

Annual Report to the Legislature:
Waiver from Provisions of Sections 52-55 of Chapter 7 of
Massachusetts General Laws

Executive Summary

The systemic collapse of the MBTA two winters ago year forced attention on the Authority's problems and produced the political will to resolve them. One of the most effective tools for bringing real and lasting improvement to the T has proven to be the three-year exemption granted to the MBTA from the requirements of what is commonly known as the Pacheco Law. This report fulfills the statutory requirement that the MBTA annually update the General Court on the use and effectiveness of the Pacheco waiver and documents that the waiver has been a critical tool for moving the T toward being a more reliable and financially stable transit system.

Though utilized only in carefully selected instances, and only after thorough review and extensive public discussion, the waiver has led to significant cost savings and more efficient operations, as detailed in this report. But the benefits from the waiver extend well beyond actual and projected operating dollars saved. The process of developing Requests for Information and Requests for Proposals has required the authority to comprehensively review entire business processes from beginning to end. Even when it does not result in outsourcing, the availability of the waiver has caused the Authority – and its unions – to examine and rethink internal processes and operations in ways that had rarely if ever happened before.

Another example of how the waiver has catalyzed changes at the MBTA is the landmark agreement reached in 2016 with Carmen's Union Local 589, which would not have been achieved without the leverage provided by the waiver. That agreement achieved a key union goal of protecting certain jobs of Local 589 members while enabling the T to obtain substantial savings on operating costs and, more importantly, to secure work rule and other reforms. The 589 agreement, for example, has allowed the MBTA to execute multiple maintenance and modernization projects – running as many as five bus diversions simultaneously this summer – by allowing the T to contract out alternative bus services required to replace regular transit during construction projects.

As detailed in this report, actions fully transitioned from being run internally by the T to private vendors contracted per the waiver include:

- **Overtime and absence management:** Contracting for a Third Party Administrator has helped the T reduce overtime expenses and absenteeism. Better leave management has led to better performance for customers, with trips cancelled because of operator FMLA absence declining 18 percent in FY2017 compared to FY2016.
- **Cash collection and processing:** As a result of contracting out cash operations, MBTA money is now collected, processed, and deposited more efficiently and cost-effectively. Time from collection to deposit has been reduced by 80 percent at the same time that monthly costs have dropped from nearly \$1 million to under \$300,000.
- **Warehouse and logistics operations:** Outsourcing this critical function has ensured that T mechanics now get the parts they need to keep the T fleet running much more quickly while avoiding the need to invest MBTA capital dollars in a new warehouse facility to replace the dilapidated Everett warehouse. Contractor Mancon has achieved 99 percent on-time delivery and reduced the time it takes to respond and deliver parts by 85 percent, to an average of 10 hours, even while fully loaded costs have dropped by more than 40 percent.
- **Customer service call center:** A contract signed in June will provide the T with state-of-the-art call center technologies designed to improve customer experience and reduce call volume while cutting costs by more than half over five years. The contract will expand weekday hours and provide weekend customer service, which had been discontinued through the in-house call center due to budgetary pressures.
- **Customer service agents program:** This contract, currently being phased in, will deliver improved customer service with “transit ambassadors” in stations using tablets and other technology to more quickly provide accurate information to customers and report system issues to T operations. Once fully implemented by FY2019, the contract is expected to save the authority \$4 million annually.

While these are the most advanced contracts implemented under the Pacheco waiver, the report also details other efforts currently underway:

- **Police dispatch:** Staff review is nearly complete on a contract to shift operation of the Transit Police dispatch center to a professional civilian staff, with a goal of returning about 15 transit police officers to the streets within 60 days of contract signing.
- **Automated fare collection (AFC) 2.0:** In fall 2017 the MBTA will select a team to implement a new automated fare collection system that would enable customers to pay fares using mobile phones and credit cards as well as allowing the T to restructure its fares to be more equitable and affordable while maximizing ridership and revenue. The winning bidder will design, implement, finance and operate the new system.
- **Bus maintenance:** The MBTA issued a Request for Proposals in July to provide maintenance of MBTA-operated buses at up to three of the MBTA's nine bus maintenance facilities. Together the Arborway, Quincy and Lynn garages handle 28% of the MBTA bus fleet. The MBTA's own analysis of its bus maintenance activities, backed by independent assessments, found that the MBTA's costs on a per-vehicle-mile basis were more than twice as expensive as the national average for comparable transit systems (those with more than 100 buses and an average fleet age of at least 9 years). MBTA staff will present responses to the RFP to the control board later this fall.

As these examples illustrate, the three-year exemption from the Pacheco requirements has provided the MBTA with an important tool to improve productivity by enabling a careful, deliberate and transparent process to understand internal costs and test the market for more cost-effective ways to better serve MBTA customers. As a result of use of the waiver to date, the MBTA is projected to save more than \$400 million dollars in operating and avoided capital expenses over the next 10 years. Going forward, the MBTA will both work to improve its internal productivity and cost-effectiveness but also consider, analyze and when appropriate act on opportunities to partner with the private sector to better serve the customers and communities that rely on the T.

Overview

As part of the 2015 Appropriations Act (Chapter 46 of the Acts of 2015), which created the Fiscal and Management Control Board (FMCB), the General Court granted the MBTA a three-year exemption, running from July 1, 2015 to July 1, 2018, from the requirements of sections 52 to 55 of Chapter 7 of the Massachusetts General Laws, commonly known as the Pacheco Law. This report fulfills the statutory requirement that the MBTA file an annual report detailing:

... [The number of service contracts and procurement contracts executed pursuant to this section. The report shall include, but not be limited to, the project or service contracted for, the term of the contract, the projected savings and any realized savings. The report shall be filed with the clerks of the House of Representatives and the Senate who shall forward the same to the House and Senate Committees on Ways and Means and the Joint Committee on Transportation. (Chapter 46 of the Acts of 2015, Section 196 (b))

Since 2015, MBTA management and the FMCB have undertaken a range of actions to improve the MBTA's fiscal, operational, and physical condition. All of these steps, including discussions about and decisions to apply the waiver, have been done with full transparency; in just two years, the FMCB has held more than 100 meetings, including extensive public comment on agenda items and more than 500 presentations. Serious challenges remain, but real progress has been achieved to improve system performance and reliability. An operating budget deficit that had been forecast to explode has instead been dramatically reduced, for example, freeing up funds for capital improvements to improve the customer experience rather than to cover operating costs.

While this report will describe operational and fiscal benefits resulting from the waiver, just its existence has led to other important improvements for the T and its customers. An example is bus diversions during capital project work. Because of the agreement with Local 589, the T has been able to contract out bus services required to replace regular transit during construction work. In many cases, privately provisioned bus diversions do not result in direct operating budget savings, but they have allowed the T to execute critical capital projects to improve system resiliency without increasing overtime, causing dropped trips, or putting additional burden on the MBTA's bus fleet.

Contracting out services to private vendors is a long-standing practice at the MBTA. The T performs a wide array of services to support operations, including human resources, financial management, procurement, information technology and communications, marketing and advertising, and real estate management. Several of these functions are managed through long-standing relationships with third-party private vendors with the expertise to produce better and more efficient operations. In some cases, including commuter rail, The RIDE, ferries and several

bus routes, service delivery itself is contracted out. All Regional Transit Authorities contract out their bus operations and most contract out maintenance.

Because of the waiver, the T can now issue RFIs and RFPs for certain in-house operations or services that could lend themselves to private partnering. Just the process of developing an RFP requires the T to comprehensively review the entire business process in question from beginning to end, something that in many instances simply had not been done at the T.

Such careful assessment can reveal a combination of broken or missing business processes, antiquated technology, and workforce issues that may have been in place for decades but which had not been systemically diagnosed, let alone addressed. The process itself forces the issue of efficiencies and can sometimes propel unions and management to be more creative and work together to create efficiencies.

The T itself has limited internal management capacity to perform such tasks. And even if managers were capable of fixing a certain operation or process, such focus would come at the cost of diverting them from other pressing priorities, often involving critical day-to-day operation of the system.

The waiver has also helped to trigger a new level of engagement between the Authority and its unions.

Historically, the MBTA's unions have argued that any outsourcing efforts by the MBTA violated Section 13(c) of the federal Urban Mass Transit Act, thereby putting the MBTA's federal funding at risk. Generally speaking Section 13(c), and an implementing agreement between MBTA and the unions, are intended to protect MBTA employees from adverse employment consequences of federally funded projects. An archetypical example is a federal grant for a public transit authority to buy automated equipment that results in employees being laid off.

However, the restrictions of Section 13(c) are much narrower than the MBTA's unions have claimed. In connection with the outsourcing of "the Money Room," where T cash was processed, one MBTA union argued that Section 13(c) required MBTA to bargain with the union concerning the outsourcing and required the outsourcing vendor to negotiate with the union over compensation for its own employees. This union invoked arbitration but an arbitrator rejected these arguments. He held that Section 13(c) had no application to the Money Room outsourcing because a federal grant did not cause the MBTA to outsource the Money Room. Instead, the MBTA outsourced the Money Room to achieve efficiencies and address longstanding security concerns and used state, not federal, funds for the outsourcing. This is a significant precedent that should reduce union efforts to interfere with MBTA outsourcing efforts by invoking Section 13(c).

Even as it develops RFPs and awards contracts, T management knows it is critical to install sufficient oversight capacity to make sure contracts are properly monitored and implemented. Failing to properly manage an outside vendor is as much of a failure as failing to properly manage an internal operation. That applies to all contracts issued by the T, waiver-related or not. And it is why the T must act to make sure vendors maintain standards set by the T, which is why the T insisted upon decisive action by the vendor overseeing Customer Service Agents after some of its employees acted improperly earlier this year.

This report will highlight financial and operational results from current outsourcing efforts in three stages:

- A. Actions that have transitioned from in-house MBTA to private vendor:
 - Third Party Administrator
 - Cash collection and processing
 - Warehouse and logistics
 - Customer Service Call Center
 - Customer Service Agent Program

- B. Contract in the final stage of transition
 - Police Dispatch

- C. Outsourcing actions at RFP or other early stage:
 - Automated Fare Collection
 - Bus Maintenance

In addition, a further set of outsourcing possibilities is enabled by the collective bargaining agreement with Local 589. These possibilities include Red and Orange Line Lifecycle Maintenance work and a new Bus Expansion facility. Contemplated lifecycle maintenance work includes contracting with private companies for component procurement and overhaul and/or full vehicle mid-life overhaul for light and heavy rail vehicles. This has the potential to streamline internally provisioned heavy maintenance functions as vehicle maintenance becomes more technologically advanced. For example, third-parties could provide end-to-end procurement services of component parts and heavy repair, ensuring availability while internal staff focuses its efforts on managing component lifecycles.

Uses of flexible contracting under the waiver

A. Fully transitioned

1. Third Party Administrator

The MBTA's first use of the waiver came in response to one of the key instances of weak MBTA management identified by the Governor's Special Panel on the MBTA in 2015, which found that excessive absenteeism was causing substantial overtime costs and tens of thousands of cancelled bus trips annually, inconveniencing customers.

Of \$53 million spent on overtime in FY2015, for example, \$11 million was due to the need to cover vacant positions and unscheduled absences. More than one-third of unscheduled absences were attributable to employees' use of federal Family and Medical Leave Act (FMLA) provisions to take leave for specified family and medical reasons.

The FMCB called for the MBTA to audit employees' use of FMLA, focusing on:

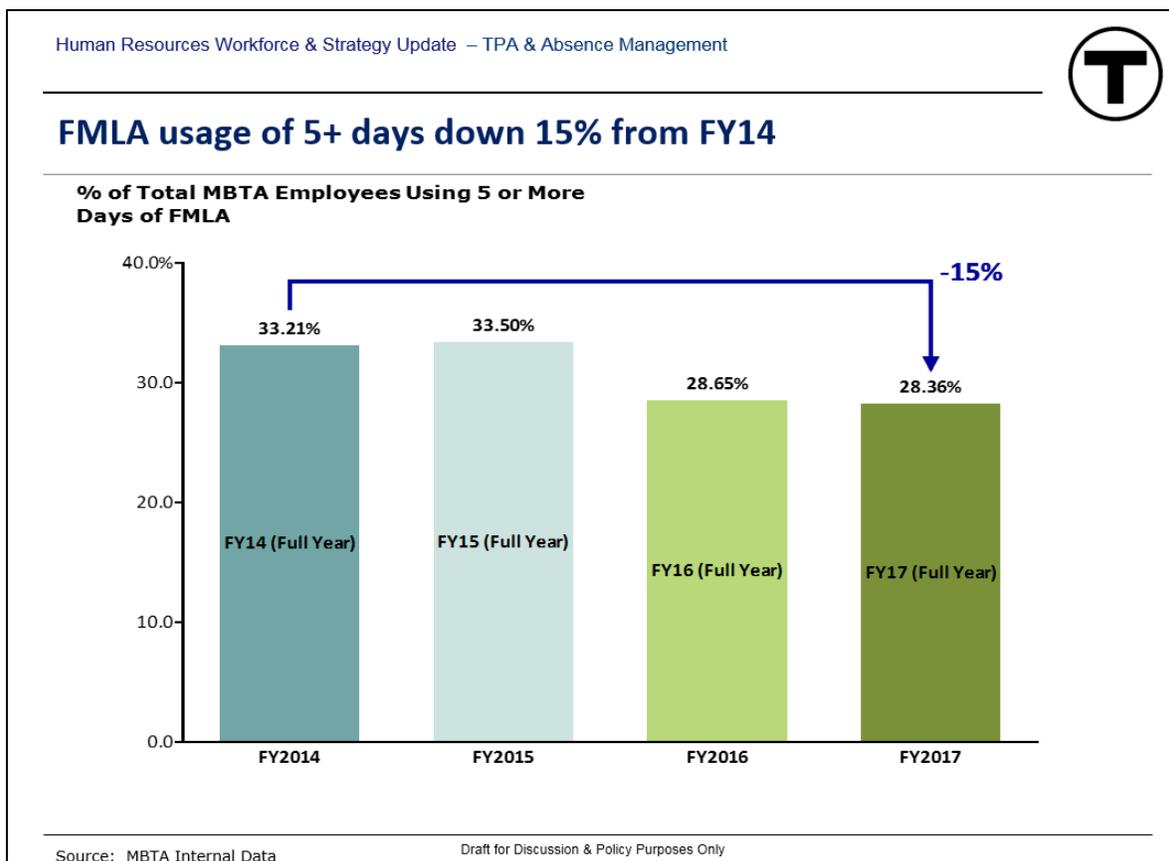
- Employee eligibility;
- Adequacy of medical documentation;
- Expiration or exhaustion of approved leave;
- Usage in excess of approved frequency and duration;
- Need for medical recertification;
- Accuracy of data tracking.

The audit led to a series of corrective internal steps, including better training and a new attendance policy that became effective in January, 2016. These steps helped to improve leave management at the T, but the ability granted by the waiver to outsource for market expertise and capacity proved to be critical to greater, more sustainable improvement. A Request for Proposals for a Third Party Administrator (TPA) to review and improve leave and attendance policies, manage leaves and operate an employee call center was the first to be issued pursuant to the waiver.

On May 13, 2016, the MBTA signed a three-year contract with UPMC WorkPartners, with a one-year option, at an annual cost of about \$750,000, requiring, among other things:

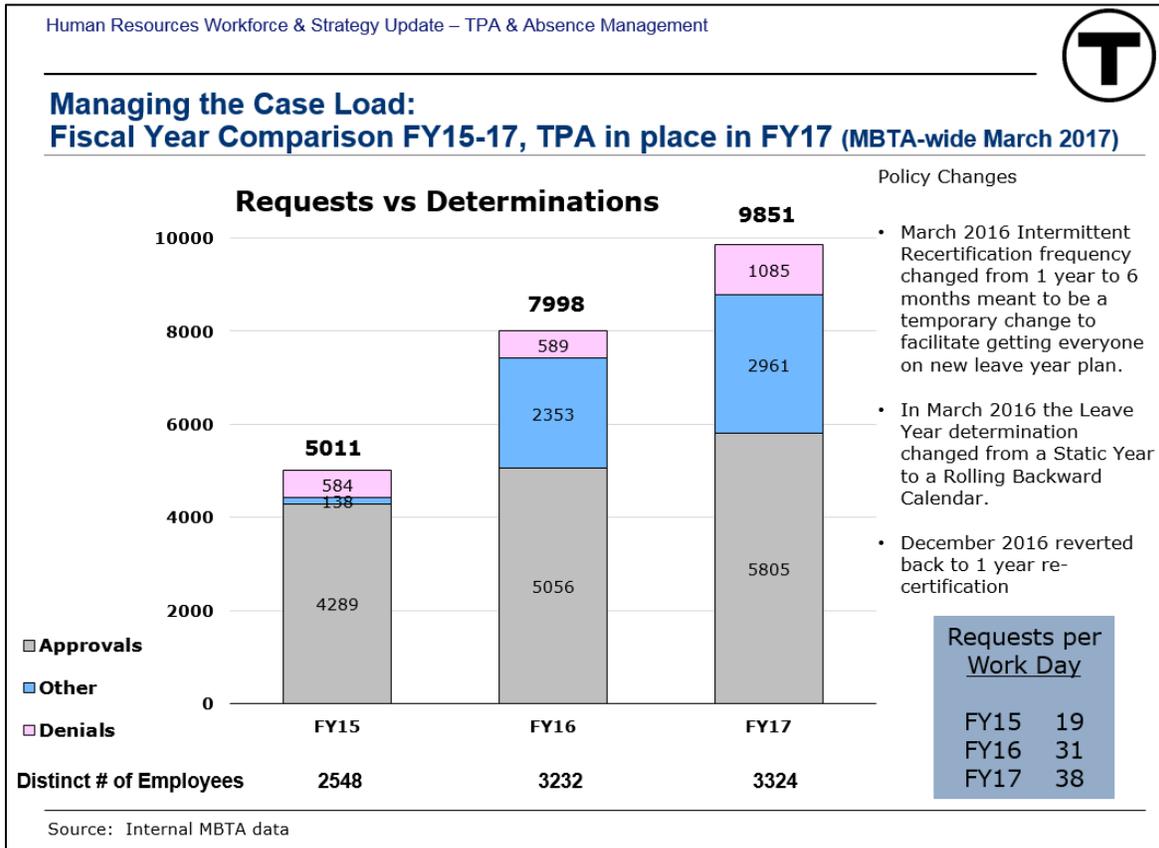
- A centralized 24/7 Absence Call Center, providing easy self-service access for employees using multiple media and real-time notification of employee’s supervisors;
- Detailed information collection and data management on attendance history and medical documentation;
- Legal compliance for federal and state leaves in addition to relevant MBTA policies;
- Rigorous absence case management.

The combination of improved internal performance and outside contracting with an experienced vendor has delivered results. Average daily overtime expense fell by 19 percent in FY2017 compared to FY2015. The average daily hours of overtime was reduced by 22 percent over from FY2014 to FY2017. FMLA usage greater than five days in FY2017 has dropped by 15 percent compared to FY2014.



Case Load Management

The last three fiscal years have seen increases in case load from the overall number of requests for FMLA and subsequent determination of leave for employees. The following chart shows the successive percentage increases since FY2015. The case load alone for FY2017 would have exceeded in-house resources potentially adding risk for compliance as well as the overall absence management program.



Beyond cost savings from overtime, this new approach to leave management has produced benefits for both employees and riders:

- Bus supervisors no longer have to field absence-related calls, struggle to confirm if an employee has an approved leave or not, nor guess if the employee has time remaining;
- Employees have access to real time information on their leave balances and application status of any pending leaves; they make one call for all unscheduled time-off;
- Trips canceled because of operator FMLA absence declined 18 percent in FY2017 compared to FY2016.

2. Cash Collection and Processing

Outside agencies had long documented serious problems with the MBTA's cash collection and counting operations. In September 2012, for example, a report from the State Auditor on the MBTA's automated fare collection system found, among other things, that actual cash fare box receipts deposited between July 1, 2006 to June 30, 2011 were \$123.8 million while the system software recorded \$225.5 million in fare box cash receipts, a variance of nearly \$102 million.

Despite occasional efforts to resolve problems, the T's cash collection and counting process remained inefficient, ineffective, and unsafe for employees. Moreover, cash collection operations distracted from more critical customer-facing priorities, diverting time and resources away from core transit functions. Despite the history of problems, the T had never conducted a comprehensive, top-to-bottom review and assessment of its cash processing operation and procedures. Rather, the T remained one of the few major public or private institutions to handle and process their own cash; most have instead turned that sensitive function over to market leaders with proven capacity.

Last year, the results of an external audit commissioned by the Authority served as a reminder of the challenges facing the T's internally run cash processing operation. Among other things, that audit found that:

- 23 percent of wireless information transfers were unsuccessful;
- 5 percent of cash boxes didn't transfer information to mobile vaulting units;
- 60 percent of information transfers from mobile vaulting units were unsuccessful.

With such serious problems still apparent, the T proceeded to launch an assessment to determine whether an RFP should be issued.

The waiver meant the MBTA could now turn to leading industry players with decades of expertise and experience to help develop the RFP and to eventually manage this critical and sensitive operation. The T retained seasoned consultants to conduct the pre-RFP analysis but almost immediately, those experts identified numerous security threats to both T employees and cash assets. The T took immediate action to counter these risks, which, without the outside audit, might have been left undetected.

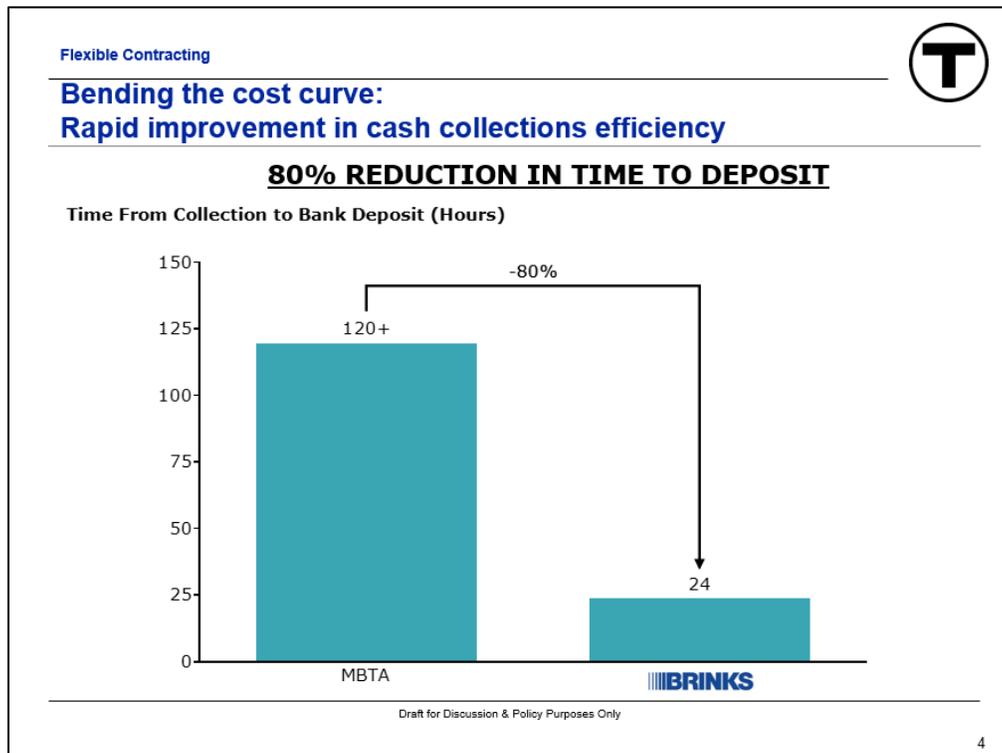
Based on information provided to it by the outside experts and T staff, the FMCB authorized a Request for Proposals on July 22, 2016, seeking proposals from leaders in the business of cash processing to resolve remaining reconciliation and other issues and to identify opportunities for cost savings. On October 6, 2016, the FMCB voted to award a two-year, \$7.2 million contract to Brink's Inc., with MBTA options for three additional one-year contracts. The total value of the five-year agreement is \$18.7 million.

Less than a year later, this contract has already:

- Improved operations and reconciliation processes
- Reduced operating costs to T
- Resulted in additional revenue flow to T
- Avoided need for capital investment by T in its Charlestown “Money Room”

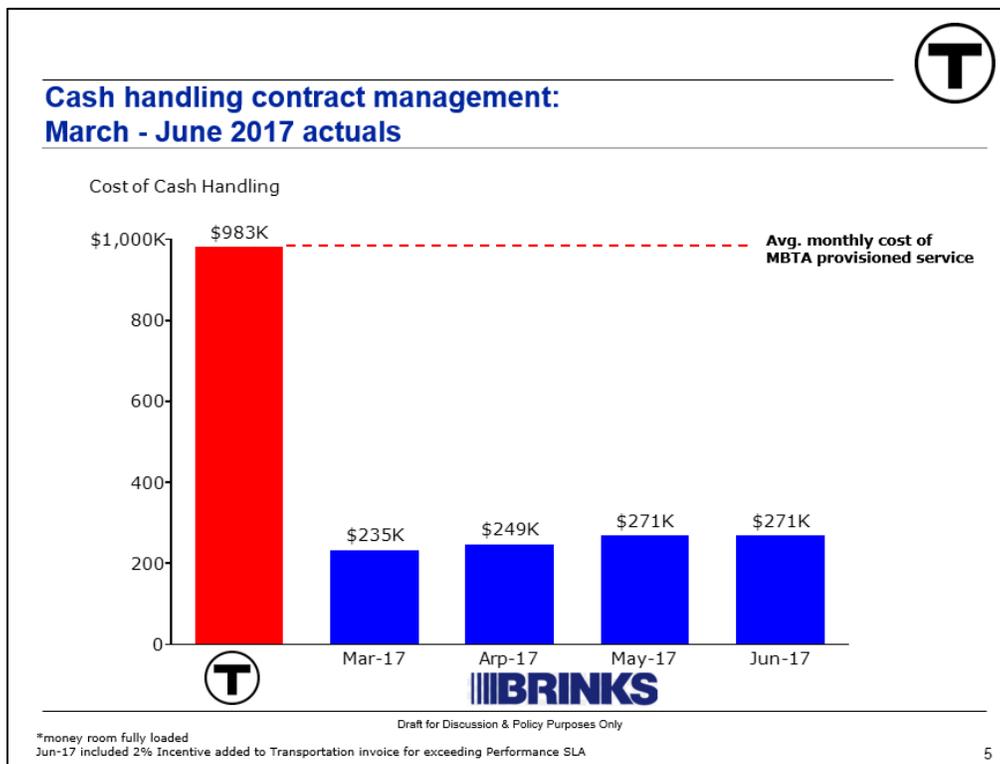
Operational improvements have transformed all aspects of the cash processing operation. These changes range from more efficient scheduling of routes for drivers who collect cash to more systemic maintenance of fare boxes and other equipment. Prior to the contract, for example, broken equipment was poorly tracked, sometimes resulting in non-functioning fare equipment coming in and going right back out again. Under Brinks, machine maintenance is now properly monitored. Similarly, daily cash pickups, which under the T had been inefficient and inconsistent, are now based on a clear schedule set in advance. Drivers now know when and where they are going, compared to the past inefficient practice of T drivers often waiting around for instruction.

Not only is money from fare vending machines and fare boxes being collected more reliably, it is being safely deposited much more quickly.



Brinks has rapidly improved cash collection efficiency and reduced the time from collection to deposit by eighty percent. Business process improvements include streamlined route structure for armored trucks, shorter time “on premises” when Brinks’ employees preform pick-ups, faster cash and coin processing, depositing cash on-site at processing facility through a virtual vault, as well as faster reconciliation prior to deposit and real-time reporting.

Even as MBTA money is now collected, processed, and deposited more securely and efficiently, the T is also saving significant operating costs in the process. Whereas the T spent an average of nearly \$1 million to handle cash, by June 2017, Brinks was doing so at a monthly cost of \$270,000. Not only is Brinks’ cost of cash handling roughly one third of internally provisioned service, Brinks’ is also running 15 percent below their monthly contract value of \$300,000 through June 2017.



3. Warehouse and Logistics

An efficient and reliable warehouse and logistics operations is fundamental to a transit system's ability to provide safe and reliable service. If parts are difficult to locate because of poor inventory systems or if mechanics have to wait for excessive time to get the parts they need to repair a vehicle, riders suffer because buses and other vehicles are either out of service or are not operating properly.

Seeking to assess the productivity and performance of its warehouse, materials management, and logistics operation, the MBTA turned to a team of industry experts. Their review, which was completed in mid-2015 and presented to the FMCB, revealed a completely broken system with standard business practices that were either not in place at all or were not properly followed, with a direct impact on riders. Broken vehicles account for about one of five dropped bus trips and missing parts and long wait times for parts to get to mechanics were a major factor in these dropped drips, which inconvenience riders.

Among other things, the expert analysis found:

- The T's inventory accuracy was well below industry standards. Compared to an industry standard of 95 percent inventory accuracy, the T's was just 56 percent.
- The T had \$22.7 million in excess inventory.
- The time to respond and deliver requested parts at the T was six times longer than the industry standard.

Despite these and other problems and inefficiencies, however, total operating costs for the T warehouse and logistics operation were high. T staff and their experts believed that partnering with industry would save MBTA about \$5 million a year in operating costs and would enable the Authority to avoid \$16 million in capital improvements to its existing warehouse facilities.

In view of these and other findings, MBTA management issued an RFP on June 22, 2016. On January 9, 2017, the FMCB approved a five-year contract with Management Consulting, Inc., (Mancon) to manage the MBTA's warehouse operations, with a projection of \$64.2 million in total savings and avoided capital costs.

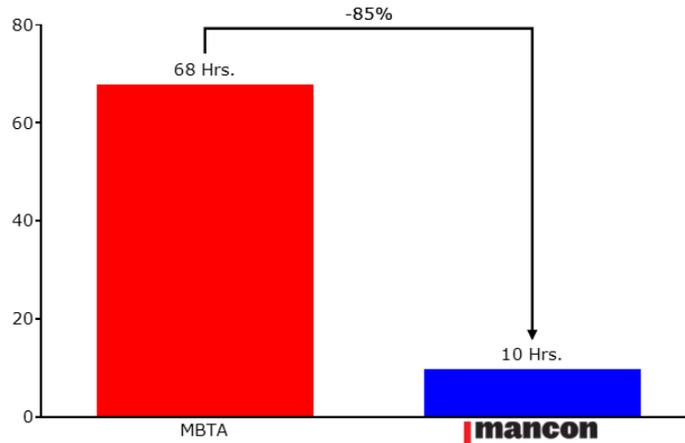
T management reported to the FMCB on May 22, 2017, that Mancon was "performing all tasks at or above contract requirements." Among other improvements:

- The first physical inventory of MBTA parts in 15 years was begun.
- Improved inventory accuracy and parts delivery resulted in more efficient operations and stocking of parts.
- Delivery from the Everett central warehouse to garages is now more than 99 percent on-time. The time to respond and deliver parts now averages 10 hours under Mancon, an 85 percent improvement over the internally run MBTA operation.



Warehouse Update: 99%+ on parts logistics service levels: 10 Hour Guarantee on Standard Requests

Time to Respond and Deliver Parts
Hours of Clock Time



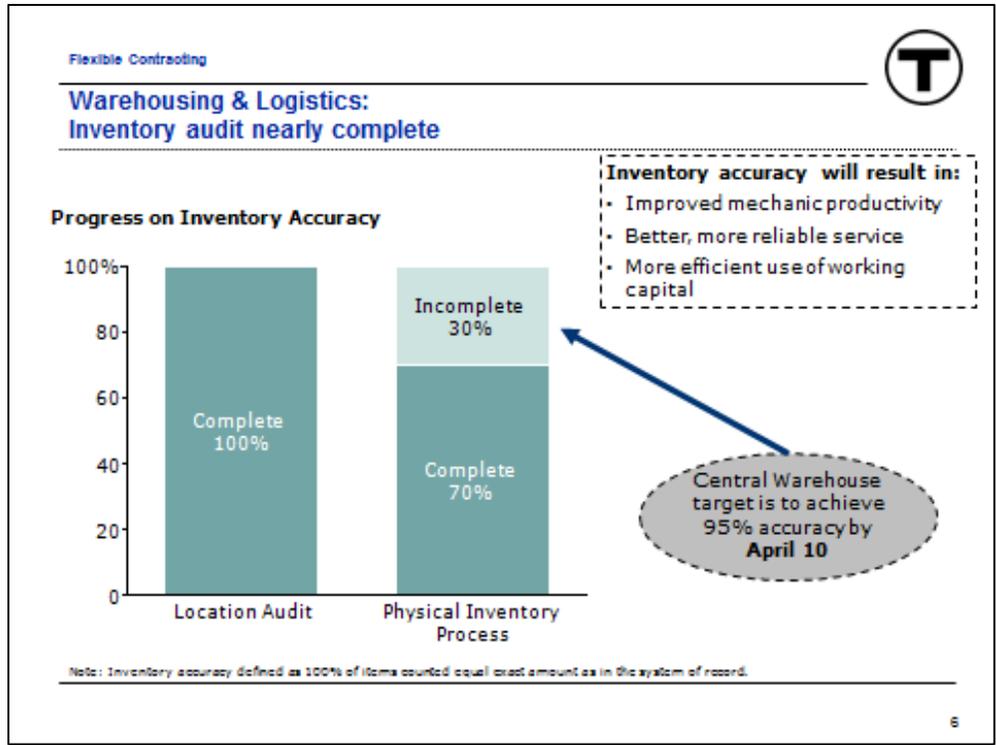
Note: Time to Respond and Deliver Parts defined as time from ERP system regeneration to calculate part replenishment request to delivery of the part to the car house or bus garage and put away into inventory.

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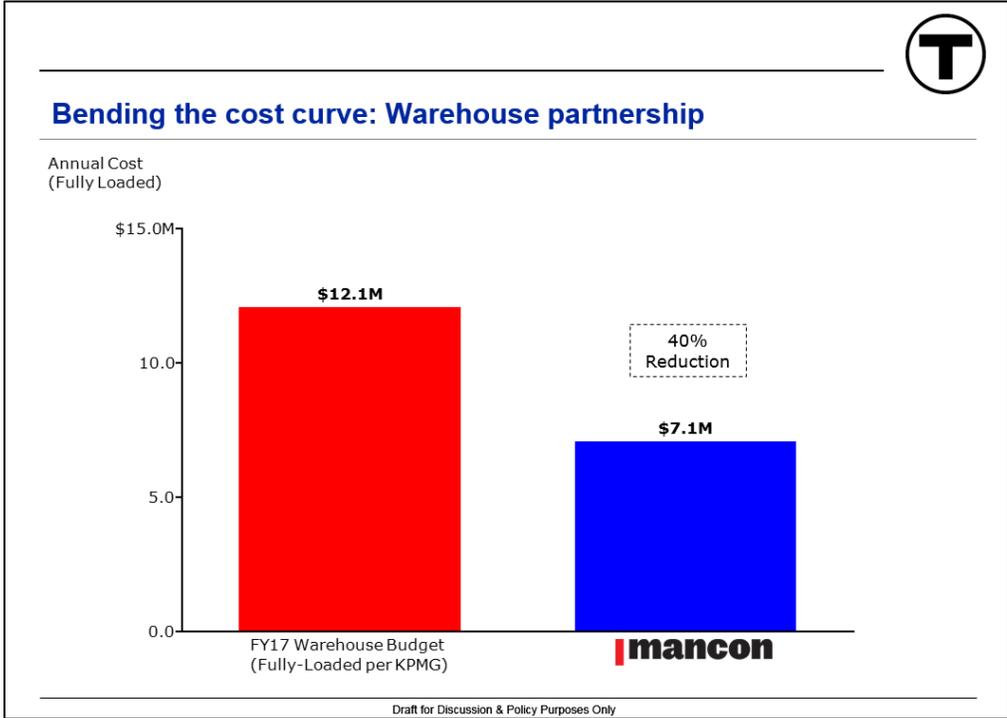
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Mancon's performance to date includes ninety-nine percent on time delivery and shipment accuracy. , the T has also experienced significant cost savings as a result of the transition to Mancon, with fully loaded costs dropping by more than 40 percent.

Moreover, Mancon has delivered 21,569 parts to date. Finally, Mancon has reduced time to respond and deliver parts by 85 percent. All parts ordered by 6:00 pm are delivered by 4:00 am the next morning across all garages.



Even as it sees these significant operational improvements, the T has also experienced significant cost savings as a result of the transition to Mancon, with fully loaded costs dropping by more than 40 percent.



4. Customer Service Call Center

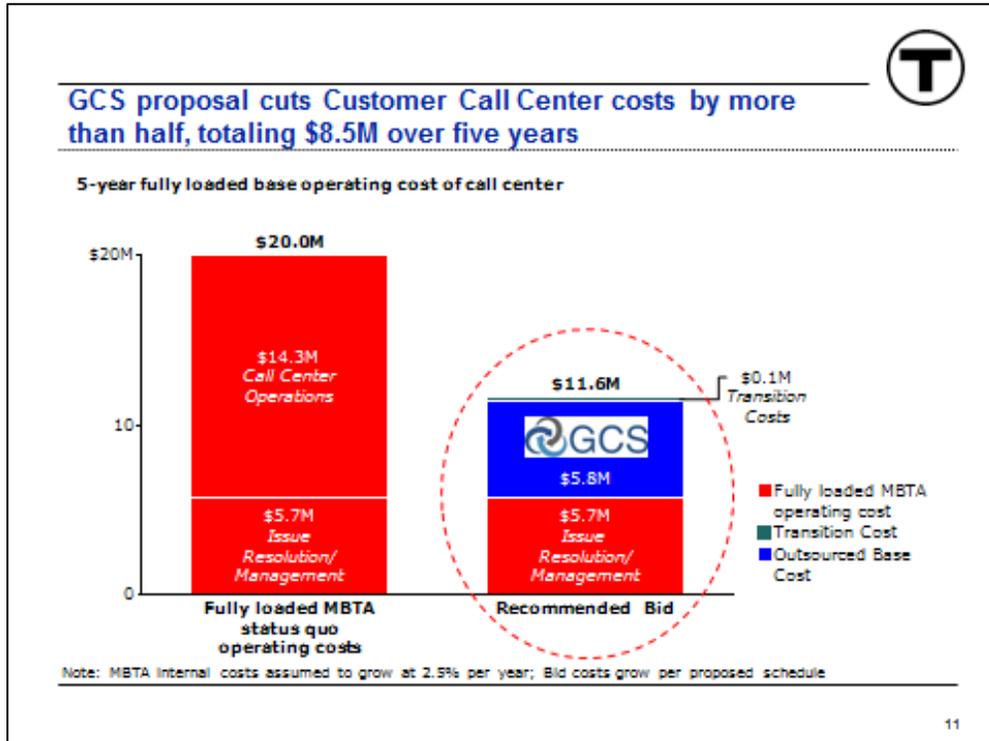
From FY2013 to FY2016, the volume of inquiries to the MBTA's Customer Communication Center, which worked to record, communicate, and resolve customer complaints by working with other MBTA departments, fell by 25 percent. But over the same period, the cost to operate the in-house operation rose by six percent. So when the MBTA received an innovation proposal expressing interest in providing call center services similar to or better than those being performed by the T, it helped lead to the FMCB's approval to issue an RFP from industry leaders interested in assuming the call center functions.

The RFP, which was issued in December 2016, generated eight responses. Four bidders were interviewed and pricing was opened for two bidders. On May 1, 2017, the FMCB authorized the T to enter into final contract negotiations with Global Contact Services (GCS) to run MBTA customer contact operations. A \$5.8 million contract for three years plus two one-year options was signed with GCS on June 1, 2017.

Partnering with GCS delivers a range of operational benefits to both the T and its customers. By adopting a more flexible model, the T will shift internal focus to customer complaint resolution and service delivery improvement. Moreover, the T will benefit from new state-of-the-art call center technologies which should help improve customer experience and reduce call volume. Finally, GCS operates a flexible staffing model that allows for adjusting capacity based on customer demand. The fixed fee model incentivizes GCS to create robust self-service options for callers while penalty and incentive regimes help to ensure demand is met during peak service hours, emergencies or weather disruptions.

GCS is also expanding weekday hours and will provide customer service on weekends, which was discontinued with the MBTA's in-house Customer Communication Center due to budgetary pressures.

The contract with GCS also cuts customer call center operations costs to the MBTA by more than half over the five years.



Key service-level agreements in the contract with GCS include a 45-second average call answering speed, a five percent abandonment rate for calls with waits longer than 45 seconds, post-call survey satisfaction greater than eighty percent, secret shopper satisfaction, and error-free data entry greater than 97 percent.

The MBTA contract management team is actively supervising GCS through daily service and performance monitoring, weekly staffing-level check-ins, monthly data quality audits, on-demand call recording reviews, monthly service level agreements and penalty payment reviews, and monthly service efficiency improvement plans.

GCS has committed to improving the technology used by the MBTA. GCS will focus on reducing how long it takes to get to an agent and on improving available self-service options.

The 22 MBTA customer service agents who had worked in the T's internal operation either bumped into other positions or were offered bus operator positions.

5. Customer Service Agents Program

Seeking to significantly improve customer service in its stations while reducing costs, on April 3, 2017, the MBTA posted a Request for Proposals from hospitality industry leaders to take over the functions of the T's own Customer Service Agents (CSA) program. A contract not to exceed \$4.1 million for one year with three one-year options signed on July 31, 2017, with Mydatt Services Inc. (doing business as Block by Block) is now in the process of being fully implemented. Once fully phased in by FY2019, this contract is expected to save the Authority \$4 million a year.

More important than the cost savings, the new contract with Block by Block will use best-in-business practices to deliver higher quality customer service. Benefits to T customers include additional service hours in stations and significantly increased weekend coverage. Block by Block "Transit Ambassadors" will also utilize tablets and other technology to more quickly provide accurate information to customers. They will also be able to report system issues in real-time to T operations or other departments.

As part of its new agreement with Local 589, all T CSAs will retain their current roles until they retire or leave the Authority or transition into other positions, such as rail operator. The first pilot stations, Chinatown and Mass Ave, launched in early August. Starting September 3, the program will commence in an additional five core stations: South Station, North Station, State Street, Park Street and Downtown Crossing. These stations will interact with all of the MBTA rail lines, along with commuter rail and bus transfers.

B. Contract in final stage of implementation

Police Dispatch

In an effort to return underutilized police officers sitting in dispatch to their mission of protecting and assisting customers, the MBTA issued an RFP on June 19, 2017, seeking a qualified private vendor to assume responsibility for the dispatching of transit police. This RFP was issued about a year after the FMCB instructed the MBTA to revise and reissue an earlier version of the police dispatch RFP.

The single bidder responding to the current RFP is under review by T staff, which will present the bid to the FMCB in the near future.

Instead of staffing the dispatch operation with police officers who can be better utilized by patrolling on the system, dispatch will be operated by a professional, civilian staff whose sole responsibility at the MBTA will be to provide dispatch services. The vendor will be held accountable to high standards to ensure that all 911 callers are properly handled by helpful, assuring, and confident dispatchers. The service provider that the MBTA will choose will be responsible for implementing a quality assurance and continuous improvement program to ensure that dispatchers are providing accurate information to callers and that they do so with the proper demeanor.

By contracting out police dispatch, the MBTA will be able to reduce its current reliance on overtime to fully staff the dispatch operation. Moving to a predictable, fixed-cost contract will further advance fiscal stability for the T's operating budget.

The goal is to return about 15 transit police officers to the streets within about 60 days of a contract signing.

C. Outsourcing actions at RFP or other early stage

1. Automated Fare Collection (AFC) 2.0

In order to improve customer experience with standardized payments across all modes, improve service, reduce vehicle dwell time by allowing all-door boarding, allow greater flexibility in future fare policy, and permit additional integration across modes, the T is planning a complete overhaul of its fare collection system.

This system will greatly expand ways to pay fares with mobile phones, T cards and credit cards. It will also expand the point-of-sale network by partnering with retail locations and the introduction of new devices. Moreover, new back office systems will improve revenue accounting and reporting, and allow for the adoption of more innovative fare structures.

The new system is being procured through a contract with an industry-leading vendor in a two-step competitive process. The first phase was an RFQ issued on July 18, 2016. The next phase, which is currently under way, is a formal Request for Proposals process with the pre-qualified vendors with selection to be based upon best value to the MBTA.

The winning bidder will be responsible for the core functions of design, implementation, financing, operations and maintenance of AFC 2.0 including:

- All fare collection hardware and software;
- System integration, testing, implementation and transition to full AFC 2.0 operations;
- Card manufacture, supply, retail network, and vending;
- Bank interfaces; and
- System operations and maintenance for not less than ten years.

The contract between the MBTA and the Systems Integrator will be performance-based, with primary payments commencing upon systems operations and subject to compliance with key performance indicators. This project delivery will combine the core, long-term functions of the project under a single contract in order to provide for:

- A single point of responsibility;
- Expedited project delivery; and
- A life-cycle cost approach to project decision making.

Selection of the vendor is scheduled for the fall of 2017, with AFC 2.0 set to go live in 2020.

2. Bus Maintenance

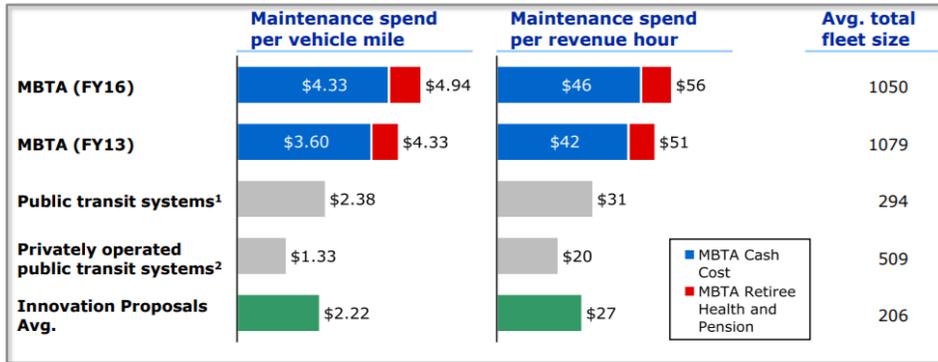
On July 21, 2017, the MBTA issued a Request for Proposals from vendors to improve bus maintenance productivity while assuring safe and reliable buses for customers. Under a future contract, a private contractor will provide maintenance of MBTA-owned buses at up to three of the MBTA's nine bus maintenance facilities (Arborway, Quincy, and Lynn).

The RFP is one part of the FMCB's three-part approach to reducing bus maintenance costs. The first part of this approach – and the one the FMCB said was its preferred approach -- is to achieve cost savings and productivity improvements through negotiations with the unions representing MBTA bus maintenance employees. Those discussions are ongoing. The second piece of the FMCB's strategy is to enhance productivity through internal management initiatives, which includes streamlining staffing levels and modernizing business processes. The third component of the three-part approach is to test the market by issuing an RFP seeking bids from private sector leaders to improve bus maintenance productivity while providing safe and reliable service.

The MBTA's own analysis of its bus maintenance activities, backed by independent assessments, found that on a per-vehicle-mile basis, the MBTA's costs were more than twice as expensive as the national average for public transit systems with more than 100 buses and an average fleet age of at least nine years. Unsolicited bids received by the MBTA from three private bus companies in March 2017 under the MBTA's innovation proposal policy indicated that the MBTA could save between 30 percent and 40 percent per year on bus maintenance costs at several of the MBTA's smaller bus garages.



Innovation proposals are consistent with industry standards for privately operated public transit systems



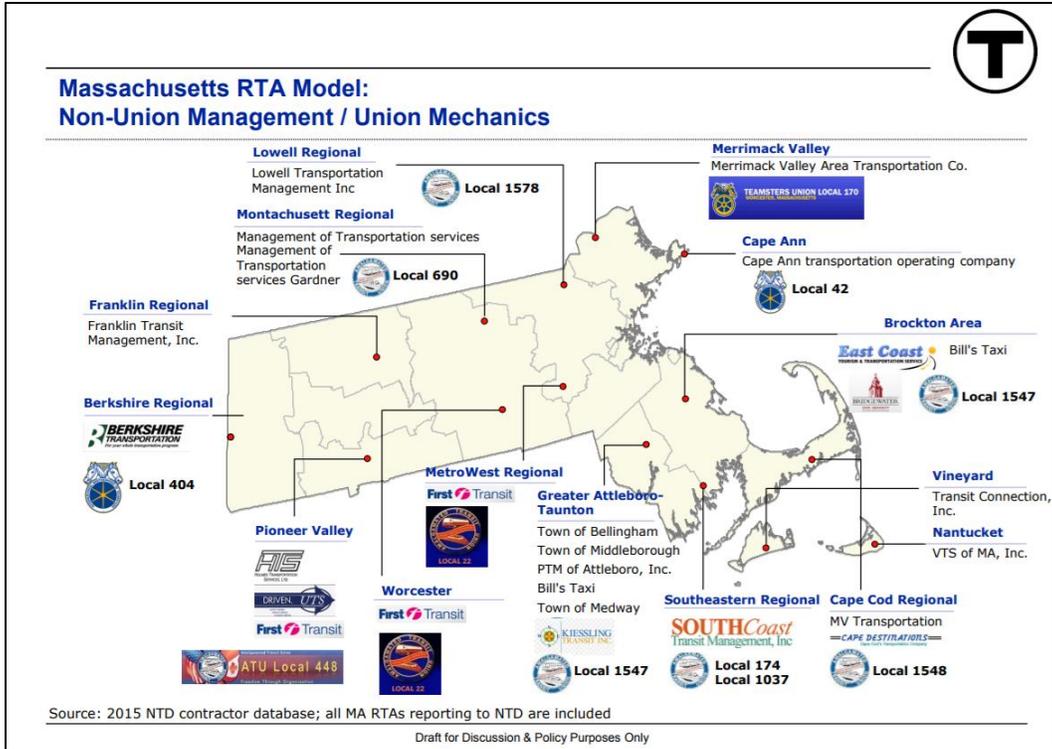
¹ Includes 71 public transit systems with more than 100 buses and a fleet age of 9+ years
² Privately operated public transit systems with a fleet of over 100 buses
Note: NTD data for public transit systems and privately operated systems reflect CY 2015 costs, miles, and hours
Source: MBTA Internal Data; Company Proposals; 2015 NTD Database Tables

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Besides cost savings, potential benefits from contracting for bus maintenance include:

- Greater operational flexibility to meet future customer needs;
- Introduction of modern technology and updated business processes;
- More flexible workforce practices.

The RFP seeks proposals that will mirror the public/private partnership operating model already used by the state's 15 Regional Transit Authorities. The RFP calls for the vendor to put buses into service; once a bus leaves the yard and enters into revenue service, the MBTA Operations Control Center will assume dispatching functions and maintain direction over the buses. Buses will continue to be driven by MBTA bus operators who belong to Local 589.



The RFP being issued calls for a 3.5-year contract, with two additional one-year options. The three bus garages listed in the RFP handle 28 percent of the MBTA bus fleet. Respondents to the RFP must bid on one, two, or all three garages.

The RFP requires that the vendor winning the contract give first hiring preference for machinist/mechanic positions to existing MBTA machinists who may be displaced. It also asks bidders to provide price proposals with the option for a defined benefit retirement pension plan for machinists under any resulting contract.

The MBTA expects to present RFP responses to the FMCB at a future meeting.

Conclusion

Two years into the waiver of Pacheco law requirements, the FMCB and MBTA management have been diligent in considering how, when, and whether to utilize it. Decisions to outsource in-house MBTA processes and operations have come only after a dynamic process of internal and independent analysis and extensive outreach to and feedback from a range of stakeholders.

The FMCB will continue to work with MBTA management and the Authority's workforce and their unions to seek further gains in efficiency and productivity. And both the MBTA and FMCB will continue to incorporate the views of all stakeholders as outsourcing possibilities are raised and discussed.

As detailed in this report, the FMCB's limited use of the waiver has already generated real benefits. Some are measured in operating cost savings, which are being used for system maintenance and improvements to enhance the customer experience. Other benefits from use of the waiver are avoided capital expenses as well as improved operations and processes: functions that had been run in-house by the T are now being performed more efficiently and effectively by private sector firms that have extensive experience in running such operations. Due to use of the waiver to date, the MBTA is projected to save more than \$400 million dollars in operating and avoided capital expenses over the next 10 years.

It is critical that the MBTA continue to carefully monitor these contracts for compliance and performance. That is why, for instance, that even as it issued its bus maintenance RFP, the MBTA also began the process of hiring contract managers to be in place when and if bus maintenance contract results.

Going forward, the FMCB will continue to consider, analyze, and act upon opportunities to partner with the private sector in ways that can help lead to both fiscal stability and improved performance for the people, communities, and regional economy that depend upon a reliable, well-functioning MBTA.