

To: Rob Gannon, General Manager  
 From: Rand Juliano; Soojin Kim  
 RE: Streetcar O & M costs - Metro Analysis  
 Date: December 18, 2017 - draft

**I. New Issues - Not Previously Briefed in Writing**

**A. Total of \$\_\_ owed to Metro, and not reflected in City's 2018-2019 budget**

SDOT has not fully satisfied its obligation for the cost of operating the City's existing South Lake Union and First Hill Streetcar lines. The total past due amount owed to Metro for the 2014, 2015 and 2016 operating years is \$\_\_\_\_\_. The total past due amount breaks down as follows:

Year	Total Due *1	City Remittance to Date *2	Balance Owed
2014			
2015			
2016			
		Total Past Due	

\*1: Total Due includes both Direct and Indirect charges as billed in the Central Allocation Model (CAM)

\*2: Includes City payments per the Streetcar Interlocal Agreement, fare revenue and County contribution to SLU operations.

For the 2017 operating year, SDOT has remitted \$\_\_\_\_\_ to date, but will owe an estimated additional \$\_\_\_\_\_ in reconciliation payment for 2017, which will be invoiced in 2018.

The quarterly invoices for operating and maintaining the SLU and FH lines are significantly short of the actual cost of O & M because they are based on bare-bones, preliminary estimates of costs established in the 2014 Seattle Streetcar Interlocal Agreement. As negotiated with SDOT, Metro agreed to invoice quarterly based on preliminary estimates, then issue a reconciliation statement after the completion of each operating year. The preliminary estimates in the ILA assumed the most optimistic levels of both labor efficiency and revenue vehicle performance. Accordingly the ILA recognized that the quarterly invoices could underestimate actual O & M expenses.

Metro has invoiced SDOT in accordance with the procedures set forth in the 2014 agreement by issuing quarterly O & M invoices that match the preliminary budgets in the 2014 ILA, and eight months after the end of an operating year, issuing a reconciliation invoice reflecting the actual expenses and revenues for that year.

Although there is an eight-month lag between the end of an operating year and the issuance of a reconciliation invoice, SDOT gets an estimate of the total operating

expenses (both direct and indirect) for purposes of its budgeting, a full year in advance of the completion of every operating year. This is called a Budget Cost Allocation Model (CAM). For the 2016 operating year, the Budget CAM was sent to SDOT in December of 2015. Three months after the end of every operating year, King County's practice has been to send an Actual CAM showing total operating expenses and an amount that represents the reconciliation between the total of the quarterly invoices issued for the most recently completed operating year and the actual expenses for that year minus offset for revenues. The reconciliation amount is not invoiced until August, after National Transportation Database reporting is complete.

\$ owed to Metro but not reflected in City's 2018-2019 budget: The City of Seattle's adopted 2018-2019 budget does not contain funding to pay past-due invoices totaling \$\_\_\_\_\_ for Streetcar O & M expenses. In March of 2018, Metro will issue a statement reflecting the reconciliation between amounts invoiced based on preliminary estimates of O & M costs and actual costs for 2017. The \$\_\_\_\_\_ in reconciliation payment for the 2017 operating year will be due in September 2018. This means a total of \$\_\_\_\_\_ will be owed to Metro that is not reflected in the City's 2018-2019 budget.

We are not aware whether the Mayor and Seattle City Council have been informed that the City is in arrears in payments owed to Metro for the cost to operate and maintain the existing Streetcar lines.

**B. SDOT's estimate of projected annual cost to operate expanded streetcar system (as reported to FTA and Seattle City Council) discounts Metro's streetcar O & M labor cost by \$8 Million**

Background:

After several Councilmembers questioned the City's investment in C3 and expressed concerns about financial risks to the City, the Seattle City Council directed SDOT to detail the financial operating plan for C3. In response SDOT submitted a September 30, 2017 report from Andrew Glass Hastings, Director of Transit & Mobility, to Councilmember Mike O'Brien.

Chart B of the September 30, 2017 report states that the projected annual operations and maintenance cost of the streetcar system with C3 in 2020 would be \$16,060,000. The report at p. 2 explains: "The estimated system operating costs were generated as part of the Small Starts Grant Application by combining actual operating costs for the existing South Lake Union and First Hill Streetcar lines and inflating them for the increased revenue service levels of the combined Seattle Streetcar System in 2020." Footnote 2 to Chart 8 in the September 30 report states that the \$16Million estimate is "based on actual King County Metro 2015 O & M Budget for South Lake Union Streetcar and First Hill Streetcar, scaled up to projected peak operations with the Center City Connector." See excerpt of SDOT's September 30, 2017 report at **attachment 1**.

In SDOT's July 2017 "Seattle Center City Connector – Streetcar System Operating Plan," which SDOT submitted to the Federal Transit Administration (FTA) as part of its application for a federal grant called "Small Starts," SDOT represented to FTA that the preliminary O & M cost budget for 2020 would be \$16,060,000. The \$16.06 Million budget was broken out into \$8.15 Million for streetcar operations staffing, \$920,000 for Power Systems O & M, \$1.77 Million for Administrative Support, \$290,000 for Operating Materials/Supplies, \$900,000 for Seattle costs for fare inspection, platform and facility maintenance, utilities and program management, and \$1.46 Million contingency. See excerpt of SDOT's Operating Plan at **attachment 2**.

Timeline of communications regarding SDOT's estimate of operating costs:

In the late spring/summer of 2017, Metro's Rail Section was aware that SDOT was preparing an Operating Plan for its Small Starts Grant for the FTA, but SDOT did not consult the Rail Section during SDOT's process of estimating its projection of operation and maintenance costs for its Operating Plan. Through Tedd Hankins, Metro's Rail Section made repeated offers to SDOT senior leadership through Michel James and Joe Vinson to provide input on the estimate of streetcar O & M cost, but was told that SDOT didn't need Metro's help at that time. The Operating Plan was produced and submitted to the FTA in July 2017, but was not shared with Metro's Rail Section until August 9, 2017. See email documentation of receipt on August 9 at **attachment 3**.

After receiving the already-submitted Operating Plan from SDOT, Metro's Rail Section reviewed it and noticed errors in SDOT's stated assumptions for its \$8.15 Million budget for streetcar operations staffing. SDOT stated that streetcar operations staffing would include 70 FTEs (46 streetcar operators, 10 electro mechanics, 1 train controller, 10 O/M supervisors, 1 maintenance chief, 1 superintendent and management/administrative support to operations staff). In fact, based on the number of cars and 5-minute headways required in the Operating Plan, Metro's Rail Section estimates that it is more likely that 140 FTEs in the Rail Section alone would need to be dedicated to streetcar operations.

Mr. Hankins discussed the discrepancy in staffing levels for streetcar operations with Mr. Vinson on August 7, 2017 both verbally and in email and noted that the estimated cost for an expanded workforce in the Rail Section could be "\$18,443,521.95 per year in today's dollars." See email from Mr. Hankins to Mr. Vinson on August 7, 2017 at **attachment 4**. On August 11, 2017, Mr. Hankins sent Mr. Vinson excel spreadsheets and charts showing proposed staffing levels for streetcar operations and maintenance only, which included classifications of employees needed, FTE counts and the total annual compensation. See email and attachment from Mr. Hankins to Mr. Vinson on August 11, 2017 at **attachment 5**. The FTE count in the chart sent to SDOT showed 136 FTEs who would be dedicated to Streetcar in the Rail Section only (and did not include the 4 additional Rail Section FTEs previously requested to maintain the existing First Hill line). The total annual compensation for those 136 FTEs was shown as \$16.09 Million, which is almost \$8

Million more than SDOT's estimate for streetcar operations labor costs reported to the FTA.

Mr. Hankins informed Mr. Vinson about the errors in SDOT's staffing level assumptions because he was concerned that SDOT's operating cost estimate had significantly underestimated what the total cost of operations would be and he wished to underscore the need to initiate rail activation work which would include scheduling, planning and budgeting. But SDOT did not respond to the information sent by Mr. Hankins in August other than Mr. Glass Hastings stating "you aren't changing anything in this Operating Plan." Instead of inviting Metro's input or responding to Metro's alert about errors on staffing level assumptions, SDOT used the same system operating costs (\$16.06 Million) that SDOT had generated for its federal grant application in SDOT's September 30 report to Council.

Basis for conclusion that SDOT's \$16.06 Million cost estimate discounts Metro's streetcar O & M labor cost by \$8 Million:

The \$16.06 Million figure includes not just the Rail Section's direct labor costs but also direct labor costs of other Sections such as Power & Facilities, Administrative Support costs charged as indirect costs, Operating Materials and Supplies, as well as the City's direct labor costs. If we accept at face value the City's estimate of all these other costs (a total of \$7, 910,000 including \$1,460,000 for 10 percent contingency), that leaves only \$8,150,000 to cover direct labor costs for Streetcar operations. We know that prior to SDOT's September 30, 2017 report, Metro's Rail section had already informed SDOT that the direct labor costs for just the Rail section employees would be \$16.09 Million, almost double the amount that SDOT had asserted. We know that Metro's other Sections did not provide SDOT with costs lower than the amounts quoted by the City for those other costs. We also know that the staffing levels asserted by SDOT for streetcar operations is 70, approximately half the number of FTEs required by Metro to deliver the service levels called for in SDOT's Operating Plan.

Although the Seattle City Council may read SDOT's September 30, 2017 report and conclude that \$16.06 Million is the projected total annual cost for streetcar operation, the \$16.06 Million estimate will very likely fall short by at least \$8 Million. SDOT staff have been informed as of August 2017 that their \$16.06 Million estimate discounts direct labor costs for streetcar operation by approximately \$8 Million.

The situation is concerning because:

- SDOT appears to have ignored Metro's estimated labor cost for streetcar O & M by \$8 Million and submitted information to the FTA and to Seattle City Council that significantly underestimates the annual cost of operating the Seattle streetcar system when C3 is added.
- Metro's Rail Section has communicated to SDOT information that contradicts published information about estimated labor costs for Streetcar operations staffing, but neither FTA nor the Seattle City Council appear to be aware of contradictory information.

- Given that Metro’s 2015 O & M Budgets are cited as the basis for estimated costs in SDOT’s September 30 report, the Seattle City Council may believe that Metro had input into the \$16.06 Million cost estimate and may be relying on the cost estimate to make decisions about C3 funding. ■

## **II. Old Issues - Previously Briefed in Writing and Communicated to SDOT**

### **A. To safely operate and maintain existing streetcar line, Metro needs three additional employees**

When the 2014 ILA was executed, to keep the preliminary cost estimate for O & M down, staffing levels assumed not only very high labor efficiency but also assumed that the Inekon cars purchased for the First Hill line would perform with low frequency of breakdowns that would require maintenance/repair. This conservative cost estimate was done at the behest of the City with their verbal assurance that costs would be adjusted upwards should actuals exceed the estimate.

Revenue vehicle performance has fallen significantly short of expected performance as measured by the “mean-time between failure” (MTBF) rates as provided at the onset of the project. The more frequent failure rate of the Inekon cars has meant more maintenance work and management than current staffing levels can safely deliver. This message, along with justification and cost data for two additional electro-mechanics, one Maintenance Chief and one O & M Supervisor has been communicated verbally and in writing multiple times since earlier this year. This issue was the subject of a meeting with Metro’s General Manager on December 4, 2017. Pursuant to the General Manager’s direction, a letter (with attachments of previous letters and supporting materials) was sent by Tedd Hankins to Andrew Glass Hastings on December 6. The December 6 letter requested confirmation of SDOT’s approval of a total of four additional FTEs. In reply, via his December 6 email, Mr. Glass Hastings indicated that SDOT approves of only one additional FTE. This leaves Metro three employees short of what is needed to safely operate and maintain the First Hill streetcar line.

### **B. To fund the activation of C3 line, Metro needs SDOT agreement to pay \$473K in projected 2018 costs (which would cover the Rail Activation Manager position, a new Operations Superintendent position and \$85K in support work)**

Planning and budgeting work, including detailed staffing and start-up plans based on formulation of schedules, must begin immediately to meet the goal of starting C3 revenue service in 2020. But SDOT has not committed to negotiate and execute an activation agreement to address the real cost of activation work. Given how much bigger and more complicated the streetcar system will become, it is not possible for Tedd Hankins to prepare “detailed plans” for C3 activation without additional FTEs. He is currently doing the work of an Operations Superintendent for the SLU and FH lines, some work related to resolving FH activation issues, participating in Partnership meetings related to C3 activation issues, reviewing and

commenting on SDOT's Operating/Service Plan, as well as performing some of the function of the missing Maintenance Chief position for the FH line. This is not sustainable.

Mr. Glass Hastings' December 6 letter asks Metro to sign a letter agreement that would obligate Metro to "develop detailed staffing and start-up plans, schedules and start-up and operating budgets for an expanded Seattle Streetcar line" for an amount "not to exceed \$100,000." Based on the activation and start up work experienced in the bringing First Hill on line, we have reason to believe this activation work will cost significantly more than the \$100,000 allowance. As noted in the proposed draft rail activation agreement submitted by Mr. Hankins to Chris Eilerman for SDOT's review on December 8, 2017, the funding for C3 activation should include \$204,604.50 in 2018 for Tedd Hankins' position, \$183,185 in 2018 for a new Operations Superintendent position, plus \$85,000 representing a preliminary estimate of potential cost for services in support of streetcar activation for a total commitment of \$472,789.50 in 2018.

But given that it is now too late in the year to negotiate and execute a rail activation agreement for the C3 line, and given that SDOT states that it has access to only \$100,000 in potential funding for the activation work, Metro can't at this time execute any binding commitment to prepare "detailed plans." The most that Metro could agree to do right now is \$100,000 worth of work.

Proposed solution/explanation for recommended action: To that end, a letter from Metro's General Manager could be sent to SDOT's recently appointed interim director. The letter would propose that SDOT and Metro immediately agree that Metro will do \$100,000 worth of C3 activation work - provided that in the next 90 days, the parties negotiate and execute an agreement to address the real cost of that work. The letter would reference the proposed draft rail activation agreement for the scope of work. It could then be counter-signed by SDOT's director and would become a letter agreement to cover the interim period between now and when the C3 rail activation agreement would be executed.

### **III. Recommendations**

#### **A. New issues**

1. How should Metro handle the past-due invoices for 2014? 2015? 2016? How should Metro handle the reconciliation amount for the 2017 operating year that will be due in 2018 but is not reflected in the City's adopted 2018-2019?

Recommendation: Communicate to SDOT in writing regarding concerns about past-due invoices for [2014? 2015?] 2016 and the reconciliation amount due for the 2017 operating year.

2. Going forward for the 2018 operating year, how should Metro handle the significant discrepancy between quarterly invoiced costs and actual costs?

Recommendation: Invite SDOT finance and management staff to meet with Metro finance staff to discuss invoicing for the 2018 operating year. In advance of the meeting, Metro can prepare a proposal for quarterly invoicing of amounts for the 2018 operational year that better reflect the actual direct and indirect O & M expenses. This would represent a departure from quarterly invoicing based on the vastly outdated preliminary estimates in the 2014 ILA, but the adjustment in invoicing can happen by mutual agreement.

3. How should Metro handle the information and assumptions that have been published by SDOT to FTA and Seattle City Council about the annual cost of staffing streetcar operations when the C3 line is added?

Recommendation: Request that SDOT inform the Mayor and City Council that Metro did not have input into SDOT's cost estimation process and that operating costs may be significantly higher than what was projected in SDOT's July 2017 Seattle Center City Connector - Streetcar System Operating Plan and in SDOT's September 30, 2017 report to Council.

## **B. Old issues**

1. How should Metro handle SDOT's refusal to approve three of the four additional FTEs that SDOT has requested to address the First Hill line understaffing problem?

Recommendation: Given the announcement on December 15 that Mr. Kubly has resigned and that the Mayor has appointed a new interim director, speak to the new interim director about the issue. Internally, set a time-frame for Metro staff to resolve this issue with SDOT staff, after which time-frame Metro would take action to escalate the issue.

2. How should Metro handle Andrew Glass Hastings' letter dated December 6, 2017 requesting that Metro's General Manager sign a letter agreement to have Metro "develop detailed staffing and start-up plans, schedules and start-up and operating budgets for an expanded Seattle Streetcar line" for an amount "not to exceed \$100,000"?

Recommendation:

- (a) Communicate confirmation to SDOT that King County intends to serve as operator of the C3 line and the integrated Seattle Streetcar system; and

(b) Propose that SDOT and Metro agree immediately that Metro will do \$100,000 worth of C3 activation work – provided that in the next 90 days, the parties negotiate and execute an agreement to address the real cost of that work. Reference and attach the draft rail activation agreement for the C3 line previously submitted to SDOT.

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Attachments: SDOT's September 30, 2017 report to City Council  
SDOT's C3 Operating Plan, July 2017 – excerpt  
SDOT's August 9, 2017 email attaching Operating Plan  
Hankins to Vinson email, August 7, 2017  
Hankins to Vinson email and attachment, August 11, 2017