- Board presentation on Fare Policy Recommendations
- Comments and questions on Title VI analysis.

### **3<sup>rd</sup> Amendment**

On March 16, 2016, we implemented a third amendment for \$25,000 for immediate Connect Card support requested and paid for by SACOG through an MOU with SacRT. Mr. Carter offered direct experience with more than one dozen smart card implementations, including the first (and most evolved) transit application in the United States (WMATA). SACOG wanted access to Mr. Carter's specific expertise, and viewed working directly with SacRT on this element of the Connect Card as essential to success. Consistent with this contract, his focus was on cost reduction, revenue increase, and overall successful implementation. His work on this amendment was jointly supervised by SacRT and SACOG staff. He helped establish a peer review team and process to help our region learn from the experience of smart card implementation in other regions. When SACOG's Connect Card PM resigned, Mr. Carter helped identify candidates for the PM position. He was instrumental in changing the region's direction from a forming a Joint Powers Authority (JPA) for managing shared fare information from a common electronic fare card, to leveraging existing SacRT capability at low cost to provide data and marketing services to the fare card consortium through an MOU. At the time of his engagement, the region was reviewing a fifth iteration of a JPA agreement modeled after the San Francisco Bay Area, and lower cost, high performing alternatives had not been considered. Creating a new JPA for shared fare collection activities is expensive. The new governmental entity would need a governance body, a management team, staff, legal policies and charter, procurement authority and procedures, and Brown Act notification of meetings and agendas. While

this may be reasonable for the San Francisco/San Jose region given the size and complexity of the transit market, the same factors are less pronounced in Sacramento. Mr. Carter broadened our thinking using his global expertise and experience, providing multiple issue and option papers addressing different approaches to managing a regional smart transit card, to include a JPA, a Memorandum of Understanding (MOU), a multi-operator contract, and a simple licensing agreement. The solution adopted, an MOU with SacRT serving as the Regional Customer Service Center (SacRT comprises about 75-80% of riders using Connect Card) has proven successful and low cost, which all agencies and riders appreciate. Serving as the Connect Card regional customer service center has improved SacRT's partnering capabilities, reduced cost of fare collection, and improved customer service for all riders in the region using Connect Card to travel.

Mr. Carter also helped analyze, assess and resolve questions and issues that routinely occurred during the design phase (e.g., fare policy, third party sales, card distribution, marketing solutions, refund policies, lost card policies).

Key deliverables:

- Transit agency peer contacts for peer review of smart card implementation
- List of candidates for Connect Card PM replacement
- Review of the JPA draft proposal
- Issue paper identifying and analyzing low cost, high performing alternatives to Connect Card governance and partnership
- Various memos addressing individual issues and questions on cost impacts of design and implementation options.

#### **4<sup>th</sup> Amendment**

On December 20, 2016 SacRT approved a fourth amendment of \$95,000 to assist in implementation of major cost savings initiatives including driver attendance, paratransit cost reduction, labor contract strategy and executive coaching. Executive coaching is a broad term, and it was our intent to use Mr. Carter as an outside expert advisor in critical executive decisions and initiatives to help maximize impact in achieving the Board approved vision, goals and the strategic plan. His understanding of how all the pieces fit together, our long-term vision, and cultural transformation experience allowed him to view our initiatives from the outside and offer suggestions on how (not what, but how) we execute to maximize impact. Examples of his contribution are addressed below.

Operations, in collaboration with ATU labor representatives, was updating and restructuring our 12-year old driver attendance policy to improve attendance and service reliability, while reducing cost. Mr. Carter was called on to help strengthen our ability to implement our attendance policy, current and new. As a result of his prior tasking, he understood the complex hand offs among departments and staff, reporting gaps, resource limitations and employee communications. He worked with a cross functional

team comprised of operations, dispatch, supervision, IT, human resources, payroll and legal to improve absence policy execution. Accomplishments include:

- Moved SacRT from using multiple conflicting driver absence data sources (manual and automated) to use of a single authoritative source, the automated payroll data in SAP. This required changes to SAP absence and pay codes as SAP was designed to meet payroll requirements alone (and not payroll plus attendance policy management). In many cases, we needed to add absence codes to allow both correct payment and track attendance policy compliance, thus getting more performance from our SAP investment. For example, sick and kin care both pay the same and hence share a payroll code. Each has different rules, allowances, legal basis and requirements for use though, so enforcement of policy requires two codes paid at the same rate. Once changes were identified, SacRT staff implemented the changes and began educating data entry sources on how to use them.
- The type of absence was determined at the point a driver called dispatch, and it was self-declared by the driver. In some cases, the driver's allotment (e.g., workers compensation, kin care, family medical leave) was exceeded, in others the paperwork hadn't been submitted or approved, and in others the self-declared absence type was incorrect. The problem is the absence was recorded as whatever the driver said, went into payroll as that, and the hope was if it was wrong someone might catch it somewhere along the line and fix it. We added 6 pending review absence categories at Mr. Carter's recommendation, which serve to flag absences requiring review and added a fixed period of time for adjudication (some the same calendar day, others when the paperwork submittal window closes). This ensures that absences with caps and limits are reviewed in a timely manner, helps employees make decisions with better data, and avoids special check cuts to correct earlier errors.
- Operations was using mostly manual records for driver warnings and formal discipline, which contributed to inconsistent and delayed intervention. An individual supervisor had to peruse and assess a revolving year's worth of manual data entries on each employee to identify those approaching and past an intervention cycle. It was easy to miss a policy interval for intervention, and the manual intensive effort prevented frequent looks at all employee records. SacRT's IT department established a series of routine reports using SAP to let transportation supervisors know daily which drivers were at what intervention cycle and required action. The supervisor is required to record what action is taken and when, and if action is missed, the reporting system elevates the issue to management.
- Operations was using a single supervisor who was an expert in absence policy to handle 100% of driver interventions (e.g., warnings, counseling,

discipline). This level of resource was inadequate as it restricted supervision to a single shift (and drivers needing intervention worked a variety of shifts), and did not flex with demand resulting in frequent backlogs. Mr. Carter helped us to move warnings and counseling from a single supervisor to all supervisors covering all driver shifts, allowing for timely and accurate intervention. Human Resources and Legal helped develop form letters and talking points for each intervention type, forwarded to a supervisor on the same shift as the driver to maximize consistency of messaging. IT developed an automated reporting and messaging routine that notified both the supervisor and the employee of the need to meet forthwith, and provided details of the employee's absence record. Statistical analysis of driver attendance records indicates significant improvement after intervention.

- In the past employee interventions were withheld until all pending absence types were adjudicated, and some require 30 days to gather and review paperwork. As a result, some drivers sailed through multiple intervention steps while awaiting adjudication for early absences, not affording them information vital to changing their performance and choices. The new process, recommended by Mr. Carter, conducts the intervention step as per the policy interval, noting that pending absences are included, and may or may not be chargeable after adjudication. This is better information for the employee and serves as a reminder to check on paperwork to complete any missing items in a timely manner.
- Adjudication responsibilities and schedule were unclear and complex, crossing multiple departments. Mr. Carter helped us map out the process, responsibilities and timing for each type of absence to be adjudicated (e.g., kin care, workers compensation, family medical leave) and establish firm deadlines for employee submission of evidence and employer review and decision. This significantly shortened the average time to resolve questions, allowing timely update of payroll and attendance control records.
- Drivers has limited access to their personal attendance records, impairing well informed choices. SacRT has increased the ways that drivers can access their record through supervisor requests or online access to SAP. Also, at every intervention interval, drivers are provided a complete record of their absences. Better information results in better attendance.
- Many drivers mis-understood kin care benefits and allotments. Human Resources and legal developed a letter and quick reference guide that was mailed to all employees clarifying the benefit. Mr. Carter reviewed and commented on the materials to address operations staff issues.

SacRT successfully implemented these cross functional attendance process improvements in advance of the new attendance policy, and fine-tuned the procedures. The new driver attendance policy was developed and rolled out by SacRT in

collaboration with labor in this significantly improved attendance control environment, accelerating our success.

Mr. Carter served as a member of our paratransit cost reduction task force. SacRT had significantly reduced costs across the bus and light rail systems, but paratransit continued to experience double digit cost growth. We wanted to apply the same focus on our contracted paratransit (i.e., complimentary services to fixed route) – provide more and better services for less. Mr. Carter helped us articulate our objectives consistent with the Board vision, examine and compare peer cost and service information, adjust numbers to allow informed peer comparisons (i.e., cost categories and types of paratransit trips reported can vary among peers), and develop a series of desired improvements (e.g., missed trips, no shows, service productivity, visibility into costs and trips, service quality, wait times, reporting). Mr. Carter also performed an independent analysis of target cost savings for our contracted paratransit services using a different approach and assumptions than that used by staff. The two projections produced nearly identical results, and we successfully negotiated cost efficiency measures with Paratransit Inc at that level. He helped with changing our focus from past conflicts to our genuine desire to provide the best customer service at the lowest cost.

Mr. Carter provided advice throughout the ATU contract extension discussions with a lowered compensation rate increase. He listened to arguments, issues and concerns and provided thoughtful responses to each that helped us come to agreeable terms. He also helped us prepare for our next contract negotiations by providing well developed issue papers exploring different potential labor provisions, to include 4 day – 10 hour work weeks, part time drivers aligned to weekday peak periods, part time drivers with ten-hour shifts aligned to weekends, part time cleaners assigned when vehicles and stations are available for cleaning, part time ticket agents, retired operator ambassador positions, and work supervision alternatives. The intent is to broaden our thinking well in advance of the next labor contract negotiations, and include new ideas and thinking in our planning for the future. We have shared many of these ideas and options with labor leadership to start the dialog and broaden our view of what is achievable together.

Executive Coaching has been used as a catch all to advise senior leaders on high priority initiatives and continue our cultural evolution to achieve our vision. Topics addressed in Executive Coaching include:

- Development of our strategic plan was led by our management team; Mr. Carter helped keep our focus on the vision goals and identifying linkages between initiatives often planned separately. For example, the Service Restructuring Study will benefit from coordination with several other initiatives. We are reaching out to the public to gain information and perspectives useful to service planning. Advanced coordination could also allow us to gather information on current service quality for Operations,

and educate people about transit benefits and opportunities coordinating with Strategic Communications. We want to determine what we can deliver better with current resources, and understanding potential labor agreement and work rule changes will help us cost different service profiles in the future. Our service plan may require a different fleet mix, and advanced coordination with capital planning could accelerate our ability to deliver. Mr. Carter helped us broaden our aperture when planning initiatives led by each of our departments. He also provided useful comments and questions about the plan, resources and next steps.

- Mr. Carter helped with the development of our Service Restructuring RFP through careful review, comment and questions. He helped us think through the total scope, and what elements we would keep in house and which we would contract. He added realism to some of our desires, by providing rough cost estimates and hours for some tasks allowing us to reduce and increase efforts based on value to SacRT. He also helped with phasing the work, and better defining the details around public engagement, Board interaction and information flows. Finally, we focused on turning plans into action helping us better plan for lead time for vehicle purchase, signage, public information, and driver run cutting and bidding. He also brought together operations, capital development, strategic communications and planning to discuss what information is needed from whom when. Mr. Carter recused himself from bidding on the work as a prime or subcontractor.
- Mr. Carter helped edit and complete our Year in Review document for sharing with partner organizations and thanking staff for contributions and successes over the course of the year. He reminded us that celebrating successes is part of cultural change, and gives us the energy needed to take on the next challenge. Heroic staff efforts produced our many successes, and we could not have accomplished so much without the help of our willing and productive partners. The documents were shared with all employees and partner agencies as part of our outreach.
- On request, Mr. Carter provided some comparative information on Executive Compensation to the Board, again consistent with the vision for the future. These included some lower cost pension approaches, lower impact compensation approaches, and peer comparisons with interpretive discussion (e.g., targeting levels below peer averages). He did not make any recommendations or participate in decision making meetings.
- Mr. Carter has supported start-up planning and implementation for more than 70 transit contracted services. He also developed new contracted service commencement plans, policies and business process manuals for the two largest private transit providers in the United States, and has tremendous depth in anticipating and mitigating potential start-up problems. Note that SacRT hired Mr. Carter to diagnose and improve the



light rail start-up many years ago given his reputation in this area. He has been helping us begin planning for potential contract services including understanding different labor markets (contingent employment comprises 40.4% of all US jobs, but is new to SacRT), capturing existing employees, building in operational flexibility between current services and new to the benefit of both, exploring new shift types, addressing vehicle and fleet strategies, and seeking cost and performance advantages unique to SacRT.

- Mr. Carter has also begun helping us with planning for potential term limited shuttles (e.g., federal and/or state funded for a specific time period like two years). Grants are competitive in nature and SacRT needs to articulate a strong strategy, demonstrate the ability to deliver value, and think differently about services and labor for these term limited service opportunities. The Shuttles can be an early visible benefit for the community, occurring in advance of the service restructuring plan, and allow SacRT to explore new services, labor markets and business processes which will benefit the service restructuring effort.

#### Key deliverables:

- Multiple issue papers with recommended solutions to a variety of driver attendance improvement opportunities (leveraging HR, legal, IT, Operations management, supervisors and data mining and reporting), focused on strengthening the ability to effectively implement attendance policy
- Alternative driver work week issue paper
- Part time driver issue paper
- Part time service attendant issue paper
- Part time cleaner issue paper
- Comments, proposed edits and additional material for the Strategic Initiatives Plan
- Participation in the Strategic Initiatives presentation to the Board (community benefits of transit)
- Comments, questions and proposed edits to multiple drafts of the Service Restructuring Study
- Proposed edits to the Year in Review document for sharing with external partner agencies
- Proposed edits to the Year in Review document for thanking all staff for contributions
- Discussion paper on building operational flexibility into potential contract and term limited (e.g., grant funded shuttles) operations
- Cost savings ideas for potential contracted and term limited service operations.

RESOLUTION NO. 17-09-\_\_\_\_\_

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

September 11, 2017

**APPROVING THE FIFTH AMENDMENT TO THE CONTRACT FOR OPERATIONAL ASSESSMENT AND IMPLEMENTATION OF RECOMMENDATIONS FOR COST REDUCTION AND REVENUE GROWTH SERVICES WITH DOUGLAS CARTER AND MBO PARTNERS, INC.**

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

THAT, the Fifth Amendment to the Contract between the Sacramento Regional Transit District, therein referred to as "SacRT," and Douglas Carter therein referred to as "Consultant," and MBO Partners, Inc., therein referred to as "MBO," whereby the Consultant agrees to continue the work identified in the Fifth Amendment, and the total consideration is increased by \$125,000 from \$394,874 to \$519,874, is hereby approved.

THAT, the Chair and General Manager/CEO are hereby authorized and directed to execute Fifth Amendment.

\_\_\_\_\_  
ANDREW J. MORIN, Chair

A T T E S T:

HENRY LI, Secretary

By: \_\_\_\_\_  
Cindy Brooks, Assistant Secretary