



Port Authority of Allegheny County Update
To the Pennsylvania Senate Transportation Committee

March 17, 2009

Stephen G. Bland
Chief Executive Officer

Introduction

First and Foremost, Port Authority would like to thank the State Legislators and Governor Rendell who advanced and helped pass Act 44 in July of 2007. To date, this legislation has prevented further service cuts and employee layoffs as we enter into the second half of a balanced FY 2009 operating budget. Although the Commonwealth of Pennsylvania will be faced with a very difficult budget year, the dedicated level of funding provided by Act 44 has helped Port Authority management effectively forecast and implement a predictable financial plan. In addition, a dedicated source of local funding was passed in 2008 by Allegheny County to match approximately \$184 million in operating dollars that are provided by the Commonwealth, which we anticipate will assist us in our budgeting process, as well.

As public transportation will again this year attract attention throughout the Commonwealth, due to the uncertainty of Act 44's revenue sources, the onus will be placed on transit agencies to demonstrate genuine efforts to reduce expenses while improving efficiencies. In that regard, I am pleased to report that we continue our aggressive approach to implement changes that result in a more cost effective transit agency for the Southwestern Pennsylvania. This includes significant employee cost restructuring through a new collective bargaining agreement, the development of smart-card technology, generating non-traditional revenue through public-private partnerships, and the re-examination of our service design through a comprehensive Transit Development Plan (TDP). In addition to these ongoing initiatives and various other cost savings measures that are summarized in this report, Port Authority is carrying more passengers today than we did 2 years ago--***with 140 fewer buses and 370 fewer employees***. This efficiency measure alone clearly demonstrates that Port Authority is heading in the right direction and effectively controlling its cost structure.

However, as we face new challenges and introduce new initiatives to improve the agency, we remain concerned over the stability and growth of Act 44 as it relates to the organizations long term funding needs. While the approval and implementation of a "Federal Stimulus Package" may certainly help the organization address its short-term capital goals, as core infrastructure continues to age and as the rate of inflation rises annually, the need to obtain a growing level of funding becomes more critical to us each and every year.

Status of Federal Stimulus Funding Initiatives

To date, Port Authority is poised to receive approximately \$61.9 million dollars through the federal “Stimulus” formula dollars under the American Recovery and Reinvestment Act (ARRA). The allocation of these dollars will be applied to the organization’s “Shovel Ready” North Shore Connector Project, which is a 1.2-mile light rail extension of the T, our 25-mile light rail transit system, underneath the Allegheny River – in twin bored tunnels - to the City of Pittsburgh’s North Shore. The alignment of the North Shore Project is listed on page 4.

The project is a significant regional investment that will support the revitalized Downtown Pittsburgh and North Shore’s residential areas, business districts, educational institutions, entertainment developments and cultural venues in addition to enhancing development opportunities. The North Shore Connector will also enable the Authority to construct future extensions of the T to other destinations within Allegheny County, thus making it a catalyst for future development opportunities throughout the region. Although the project will need further funding to be completed, we are hopeful that discretionary funds, which have been identified and will be provided under the ARRA will be accessible/eligible to assist us in closing the \$56 million dollar gap.

The additional \$117.8 million needed for the North Shore Project represents a 27 percent increase due to the costs of construction material, which has escalated more than 36 percent. Within the last 12 months alone, structural fabricated steel has risen nearly 60 percent and structural cement concrete has increased by 48 percent. Most importantly, recent national trends have indicated that major transportation costs throughout the United States. Similar transportation construction projects across the nation have experienced budget increase by 24 percent or more due to the escalation costs of construction material.

Over the life of the project, the North Shore Connector, will provide and sustain approximately 4,000 jobs. In addition, stopping or delaying the North Shore Connector would cost the state, county and the taxpayers millions of dollars. For example, it is estimated that an additional \$21 million dollars will be needed to safely stop this project and secure the construction sites. Furthermore, if the project were to be shelved with the idea of restarting construction when funding is secured by some entity sometime in the future, monthly delay costs would be in the realm of \$2-\$3 million a month—effectively causing the construction costs to increase beyond the \$117.8 million.

Port Authority has identified and is prepared to immediately advance an additional \$69.8 million in “Shovel-Ready” projects, which would create and sustain more jobs for our region. These core projects, which are listed on the following page will assist the organization in properly maintaining our core infrastructure for the 230,000 customers whom rely on Port Authority services on a daily basis.

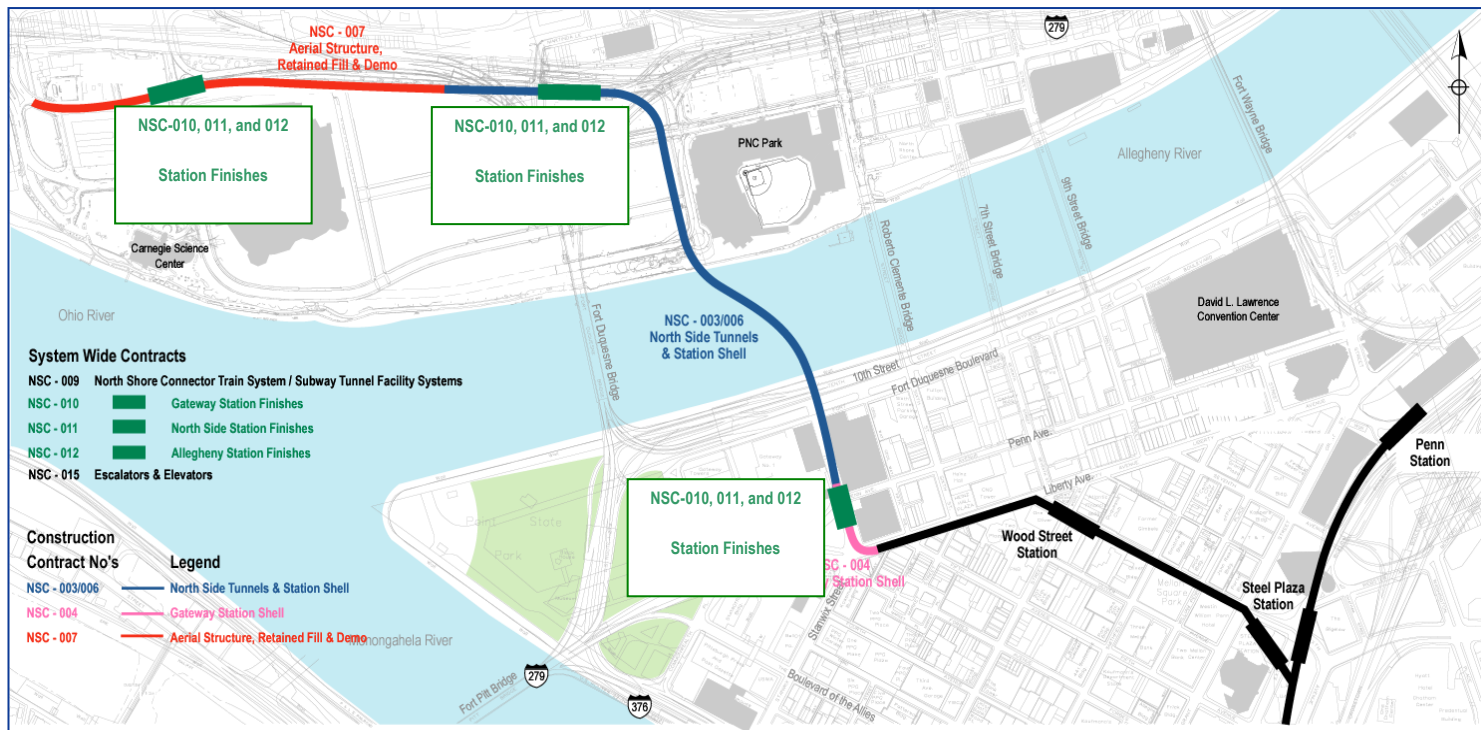
Procurement of Stimulus Projects

An important element of implementing, managing and completing these “Shovel Ready” projects, will be the use of Port Authority’s new “ebusiness web-based procurement system”. The new web-based system has not only proven to reduce the amount of time and staffing needs, but also streamlines our bidding process and ultimately provides us with the framework to create, manage and deliver project results within a cost effective and timely manner.

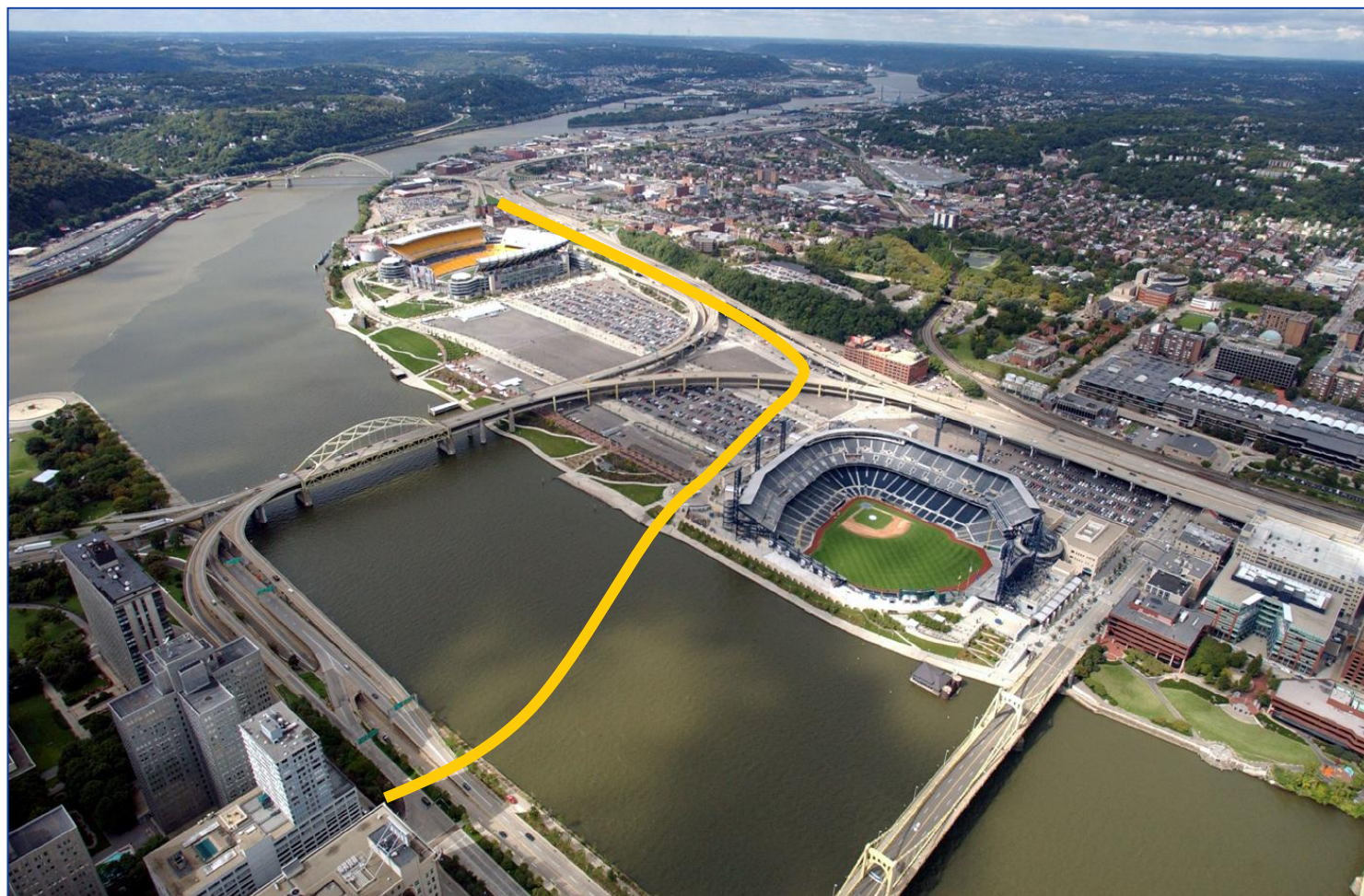
Total “Shovel Ready” Stimulus Projects

Project	Total
<i>North Shore Connector</i>	<i>\$117,800,000</i>
Hybrid Buses	\$10,000,000
East Busway Pavement Replacement	\$27,870,000
Warrington Track & Pavement Replacement	\$13,000,000
Mt. Lebanon Tunnel Rail Replacement	\$9,000,000
Concrete Plinth Repair in Subway	\$1,500,000
East Busway Slope Stabilization	\$400,000
East Liberty - Repave Parking Lots	\$1,000,000
Neville Ramp Bridge Deck Replacement	\$4,000,000
26th Street Ramp Repairs (East Busway)	\$600,000
Collier Garage - Concrete Slab Replacement	\$500,000
Negely Pedestrian Bridge	\$2,000,000
Total	\$ 187,670,000

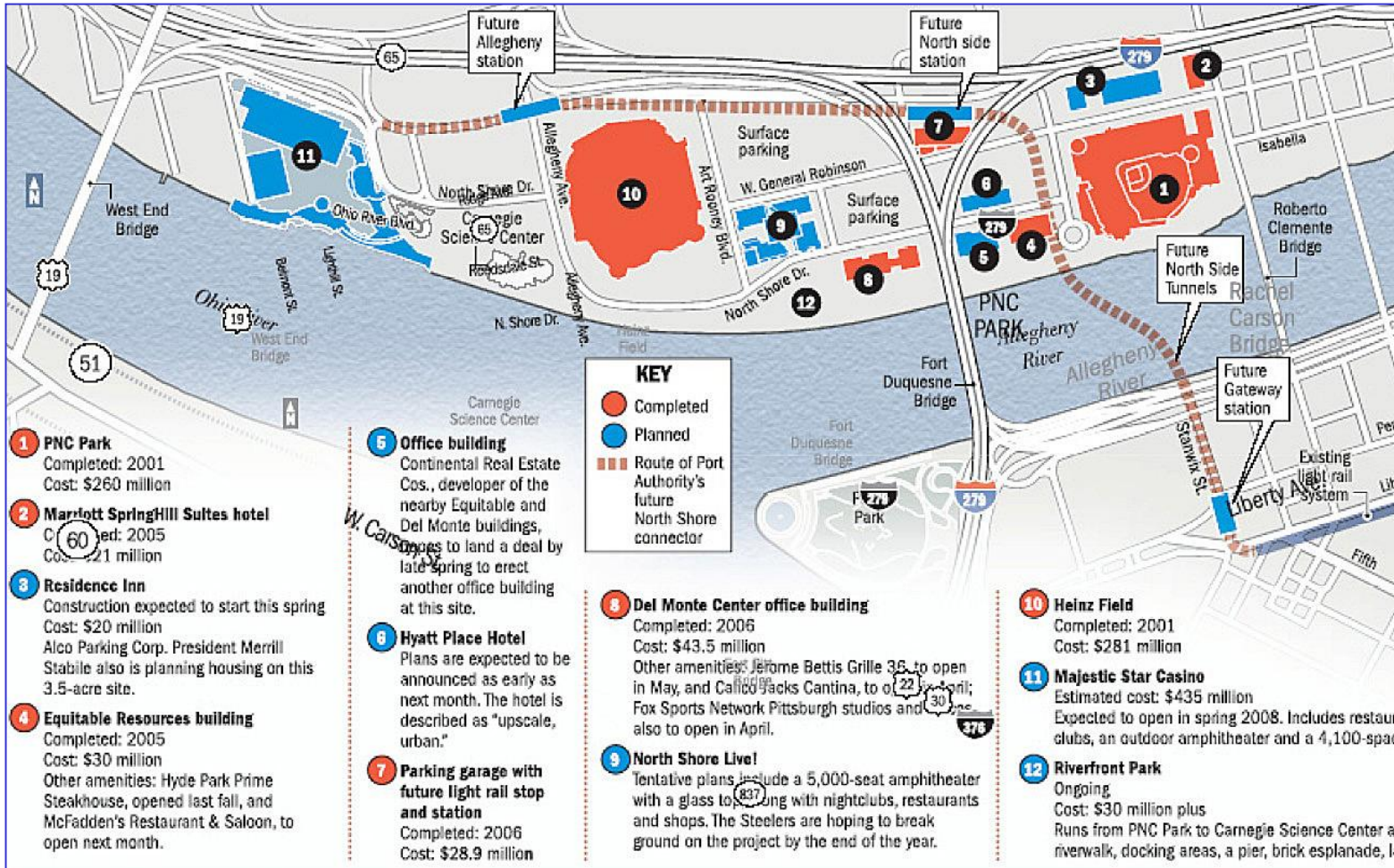
North Shore Alignment & Contracts



North Shore Alignment



Billion Dollar Boom – North Shore Development

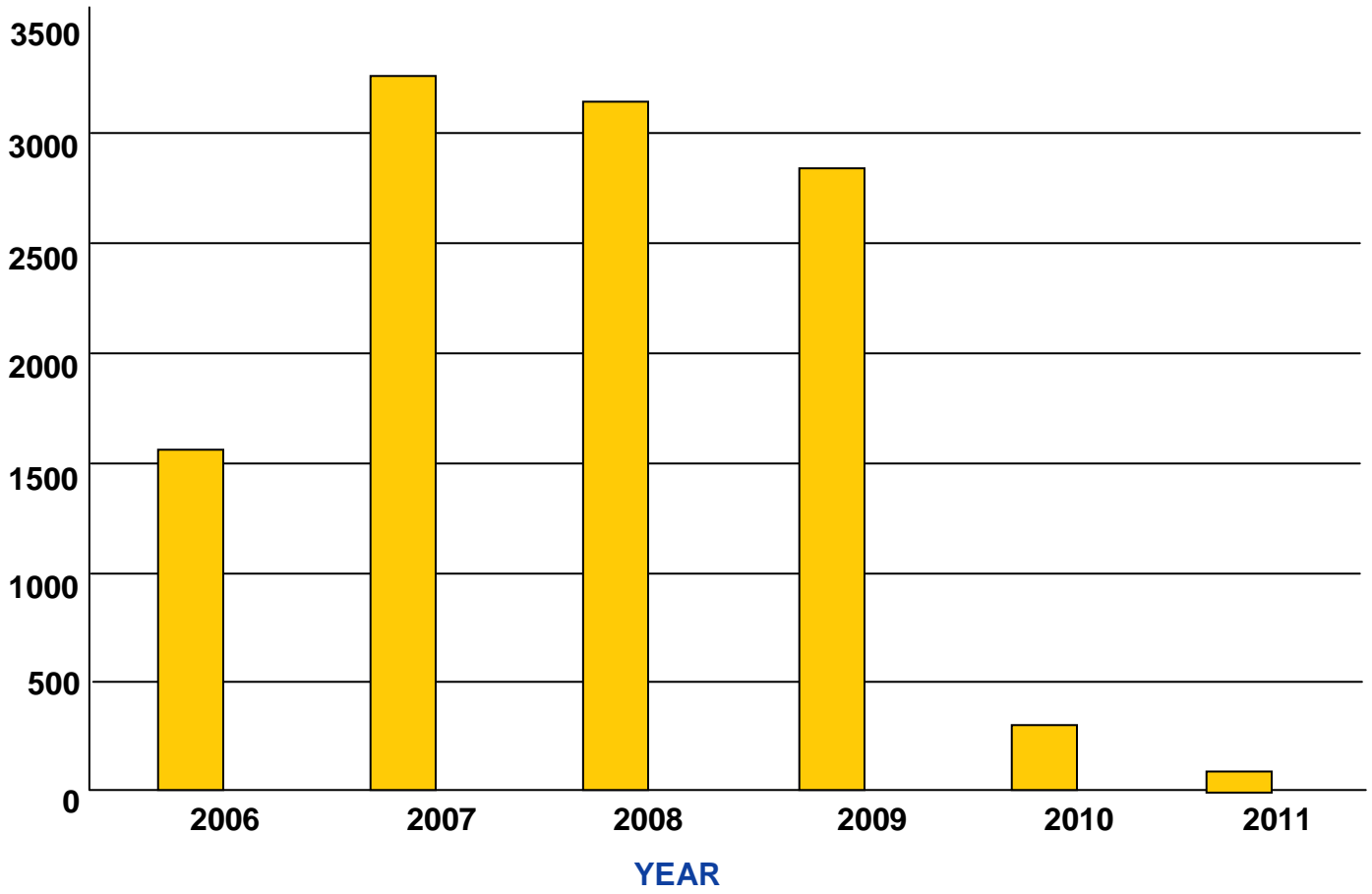


Source: Majestic Star Casino, Allegheny Port Authority

Ed Youwick, Jr.

Level of Jobs – North Shore Connector Project

Number of Jobs



1. Pre-Act 44 Port Authority Initiatives

Prior to the passage of Act 44, Port Authority faced an \$82 million operating deficit in FY 2008. In response, we implemented numerous initiatives to reduce expenses and improve productivity, many of which were recommended by the Pennsylvania Transportation Funding & Reform Commission. Listed below are Port Authority's cost savings initiatives that took place prior to the implementation of Act 44. Due to the previous collective bargaining agreement, compensation and benefit changes described below only affected management employees and the Port Authority Police, who account for approximately 8% of our total workforce at the time:

Port Authority Initiatives

- Accelerated the departure of those employees who remain enrolled in the Deferred Retirement Option Program (DROP) to July 1, 2007.
- Eliminated "lifetime healthcare" for non-represented employees retiring after June 30, 2007.
- Restricted the "buy-back" of previous employment time only to military years of service and a 10-year vesting period.
- Instituted 10-year vesting period.
- Eliminated a \$500 monthly pension supplement.
- Increased non-represented employees' healthcare contributions to 2 percent of annual salary in Fiscal Year 2008, which began July 1, 2007, and a subsequent increase to 3 percent of annual salary in FY 2009.
- Froze the Fiscal Year 2008 salaries for all non-represented employees.
- Froze the CEO's salary through June 2009 (amounting to a three-year freeze) and elimination of his deferred compensation contribution by the Authority.
- Froze all senior management position salaries (amounting to a two-year freeze) and elimination of their deferred compensation by the Authority.
- Eliminated use of accrued sick leave toward pension service.
- Eliminated 370 budgeted positions, including 50 administrative positions, and instituted 203 layoffs by June 2007.
- Reduced the number of senior managers from eight to five.
- Eliminated non-essential company vehicles and charging Port Authority employees the market rate for downtown parking.
- Reduced fixed route service hours by 15%. Through a targeted "Service Scorecard" approach, and an unprecedented public outreach program, this service reduction resulted in a productivity increase of over 13% -- a key recommendation of the Transportation Funding and Reform Commission.
- Renegotiated University Pass programs with the University of Pittsburgh and Carnegie Mellon University, doubling the contributions of these institutions to the transit program over the next five years.

As a result of the initiatives listed above, Port Authority reduced its projected FY 2008 operating deficit by more than \$40 million dollars. The Authority also realized more than \$11 million in savings in Fiscal Year 2008 alone as a result of the wage freezes, layoffs and changes to non-union employee pensions and benefits.

2. Port Authority Benefits & Results of Act 44 Legislation

As I indicated earlier, the passage of Act 44 provides a predictable level of funding, which has helped us effectively plan our current and future operating and capital budgets. It has helped us stabilize our service levels and thereby avoid inflicting drastic service cuts on our customers or layoff of numerous Port Authority employees. Immediate benefits of Act 44 to Port Authority and its riders are as follows:

- Avoided an additional 10% in scheduled service reductions.
- Avoided the elimination of 155 additional budgeted positions and related employee layoffs.
- Avoided the closure of one of five major bus operating facilities.
- Reduced the amount of preventative maintenance funding needed to balance the FY 2008 operating budget, which freed up capital funding for state of good repair projects.
- With an additional \$50M in the FY 2009 Asset Improvement Account (discretionary funding), the Authority can advance federally-approved capital projects.
- Port Authority will be able to approve capital projects under State Sections associated with annual debt service in the amount of \$43.1 million. Port Authority anticipates receiving approval in advance to meet existing debt requirements that were originally secured with PTAF funding.

Other Immediate Benefits of Act 44

- Improved cash-flow management due to the monthly receipt of state funding.
- Ability to leverage over \$3.4 million in healthcare savings from Highmark for calendar year 2007 and 2008 due to the additional \$30 million in funding received in August 2007 and in January 2008.
- Stabilization of declining Senior Citizens Program revenues.
- Predictable and dedicated funding source enables Port Authority to more effectively conduct future financial planning and prepare budgets more efficiently.

3. Post Act 44 – Opportunities & Ongoing Cost Savings Initiatives

As part of Port Authority's efforts to reduce expenses before and after the passage of Act 44, numerous initiatives to improve the effectiveness of the organization were undertaken. These included a successful negotiated union contract that significantly reduced Port Authority's post retirement healthcare costs; the procurement of smart-card technology; generating non-traditional revenue through public-private partnerships and joint development; and fundamentally re-examining our service design through a comprehensive Transit Development Plan (TDP). An overview of Port Authority completed and ongoing cost savings initiatives are as follows:

New Collective Bargaining Agreement

On December 15, 2008, Port Authority's Board approved a new four-year contract with the Amalgamated Transit Union (Local 85) which comprises of 2,200 bus, trolley, first-line supervisors, maintenance employees and clerical workers. The most significant change and cost savings initiative under this contract requires is the increase in employee contribution towards their healthcare and post-retirement benefits, while requiring them to work longer to earn these benefits. These changes have reduced Port Authority's post-retirement benefits liability by \$92.8 million over the next four years. A costs savings summary of the new ATU Local 85 collective bargaining agreement is listed on the next page for your review.

Costing Comparisons
ATU Last Proposal of October 2008; Fact Finders Report of August 2008;
Port Authority Last-Best-Final Offer of October 2008; Negotiated Agreement
of November 2008

	<u>ATU Last Proposal</u> <u>(5-Year)</u>	<u>Fact Finder</u> <u>(3-Year)</u>	<u>Port Authority</u> <u>Last-Best-Final</u> <u>(3-Year)</u>	<u>Negotiated</u> <u>Agreement</u> <u>(4-Year)</u>
Wages				
Base Wage Increases	\$71,722,000.00	\$17,793,604.00	\$17,793,604.00	\$27,744,681.00
COLA Changes	\$61,506,000.00	N/A	N/A	N/A
Increase Shift Differentials	\$1,268,874.00	N/A	N/A	N/A
Change in Secretary Rating	\$467,286.00	N/A	N/A	N/A
Change Tow Truck Driver Rating	\$14,632.00	N/A	N/A	N/A
Second Tier Wage Rate for New Hires	N/A	N/A	(\$1,567,482.00)	N/A
Overtime on Over 40 Only	N/A	N/A	(\$1,969,642.00)	N/A
Movement Director Differential	N/A	N/A	N/A	\$239,866.00
Pension				
Pension Increases	\$4,800,000.00	N/A	N/A	N/A
Pension COLA Effective January 2011	\$66,600,000.00	N/A	N/A	N/A
Retirement Eligibility and Sick Leave Payments	\$5,200,000.00	N/A	N/A	N/A
Multiplier Increase from 2.25% to 2.50%	\$15,200,000.00	N/A	N/A	N/A
Later Retirement Assumption w/HC Change	N/A	(\$13,000,000.00)	(\$12,460,000.00)	(\$13,140,000.00)
Increased Employee Contributions	N/A	N/A	(\$3,900,000.00)	(\$3,979,216.00)
Elimination of the \$500 Supplement	(\$3,960,000.00)	N/A	N/A	N/A
Healthcare				
Increase Employee Contributions	(\$11,423,750.00)	(\$4,763,000.00)	(\$4,669,188.00)	(\$6,699,707.00)
Increase Short-Term Disability Payments	\$3,582,864.00	N/A	N/A	N/A
Increase Life Insurance - Active	\$1,365,080.00	N/A	N/A	N/A
Increase Life Insurance - Retirees	\$296,424.00	N/A	N/A	N/A
Dental - Reset Clock	\$52,025.00	N/A	N/A	N/A
Vision - Reset Clock	\$293,216.00	N/A	N/A	N/A
Healthcare Plan Design Changes	\$2,251,841.00	(\$2,906,000.00)	(\$3,572,479.00)	(\$4,266,805.00)
Other Financial Issues				
Increase Uniform Allowance	\$1,990,940.00	N/A	N/A	N/A
Post Employment Benefit Expense				
GASB 45 Calculation Change	(\$7,250,000.00)	(\$86,100,000.00)	(\$86,100,000.00)	(\$92,700,000.00)
Total Additional Current Expense/(Savings)	\$221,227,432.00	(\$2,875,396.00)	(\$10,345,187.00)	(\$101,181.00)
Total OPEB Expense/(Savings)	(\$7,250,000.00)	(\$86,100,000.00)	(\$86,100,000.00)	(\$92,700,000.00)
Total Term Expense/(Savings)	\$213,977,432.00	(\$88,975,396.00)	(\$96,445,187.00)	(\$92,801,181.00)

Post Act 44 – Opportunities & Ongoing Cost Savings Initiatives (Continued)

Joint-Development

East Side Development

Port Authority and a public-private redevelopment team lead by The Mosites Company are exploring a historic joint-venture opportunity that will help advance efforts to revitalize a blighted neighborhood by integrating our transit operations into a transit-oriented development directly adjacent to our highly-successful Martin Luther King, Jr. East Busway. Port Authority and Mosites will share access through their respective parcels as part of the traffic and site access solution which will connect to multiple retail stores, hotels and much more. The joint venture between Port Authority and Mosites is the first of its kind for the transit agency. Other partners in the venture include the City of Pittsburgh, PennDOT, Urban Redevelopment Authority, Allegheny County Department of Economic Development and a number of other community stakeholders that worked with the Southwest Planning Commission to advance the planning process.

Property Development & Leasing Opportunities

South Hills Village Park-and-Ride

Port Authority leased a 598-space park and ride facility to a private entity (Lauth Property Group) which plans to construct a medical and professional office building. The complex will be built next to Port Authority's 2,200-space parking garage which is adjacent to The South Hill Village T Station. Lauth Property Group will pay Port Authority \$131,500 a year to lease the property for 99 years which will generate over \$13,000,000 in revenues throughout the life of the contract.

Moon Township Park and Ride

Port Authority began negotiations to lease 28 acres to Moon Partners LLP, a private entity that plans to develop various retail stores. The Port Authority-owned property is currently utilized as a 600-space park and ride lot, which will be relocated by the developer upon securing the final agreement. Port Authority will receive a long-term stream of income from leasing this property.

Wabash HOV Facility

Port Authority leased a 160-space park and ride lot which is adjacent to an old railroad tunnel that was converted to an HOV facility that helps alleviate traffic congestion for commuters entering and leaving the City of Pittsburgh during the morning, and afternoon rush hours. Port Authority receives \$108,000 a year from leasing the property.

Fare Structure

Fare Increase

Port Authority implemented a fare increase on January 1, 2008. Base fares increased from \$1.75 to \$2.00 (14% increase), and monthly passes increased from \$60 to \$75 (25% increase). In doing so, the Port Authority Board of Directors instructed staff to evaluate fares levels annually and to consider inflationary increases every two years. The 2008 fare increase is expected to generate \$6 million annually.

University of Pittsburgh/Carnegie Mellon University

Port Authority renegotiated a new five-year agreement with both universities, which currently provides unlimited rides for students, staff & faculty throughout our system for an annual fee paid by the universities. The Authority will receive \$3.887 million dollars from the University of Pittsburgh and over \$881,000 dollars from Carnegie Mellon during the first year of the contract. Each year after, the contract amount increases by 15%, thereby doubling the contributions by the Universities over the 5-year contract term.

Connect '09

Connect '09, is an ambitious 18-month initiative to connect neighborhoods through new service models and connect the region by enhancing coordination of transit services and adopting a regional fare collection system based on smart card technology.

Connect '09 Goals & Objectives

- Reshape public transportation in Allegheny County by conducting an intensive study of Port Authority's existing route system and garnering significant public input.
- Connect neighborhoods through new service models and connect the region by enhancing coordination of transit services and adopting a regional fare collection system.
- Engage both the public and regional operators in identifying the population characteristics of traditional and emerging neighborhoods and their most appropriate service models.
- Employ nationally proven service models, including neighborhood circulators, trunk and feeder services and demand responsive services.
- Responds to recommends made by the Pennsylvania Transportation and Funding Reform Commission, which also called for greater coordination of regional services and better data collection to establish ridership patterns.
- Employ modern fare collection technologies by replacing antiquated fare collection system with state-of-the-art smart card hardware and software.
- Better manage Port Authority's financial resources through containment of unit costs and an independent examination of pension and healthcare costs, as well as efforts to boost employee productivity through the development of autonomous work units.

Connect '09: Regional Smart-Card

Port Authority is aggressively pursuing a program that will incorporate "Smart-Card Technology" into its fare collection system. The proximity card based fare collection instrument will result in reduced fare evasion and fraud, increase customer convenience, reduce printing and distribution costs, as well as simplify operator duties. This technology and farebox procurement is also being offered to other transit agencies throughout the 10-county region in hopes of developing a regional partnership and establishing a truly seamless regional transportation network.

The goals of the Smart Card initiative include:

- Replace Port Authority's antiquated, and increasingly unreliable, fare collection system with newer, more advanced hardware and software.
- Improve data collection capabilities on ridership patterns, a strong recommendation of the Transportation Funding and Reform Commission.

- Invite surrounding regional carriers to participate in the procurement of hardware and software, utilizing existing available Federal funds to underwrite 80% of their cost. Intent is to place as many operators as possible on the same system architecture in order to make a regional fare structure and mechanism feasible, including the possibility of a regional “smart card.”

Connect '09: Transit Development Plan

Public Transportation throughout Allegheny County continues to provide significant economic and social benefits to residents and visitors throughout the region. As the 12th largest transit agency in the United States and second largest in the Pennsylvania, Port Authority averages over 240,000 riders every weekday; 5.5 million riders per month; and over 68 million riders a year within a 775 square-mile service area. However, as the region and population change, it is time for us to undertake a comprehensive effort to understand the changing transportation needs of our communities and design a more efficient and cost effective service for our customers. In that regard, one year ago Port Authority launched the Transit Development Plan (TDP); an aggressive and ambitious study to connect the region, its neighborhoods, customers and employees.

As a component of the Port Authority’s Connect '09 initiative, the TDP is intended to revitalize Port Authority’s bus service – to help the service better match current demand, to make it simpler, faster, more direct, and to implement innovative practices and services. The TDP will also strive to better integrate bus service with the Port Authority’s other modes and with neighboring transit systems.

4. Current & Future Concerns of Act 44

Although Port Authority greatly appreciates the predictability and level of funding Act 44 has provided, we are concerned that funding levels will not meet the Authority’s capital and operating needs in the near future. Act 44 funding will provide minimal growth of less than 1% over the next five years under the current parameters. Perhaps most important, two-thirds of the operating funds under Act 44 are supported through the state sales tax, which, as we all know, have decreased over the past year. The following is a summary that illustrates Port Authority’s concerns regarding projected Act 44 funding levels over the next five years:

- With the uncertainty associated with the allocation of future capital discretionary funding, Port Authority cannot predict its funding share to plan for maintaining the state of good repair for current infrastructure.
- Under Act 44, Port Authority must continue to rely on capital dollars to balance our operating budget, which ultimately reduces the amount of funds available for the state of good repair.
- Port Authority may lose its share of funding increases through future allotments of Act 44 as a result of our service redesign efforts.
- The price of fuel, utilities, healthcare costs, as well as other items needed to provide an effective public transportation are anticipated to increase at a rate that exceeds inflation. As these cost increase, equal increases in Port Authority’s funding will be needed in order to avoid significant service cuts and employee layoffs.

Port Authority of Allegheny County

Projections of Act 44 State & County Funding

