NASSAU COUNTY
OFFICE OF THE COMPTROLLER

MTA Long Island Bus:
A Financial Review, Regional Comparison, And Brief Discussion on Privatization.

George Maragos
Nassau County Comptroller

November 17, 2010

This report is posted on the Comptroller's website
http://www.nassaucountyny.gov/agencies/comptroller/index.html
For more information, call (516) 571-2386

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

George Maragos
Comptroller

Francis X. Moroney
Chief Deputy Comptroller

Joy M. Watson
Deputy Comptroller for Audits and Special Projects

Jostyn Hernandez
Communications Director

Gabriel S. Marques
Assistant to the Deputy Comptroller

Contributors:

Rhonda Maco
Counsel to the Comptroller

Christopher Leimone
Counsel to the Comptroller

Patrick Kiernan
Assistant to the Deputy Comptroller

Quality Assurance Review

Lisa Tsikouras
Director of Field Audit

M. Theresa Dankenbrink
Field Audit Supervisor

Table of Contents

Section			Page Number
1.0	**EXECUTIVE SUMMARY**		**3**
2.0	**BACKROUND**		**6**
	2.1	MTA LI Bus Financial Review	8
		2.1.1 Revenue (ex-subsides)	8
		2.1.2 Expenditures	9
		2.1.3 Subsidies	10
3.0	**MTA / NASSAU COUNTY DISPUTE**		**12**
	3.1	Summary of the Current Request for Proposals (RFP)	14
		3.1.1 General Provisions	14
		3.1.2 Contract Term	15
		3.1.3 Discussion of Rate Increases	15
		3.1.4 Labor	15
		3.1.5 Bids	15
4.0	**PEER GROUP ANALYSES**		**17**
	4.1	Peer Transit Authorities	17
		4.1.1 Niagara Frontier Transportation Authority (NFTA)	17
		4.1.2 Rochester-Genesee Regional Transportation Authority (N-GRTA)	17
		4.1.3 Comparison to MTA LI Bus	18
	4.2	Peer Privatized Systems	19
		4.2.1 Westchester County Bee-Line (WBL)	19
		4.2.2 Suffolk County Transit (SCT)	20
		4.2.3 Comparison to MTA LI Bus	21
	4.3	Findings	22
5.0	**CASE STUDIES**		**24**
	5.1	External Case Study	24
		5.1.1 Privatized-Case Study	24
		5.1.2 Authority-Case Study	24
		5.1.3 Studies on Authority vs. Privatized Systems	25
	5.2	Alternatives	26
		5.2.1 Separate Operations Between Contractors	27
		5.2.2 Contract for Advertising Should be In-House	27
		5.2.3 Identify Synergies with Other Departments	28
		5.2.4 Shorten Contract Length and Overlap Contracts	28
		5.2.5 Revenue Generating Opportunities with the MTA	28
		5.2.6 Nassau-Suffolk County Transit Authority	29

Appendix ………………………………………………………………………. 30

MTA Long Island Bus:
A Financial Review, Regional Comparison, And Brief Discussion on Privatization

1.0 EXECUTIVE SUMMARY

Long Island Bus System (LIBS) provides service to 31 million commuters annually in 96 communities in Nassau County. Its 27 fixed-routes connect to 47 Long Island Railroad and 5 New York City Transit subway stations. The "Able-Ride" wheelchair accessible fleet consists of 89 vans and 4 sedans servicing about 400,000 riders annually. As of the time of this report, fares were $2.25 for local bus routes and $5.50 for express bus routes.

The Metropolitan Transportation Authority (MTA) which operates the LIBS, projects that 2010 revenues will be $45.2 million, and expenses will be $140.6 million resulting in an operating deficit of $95.4 million. To cover this gap, the MTA contributed $21.5 million and Nassau County contributed $9.1 million. The remainder is funded by state and federal subsidies.

The MTA served notice on October 7, 2010 to the Nassau County Legislature that it will no longer subsidize the Long Island Bus System (LIBS), and requested that Nassau County increase its subsidy from $9.1 million to its full projected subsidy of $36.1 million for fiscal year 2011. It is anticipated that the MTA will follow through with the mandatory notice to discontinue LIBS service leaving Nassau Commuters stranded with significant economic damage to the County economy.

With over 100,000 riders depending on LIBS service daily, the MTA put Nassau County in the difficult position of deciding whether to pay the full subsidy of $36.1 million (according to the MTA's letter to Nassau County, however, according to the MTA's mid-year forecast this subsidy is projected to be $38.4 million), up from its current level of $9.1 million in 2011, or find itself another operator. In response, County Executive Edward Mangano announced in September of 2010 that Nassau County could not afford to pay more and would consider privatizing LIBS. The County Executive proceeded to issue an RFP inviting private operators to bid on taking over operation of LIBS without a subsidy from the County. We understand that three private companies have submitted bids.

This study evaluates the available alternatives for the County to continue providing affordable public bus services to residents. Options evaluated include;

1. Reaching an Agreement with the MTA to continue with current service.
2. Privatizing the LIBS by adopting known formulas of peer counties.
3. Selecting one of the bidders to the RFP recently issued by the County.

Reaching an Agreement with the MTA to continue with current service. The first option is for the County to reach an Agreement with the MTA to continue with current service. Our analysis found that the LIBS subsidy by the County is at the low-end of the spectrum at $0.29 per commuter per year compared to $0.44 by Westchester and $4.20 by Suffolk for their privatized bus systems. Alternatively, the MTA is under subsidizing LIBS at $0.69 per commuter compared to $1.60 for the Commuter Rail (LIRR and Metro North) and $7.10 for Staten Island Rail. Based on the figures derived in the study, we can roughly estimate that Nassau County's contribution can be increased to about $17.2 million from $9.1 million to match the Westchester local subsidy and the MTA subsidy can increase from $21.1 million to about $49 million to match the Commuter Rail subsidy. Perhaps the best compromise would be for the MTA and Nassau County to proportionately increase their contribution to keep LIBS running. A possible alternative is for the MTA to reduce the $140.6 million LIBS operating budget by about 4% so that no increase in subsidy is required by either the MTA or the County.

The MTA has done a relatively good job in operating LIBS on the revenue side. The annual expense per rider, however, is about $4.54, which is high compared to private systems or authority run systems; but it is significantly better than Suffolk County's private bus system. There is room for improvement to match the $3.23 annual expense per rider of the privatized Westchester system. Therefore, the MTA should be able to reduce LIBS' operating expense by about 4% in order to avoid any subsidy increase by either side.

Privatizing the LIBS by adopting known formulas of peer counties. The second option is to privatize, using the models and lessons learned from neighboring Westchester and Suffolk Counties. The study found that the privatized systems in other counties can cost about the same or more than the MTA run LIBS and can require substantially more in local contributions in both dollars and percentage than authority systems. As such, privatization of LIBS using the model of New York run authorities or privatized bus systems of neighboring counties can require a significantly higher subsidy for the County over our current arrangement with the MTA. If the MTA is unwilling to negotiate or if Nassau County's contribution exceeds $17.2 million, then our recommendation is that privatization should be pursued.

Selecting one of the bidders to the RFP recently issued by the County. The third option is the privatization through the current RFP process undertaken by the Administration. We understand that the Administration has received three bids from large municipal bus operators. The administration further requested and received bids without subsidies. Our due diligence on the bidders found that there are no instances where these operators have run a municipal system without local subsidies of less than Nassau's current contribution (on percentage terms). Additionally, these bidders may require a significant fare increase of up to $1.10 or 20% in order to be economically viable. Furthermore, without a County matching subsidy, New York State subsidies to LI Bus would be lost, putting further strain on a private operator and risking an even higher subsidy or fares. For these reasons, we do not consider the current private bidders as viable long-term solutions.

Our conclusion is that the best option for the County is to negotiate with the MTA to continue with the current service. The MTA should first decrease the LIBS operating expense by about 4%, so that no increase in subsidies is required for 2011 by either the MTA or the County. If an increase is necessary, then both the County and the MTA should proportionately increase their subsidies in order to keep LIBS running. However, if negotiations fail and the County is forced to contribute the full subsidy demanded by the MTA of over $36.1 million for 2011, then we recommend that privatization be pursued.

2.0 BACKGROUND

The Long Island Bus System (LIBS) was formed in 1973, when the Metropolitan Transportation Authority (MTA) combined 11 independent bus operators in Nassau County into one system. In 2004, the MTA integrated LIBS with six other regional systems to form the MTA Bus Company.[1] In 2008 the MTA Bus Company further streamlined its operations with the management and services consolidation between the New York City Transit Department of Buses (NYCT DOB) and MTA LI Bus. Currently, MTA LI Bus is the division of the MTA Bus Company that manages LIBS.[2]

Under its current contract, the MTA operates LIBS "through a lease and operating agreement with Nassau County." The agreement provides that Nassau County retains title to all fixed assets, which will be discussed in greater detail in Section 3. Any deficit which may exist in operation of the system is initially covered by a combination of Dedicated Taxes, New York State, and Nassau County subsidies. Any remaining portion of the deficit is then offset with a MTA subsidy.[3] This financial information will be discussed in greater detail in section 2.1 below.

The latest statistics obtained for MTA LI Bus are available through the MTA 2011 Preliminary Budget, released in July 2010. The LIBS is composed of two distinct systems in Nassau County (with some service overlapping into Queens), the Fixed-Route System (FRS) and the "Able-Ride" Paratransit Service (ARPS). The FRS is what is generally accepted as the conventional thought of a bus system: express and local routes that operate on a fixed timetable, making stops to load and discharge riders at designated stops. ARPS is a separately operated program which was established to comply with the Americans with Disabilities Act (ADA). The Able-Ride program provides "Curb-to-Curb" service on-demand, unlike the designated stop service of the FRS. Riders with disabilities register for service through the Able-Ride program, which allows for designated pickup and drop off service by disability-accessible vehicles.[4]

The FRS is composed of a 100% Compressed Natural Gas (CNG) fleet of 311 buses that services 31 million annual riders in 96 communities. Its routes also connect to 47 Long Island Railroad (LIRR) stations (with some overlapping into Queens) and five subway stations in the City of New York. As of the time of this report, fares were $2.25 for local

---

[1] "The History of Public Transportation in New York City." www.transitmuseumeducation.org. October, 2010. <http://www.transitmuseumeducation.org/trc/background>

[2] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Page 242.

[3] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Page 242.

[4] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010.

bus routes and $5.50 for express bus routes.[5] The ARPS wheelchair accessible fleet consists of 89 vans and 4 sedans servicing about 358,000 riders annually.[6]

A brief review of Nassau County transit rider demographics was also conducted as part of this study. Ridership on MTA LI Bus is easily categorized as being densest in areas where no LIRR stations are readily found. The largest ridership is found in Southern Nassau County; in the area north of the West Babylon and south of the Ronkonkoma branches of the LIRR. The second densest area is found in the northeastern portion of the County, south of Oyster Bay and north of the Port Jefferson branches. The third and fourth notable areas are the Port Washington peninsula and the area immediately east of the Hicksville train station. When observing these ridership trends in terms of median income, it is noted that the three areas with the highest percentage of households below the poverty line (Hempstead, Freeport, and Westbury), show elevated bus ridership rates when compared to the County as a whole. When reviewed in terms of age, ridership rates are elevated among seniors in Great Neck, Bayville, Hicksville, Hempstead, Freeport, and Long Beach. Although ridership rates are slightly higher when they are placed in this context, it is clear that MTA LI Bus plays a significant role in the lives of all Nassau County residents regardless of demographics. These maps, provided by the New York State Transportation Bureau, are located in Appendices A and B of this report.[7]

---

[5] "Fares & MetroCard" www.mta.info. October, 2010. <http://www.mta.info/metrocard/>

[6] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Pages II-5, v-65, and v-88.

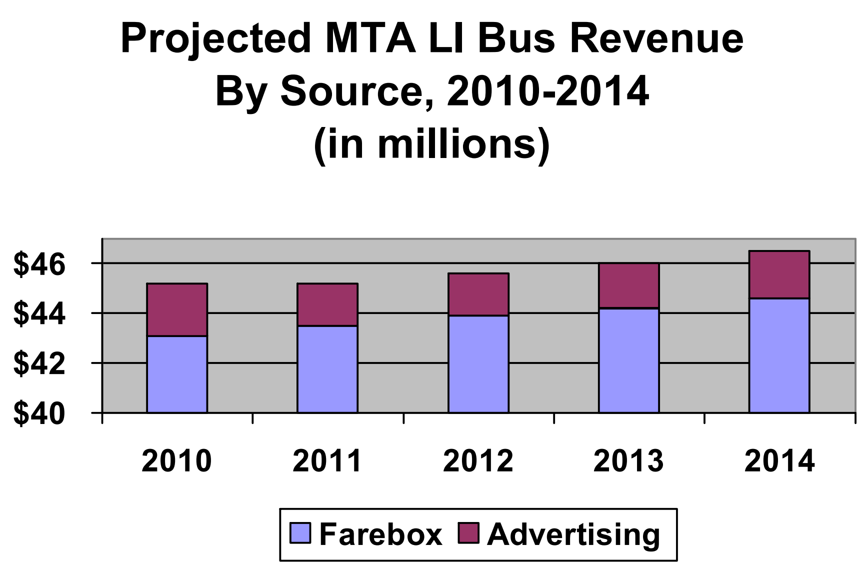
[7] Based on information obtained from officials at the New York State Department of Transportation, Public Transportation Bureau. 2010.

2.1 MTA LI Bus Financial Review

2.1.1 Revenue (ex-subsidies)[8]

Revenue collected by MTA LI Bus is derived from two sources, Farebox Revenue and Other Operating Revenue. Farebox receipts are the fees collected from riders on buses or via MetroCard, which make up about 95% of revenue for the division. Other Operating Revenue reflects fees collected by the operator from an independent marketing agency to sell advertising space on MTA LI Bus-managed assets. Advertising revenue currently makes up the remaining 5%. Projected figures over the next four years for these two revenue streams, according to MTA LI Bus, are displayed in Figure 1. MTA LI Bus forecasts 2010 total revenue at $45.2 million, comprised of $43.1 million in Farebox receipts and $2.1 million in collected advertising fees. If we divide gross revenues by the total ridership projected for 2010, we derive a metric known for purposes of this report as "revenue-per-rider." This allows the study to create a level comparison between all peer systems. In 2010 the MTA LI Bus is expected to generate approximately $1.46 in revenue for each rider it transports.

Figure 1

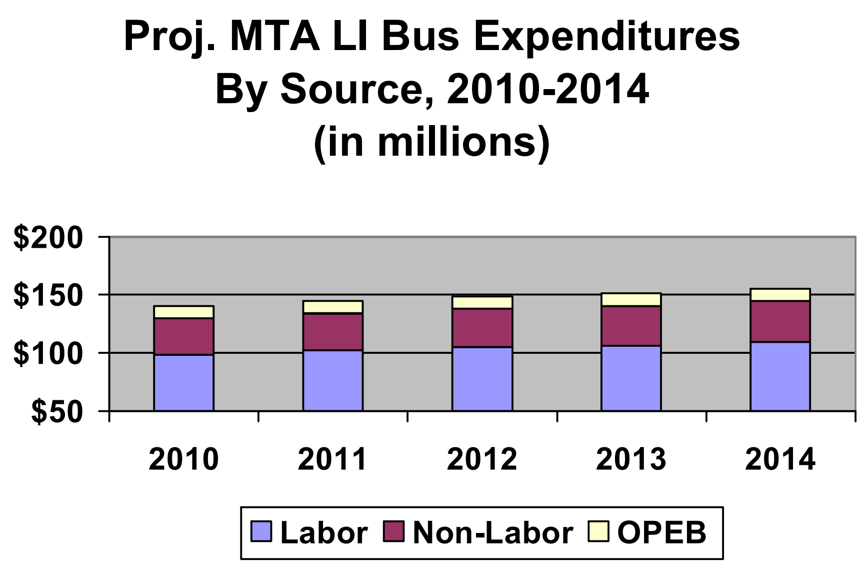


[8]Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Pages II-5 and II-40.

2.1.2 Expenditures[9]

MTA LI Bus divides its operating expenses into three categories, Labor, Non-labor, and Other Post Employment Benefits (OPEB). Labor-related expenses make up the largest part of all costs associated with the operation of MTA LI Bus, approximately 70%. These expenses are primarily composed of payroll and healthcare costs. Non-Labor expenses, composed of maintenance and fuel costs, make up about 22%. OPEB costs, those associated with maintaining benefits for retired employees, represent the remaining 8%. MTA LI Bus projects that these expenditures will total $140.6 million in 2010, $98.4 million in Labor, $31.4 million in Non-labor, and $10.7 million in OPEB costs. As illustrated by Figure 2, projections indicate that Labor and Non-labor costs will increase about 11% by 2014 while OPEB costs are expected to remain constant. Using the same methodology as above, we calculate that the expense per rider for MTA LI Bus in 2010 is projected to be $4.54.

Figure 2



[9] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Page II-40

2.1.3 Subsidies[10]

The annual deficit created by the two categories above is generally covered by state, local, and agency subsidies. These subsidies are broken down in three categories, Dedicated Taxes, State & Local Subsidies, and the MTA Inter-agency Subsidy.

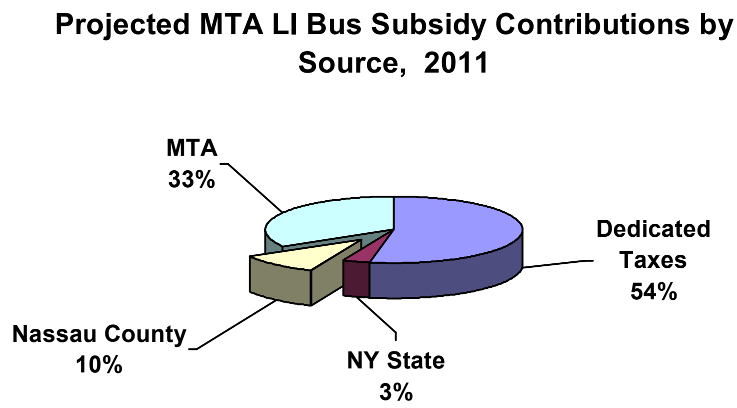
The largest of these categories is Dedicated Taxes, representing 53.6%, funded by the receipt of Metropolitan Mass Transit Operating Assistance (MMTOA). These dedicated taxes are composed mainly from the collection of the Metropolitan Commuter Transportation District Tax (MCTD) and the Personal Mobility Tax (PMT). The MCTD is the traditional vehicle for subsidizing MTA operations. It is derived from \$0.375 collected from imposed New York State Sales Tax.[11] The PMT, commonly referred to as the MTA Payroll tax, is perhaps the more controversial of these two taxes as of late and is composed of a \$0.34 tax for every \$100 in payroll a business pays. Together these two sources are projected to help account for the majority of the NYS subsidy to MTA LI Bus of \$45.3 million in 2010.

The State & Local subsidies are derived from two sources, New York State Mass Transportation Operating Assistance (STOA) and the Nassau County Subsidy. These two sources are projected to contribute \$8.6 million and \$9.1 million in subsidies (21%), respectively, in 2010. STOA funds contributed by New York State are part of a larger state-wide program that gives assistance to most mass transit programs. This contribution is authorized by New York Transportation Law §18-b and allows all types of programs, private and public alike, to receive this funding so long as certain conditions are met. One of these conditions is set forth under 17 NYCRR §975.13 and requires that in order for a public transportation system to receive STOA the locality must at least match the State's contribution. As a result, it appears Nassau County must annually contribute at least enough to match New York State's contribution to keep the funding. STOA assistance for MTA LI Bus will decrease by 65% next year from \$8.6 to \$3 million. During this time, Nassau County's subsidy will remain fixed at \$9.1 million through at least 2014. Therefore, the minimum subsidy that Nassau County needs to contribute in order to continue STOA funding is \$3 million per year.

The third subsidy is an Inter-agency Subsidy that MTA pays out to its subsidiaries. This subsidy is derived from the MTA Operating Fund, which is primarily made up of 52% from Fare & Toll revenue and 44% from taxes, state, and local subsidies. For 2010, the MTA Inter-agency subsidy to MTA LI Bus is expected to be \$21.5 million or 25.4%. In terms of the subsidy-to-revenue ratio, MTA LI Bus receives \$1.87 in subsidies for every \$1 generated. The relative size of these three sources as well as Nassau County's relative contribution projected for 2011 is displayed in Figure 3 on the following page.

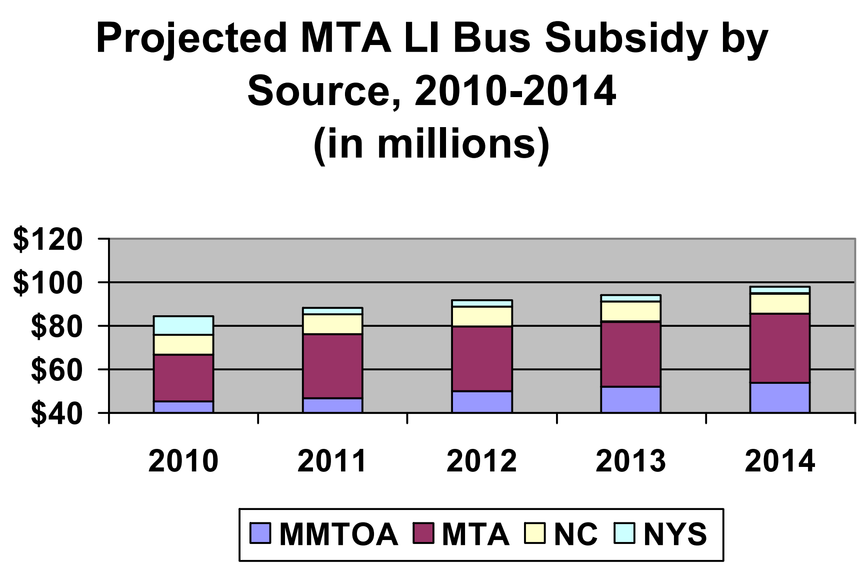
[10] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Page II-1, 25, 34, 40
[11] New York State Department of Taxation and Finance. "New York State Sales and Use Tax Rates by Jurisdiction." www.tax.state.ny.us. <http://www.tax.state.ny.us/pdf/publications/sales/pub718.pdf>

Figure 3



Altogether, MTA LI Bus expects to receive about $84.5 million in total subsidy allocation for 2010, with Nassau County contributing 10.8%. Moreover, deficit is projected to grow 15.5% to $97.6 million by 2014. As a result, Nassau County's contribution as a percentage of total subsidies will decrease to 9.3%. Any deficit balance that exists beyond the mentioned subsidies is covered by operating and subsidy cash balances on reserve (Figure 4).

Figure 4



3.0 MTA / NASSAU COUNTY DISPUTE[12]

In mid-2010 MTA LI Bus established the Additional Actions for Budget Expenses Balance (AABB) in an effort to help and try to stop the deficit gap from further expansion. The plan emphasized five major corrective action points:

1. Discontinue Underused Routes
2. Route Streamlining
3. Paratransit Efficiencies and Service Guidelines
4. Compressed Natural Gas Tax Credit extension
5. Miscellaneous Other

Even with savings projected from execution of these past and future budget saving plans, the budget deficit is expected to widen by $9.5 million (28%) to $43 million by 2014. For the MTA, the last line of defense to balance the MTA LI Bus budget, this means an increase of their Inter-agency Subsidy of $10.1 million (47%) to $31.6 million by 2014. This deficit widening is due primarily to the underperformance of the PMT tax in 2009 ($200 million short of the $1.5 billion projected revenue)[13] The MTA announced that it would stop its $29.3 million subsidy for MTA LI Bus scheduled for 2011. As a result of the study and various other external factors the MTA finally drew a line in the sand and issued an ultimatum to Nassau County.

The MTA allocates this “Inter-agency Subsidy” to four divisions: (1) MTA Commuter Railroad, (2) MTA New York City Transit, (3) MTA Staten Island Railway, and (4) MTA LI Bus. The total amount of subsidies (in millions), MTA portion of subsidies, and their corresponding percentages to the total subsidies for 2010 is illustrated below in Figure 5. The largest Inter-agency subsidy in 2010 paid by the MTA, in dollars, was the $257.6 million allocated to its Commuter Railroad division (includes Metro-North and Long Island Rail Road [LIRR]). The largest of these subsidies by percentage of gross subsidies is the $28.4 million allocated to Staten Island Railroad, which composes 87.7% of their budget. Ultimately, the $21.5 million contribution to LI Bus makes up 5% of the $433.1 million that the MTA annually distributes to its divisions. The Staten Island Railway, which services 28 million riders less and produces 1/5 the revenue of LI Bus, receives $6.9 million more in assistance from the MTA. Furthermore, while MTA LI Bus supports 1.2% of the MTA’s mass transit commuters, the Staten Island Railway services only 0.16% (Figure 5 on the following page).

[12] Metropolitan Transportation Authority. *MTA 2011 Preliminary Budget: July Financial Plan 2011-2014*. Volume 2. New York, NY. July, 2010. Pages II-32 through 35, 40; v-66.
[13] Walter, Geoffrey. “Mangano Calls for MTA Chief To Resign.” Garden City Patch. September 7th, 2010. <http://gardencity.patch.com/articles/mangano-calls-for-mta-chief-to-resign>

Figure 5

Subsidiary	MTA Inter-Agency Sub.	Riders (millions)	Subsidy-per-Rider
Commuter Rail	$257.60	161	$1.60
NYC Transit	$125.60	2306	$0.06
Staten Island Rail	$28.40	4	$7.10
MTA LI Bus	$21.50	31	$0.69

The choice proposed to Nassau County was: (1) either contribute an additional $29.3 million in 2011 to help fund the operation of MTA LI Bus or (2) find another operator. The elimination of the MTA subsidy will result in a projected liability for the County of up to $40.7 million by 2014 (inclusive of the County's current $9.1 million subsidy). County Executive Edward Mangano announced in mid-September that Nassau County would release a Request for Proposals for a new operator.[14]

The basis for the demands made by the MTA to Nassau County are found in the lease and operating agreement currently in place between the two parties. According to Section 4, Expense of Operation, "The County acknowledges that Metropolitan Transportation Authority, the parent corporation of the Authority [Metropolitan Suburban Bus Authority], shall have no obligation whatsoever to furnish financial assistance to the Authority." Although required to pay operating expenses, the MTA is not required to give any type of financial assistance to the County. Furthermore, Section 5, entitled "Financial Contributions by the County," states that "the Authority may require the County to grant to it such additional financial contributions as the Authority estimates are necessary to sustain those operations. . .." This request for financing is considered a contractual obligation for the County under its agreement with the MTA. Furthermore, this request must be made 120 days prior to the end of the fiscal year outlining the expected subsidy from the County. Although it has not been confirmed if any official correspondence has been delivered, the agreement does not specify anything more than that a document will be delivered. The MTA report cited above appears to satisfy this requirement. However, it has not yet been confirmed if it was intended to do so. Section 13 of the agreement, entitled "Termination," then discusses the manners by which the agreement may be terminated. In that regard, "The Authority and the County shall each have the right to terminate this Agreement at any time on not less than 60 days' advance written notice to the other." Presently, it has not been confirmed whether such a letter has been sent by the MTA or received by the County.[15]

[14] Castillo, Alfonso. "Search is on for LI Bus Operator." Newsday, September 15, 2010.
[15] "Lease & Operating Agreement between the County of Nassau and the Metropolitan Suburban Bus Authority (a/k/a MTA Bus Company)" January 15, 1973. §4, §5, and §13.

3.1 Summary of the Current Request for Proposals (RFP)[16]

3.1.1 General Provisions

On September 15th, 2010, the Nassau County Office of Real Estate Planning & Development issued an RFP "for the operation of fixed route transit and Paratransit services." As the document defines, the County is looking for a contractor to provide the following:

> "*. . . all aspects of a public transit program including not only the operation and maintenance of transit services but also the range of support activities which may include planning, marketing, purchasing, grants management, assisting the County in capital planning, bus stop management, technology management, determining paratransit eligibility, reporting and any other areas deemed necessary. . .*" –Introduction, page 1

The contractor will be responsible for maintaining "the buses and other equipment repairs, and all other operation and maintenance costs, including utilities and any real estate taxes." The contractor is not responsible for the maintenance of physical bus stops as the County currently has a separate contract in place for that work. The contractor will also assume all day-to-day responsibilities of the routes, which includes scheduling. In return the contractor shall be awarded a percentage of fare-box revenue collected during operation.

Under this proposal Nassau County would retain the ownership of its own existing real and personal property currently used in LIBS, such as buses, maintenance and operation plants and facilities. The County will be responsible for the capital repairs to these facilities in addition to applying for all available federal, state, and/or private grants. Furthermore, the RFP states that the new operator understands that no County subsidies are implied or guaranteed.

As mentioned in section 2(A) of the RFP, the new contractor will operate both distinct services, the fixed-route and "Able-Ride" systems, including maintenance of the fleet. In return, Nassau County will allow the operator the use of its facilities for "operation and maintenance." These facilities include the Norman J. Levy Complex at Mitchell Field and the Rockville Centre complex used to support the Fixed-Route System, and the Stewart Avenue complex to support and maintain the Able-Ride Paratransit System. Additionally, this operator will gain exclusive use of the Hempstead Transit Center and Mineola Intermodal Facility for operational use.

[16] "Request for Proposal: For the Operation of Fixed Route Transit and Paratransit Services (RFP# RE0914-1039)" Nassau County Office of Real Estate Planning & Development. September 15, 2010.

The vertical structure of the new system will be exactly the same as that of MTA LI Bus. The third-party operator will conduct all operations and collect all revenues associated with LIBS.

3.1.2 Contract Term

The initial contract will be awarded for a term of 5 years with the option to renew every 10 years. The maximum possible contract length will be 25 years. The RFP also allows for a short-term contract to be issued on an "emergency basis."

3.1.3 Discussion of Rate Increases

As public testimony revealed at the Nassau County Legislative Finance Committee Meeting on October 8, 2010, the main concern for the consumer is the potential increased fair hikes associated with the privatization model. Under the current RFP, the private operator will be allowed to increase fares by up to 20% in the initial implementation of the contract. The language of the actual contract, which has yet to be drafted, will detail the rights and obligations of each party thereafter. This means that the private operator may increase fares from $2.25 to $2.70 for local routes, or from $5.50 to $6.60 for express routes once their operation of LIBS begins. As expressed at the Finance Committee Meeting by Eric Alexander, Executive Director at Vision Long Island, the additional $1.10 per ride or $2.20 per day, could mean that annual expenses for a five day a week commuter could rise by as much as $572.

3.1.4 Labor

The RFP parameters are significantly restricted by protection afforded to current employees by Section 13(c) of the Urban Mass Transportation Act of 1964. These protections may include priority hiring of prior operator employees by the new operator. The RFP does however allow for the private operator to openly pursue their own labor contracts so long as it does not interfere with those statutory protections.[17]

3.1.5 Bids

On November 6th, 2010, Newsday reported that it had obtained the names of the three operators reported to have submitted bids to the County by the October 25th deadline. The three bidders, MV Transit, First Transit, and Veolia Transportation are each national bus operators that have experience all over the US running small to metro size systems. Information regarding these bidders is provided below and summarized in Figure 6 on the following page.[18]

MV transit is based out of Fairfield, California where it was founded in 1975. According to its website, MV transit is a domestic operator that services just a little over 100 locations in 24 states and Canada (Vancouver & British Columbia). The bulk of MV's

[17] 49 U.S.C. §5333(b)
[18] Castillo, Alfonso. "3 Companies bid to take over LI Bus." Newsday. November 6, 2010. Page A8.

service outside of California is concentrated in the Ohio valley and the mid-Atlantic coastline from Maryland to North Carolina. MV's estimated workforce of 13,000 operates over 7,000 vehicles. Although it was founded over 35 years ago, MV was only awarded its first governmental contract in 1983, and only expanded operations outside of California in 2001. Its largest active contract is with Washington D.C. and estimated at over $500 million. MV Transit was also awarded a 10-year Para-transit contract for MTA's operations in Staten Island back in 2008, worth an estimated $422 million.[19]

First Transit is based out of Cincinnati, Ohio where it was founded in 1955. According to its website, First transit is a domestic operator that services about 235 locations in 41 states, Canada, and Puerto Rico. First Transit's estimated workforce of 15,500 operates over 7,000 vehicles. First Transit's business plan focuses on expanding operations through aggressive merger and acquisition activity. Since 1955, American Transportation Enterprise created independent companies to manage specific aspects of its business, ultimately combining over five components to form First Transit in 1999. First Transit subsequently acquired Coach USA Transit in 2003 and then Cognisa and Laidlaw Transit in 2007.[20]

Veolia Transportation, USA is based out of Lombard, Illinois and is owed by parent company Veolia Transport, SA based in Paris, France. Veolia Transportation, USA was formed in 1997. According to its website, Veolia, USA services about 150 locations over 30 states. Veolia's estimated workforce of 17,000 operates over 7,900 vehicles. Overall, Veolia Transport has 77,500 employees servicing more than 37,000 vehicles in 28 countries. Altogether, it manages over 5,000 different transit systems including, fixed-route bus, Para transit operations, rail, shuttle, and taxi services.[21]

Figure 6: Bidders Summary

OPERATOR	MV Transit	First Transit	Veolia Transportation
Home Office	Fairfield, California	Cincinnati, Ohio	Lombard, Illinois
Founded	1975	1955	1997
Started Gov. Ops.	2001	?	?
US Locations	100	235	150
US-Based Operations	24 States	41 States	30+ States
Foreign Operations	Canada	Canada & Puerto Rico	25+ Countries
Workforce	13,000	15,500	17,000
Vehicles Operated	7,000	7,000	7,900+
Systems Operated	Bus	Bus	Bus, Rail, Shuttle, and Taxi Services
Key US Contract(s)	Washington, DC	Monroe, LA	San Diego, Las Vegas.

**All information is based on data obtained from each individual operator's own website.*

[19] Frenney, Nikky. "MV Public Transportation, Inc. wins $422 million contract in NY." MV Transportation. October 6th, 2008. <http://news.mvtransit.com/assets/pdfs/press/MV_staten%20island.pdf>
[20] Information according to www.firsttransit.com
[21] Information according to www.veoliatransportation.com

4.0 PEER GROUP ANALYSES

In order to properly assess the current RFP issued by Nassau County, we compared our current operator, MTA LI Bus, with those of counties with similar transportation infrastructure in New York State. For purposes of this report, we looked at peer counties with both transit authorities and privatized systems.

4.1 Peer Transit Authorities

After the MTA, the largest transportation authority in New York State is the Niagara Frontier Transportation Authority (NFTA), followed by the Rochester-Genesee Regional Transportation Authority (R-GRTA).[22] We will use these two authorities to develop a relative comparison of MTA LI Bus's operations with its peers.

4.1.1 Niagara Frontier Transportation Authority (NFTA)

NFTA was created in 1967 to service Erie and Niagara counties. Their fleet composition is very similar to that of Nassau County, with 324 fixed-route buses and 64 Paratransit vehicles. Due to consolidation of operations in 1985, the Niagara system also contains the Buffalo Light Rapid Rail Transit system. Because of accounting practices, the figures discussed below will contain a margin of revenue and expenses from this system. To better compare to NFTA we will use three metrics calculated above in the financial section for MTA LI Bus; Subsidy-to-revenue dollar ratio, Revenue-per-Rider and the local contribution as a percentage of total subsidies. In 2009, NFTA serviced 28.3 million riders and collected $29.6 million in revenue. Revenue-per-rider is calculated at $1.05. In terms of operating expenses during the same period, NFTA realized $124.6 million or an expense per rider ratio of 4.40. With regards to annual subsidies, NFTA receives $94.8 million, 49.2% from New York State, 38.3% from local sources, and 12.5% from the federal government. Therefore, NFTA receives $3.20 in subsidies for every dollar of revenue they produce (subsidy-to-revenue ratio).[23]

4.1.2 Rochester-Genesee Regional Transportation Authority (R-GRTA)

R-GRTA was created in 1969 to originally service Monroe County and later was expanded to include Genesee, Livingston, Wayne, and Wyoming Counties. The system has been further increased to also service Seneca and Orleans counties. The composition of this system is very similar to the original formation of LIBS in the 1970's. Each county's individual systems were merged, placing the Regional Transit Service of Monroe County, Life-Line Paratransit, Batvia Bus

[22] Transit Bureau, Department of Transportation. "2005 Annual Report on PTA Programs in New York State." New York State. https://www.nysdot.gov/divisions/policy-and-strategy/public-transportation/reports-publications November, 2010.
[23] Niagara-Frontier Transportation Authority. "NFTA Annual Operating Budget, Fiscal Year Ending March 31st, 2010." March 22, 2010.

Service, Wayne Area Transport, Livingston Area Transportation Service, Orleans, Wayne, and Wyoming County's transit systems under one umbrella. In 2009, R-GRTA serviced 17.7 million riders and collected $27.2 million in revenue, illustrating a $1.54 in revenue per rider. Over the same period, R-GRTA realized operating expenses of $86 million, an expense per rider of $4.86. In terms of annual subsidies, R-GRTA received $42.9 million in 2009, 8.6% of which was from local sources and 91.4% from state and federal sources. Therefore, R-GRTA receives $1.58 in subsidies for every dollar of revenue they produce. State and federal aid is determined based on service area, ridership, and the systems impact on infrastructure for the region. In general, the larger the system, the greater aid they receive.[24]

4.1.3 Comparison to MTA LI Bus

Figure 7 draws a visual comparison of all three authority-based systems in terms of the four metrics outlined above. The study finds that MTA LI Bus falls in-between these individual peer systems in all categories. Based on this information, it can be determined that MTA LI Bus is operationally in-line with its peer authority group.

Figure 7

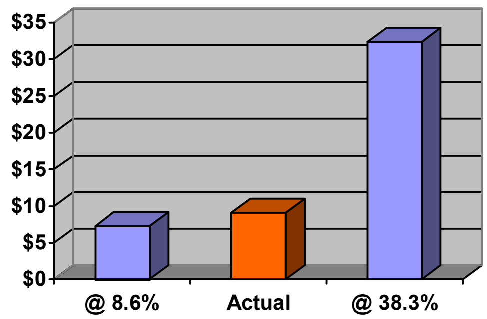
Transit Authority	Total Subsidy to Revenue Ratio	Revenue per Rider	Expense per Rider	Local Contribution
MTA LI Bus	1.87	$1.46	$4.54	10.8%
NFTA	3.20	$1.05	$4.40	38.3%
R-GRTA	1.58	$1.54	$4.86	8.6%

As illustrated, it can be established that the current contribution of $9.1 million to the MTA is relatively lower in percentage terms than those in Nassau County's peer group. We can reasonably establish based upon the review above, that Nassau County could expect to be contributing anywhere from $7.3 to $32.4 million to MTA LI Bus if it were asked to contribute at least 8.6% and as much as 38.3%. It is theoretically implied that the local subsidy should decrease if subsidies were increased; however, this fact is deceiving. Remember, the local subsidy contributions in the other systems do not have an Authority-based subsidy. To draw a comparison, if the Authority based system was retained and the MTA portion of the subsidy were deferred to the County; the local contribution would make up 41.7% of the total projected subsidy required by 2014. Under reasonable terms, Nassau County should remain within the 8.6% to 38.3% range to ensure that the system itself stays efficient. The County could still

[24]Rochester=Genesee Regional Transportation Authority. "Comprehensive Annual Financial Report, For the Year Ended March 31st, 2010." Rochester, NY. <http://www.rgrta.com/Data/Documents/RTS_2009_Annual_Report.pdf>

increase their subsidy by $23.3 million and still fall within peer group boundaries. However, any increase beyond that amount is not recommended (Figure 8)

Figure 8: Nassau County actual contribution percentage compared with hypothetical contribution using study peer-authority group range (in millions).



4.2 Peer Privatized Systems

In selecting a peer group of privatized systems, various elements were considered including, proximity to a metro-center, ridership, budget, and system composition. Of the many privatized county systems in New York State, the Westchester County Bee-Line and Suffolk County Transit were selected as our sample.

4.2.1 Westchester County Bee-Line (WBL)

WBL is perhaps the closest model to use in considering what a privatized system would look like in Nassau County. The WBL fleet is an extremely close match to that of LIBS, servicing around 31.2 million riders a year. This fleet, however, is operated not by one but four independent contractors. Liberty Lines is the premier contractor, responsible for over 96% of total fixed-route operations, including the daily commuter routes. Two other contractors, P.T.L.A. and Port Chester Rye[25] operate selected non-metro and rural routes. A fourth contractor operates the Paratransit service exclusively, which before 1999 was operated by the Westchester Department of Transportation. A key feature of WBL is the interdepartmental function of other County operations. For example, instead of using transit police for security on the bus line, WBL uses Public Safety officers. Additionally, the Westchester Department of Public Works is also contracted in certain instances to perform maintenance activities. Furthermore, the County also handles its own advertising contracts to better leverage the County's size and other available advertising opportunities.[26]

[25] As of 2004.

[26] Westchester County Budget Department. "2010 Proposed Budget." Department of Transportation. http://www3.westchestergov.com/index.php?option=com_content&view=article&id=2628&Itemid=204543. Section C-608, pages 50, 97, and 98.

Financially, WBL is slightly smaller than MTA LI Bus, operating on a $100.7 million annual budget, or at an expense per rider of $3.23. Revenues in 2010 are projected to be around $30 million from farebox and advertising fees, producing $0.96 per rider. The WBL receives $56.9 million in annual subsidies from New York State and federal sources. The resulting deficit in the 2010 forecast is considered the local subsidy, since any gap must be covered by the local government. This subsidy operates very similarly to the MTA Inter-agency Subsidies mentioned above in that it must be used to cover any deficit that results. The positive nature of this method is that the more efficient the system, the lower the deficit the local government needs to cover. For 2010, this deficit is projected to be about $13.8 million or a local contribution of 19.5% of total subsidization. In terms of the metrics used for this study, WBL requires $2.36 in subsidies per revenue dollar produced to operate.[27]

4.2.2 Suffolk County Transit (SCT)

SCT offers a more integrated approach to creating a local Department of Transportation. SCT is administered by the Suffolk County Department of Public Works, which also realizes similar inter-departmental synergies to that of WBL. SCT, which has always been a privatized system, contracts with seven different operators for its transit system. Its fleet is largely operated by Suffolk County Bus Corp. (SCB). SCB also services the 400,000-rider Suffolk County Paratransit system. In conjunction with its 6.1 million annual fixed-route system ridership, SCT services a total of 6.5 million riders annually. The remaining six operators, such as Hampton Jitney, handle primarily rural and niche routes.[28]

According to information obtained directly from the Department of Public Works, SCT collected $6.9 million in fares from 6.5 million riders in 2009. Similar to WBL, SCT contracts with advertising companies directly for advertising space on buses and bus stops, from which it received an additional $250,000 in 2009. This $7.15 million in revenue represents roughly $1.10 per rider annually, while $48.6 million in operating expenses translates to $7.48 per rider annually. In terms of subsidies, SCT is expected to receive a total of $48.6 million in 2010, 56% from local sources, 42% from New York State, and 2% from federal sources. This reflects a subsidy-to-revenue ratio of 6.80. Less than $1 million of these subsidies are passed-through to the Town of Huntington and the Village of Patchogue to help fund their own local bus operations.[29]

---

[27] Westchester County Department of Finance. "2010 Comprehensive Annual Financial Report." <http://www.westchestergov.com/finance/pdfs/2008_WESTCHESTER_COUNTY_CAFR.pdf>
[28] According to information obtained from Suffolk County Transit for 2009 and 2010.
[29] According to information obtained from Suffolk County Transit for 2009 and 2010.

4.2.3 Comparison with MTA LI Bus

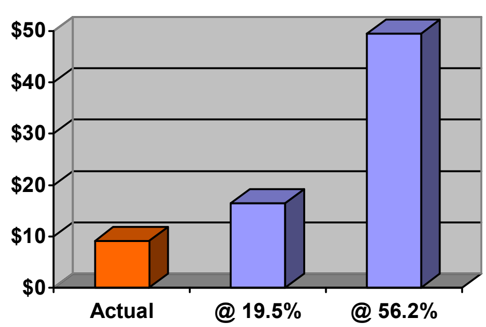
To compare these peer privatized systems we refer to Figure 9 on the following page. Immediately noticeably is that while SCT and WBL contribute 56.2% and 19.5% respectively towards operation of their systems, Nassau County only contributes 10.8%. Perhaps even more interesting is the fact that in addition to costing the County less, MTA LI Bus also seems to operate more efficiently. Against our peer group it generates the highest revenue per rider while requiring the least amount of subsidy dollars per revenue generated.

Figure 9

Transit System	**Total Subsidy to Revenue Ratio**	**Revenue per Rider**	**Expense per Rider**	**Local Contribution**
MTA LI Bus	1.87	$1.46	$4.54	10.8%
WBL	2.36	$0.96	$3.23	19.5%
SCT	6.80	$1.10	$7.48	56.2%

Based on the local contribution to subsidy percentages above, with all else being equal, we can calculate that a privatized system could cost Nassau County up to $49.5 million if it requires a contribution of as much as 56.2% of the subsidy (Fig. 10). This relies on the assumption that state and federal subsidies remain as projected and that the Inter-Agency Subsidy will be eliminated. Therefore, the current $9.1 million in subsidy allocation paid to MTA LI Bus for authority operation is significantly less than other private models in our peer group.

Figure 10 Nassau County actual contribution percentage compared with hypothetical contribution using study peer-private group range (in millions).



4.3 Findings

In making a comparison to the private-system the study additionally looked at the fare price structure. As noted earlier in this study, the MTA's current fare structure is $2.25 for local and $5.50 for express routes. In Westchester, WBL charges $2.25 per local ride and $5.50 for express routes to Manhattan.[30] In Suffolk, SCT charges $1.50 per ride, which is in-line with rural area bus systems (i.e. NFTA is a rural operator with a fare of $1.75[31]).[32] Based on this analysis, it cannot be confirmed that a privatized system necessarily means an increase in fares; rather, location and proximity to urban centers is a better indicator.

If we combine the data discussed above into one table, we can calculate the median values of the entire sample for all categories. In Figure 11 on the following page, the metrics used in the first half of this report is highlighted according to the corresponding bus system's ranking when compared to the entire peer group. Values highlighted in green indicate the category leader, yellow indicates the median, and red indicates the laggard. As illustrated, although MTA LI Bus doe not lead in any one group, it is the median in expenses-per-rider and ranks above the median in the other three categories. The metrics actually indicate a very strong positive comparison for MTA LI Bus on the whole. MTA LI Bus actually produces stronger than group median revenue-per-rider and total subsidy-to-revenue, while local contribution percentage is the second lowest. In terms of Expense per Rider, MTA LI Bus is in-line with the group.

Figure 11

Transit System	Total Subsidy to Revenue	Revenue per Rider	Expense per Rider	Local Contribution
R-GRTA	1.58	$1.54	$4.86	8.6%
MTA LI Bus	1.87	$1.46	$4.54	10.8%
WBL	2.36	$0.96	$3.23	19.5%
NFTA	3.20	$1.05	$4.40	38.3%
SCT	6.80	$1.10	$7.48	56.2%

With this information we can then create a hypothetical model of how the MTA LI Bus subsidy contributions should be broken down. The authority and privatized systems together demonstrate a median state and federal subsidy of 63.8%, and local subsidy of 19.5%. In terms of MTA LI Bus, this would mean an increase of $8.1 million ($17.2

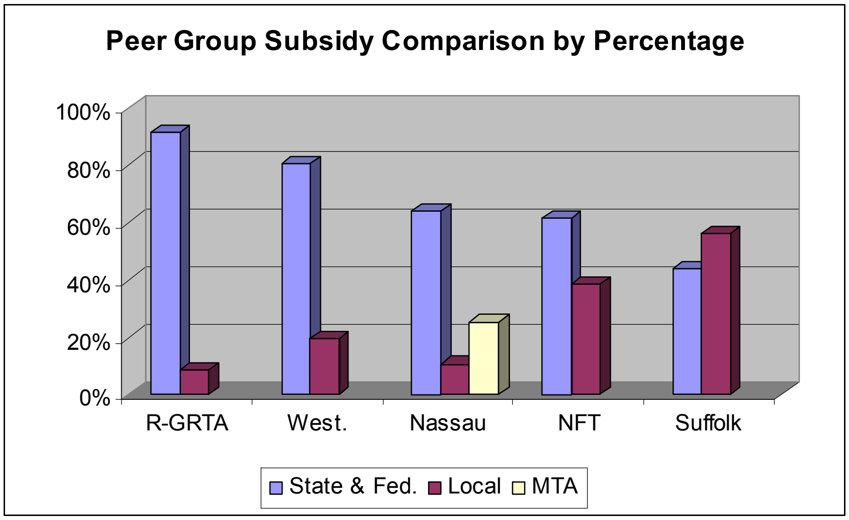
[30] Westchester County Department of Transportation. "Fares and MetroCard." www.westchester.gov. <http://transportation.westchestergov.com/index.php?option=com_content&view=article&id=640&Itemid=57>

[31] Niagara-Frontier Transit Authority. "Fares." www.nfta.com. October, 2010. <http://www.nfta.com/metro/fares>

[32] Suffolk County Transit. "Fares." www.sct-bus.org. October, 2010. <http://www.sct-bus.org/general_info.html#Fares>

million total) to Nassau County's subsidy and a decrease in the same amount in the MTA subsidy for 2011. This change would bring the system to parity with our peer group. Figure 12 illustrates Nassau's current local subsidy percentage when compared to the rest of the group.

Figure 12



In studying the above chart an interesting question is posed: How much New York State and federal funding does MTA LI Bus receive per rider compared to our group? The two authority-based systems, NFTA and R-GRTA, receive $2.07 and $2.22 per rider respectively. The two privatized-based systems, WBL and SCT, receive $1.82 and $3.28 per rider respectively. When compared to all four peers, even though it is an authority system, MTA LI Bus receives a privatized-like $1.74 per rider from its state and federal sources, the lowest in the group. This means that on a per rider basis, MTA LI Bus may not be receiving its "fair-share" of state and federal aid. If we assume for the moment that the MTA subsidy was included in this category, MTA LI Bus's subsidy-per-rider would be $2.43. The question that is created when looking at this quick analysis is whether the MTA Inter-agency subsidy is not substituting for local contributions, but for state and federal contributions instead?

The calculations and ratios discussed in this section clearly reflect that Nassau County may be on the lower end of the local contribution spectrum when compared to its peers. Although a slight adjustment in the contribution is warranted and albeit recommended, Nassau County should not be forced to contribute the entire $29.3 million in 2011. According to the peer group, the "issue" at hand is not one of the MTA versus Nassau County, but whether: (1) the correct amount of state and federal aid is being given and (2) are those amounts accurately being passed-through to LIBS. The numbers clearly reflect that the MTA Inter-agency subsidy balances the subsidy contributions to stay in-step with peer-group levels. If this scenario is truly the case, then removal of the MTA Inter-agency subsidy is essentially a further reduction of state and federal aid since the MTA itself is funded through these sources.

5.0 CASE STUDIES

By using the data and information compiled in the above sections, the pros and cons of authority system or private systems are offered for possible consideration by Nassau County.

5.1 External Case Study

Recently, the question of whether counties should use an authority or privatized system has created a rather large debate in the transportation community. The bulk of the argument is carried by counties who already have privatized systems.

5.1.1 Privatized-Case Study

In a 2009 press release, Westchester County Department of Transportation Commissioner Lawrence Salley reinforced the County's decision to keep the system under local control. "MTA operation would be less efficient and data indicates that costs would rise with consolidation. . . In the three years following the 2006 MTA takeover of seven New York City private bus operators [LIBS included], the combined operating deficit rose from $223 million a year to a projected $341 million for 2009."[33] Further support for privatization is illustrated by New Orleans, "[which] realized a 30% cost savings. . ..."[34] In another example, LA's Chief of Transit, Michael Okazaki, cites that labor issues are the key to these savings: "[T]he MTA's unions have 'more political clout' than the Teamsters, which represents most bus drivers that work for private companies." [35] If local conditions prove favorable, a modification to a union like the Teamsters would be a significant cost saving opportunity for MTA LI Bus. However, an intermediate period will exist where prior union protection would still apply, delaying realization of savings for a few years. When Vision Long Island conducted a study on this subject they cited "[A] Manhattan Institute study . . . [finding] that in Los Angeles, 21 percent of the bus routes are awarded through competitive bidding, resulting in a 40 percent cost savings. Houston contracted out 12 percent of its lines and saved 26 percent; San Diego privatized 44 percent, for a 33 percent savings."[36]

5.1.2 Authority-Case Study

The counter argument is equally as persuasive, citing that regardless of the type of system, increased fare hikes and subsidy contributions are a fact of life. Several months

[33] Westchester County Department of Transportation. Title not found. September, 2010. <http://www.westchestergov.com/transportation/recent_press_releases.htm>

[34] Favro, Tony. "U.S. Public Bus Systems face rising demand and deficits." City Mayors Transport. December 20, 2009.

[35] Rackham, Anne "L.A. officials call MTA bus costs bloated, seek to privatize system." Los Angeles Business Journal. Monday, September 20 1993.

[36] Piacentini, Matthew. "All Bus Service May Be Eliminated In Nassau County." Hicksville Illustrated News. July 30th, 2010. <http://www.antonnews.com/hicksvilleillustratednews/news/9545-all-bus-service-may-be-eliminated-in-nassau-county.html>

after making the point above, Mr. Salley of Westchester County stated that "to make up the difference [deficit], the county Department of Transportation has been forced to look at the elimination of routes. It is simple economics as well as the law. The county can't provide service it can't pay for."[37] In August 2010, Suffolk County released news that it too would raise its fares on Paratransit service by 25% to help cover operating expenses.[38] These statements provide a resounding similarity to some of the headlines that Nassau County has seen in the past few months.

A worst-case-scenario in municipalities that use a private system option was seen in Reading, Pennsylvania. Mayor Tom McMahon, faced with a $15 million budget gap for the City, eliminated the Bus subsidy altogether, stopping bus service to more than 11,000 residents. This scenario has become a focal point of public citizen criticism. As illustrated by situations in Chicago and Miami, concerns exist that service from a single-private operator system could be halted if the operator goes out of business or if the local government can longer sustain its contribution.[39]

5.1.3 Studies on Authority vs. Private Systems

In 1998, The University of California at Berkley conducted a survey relating the cost of an authority system to those of a privatized system. Looking at the model constructed, which took into account everything from annual precipitation to labor rates, the conclusion stated the following:

> "*The findings indicate that vehicles and labor utilization have far more influence on cost efficiency than either wages or contracting agreements. We conclude that cost efficiency can be achieved in many different ways, depending upon local conditions, and that contracting should not be assumed to be the most appropriate strategy in every situation*."[40]

As it relates to MTA LI Bus, the findings of this study require that Nassau County focus on an inherent benefit in switching over to an unlimited liability system under the private model in order to justify the risk. In short, there must be something more to the decision.

---

[37] Salley, Lawrence. "Westchester has little choice but to eliminate bxm4c route." Westchester County Department of Transportation. April, 2010. <http://goingplaces.lohudblogs.com/2010/04/14/bus-wars-the-back-and-forth-on-bxm4c/>

[38] Author not listed. Suffolk County Proposes Sunday Transit Service and Fare Hike." Able News. August 2nd, 2010. <http://www.nyctransportationaccess.com/news/2010/08/suffolk-county-proposes-sunday-transit-service-and-fare-hike.html>

[39] Favro, Tony. "U.S. Public Bus Systems face rising demand and deficits." City Mayors Transport. December 20, 2009.

[40] McCullough, Taylor, and Wachs "Transit Service Contracting and Cost Efficiency". The University of California Transportation Center, University of California at Berkeley. 1998.

5.2 Alternatives

When local transit authorities were first created by federal and state governments the strategies were fairly simple, economies of scale. The concept was to combine smaller regional transportation systems, similar to the merging of the initial 11 independent operators into LIBS, in hopes of realizing cost-savings through size and efficiency of management. If it is believed that the MTA has reached its pinnacle of efficiency, then we must turn to see if further cost-savings can be created through competitive advantages with independent private operators.

This ideology further leads to the conclusion that Nassau County must first identify the cost-saving opportunities it would like to realize prior to issuing an RFP. The reasoning behind this is fairly simple; if Nassau County allows the operator to identify these savings first then what could have been cost-reduction for the County becomes profit for the operator. Although the County has expressed the desire for a best-case scenario of a 0% contribution to the system, the likelihood of this is very slim. If Nassau County were to privatize, general business principals must apply. Efforts must be made to administer the system in the lowest cost manner, whether in the realization of a subsidy or in expectation of one.

The study also suggests that the current MTA Payroll tax liability by County businesses will continue to be collected even if the MTA does not operate the bus system. There is no evidence to suggest that New York State will undergo the legislative process to reduce this tax. Rather, the proceeds would be diverted to other transit operations such as LIRR or New York City Transit.

Up to this point we have been discussing the authority and privatized systems as mutually exclusive of one another. Before exploring the recommendations below, it should be considered that a hybrid model could be created to maximize the benefits of both systems. In an event where difficulties may be encountered in deciding to utilize one system over another, a plan could be created where the MTA operates the core routes and a private contractor(s) operate rural or isolated routes. This hybrid-model should be considered as a valuable alternative. In the case-study section above it was noted that Los Angeles, Houston, and San Diego were able to realize modest cost-savings by privatizing some routes but not all. Nassau County could use these savings in a three-fold approach: (1) make MTA LI Bus more efficient by alleviating revenue-loss routes, (2) use any savings realized from the privatized routes to supplement the County subsidy to MTA LI Bus, and (3) retain critical service to underutilized routes. Importantly, a private operator may be able to encounter revenue producing innovations (such as bidder MV Transportation in Staten Island) that the MTA may be unable to implement. It is recommended that both sides consider and discuss this approach prior to moving forward in one way or another.

Overall, if privatization were the only solution, the illustration of bids received reinforces the idea of a multiple operator system. MV has extensive experience in handling para-transit systems and has developed a niche market which may contain unique cost-saving mechanisms. On the other hand, Veolia is an international public transportation giant whose expertise is extended to the fixed-route operations in the same fashion. First Transit, although having shown dominance in rural systems and university campus shuttling, lacks large metro experience. Once again, LIBS has a unique nature whose complexity is amplified if an operator lacks the proper credentials to handle it.

5.2.1 Separate Operations Between Contractors

Under the free-market theory, the only way to ensure that the best operator is selected is to use competition to keep costs down. This means not only using a public bidding process but also using a multiple-operator system. At a minimum, Nassau County should seek two operators, one for the fixed-route system and a second for paratransit. If we follow the model of the Westchester and Suffolk County systems it could be further argued that Nassau could sustain a 3-4 operator fixed-route system. Under this model, the largest operator would be given the main commuter routes. Smaller, less efficient routes, such as rural and/or low-traffic routes, could be awarded to any other operator who could provide the lowest cost service to those areas. If you combine this process with overlapping contract lengths, operators will continuously attempt to outbid each other to secure more routes. This level of competition will help ensure continued low-cost operation by giving Nassau County leverage.

The Hampton Jitney line, which services isolated Hampton areas, is a great example of how an operator can secure a niche market that larger bus companies would find inefficient.[41]

5.2.2 Contract for Advertising Should be In-House

Currently, the advertising contract for MTA LI Bus is handled by the MTA directly. After a dispute with Titan Outdoor, the MTA entered into an Authority-wide advertising contract with CBS Outdoor. This contract is valued at roughly $2 million in 2010, and is expected to decrease to around $1.7 million in the near future (MTA projection).

Instead of allowing the operator to handle the administration of this contract, the County should negotiate the contract itself. This process would allow for more transparency of advertising revenues, which in turn would be used as a direct offset to the operating assistance paid to the operator by the County. Both Westchester and Suffolk Counties manage their own bus advertising programs for the same reasons. Westchester actually branched off the idea of in-house contract management in their MetroCard program, which will be discussed in greater detail below. Therefore, in an effort to keep the process more transparent, advertising rights should belong to the County, not individual operators. A

---

[41] Kabak, Benjamin. "A case study into privatized transit: the Hamptons Jitney." 2nd Ave. Sagas. September 1, 2010. <http://secondavenuesagas.com/2010/09/01/a-case-study-in-privatized-transit-the-hamptons-jitney/>

provision should then be inserted into the operator's contract to abide by any agreement the County enters into to ensure that no operational-costs are borne by the County.

5.2.3 Identify Synergies with Other Departments

Synergies between Nassau County's Departments of Public Works and Public Safety should be evaluated for opportunities to help cut the total operating costs. Any opportunity to identify existing County resources and departments which could substantially lower operating costs should be explored. Both Westchester and Suffolk Counties use their Departments of Public Works to support the bus system, creating incidental interdepartmental revenue. Any savings as a result of the synergy could be used to offset operating assistance paid to the operator. Westchester County uses the Department of Public Safety to provide security on the Bus System, a function that should be considered when Nassau County loses the services of MTA Police. Again, hiring additional Public Safety officers may be more profitable for the County than paying additional operating assistance for the operators own security workforce.

5.2.4 Shorten Contract Length and Overlap Contracts

The longer the contract period, the less flexibility the County will have in dealing with future proposals or cost cutting measures. Utilizing short-term rolling contracts, as is the case in Suffolk County, will keep operators on their toes, vying to out bid their competitors at the end of a contract term. This ensures that a transparent level of fair market competition exists. A 25 year contract is too long to ensure that the County is receiving the lowest cost system available at any point in time. The economic environment can change quickly for transportation subsidies; the contract process must provide flexibility to take advantage of economic trends that may benefit the County. If federal or state subsidies are lowered dramatically, Nassau County must cover this potential unlimited gap in operating assistance paid to the operator. This would allow the operator the upper hand in renegotiating the contract, much like the present situation with the MTA.

As discussed above in section 5.2.1, overlapping contracts either by route or operator is a strategy that the County could employ to keep up a high level of competition between the operators. Again, this would ensure that operators continuously attempt to out bid each other in efforts to secure more routes, and keep operating assistance costs low for the County.

5.2.5 Revenue-Generating Opportunities with the MTA

When WBL switched over from MTA Operation, a dual-payment transit system was created. For example, when switching from the Bee-line to MTA NYC Bus, riders had to pay twice for a ticket. An idea that may prove to be feasible is the negotiating of a MetroCard collection fee for Nassau County. If Nassau County will continue to support the program, then a potential to receive a commission for the sale of MetroCards exists. This program, however, will depend on the negotiation of a contract with the MTA directly.

5.2.6 Nassau-Suffolk County Transit Authority

Noting the potential efficiencies realized under an authority system, it may be valuable to study the creation of a smaller authority system between Nassau and Suffolk Counties. The combined system would represent a fleet of over 400 buses and 100 paratransit vehicles servicing over 37.5 million riders annually. This would allow the smaller SCT to benefit from the size of the LIBS, while allowing LIBS to take advantage of the SCT's experience in private operation management. Both Counties would realize a strengthening in negotiating advertising contracts since the hypothetical system would offer a larger pool of advertising space and dollars. State subsidies may also be higher given that the combined system will rank higher in overall size related to other systems in New York State. Although outside the scope of this report, the study into any synergies or cost savings that may result in merging the two systems is highly recommended. Without first-hand knowledge of how the Legislatures would react to such a transportation partnership between Nassau and Suffolk Counties, it is difficult to calculate what the new contribution amounts would be. Any increase in state and federal transportation subsidies will require Legislative approval. It is reasonable to project however, that state and federal subsidies should increase, albeit only slightly relieving the burden on the local governments. A more in-depth study would have to be conducted to evaluate the cost savings that would occur in creating a merged system, negotiating new labor contracts, and in overall administration.

APPENDIX A: MTA LI Bus Ridership by Income

APPENDIX B: MTA LI Bus Ridership by Age

APPENDIX C: Study Summary, Subsidy Ratios

SUBSIDY-PER-RIDER RATIO COMPARISON: MTA, Peer-Authority Group, and Peer-Privatized Group. Study Consolodation.

SPR = Subsidy Per Rider

	Riders	MTA Subsidy		Local Subsidy			State & Federal			Total Subsidies	
Entity	(Millions)	(Millions)	SPR	(Millions)	% of Tot.	SPR	(Millions)	% of Tot.	SPR	(Millions)	SPR
MTA LI BUS	31	$ 21.50	$ 0.69	$ 9.10	10.8%	$0.29	$ 53.90	64%	$ 1.74	$ 84.50	$ 2.73
NFTA (Authority)	28.3	n/a	n/a	$ 36.31	38.3%	$1.28	$ 58.49	62%	$ 2.07	$ 94.80	$ 3.35
R-GRTA (Authority)	17.7	n/a	n/a	$ 3.69	8.6%	$0.21	$ 39.21	91%	$ 2.22	$ 42.90	$ 2.42
WBL (Private)	31.2	n/a	n/a	$ 13.80	19.5%	$0.44	$ 56.90	80%	$ 1.82	$ 70.70	$ 2.27
SCT (Private)	6.5	n/a	n/a	$ 27.30	56.2%	$4.20	$ 21.30	44%	$ 3.28	$ 48.60	$ 7.48

APPENDIX D: Study Summary, Revenue and Expense Ratios

Revenue and Expense-per-Rider and Subsidy-per-Revenue, Study Consolodation.

RPR = Revenue-per-Rider EPR = Expense-per-Rider

Entity	Riders (Millions)	Revenue (Millions)	RPR	Expenses (Millions)	EPR	Subsidy/ Revenue
MTA LI BUS	31	$ 45.20	$ 1.46	$ 140.60	$ 4.54	$ 1.87
NFTA (Authority)	28.3	$ 29.60	$ 1.05	$ 124.60	$ 4.40	$ 3.20
R-GRTA (Authority)	17.7	$ 27.20	$ 1.54	$ 86.00	$ 4.86	$ 1.58
WBL (Private)	31.2	$ 30.00	$ 0.96	$ 100.70	$ 3.23	$ 2.36
SCT (Private)	6.5	$ 7.15	$ 1.10	$ 48.60	$ 7.48	$ 6.80

APPENDIX E: Study Summary, Current vs. Proposed vs. Privatized Costs