KPMG's Report on MARTA:

Faulty Data, Wrong Conclusions

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EXECUTIVE SUMMARY

MARTA's Management Audit PHASE II submitted by KPMG in September 2012, is a biased report based on false comparisons, illegitimate cost measures, incomplete data, and short-sighted observations. The five "peer" agencies selected by KPMG to compare to MARTA are so different than Atlanta's transit system from all angles – geographically, modally, financially, and otherwise, rendering a side-by-side analysis simply preposterous.

In an effort to put a spin on both personnel costs and a privatization analysis, instead of using data based on the five "peer" agencies, KPMG conveniently compared averages from the private and public sector to MARTA, concluding that personnel costs are a source of expenditure reduction. By presenting comparisons from the private and public sector instead of other transit agencies, KPMG was able to unfairly manufacture numbers that are not only unfavorable to MARTA but would also be unflattering to the overwhelming number of transit systems nationwide.

KPMG's outsourcing analysis also fails to acknowledge that transit privatization is based on questionable and at times false assumptions regarding competition, cost, and the mechanisms used to calculate these and other matters. Efficiency and cost savings from contracting are uncertain and depend greatly on contextual factors in the region where it is being implemented and the larger operating governance structure of the public agency. Like most privatization advocates, KPMG omits from their competitive cost analysis the necessary cost of increased supervision and coordination which a privatized approach requires.

Moreover, the report ignores the fact that the underlying premise of transit privatization schemes – that private companies can reduce the cost of service delivery and provide a chance for locally owned transportation companies to find business – has been proven unfounded in an industry in which little competition exists. The hope for savings from privatization rests upon an inaccurate conception of how public contracting operates in practice, and this report does not address this issue at all. For those agencies that do contract-out their work, privatizing transit services results in fewer, rather than more bidders. Cost savings, are generally far slimmer than projected and they decrease over time. Also, transit properties that do contract-out their services generally report that service quality and customer service are negatively impacted by privatizing services. Safety, maintenance concerns, and high employee turnover all contribute to this negative impact on service quality when services are privatized.

Rather than focusing on MARTA's biggest challenge, the lack of state and local funding, the report almost exclusively examines the agency's costs and quickly concludes that its economic model is "unsustainable." There is no mention in the KPMG report that MARTA receives no state operating support -- the largest system in the country without operations funding –and it only receives 1% of its capital budget from Georgia. Furthermore, while even local funding for MARTA is restricted to just 50% operations, starving the agency since its inception, KPMG's recommendations to management to generate revenue are to dig deeper into employees' wallets for healthcare and pension costs. If a peer review was warranted at all in this study, it was with respect to the comparison of MARTA with transit systems of any substantial size throughout the U.S. on the issue of state and local funding. Instead, KPMG, driven from the onset of the report to focus exclusively on costs, presents simplistic textbook theories of competitive markets which do not take into account the real-world market strategies of public contracting in which establishing monopolies, influencing public officials, and obtaining hidden subsidies are commonly used to enrich private investors at public expense. KPMG fails to even note that the majority of studies have found that mandated privatization of public transit through competitive bidding serves to reduce the standard of living for workers and diminish the transportation service provided to communities.

The methods used in this report were flawed on multiple fronts and the comparisons to other cities were used to come to foregone conclusions rather than analyzed to present appropriate recommendations. Finally, the report's omissions are glaring. It would be highly irresponsible for any public policy to be crafted based on this slanted, incomplete and predetermined report. Public decision makers should be provided with full, not partial, information if they are expected to accurately assess the opportunities and challenges facing MARTA. Without a full analysis and balanced approach, decision-makers are hindered from acting in the public interest.

In summary, the KPMG Report:

- Fails by the standard of it own stated goals.
- Was intended to examine efficiency AND identify revenue. Instead, it focuses almost exclusively on contracting out.
- Has one obvious purpose: to provide a rationale for outsourcing regardless of the evidence.
- Makes superficial comparisons to other transit systems – far different geographically, and in size, mode, etc.
- Actually shows MARTA is one of the more efficiently run transit operations in U.S.

What is needed?

- A more balanced approach, with full information. The report does not meet this reasonable standard.

What should we **NOT** do with this report?

- Guide decision making on MARTA. It would be irresponsible and is simply not in the public interest.

This memo reviews and critiques the draft of *MARTA's Management Audit PHASE II* submitted by KPMG in September 2012. This draft, intended to "assess and improve MARTA's overall operational and financial effectiveness"[1], employs a comparative approach that seeks to understand MARTA's expenditures and operating structure by providing information on other transit systems and trends in the private and public sectors. While a comparative approach can be useful for understanding how a particular agency performs in comparison to its peers, the relevancy of conclusions drawn depend to a great extent whether systems being compared operate under similar conditions and constraints. This memo assesses the case selection used in the draft submitted by KPMG to determine if the conclusions provided by the authors are based on sound comparative principles and established scientific principles. The document is organized around four main areas of critique: case selection of peer transit agencies and validity of conclusions drawn for the Staffing Analysis, applicability of the captive data used to calculate sourced market comparisons, accuracy of cost estimates provided in the Sourcing Analysis and insufficient analysis of Revenue Generation opportunities. Each of these critiques is discussed in detail below.

Staffing Analysis – Selection of Comparative Cases and "Average" Values

For the Staffing Analysis section of the report, five peer transit agencies were selected for comparison to MARTA. Variances between MARTA staffing levels and average peer staffing levels were used to evaluate back office support functions. Using average values from the five agencies, the authors conclude that MARTA showed unfavorable variances in the three back office areas of IT, Revenue Operations, and Contracts & Procurement. This section evaluates whether an expanded selection of peer agencies or a selection of different agencies for comparison would have resulted in a different conclusion than the one provided. It also questions whether the use of an average metric is most appropriate for understanding how MARTA compares to other systems.

The five peer review agencies selected by KPMG with the assistance of the American Public Transit Association were Bay Area Rapid Transit District (BART), Denver's Regional Transportation District (RTD), San Diego Metropolitan Transit System, Southeastern Pennsylvania Transportation Authority (SEPTA) and Utah Transit Authority (UTA). The basic qualities of these systems are compared in the table below to better assess the range of experiences covered by this case selection. Such a summary was not provided by KPMG in the draft report, preventing readers from assessing the relevance of the five cases selected.

Of particular concern is inclusion of the BART and SEPTA systems, both of which have characteristics that substantially differ from MARTA. BART, located in

1 KPMG report, pg. 3

the San Francisco Metropolitan Region, only operates heavy rail and does not provide bus or paratransit services. In addition, most of the service provided by BART operates as commuter rail – traveling at faster speeds between longer distances. BART ridership is enhanced by the high cost of driving into San Francisco, including variable tolling on bridges, meaning that BART riders are subjected to very different travel conditions than MARTA riders[2]. This is a major contributing factor to BART's comparatively high fare box recovery rate of 61%. These conditions warrant a reevaluation of whether BART should be included in the "peer" agency review, as efficiencies in BART operation depend to a certain extent on contextual factors that differentiate it from Atlanta in important ways.

System	Avg. Weekday Ridership	Modes	Size	Fare-box Recovery	Outsourced
BART (San Francisco)	366,565 (2011-12FY)	Heavy Rail only; similar to Commuter Rail	Five lines, 44 stations	61%	None
RTD[1] (Denver)	325,900 (2011)	Bus, Light Rail, Paratransit	148 fixed routes	20% (2006)[2]	Substantial. 40% of workforce (1,697 emp.)
SDMTS[3] (San Diego)	263,000 (2010)	Bus, Light Rail, Paratransit and Streetcars	Three rail lines, 89 fixed bus routes	40%	None
SEPTA[4] (Philadelphia)	1,136,100 (2012)	Trolley, light rail, bus and Commuter rail	196 lines	59%	Minimal. 2 bus routes operated by contractors
UTA[5] (Salt Lake City)	143,000 (2010)	Bus, Light Rail, Paratransit, Commuter Rail	131 routes. 47 light rail and 16 commuter rail stations	13 – 20%[6]	None
MARTA[7]	482,500 (2009)	Rail, bus Paratransit	Four rail lines, 132 fixed bus routes	28 – 32%[8]	Some

SEPTA, serving the Philadelphia Metropolitan Region, operates a mix of modes that makes it more similar to MARTA than BART. SEPTA, however, has more than twice the daily ridership as MARTA which could be an indication that there are contextual factors in the Philadelphia region that make transit more attractive than it is in the Atlanta region. Philadelphia differs greatly from Atlanta with respect to its urban form largely due to the time period in which the cities were constructed and modernized. As a result, Philadelphia is less automobile-oriented than Atlanta, making transit a more attractive option for residents. Furthermore, many important historic economic sites in Philadelphia have been served by transit for an extended period, meaning that transit is more integrated into the urban life than in Atlanta. These fundamental differences between the two cities and systems reduce what we can learn from comparisons and warrant a critical evaluation of whether SEPTA should be included in the analysis conducted by KPMG.

A thorough comparative analysis would provide details on the systems being evaluated to allow the reader to evaluate the relevance of the comparison used as the basis for evaluation. A more appropriate analysis would also include transit agencies that have characteristics similar to MARTA, and exclude those that only provide one mode of transit (BART) and systems that operate under drastically different contextual conditions (BART and SEPTA), as this is probably

2 "BART reports record ridership" from http://www.bart.gov/news/articles/2012/news20120809a.aspx

indicative of undocumented aspects that make the systems less comparable[3].

Another concern with the conclusions provided in the Staffing Analysis section is the use of an average value as a performance benchmark. The draft report concludes that MARTA showed "unfavorable variances in Back Office Support functions include IT, Revenue Operations, Contracts & Procurement" when compared to *average* values of the five peer agencies[4]. Upon closer inspection, however, it is evident that MARTA exhibits an average level of performance when compared to the peer agencies individually.

The peer average for "Back Office Support Full Time Equivalency as a percentage of Total Full Time Equivalency" is 13.89%. The findings from this section state that MARTA's FTE's are 21% higher than the peer average (16.88 compared to 13.89) but using the average is misleading. MARTA performs similar to BART (16%), better than RTD (19.34%) and the same as UTA (16.88%). Only two agencies in the sample performed significantly better than MARTA – SD (7.2%) and SEPTA (10.02%). MARTA is actually performing similar to its peers in this respect, not worse as the report concludes.

Of the five agencies considered only two are below the average value, with the reminding three performing as well as or worse than MARTA. This is clear in the chart provided in the draft report (pg. 29) but it does not seem to inform the conclusions drawn, as the authors instead conclude that MARTA performed worse than peer agencies. A more accurate conclusion would be that MARTA back office support arrangements are similar to those of the peer agencies reviewed, not that MARTA performed poorly with respect to this variable.

Of note in these findings are the data from RTD in Denver. Of the peer agencies reviewed, Denver is the only system that relies heavily on outsourced labor (40% of employees are contracted) but they also have the highest FTE % of Back Office Support at 19.34%. This brings into question whether the metric of "Back Office Support Full Time Equivalency as a percentage of Total Full Time Equivalency" is even useful for understanding agency performance. If sourcing increases productivity and the Back Office Support metric is intended to evaluate the productivity of Back Office operations, then we would expect the system with a high level of privatization to have a low Back Office Support FTE. In fact, the system with the greatest level of sourcing has the highest FTE (19.34%) of peer agencies evaluated.

Personnel Cost Containment – Comparative Data

Unlike the Staffing Analysis section, data used for the Personnel Cost Containment section is not based on the five peer agencies reviewed above. For this section, the authors compared averages from the private and public sector to MARTA. The authors conclude that personnel costs (which account for 77% of MARTA's operating budget) are a source of expenditure reduction. They draw this conclusion based on comparisons from the private and public sector instead of making comparisons among other transit agencies. It is notable that comparisons are made between agencies for the Staffing Analysis but not for the Personnel Cost Containment section. If there was an analytical reason for changing the comparative structure, the authors fail to articulate it in the report. A more consistent analysis would have continued to use transit agency performance as the comparative instead of switching to aggregated averages that reflect a wide variety of economic sectors.

It is also standard practice in scientific research to include the parameters of all data used in analysis, a standard that is ignored by the KPMG report. The authors should have included descriptive statistics for the private sector and state/local data used to allow the reader to assess the data's applicability as a comparative benchmark for MARTA. As it currently stands, the comparisons are made without knowing what the average values for the private and state/local spending are based on or what assumptions were used to identify the data for comparison. As such, readers have no means for evaluating the relevancy or accuracy of

3 Taylor, Brian D., Douglas Miller, Hiroyuki Iseki, and Camille Fink. "Nature and/or Nurture? Analyzing the determinants of transit ridership across US urbanized areas." Transportation Research Part A 43,1 (2009): 60-77.

4 KPMG report, pg. 7

the comparisons made by the authors; they have to accept without question the validity of the conclusions.

Furthermore, if we want to understand how MARTA is performing from a comparative perspective it is more appropriate to make comparisons with other transit agencies, not to aggregated averages that represent multiple sectors. In fact, as it currently stands, the analysis provided by the authors does not allow us to draw any substantial conclusions because it compares apples and oranges. How do MARTA's absenteeism rates, healthcare costs and other personnel expenses compare to other transit systems? The report does not tell us. The existing data on MARTA wage rates, which is not included in the report, shows that MARTA's top paid drivers ranked 132nd in a nationwide surveys of 252 transit agencies[5]. It also shows that MARTA operators have gotten the smallest pay increases compared to other transit systems in recent years, a fact that is relevant for assessing MARTA from a comparative perspective but which is confusingly excluded from the KPMG draft.

What the report does show, however, is that MARTA's labor costs as a percentage of total personnel costs are 3.5% lower and their fringe costs are 3.5% higher than the private and state/local comparisons. It seems completely reasonable, then, to conclude that MARTA employees receive greater fringe benefits in exchange for lower wages. If the report recommends cutting fringe benefits for MARTA employees, it also needs to address whether this will result in a real wage decrease that puts MARTA at a disadvantage for attracting qualified employees. Only by making comparisons to other transit agencies (who employ a comparative workforce) can we gauge whether the current mix of fringe benefits and labor costs are unusual for transportation-related work.

Sourcing Analysis – Captive data and Cost Estimates

The Sourcing Analysis section uses the same data discussed above and as such suffers from the same limitations as the Personnel Cost Containment analysis. Again, if the intention of this KPMG report is to understand how MARTA is performing it would be more appropriate to make comparisons with other transit agencies, not to aggregated averages that represent multiple unspecified sectors. The comparative data used, in both the Personnel and Sourcing sections, is further complicated by KPMG's reliance upon captive data compiled from "KPMG client data and supplier data *as applicable*"[6] (italics added). This captive data differs from market data used in analysis, in that it is not accessible to the public, has not been vetted by outside sources for accuracy (as is done for most publicly available data, including the APTA database) and does not inform readers about what elements the authors determined to be "applicable" to the analysis. This exclusion prevents the reader from assessing the relevancy and validity of the conclusions drawn, again forcing them to accept conclusions on faith. This does not meet scientific standards for analysis or presentation of findings.

The report fails to specify the scope and details of market data or captive data used as the basis for analysis, preventing the reader from assessing the quality of the work or the validity of the conclusions drawn. For example, we cannot assess whether the vendors used to compile statistics on call centers operate under the same constraints as transit call centers. Local call centers rely to a certain extent on local knowledge or familiarity with the transit system and city, resources that would not be available if call center functions were sourced outside of the region. Whether non-local call centers were included in the comparative analysis, then, makes a difference in how we evaluate the conclusions drawn. The same critique holds for Paratransit. Do the sourced comparisons only include data for transit providers in comparable urban areas or do they also include data for non-urban or rural operators? Again, the authors fail to provide the information necessary to allow readers to assess the conclusions, a standard practice in quality scientific research.

Another inconsistency in the Sourcing analysis section is the use of estimated ranges for outsourcing expenses but finite values for implementation and management expenses associated with outsourcing. While the data used

5 http://www.itsmarta.com/uploadedFiles/News_And_Events/Newsletters/MARTAnomics-101.pdf

6 KPMG report, page 40

to compile estimated sourced expenses is already suspect, as discussed above, the authors ability to provide finite estimates for implementation and management is also a concern. A more fair assessment would have also provided ranges for these estimates, instead of finite numbers.

In fact, the existing literature shows that the expenses associated with implementation and management of contracting are very difficult to determine[7]. Efficiency and cost savings from contracting are uncertain and depend greatly on contextual factors in the region where it is being implemented and the larger operating governance structure of the public agency[8]. The existing literature then, makes it difficult to understand how KPMG was able to provide finite values for these costs and to assess whether the values provided are based on accurate assumptions. The Sourcing Analysis is a key feature of the report that leads the authors to conclude that sourcing will save substantial funds. These conclusions cannot be drawn on the data provided and are especially suspect given the academic literature and empirical evidence that currently exists.

Solutions: Sourcing vs. Revenue Enhancements

The draft submitted by KPMG is 114 pages in length, of which 43 pages are devoted to analyzing options for Sourcing and only 5 pages are devoted to analyzing opportunities for Revenue enhancements. The same imbalance is evident in the executive summary where 3 pages are devoted to Sourcing and a half-page to Revenue Enhancement. This drastic imbalance is perplexing since this report's stated goals were to "analyzing current business processes and identifying specific near-term opportunities, identifying longer-term opportunities to improve overall effectiveness and efficiency, identifying new and enhanced methods of revenue generation, and driving sustainable, continuous improvement within MARTA" not to examine in detail opportunities for sourcing and provide an undeveloped overview of opportunities for increasing revenue.

The limited analysis on revenue enhancement fails to provide a thorough analysis of how much revenue could potentially be raised. A more thorough analysis that meets the stated intentions of the report would have an expanded Revenue Enhancement section that includes a detailed analysis of opportunities, instead of a perfunctory list of "potential enhancement" that does not include revenue estimates. If this report is intended to guide public decision making related to MARTA, the analysis must provide a balanced appraisal of revenue enhancement and expense reductions. The current draft does not meet this standard and as such should not be considered as effectively fulfilling the stated goals of the report. Public decision makers should be provided with full, not partial, information if they are expected to accurately assess the opportunities and challenges facing MARTA. Without a full analysis and balanced approach, decision-makers are hindered from acting in the public interest.

7 Zullo, Roland. "Transit Contracting Reexamined: Determinants of Cost Efficiency and Resource Allocation" Journal of Public Administration Research and Theory: Volume 18, Issue 3, pp. 495 - 515

8 Iseki, Hiroyuki. "Effects of contracting on cost efficiency in US fixed-route bus transit service". Transportation Research Part A (2010) 457-472.

(Footnotes)

1 http://www.rtd-denver.com/factsAndFigures.shtml

2 http://www3.rtd-denver.com/content/BoardOffice/boardReports/Farebox%20Recovery%20Ratio%20030607.pdf

3 http://www.sdmts.com/MTS/documents/MTS-FactSheet.pdf

4 http://www.septa.org/reports/pdf/opfacts.pdf

5 http://www.utacommuter.com/uta/;Ridership data from http://www.ksl.com/?nid=148&sid=10449017

6 http://le.utah.gov/audit/12_01rpt.pdf

7 KPMG report; Ridership data from APTA third quarter report, 2009

8 http://www.itsmarta.com/uploadedFiles/News_And_Events/Newsletters/MARTAnomics-101.pdf