Transit Management Audit

OF THE

King County Department of Transportation

PREPARED FOR THE KING COUNTY AUDITOR

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Summary

This Transit Management Audit for the King County Department of Transportation was conducted under contract to the King County Auditor.

Transit services in King County are managed primarily by the Transit Division of the Department of Transportation (DOT). The audit focused on policy and organizational issues associated with the merger of King County and the Municipality of Metropolitan Seattle ("Metro"). The merger was approved by voters in late 1992, initiated in 1994, and fully implemented in 1996.

The objectives of the audit were to:

- evaluate the integration of the Transit Division into the structure of the County, including the policy-making structure;
- identify potential efficiencies affecting Transit Division operations;
- evaluate the Transit Division's implementation of County policies;
- evaluate the Transit Division's financial policies and plans; and
- evaluate the effectiveness of the Transit Division's management controls.

We found that the merger improved the decision-making process for new services and related expenditures, and improved the efficiency and effectiveness of transit operations. Since the merger, transit service has been expanded by 19%, ridership has grown by 15%, and cost has increased 22% (just 9% net of inflation). These are remarkable results for a large urban transit system.

The merger also introduced changes in policy, administrative practices, and organization that have been difficult for transit managers and staff to understand and accept, particularly if the change increased the complexity or difficulty of doing their jobs. In some cases, these concerns abated with the passage of time and the increased familiarity of former Metro staff with the new institutional environment. Nonetheless, many legitimate concerns were expressed to us, and clear examples of policy and procedural conflicts were identified.

There are three general themes to our findings and recommendations. First, the special operational and administrative needs of transit should be more precisely articulated by transit staff, more clearly understood by other County staff, and should be accommodated when it makes good business sense to do so. Second, the Transit Division needs to expand its management focus to include greater attention

to the capital program, and to the evaluation of its resource allocation practices. Third, the County should delegate more authority to transit and elevate its stature within the Executive branch, to improve accountability for this critical public service and to facilitate the resolution of interdepartmental issues affecting transit service delivery.

Our key findings and recommendations are summarized below.

THE MERGER CREATED A MORE DECISIVE POLICY-MAKING STRUCTURE

Prior to 1994, transit services in King County were the responsibility of a special-purpose government — the Municipality of Metropolitan Seattle ("Metro"). The Metro Council, which was the legislative body of Metro, was comprised of 45 members at its end. Among its members were the King County Council, the King County Executive, the Mayor of the City of Seattle, the Seattle City Council, elected officials of suburban cities, and representatives from sewer districts and unincorporated areas. The breadth of interests represented on the Metro Council made the policy-setting process complicated and time-consuming. This is one of the factors that led critics of Metro to characterize it as a "staff-driven agency."

The merger of Metro and King County was initiated in 1994, slightly over a year after a November, 1992 public vote to merge the two governments. Accompanying the merger was an expansion of the King County Council to thirteen members, and the creation of three regional committees — the Regional Policy Committee, the Regional Transit Committee, and the Regional Wastewater Committee. These committees include representatives from the City of Seattle, suburban cities, and the County Council. The committees recommend the adoption of plans and policies to the County Council.

Since the time of the merger, the County adopted — and has largely implemented — an expansive six-year transit plan. Through 1997, transit service increased by 19% compared to pre-merger transit services. This is the largest service expansion since the late 1970s. It was accomplished at reasonable cost — the cost per hour for transit service increased at less than the rate of inflation during this period. Transit Division management credits the new Council and regional committee structure as instrumental in facilitating the development of the six-year plan and its implementation. According to these managers, it is doubtful that the Metro Council would have acted decisively on such a fast-paced and large service increase.

The mechanics of the merger, and its effect on the policy-setting process, are presented in chapter 1.

TRANSIT PERFORMANCE COMPARES FAVORABLY TO PEERS AND TO HISTORICAL TRENDS

The County's transit performance has been almost uniformly positive since the merger, though some functions deserve attention:

- Performance has improved since the merger. Cost per platform hour increased slightly (0.7% annually) since 1993, but fell by 2.5% annually in real terms (i.e., net of inflation), as did the cost per passenger boarding. Passenger boardings per platform hour increased by 0.3% annually. These results are remarkable given the large increase in service that occurred in this period — 19% more hours of service were operated in 1997 than in 1993, and passenger boardings are 15% higher. It is rare for a large urban transit system to achieve these results while expanding service so dramatically.

- Metro Transit is a more efficient operation than its peers, and its efficiency is improving. Operating cost per revenue hour is 4% better (i.e., lower) than the peer average, and has improved (i.e., declined) at an average annual rate of 3% since 1995.

- Metro Transit's performance with respect to effectiveness and cost effectiveness depends on how one measures the consumption of service. It ranked near the bottom of the peer group for boardings per revenue hour and operating cost per boarding. Metro Transit serves much longer trips than its peers, however. If these same statistics are viewed on the basis of passenger miles rather than boardings, Metro Transit's performance is much better than the peer average, and near the top of the peer group. In either case, cost effectiveness is improving.

- Some underlying trends in performance are unfavorable. Bus maintenance cost is higher, and reliability lower, than for the peer systems.

The peers and trends assessment is presented in chapter 2.

ONE IMPORTANT RESIDUAL POLICY OF THE METRO COUNCIL REMAINS IN EFFECT — THE COMPREHENSIVE PLAN FOR PUBLIC TRANSPORTATION

We found that Metro policies are now defunct, with one important exception.

The Long-Range Policy Framework for Public Transportation was adopted by the Metro Council as the *Comprehensive Plan for Public Transportation in King County* (resolution 6641, October, 1993). This was the first update of the comprehensive plan since 1982. It was prepared in conjunction with the regional transit plan adopted by the Joint Regional Policy Committee in 1993. This comprehensive plan is still in effect.

The comprehensive plan consisted of a series of goals, policies, and objectives that were intended to coordinate the provision of transit service, growth management policies, transportation demand management, commute trip reduction, and the regional transit project. The comprehensive plan became the basis for the six-year plan adopted by the King County Council in December, 1995. Among other things, the comprehensive plan established a formula for allocating operating subsidies to three subareas within the County, and called for a subarea-based planning process.

The conceptual foundation of the comprehensive plan is dated. For example, the plan was based on at least two assumptions that no longer apply: an extensive light rail system; and additional funding for bus services to be provided to local operators from the regional transit tax. Other considerations now affecting transit planning decisions, such as multimodal efficiency, were not a consideration at the time the plan was developed. Since the comprehensive plan policies guide the six-year plan effort, the County may want to confirm if the plan reflects its vision for public transportation.

Policies affecting transit planning are evaluated in chapter 6.

ALTHOUGH THE TRANSIT DIVISION COMPLIES WITH COUNTY POLICY, COUNTY POLICIES ARE OFTEN IMPOSED WITHOUT DUE REGARD TO TRANSIT

County policy toward transit is effected in several ways: by the strategies that guide the implementation of transit service in the six-year plan; by investment decisions made as part of the financial planning and budget process; and by administrative policies and practices that affect the conduct of everyday business. Our review found that the Transit Division complies with County policy.

County policies that have been specifically formulated for transit appear to be well considered and are generally beneficial in their effect. For example, the financial policies that guide the management of the Public Transportation Fund (PTF), the enterprise fund for transit provide substantial protection against inappropriate uses of the fund, and have instituted sound financial practice for renewal of plant and equipment. Also, the strategies that guide the six-year plan implementation provided fairly clear direction for resource allocation and intergovernmental cooperation. *These policies are explained in chapter 6.*

Policies adopted for the County as a whole, however, can introduce adverse effects on transit cost and effectiveness, even if beneficial to other parts of the County government. Several examples stand out:

- personnel policies, particularly the decision to cut salaries of some middle managers, and the lengthy process to complete the compensation and classification plan;
- procurement policies, particularly the restriction on procurement contracts over one year;
- accounts payable and receiving practices that result in delayed payments to vendors, sometimes resulting in demand for cash on delivery;
- payroll administrative procedures that are unable to deal effectively with the large number of exceptions that are inherent in the drivers' payroll;
- labor policy decisions that weaken the collective bargaining process, such as the FMLA exceptional provisions and proffering fringe benefits to part time drivers;
- transfer of the nonrevenue vehicle maintenance to the County's Fleet Administration Division, and the lack of responsiveness of that function to the seven day, 24-hour operation of the Transit Division; and
- the decision making process for changing or imposing administrative procedures without consulting Division managers.

For the most part, these policies were effected for the sake of consistency within the County, without taking into account special circumstances of a large, logistically complex, labor-dominated transit operation. Although input may be solicited from the Transit Division, this tends to occur near the end of the process. Rarely has the Transit Division participated in the formulation of policies and administrative practices.

There is a tendency within the Executive branch to view transit as just another County function. In fact, transit is the single-largest function in the County government. In 1999, it accounts for 20% of the County operating budget, 27% of its workforce, and 45% of its capital expenditures.

We observed a lack of constructive discussion between the Transit Division, other divisions of the Department of Transportation (DOT), other County departments, and the Executive offices when issues of incompatible or adverse policies and administrative practices are raised. Conflict is most apparent at the staff-to-staff level; concerns are either not elevated to or not resolved by management of the respective divisions and departments.

The Executive branch needs to more carefully consider the impact of broad policies on transit operations. This should include, on a case-by-case basis, the option of exempting transit from county-wide policy, or taking into account transit-specific circumstances in applying county-wide policy.

Additional information on conflicts between County policy and transit operations is presented in chapter 1.

ORGANIZATIONAL CHANGES SINCE THE MERGER HAVE FRAGMENTED TRANSIT MANAGEMENT AND REDUCED ACCOUNTABILITY

Although the County Council-committee structure has greatly improved the focus of the policy-setting process for transit, other organizational aspects of the merger have introduced ambiguity, fostered intra-County intransigence, and diluted accountability for transit program management.

For the two years following the merger, the former Metro organization was left largely intact as the Department of Metropolitan Services. That department was disbanded in 1996, and its functions were integrated with other County departments. The Transit Division became part of the new Department of Transportation (DOT), along with four other divisions: Road Services, Transportation Planning, Fleet Administration, and Community & Administrative Services. Finance and budget functions were relocated to the Department of Finance; some of these subsequently reverted to the DOT (e.g., transit budget, grants).

The creation of the DOT masked the reality that the Transit Division functions much like a stand-alone department. The DOT was created to foster a multimodal approach to transportation, and to consolidate activities where efficient to do so. In fact, the Road Services Division and the Transit Division are unique technical activities, each covering a largely separate geography (Roads focuses on unincorporated areas, transit operates primarily on city streets and state highways). Although the ordinance that created the DOT required a formal report on opportunities to integrate transit and roads functions, a report was not submitted to the Council and no integration has occurred. Also, the DOT exerts little financial control over the Transit Division. The Public Transportation Fund (PTF) is managed by the

Transit Division, and the annual transit budget and capital programs are formulated primarily by Transit Division management.

The creation of a DOT has limited the consideration of transit-specific issues in the balance of the County government. The DOT Director must represent a wide range of transportation issues, and often delegates representation of transit issues to the General Manager of the Transit Division. But the General Manager is not a peer of other department directors, and accordingly his influence is limited.

Management of transit resources, though concentrated in the Transit Division, is distributed among other divisions of the DOT. One consequence of this arrangement is fragmentation of responsibility for executing transit's mission. There is no single entity responsible for: (i) planning transit service and capital programs; (ii) budgeting for these programs; (iii) implementing these programs; (iv) exercising financial control; and (v) monitoring and resolving interdepartmental and intergovernmental issues affecting transit. Although these responsibilities are theoretically the domain of the DOT, the tendency for the Transit Division to function as a stand-alone department creates ambiguity as to who is specifically responsible for these core business activities.

An organizational assessment is presented in chapter 7.

THE SIX-YEAR PLAN SHOULD BE MORE STRONGLY ORIENTED TO MANAGEMENT ISSUES AND THE IMPLEMENTATION OF SERVICES AND CAPITAL PROJECTS

Strategies adopted with the Six-Year Transit Development Plan (SYP) in 1995 provided a good foundation for guiding the development of tactics in the annual budget process, and were particularly valuable given the service expansion that has been implemented in the last three years. The plan has not been updated as intended, however, and the strategies are now out of date. Some elements of the plan — notably capital programs, a management plan, and benchmarks for evaluating success — need to be more specific to provide more effective control.

Responsibility for updating the SYP was transferred from the Transit Division to the Transportation Planning Division. We understand this transfer was intended to support the Executive's increased emphasis on multimodal transportation planning. We believe the SYP should be developed subordinate to the County's multimodal transportation strategy, but should be a distinct effort that is more narrowly focused on the provision and management of transit service. Accordingly it should be developed by the managers in the Transit Division who will be accountable for the plan's implementation.

A more appropriate role for the Transportation Planning Division would be to update the policy basis for the SYP, which is articulated in the *Comprehensive Plan for Public Transportation*. The current comprehensive plan was adopted by the Metro Council in 1993. It is based on assumptions that may no longer be appropriate, it does not have the multimodal emphasis that the Executive desires to achieve, and it may not reflect the vision or priorities of the King County Council. The method proposed by the Transportation Planning Division to update the SYP could be more effectively applied to a comprehensive plan update.

The Six-Year Plan and associated planning and control issues are reviewed in detail in chapter 6.

THE STRUCTURE OF FINANCIAL POLICIES AND PLANS IS ADEQUATE, BUT FORECASTS ARE MATERIALLY INACCURATE DUE TO CONSISTENT UNDER SPENDING OF THE CAPITAL PROGRAM

The financial policies encourage a conservative financial plan and budget, as they protect against downside risks and specify priorities for most uses of discretionary cash. The policies also protect the Public Transportation Fund from paying for non-transit activities — the allocation of general county overhead cost is linked to a specific methodology, and changes to financial policy must be considered by the Regional Transit Committee.

With the exception of the capital program expenditures assumption, all the assumptions in the financial plan are fairly reasonable for the situation that existed when the financial plan that we reviewed was formulated (July, 1998).

The capital improvement program (CIP) is not well-controlled. The fundamental problem is that expenditures, and by inference project implementation, substantially lag the plan. Large, positive variances existed between planned and actual expenditures in each of the three years (1996–1998) that we analyzed. These variances occurred across all constituent programs of the CIP, and across most projects. There is practically no visibility of capital project status. Because the CIP is a large and variable component of the Public Transportation Fund (PTF) financial plan, the inability to predict and control annual capital expenditures makes it impossible to gauge the effectiveness of allocating funds between the operating and capital programs. Correction of these deficiencies should be a priority of the Transit Division. An accurate picture of capital program needs and outlays will be a critical area of policy as the County updates the Six Year Plan.

MANAGEMENT CONTROLS DO NOT PROVIDE ADEQUATE VISIBILITY OF THE EFFECTIVENESS OF SIX-YEAR PLAN STRATEGIES

The Transit Division's system of internal controls provides a consistent basis for monitoring key aspects of its operating programs, including year-to-date performance against annual performance targets. As noted elsewhere in this report, operating performance trends are positive. This is a good indication that the controls system is working and is contributing toward performance improvement.

However, the Division's reporting systems make scant reference to the six-year plan. For example, though the plan had a strong geographic (e.g., three subareas) and service type (e.g., regional, local, community) emphasis, no performance statistics are reported at this level of detail. Also, progress against implementing the elements of the six-year plan is not highlighted in the reports. If the six-year plan is truly the policy basis for much of the Division's programs, the reporting structure needs to provide feedback on how actual outcomes compare to the plan's vision of the future. The current systems place too much emphasis on the annual budget process, and not enough on evaluating the effectiveness of the six-year plan strategies.

RECOMMENDATIONS

The audit recommendations are paraphrased in the tables at the end of this summary.

These recommendations encourage the County to delegate more authority to the transit function. We recommend that transit be a stand-alone department. Transit serves more County residents every day than any other County function. It has unique operational parameters — such as adhering closely to a finely detailed schedule — and poses unusual management requirements. It would form the largest department within the County. We believe that making transit a separate department would result in three important changes:

- it would elevate the priority transit receives in the development of Executive policy;
- it would provide a more direct route for resolving operational problems that span the responsibility of two or more departments; and
- it would sharpen the focus of transportation management to an area where the County has predominant control (transit) from an area where it has comparatively lower standing (multimodal transportation).

This change would take some time to effect, and there are collateral issues to consider (e.g., County-wide transportation planning). In the meanwhile, there are a variety of organizational and policy changes, of limited scope, that are recommended to resolve issues identified in the remainder of this audit report.

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The remainder of the report is comprised of the following chapters:

1. Policy Impacts of the Merger
2. Peers and Trends Assessment
3. Paratransit Operations
4. Demonstration Projects
5. Support Activities
6. Financial Policies, Plans, and Controls
7. Organizational Assessment

The table of contents follows the recommendations presented at the end of this summary.

Summary of Transit Audit Recommendations

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chapter	subtopic	recommendations
1. Policy Impacts of the Merger	—	1.1 The work of the merger transition teams that produced the assessments of the policies and procedures of the County and Metro should be revisited, and teams of Metro and county administrative managers should work to determine the best means of reconciling county policies and real transit needs where they conflict. 1.2 The County should expand the application of the Personnel Forum model to improve interdepartmental communications on matters related to centralized administrative services. 1.3 The County should improve the communication of its policies to the Transit Division. 1.4 The County should revise its ordinance that limits purchase contracts to one year in duration, so that multi-year contracts can be let when it can be reasonably anticipated to result in cost savings.
2. Peers & Trends Assessment	—	2.1 Metro Transit should establish a process for annually reviewing its performance against a peer group, using a set of performance measures similar to those used in this report.
3. Paratransit Operations	—	3.1 The Accessible Services staff should develop productivity performance measures and include these standards for both the operating contractors and the call center contractors. 3.2 The call center goal for passengers per service hour scheduled should be higher than the target number for passengers per vehicle service hour (trips actually delivered) since cancellations and no shows will reduce the 3.3 A simple formula should be used to determine the target for scheduled passengers per hour that will yield the desired passengers per vehicle service hour. 3.4 The Accessible Service staff should work with the contractors and develop a solution to the conflicting impact of the 30 minute window for scheduled pickups and the five minute deadline for users to be on-board the
4. Demonstration Projects	—	4.1 The County should organize its current and future "demonstration projects" under a set of policies and definitions that gives structure and purpose to the collection of activities as a whole, and to the role of individual projects within the overall program. 4.2 The County should implement a management process for the demonstration program that address each step in the life of a demonstration project, culminating in a decision about a project's disposition. 4.3 The County should establish a project monitoring process that includes reports of the status of each active demonstration project.

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chapter	subtopic	recommendations
5. Support Activities	**Overhead Costs**	5.1 The County should implement one integrated accounting system as soon as possible.
		5.2 Metro Transit should revise the presentation of the auditor's report to be more consistent with the NTD reports with regard to the presentation of general administration expenses.
		5.3 Metro Transit should discuss with its external auditor the issue of materiality when the external auditors compare the operating expenses submitted in the NTD reports with audited financial data.
	Human Resources	5.4 The OHRM should establish the Transit Division as a primary client of its services and policies.
		5.5 The compensation-classification study should be expedited and concluded at the earliest possible date.
	Information Systems	5.6 King County ITS and the Transit Division should jointly develop and maintain one document that clearly delineates the functions and responsibilities between the two organizations.
		5.7 The County should expand its role in some generic functions currently performed by the Transit Division.
		5.8 ITS should take a more comprehensive and active role in establishing and monitoring County-wide information technology policies and procedures.
		5.9 The County and Transit Division should establish mutually agreed upon quality and performance measures and goals for all functions provided by the County for the Transit Division.
	Transit Technology	5.10 The Transit Division, in cooperation with ITS, should develop a comprehensive strategic information systems plan that describes goals and direction for information technology.
		5.11 The Transit Division should closely participate in the implementation of the new financial and payroll systems.
6. Financial Policies, Plans & Controls	**Financial Policies**	6.1 The County should adopt a financial policy for the PTF that explicitly links the capital program in the six-year plan to the capital project appropriations process.
		6.2 The Council should adopt a policy for the PTF that articulates a strategy for the acquisition of capital grant
	Financial Plan Assumptions	6.3 Improve the value of the financial plan as a communications tool.
	Resource Allocation	6.4 The Transit Division should confirm the allocation of new service subsidies, based on the subsidy requirements of the services implemented since 1995.
	Capital Improvement Program	6.5 Revise the project appropriations process to include separate authorization and appropriation steps.
		6.6 Centralize capital program management for construction projects.
		6.7 Report schedule and cost adherence on a regular basis.
		6.8 Perform post-implementation and in-process reviews of capital projects.
	Finance & Budgeting	6.9 Financial planning and budget functions should be consolidated in a single section within the Transit Division, under the direction of a manager.
		6.10 The new Financial Planning and Budget section should develop a new format for the annual operating and capital budget that links expenditures to the Six-Year Plan.
		6.11 Grant administration activities should be relocated to this section from the DOT's Transportation Planning

Summary of Transit Audit Recommendations

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chapter	subtopic	recommendations
6. Financial Policies, Plans & Controls, cont'd.	**Internal Controls & Performance Monitoring**	6.12 Modify the performance controls system to measure the effectiveness of six-year plan service strategies and to report progress toward implementation of the capital program.
		6.13 Modify the Top Tier Indicators report to include additional performance measures for bus, paratransit, and vanpool services.
		6.14 All program- or project specific action items should be reported in a planned versus actual format, and should identify the responsible manager.
	Six-Year Planning Process	6.15 Focus six-year plan efforts on a business plan for King County Metro Transit.
		6.16 Expand the capital program element of the Six Year Plan.
		6.17 Transfer responsibility for the Six year Plan and annual Transit Development Plan updates to the Transit
		6.18 Integrate the service evaluation system with the geographic and service-type breakdowns of the six-year plan.
7. Organizational Assessment	—	7.1 The County should create a separate Transit Department that is authorized to manage all transit programs and implement all County policies that are transit-specific.
		7.2 A new Finance and Budget Section should be created in the office of the General Manager, with responsibility for developing and overseeing conformance with financial plans and budgets.
		7.3 The General Manager and his staff should be responsible for the development and implementation of the Six-Year Plan, in partnership with the other transportation department officials.
		7.4 The General Manager should be responsible for identifying and leading the resolution of interdepartmental support problems, working with the appropriate administrative division managers.
		7.5 The General Manager should have a staff assistant who is an expert in county administrative procedures, whose job should be to lead the technical effort to resolve these issues.