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# Port Authority Bus Service Is Very Costly Compared to Peer Agencies

**Summary:** Like Pittsburgh's city government and the Pittsburgh Public school district, the Port Authority of Allegheny County (PAAC) is very costly compared to its peers. Unfortunately, PAAC and the school district depend heavily on state funding to finance their expensive operations.

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Notwithstanding PennDOT's performance review of 2016 that let PAAC off easy through its choice of a so called "peer" group of agencies for cost comparisons, PAAC has dreadful cost numbers compared to areas of comparable size and cost of living. PennDOT deemed several cost measures "in compliance" because they were within one standard deviation of the average cost measure of 14 agencies in the peer group (13 plus PAAC). However, when the group is made more comparable by eliminating two high cost of living areas and PAAC itself to get a better measure of true peer average, the picture is very different from the one PennDOT creates.

Included in the peer group of 14 agencies is Alameda County transit, where the service area's cost of living is 34 percent higher than Pittsburgh, and Santa Clara transit where the area's cost of living is 36 percent higher than Pittsburgh. Removing Alameda and Santa Clara as well as PAAC from the peer group average calculations yields quite different results (PennDOT used 2014 data because it was the latest available).

For example, the cost per revenue hour of bus service for PAAC was very high at $186 compared to the average of $136 for the 14 agencies but even higher than the $123 average of the 11 better peer group agencies. While PennDOT did note that PAAC was "at risk" on the measure, the better conclusion would have been "out of compliance." Then too, PennDOT determined that PAAC was "in compliance" on cost per passenger trip at $5.18 compared to the 14 transit group average of $4.45 because adding the standard deviation to that figure put the allowable compliance number at $5.58. But for the 11 agencies the average per rider cost was only $4.06 with a standard deviation of only $0.72 making PAAC's cost per bus trip well above "in compliance."

Moreover, 2016 data comparing PAAC to five comparable peer transit agencies (Milwaukee, San Antonio, St. Louis, Columbus and Charlotte) show PAAC to be far more costly on several metrics. All data unless otherwise noted are from the National Transit Database. Key measures are shown in the following table.

| | Five-agency average | PAAC | % Difference |
|---|---|---|---|
| Operating Expense per Passenger Trip | $4.56 | $5.62 | 23 |
| Operating Expense per Revenue Mile | $8.24 | $14.46 | 75 |
| Operating Expense per Revenue Hour | $106.46 | $189.69 | 78 |
| Total Expense per Revenue Hour | $124.95 | $224.44 | 80 |

Obviously, these statistics point to large differences in PAAC's cost of bus service compared to the peer group. The gaps between PAAC's costs per revenue mile and per revenue hour and the costs at the five peer agencies are 75 percent and 78 percent, respectively. In 2016, PAAC posted just under 1.6 million revenue hours of operation. If PAAC had the same expense per revenue hour as the peer group, its operating expenses for buses for that year would have been $169.1 million, or $132.4 million below the $301.4 million PAAC actually incurred in bus operating expenses. The operating expense per revenue hour should be considered the best cost measure since that is the fundamental cost of providing the service.

PAAC has the good fortune of having a higher number of passengers per revenue hour than the group average, 33.8 compared to 23.3, a difference of 45 percent. This accounts for the fact that the operating expense per passenger trip at PAAC is only $1.06, or 23.2 percent, above the group average. This ratio is viewed by some analysts as a good measure of efficiency. But clearly the operating cost per hour is a far better way to compare agencies. Even with the much smaller gap of cost per trip relative to the peer group, if PAAC had operated at the group average it could have saved $56.6 million in annual bus operating expenses.

A principal cause of the dramatically higher operating expense at PAAC is the compensation levels of employees providing the bus service, especially fringe benefits. In 2016, the wage and salary expense per passenger trip for the peer group was $2.00 while PAAC's stood at $2.29. The benefits expense per trip was $1.44 for the peer group and $2.15 at PAAC, a gap of 49 percent.

More troubling are the enormous differences in employee expense per revenue hour. For the peer group, the wages and salary costs per revenue hour averaged $46.87 and $77.32 for PAAC, a gap of $30.45. And for fringe benefits per revenue hour the peer group was $33.72 with PAAC at $72.76, a gap of $39.04 or 116 percent.

The fringe benefits problem at PAAC began to explode in the early 2000s. In 1998, benefits stood at $44.6 million (data from PAAC budget documents) while wages and salaries were $97.7 million, resulting in a benefit to wage and salary ratio of 45.6 percent. By 2006, the ratio had risen to 69 percent and by 2012 to 100 percent. During the period from 1998 to 2012, annual benefits for bus operation employees rose by $69 million while wages and salaries climbed a much smaller $16.2 million. As of 2016 the ratio had slipped a bit to 94 percent as wages increased faster than benefits, partly as a result of adding employees following substantial job cuts in preceding years.

Bear in mind that during the period from 2006 to 2013, PAAC reduced revenue hours and revenue miles of service by 30 percent accompanied by significant employee layoffs. And even with the service cuts and layoffs that began in earnest in 2008, it took several years of cuts to stop the rise in operating costs which finally fell in 2012 and again in 2013 at the nadir of revenue hours operated.

Note that with the passage of Act 89, PAAC is now guaranteed a dedicated generous flow of revenue from the state. Act 89 mandates that $420 million of the $450 million provided annually by the Turnpike Commission to PennDOT (as ordered by Act 44) be transmitted to the state's transit systems. As soon as the guaranteed revenue was in hand, PAAC began to increase bus service and add employees even though passenger counts had not improved as of 2016. Sadly, the operating expense reductions achieved through slashing service are now a thing of the past with annual expenses rising $30 million from 2013 to 2016.

One can only speculate when the state's dedicated support of transit systems—at the expense of Turnpike users—will no longer be adequate to satisfy the voracious appetite for money PAAC has exhibited over the years. And if the truckers' association wins its suit against the Turnpike that stops or rolls back tolls, the state will once again be looking for sources of revenue to subsidize mass transit. As *Policy Brief* (*Vol. 17, No. 38*) noted earlier, the transportation funding scheme in Pennsylvania is a misguided mess.

Bottom line: PAAC's board of directors needs to nip in the bud the return of PAAC's spendthrift ways, especially in light of its already extraordinarily high operating costs.

**Jake Haulk, Ph.D., President**



Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org