Annual Report to the Legislature:

Waiver from Provisions of Sections 52-55 of Chapter 7 of Massachusetts General Laws

September 1, 2018
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I. Executive Summary: A more effective MBTA

Following the MBTA’s systemic collapse in the winter of 2015, the General Court granted the Authority a three-year exemption from the requirements of sections 52 to 55 of Chapter 7 of the General Laws, commonly known as the Pacheco Law.

This report fulfills the statutory requirement that the MBTA file an annual report providing details about “service contracts and procurement contracts executed pursuant to this section,” including contract terms and anticipated or actual cost savings.

The purpose of the waiver was to advance the system’s performance by introducing best practices and innovations. The selective and careful use of the waiver has proved to be an important tool to help transform the MBTA, yielding fundamental improvements including significant cost savings, increased efficiencies, and better performance.

Improved performance requires a solid fiscal foundation. The waiver not only resulted in a projected savings of more than $450 million over ten years, but it helped the MBTA achieve its first balanced operating budget in a decade and provided greater internal accountability and managerial capacity to identify and resolve problems in the years to come.

Flexible Contracting: Driving Savings through outsourcing and internal labor productivity

The benefits from the waiver extend well beyond actual and projected operating dollars saved. The waiver enabled the MBTA to issue Requests for Information and Requests for Proposals for certain in-house operations and services that could lend themselves to private partnerships. Just the process of developing these RFIs and RFPs has required the Authority to comprehensively review entire business processes from beginning to end. Even when it does...
not result in outsourcing, the availability of the waiver has caused the Authority – and its unions – to examine and rethink internal processes and operations in ways that had rarely, if ever, happened before. As a result of the waiver, the Authority was able to negotiate new collective bargaining agreements with its two largest unions that resulted in fundamental work rule and other reforms. The contract with Carmen’s Local 589 alone will lead to 10-year savings of about $218 million.

Other savings and improved operations achieved under the waiver include:

- **Contract for Third Party Administrator**
  - The review process for requests under the Federal and Family Leave Act (FMLA) has been streamlined, leading to an 82 percent reduction in FMLA requests;
  - Bus supervisors no longer have to field calls about employee absences;

- **Cash Collection and Processing**
  - Annual costs for the contract with vendor Brink’s is about 75 percent less than what the T was spending in fully loaded annual costs to collect and process cash;
  - The MBTA will save $96 million over the next decade;
  - Actual costs for Brinks in FY2018 are almost 15 percent lower than budgeted costs.
  - Better security and far greater transparency now in place in cash collection and processing.

- **Warehouse and Logistics**
  - The time to deliver parts has been drastically reduced, with 90 percent of parts now received by 10 a.m. the day after the part is ordered, helping to keep buses on the streets rather than out of service in repair yards;
  - Materials from the Everett and Charlestown warehouses have been moved and consolidated into a brand new central warehouse in Stoughton, built by the vendor.

- **Customer Service Call Center**
  - The outsourced call center has expanded weekday hours and provides customer service on weekends, which had been discontinued with the MBTA’s in-house Customer Communication Center due to budgetary pressures;
  - Even as it significantly improves service for customers, the MBTA is spending nearly two-thirds less in annual costs for the service.
• **Customer Service Agents Program**
  o The contract is expected to save the Authority about $4 million a year while delivering significantly more service to customers;
  o Compared to pre-contract program operated internally by the MBTA, the contract has led to additional service hours in stations and significantly increased weekend coverage.

• **Police Dispatch**
  o Rather than sitting in dispatch center, 11 transit police officers have been able to return to full-time system patrol;
  o Police overtime costs have declined.

• **Automated Fare Collection (AFC) 2.0**
  o Anticipated savings to the T of $13 million over ten years;
  o AFC 2.0 will improve the customer experience by standardizing payment methods across all modes, reducing vehicle dwell time, allowing greater flexibility in future fare policy, and permitting additional integration across modes;
  o The Authority will be able to hold the contractor to clear performance standards.

As these examples illustrate, the exemption from the Pacheco requirements has enabled the Authority to make significant improvements by enabling a careful, deliberate and transparent process to understand internal costs and test the market for more cost effective ways to better serve MBTA customers. Going forward, the MBTA will continue to work to improve its internal productivity and cost-effectiveness and to carefully consider opportunities to partner with the private sector to better serve the customers and communities that rely on the T.
II. Overview: The purpose of the waiver was to advance performance, not privatization

The MBTA’s overriding goal is improved performance. Whether from its own dedicated workforce, from contracts with vendors (pre-existing or under the waiver), or from better internal business processes, the Authority must constantly aspire to – and manage for – better and more consistent performance.

The MBTA still has much to do to achieve the levels of service and performance riders need and deserve. But today, the Authority is in a much better place than it was three years ago. The Pacheco waiver is one major reason why, enhancing the Authority’s institutional capacity in several ways that will last well beyond the waiver itself.

1. The waiver was an important tool for the MBTA to achieve a balanced FY2018 operating budget.

   Improved performance requires a solid fiscal foundation. Direct and indirect cost savings due to the waiver helped place the Authority on a much firmer fiscal footing. FY2018 marked the first time in a decade that the T was able to balance its operating budget.

2. The option to privatize transformed the relationship between the Authority and its unions, precipitating a new level of engagement.

   Even as the Authority considered testing the market for a certain service or operation, it also undertook internal management initiatives and negotiated with MBTA unions to identify ways to achieve similar savings utilizing the MBTA’s own workforce. One result was the landmark 2016 agreement with Carmen’s Union Local 589, which achieved a key union goal of safeguarding certain jobs of Local 589 members while enabling the MBTA to obtain substantial savings on operating costs and, more importantly, to secure work rule and other reforms. Because of this agreement, for example, the MBTA now has the flexibility it needs to provide alternative service to riders during major construction projects. The MBTA has used this new capability multiple times.

   Another equally important result of this waiver-induced engagement was the agreement with Machinists Local 264, which similarly secured work rule reforms and set the stage for long-needed productivity improvements.
3. **The MBTA now has much greater internal accountability and managerial capacity to improve business practices.**

The waiver gave the Authority the option to choose between fixing broken processes internally or to turn to the private sector for solutions. To properly make this choice required the MBTA to lay out a data-driven business case, evaluating the pros and cons of contracting out a service or operation. This process included documenting whether the Authority’s own business processes could be internally improved to achieve target levels of efficiency and productivity determined by looking at industry best practices. The process also considered whether partnering with private companies could provide deep expertise and/or modern technology.

For example, the T had longtime problems with its cash processing and collections process. Having the flexibility to outsource gave the T an opportunity to correct and resolve this long-standing “money room” problem. But before it could proceed with a Request for Information (RFI) to get the advice from industry experts about best practices, the MBTA first had to conduct a comprehensive, top-to-bottom review and assessment of its own cash procedures and compare them to service levels achieved in the private sector. Only then was an RFI issued, with responses providing the MBTA and the FMCB with the necessary information to determine which, if any, response to pursue. In the case of cash processing, MBTA management and the FMCB determined that Brinks’ proposal was compelling.

4. **The enhanced contract procurement and management capacity enables the MBTA to better develop and enforce all contracts, waiver-related or not.**

One important lesson of the last three years, illuminated but not caused by the Pacheco waiver, is that the MBTA needs to continue to improve its capacity to monitor and manage its external contracts. In many cases, poor performance by a vendor, which can directly affect customers, may be the direct result of poor procurement and/or contract management. With or without the waiver, the Authority needed to accelerate efforts to improve contract management. The Authority has now hired new personnel and is changing its procurement and vendor management processes to insure that contracts are more properly developed, issued, and enforced.

The MBTA has partnered with the private sector for decades. The number of contracts issued under the waiver represents just a tiny fraction of the thousands of contracts between the MBTA and private vendors for a wide array of services to support operations, including human resources, financial management, procurement, information technology and communications, marketing and advertising, and real estate
management. In some cases, including commuter rail, The RIDE, ferries and several bus routes, service delivery itself is contracted out. This model is not unique to the MBTA; all Regional Transit Authorities (RTAs) contract out their bus operations and most contract out maintenance as well.

The waiver forced the Authority to conduct an overdue deep dive into its own contracting and procurement processes. Even with the waiver expired, those better business practices and new procurement talent remain in place to help the MBTA better manage all contracts with vendors.

In short, the MBTA did not use the waiver from the Pacheco Law to privatize for the sake of privatization; the goal was to improve performance by introducing best practices and innovations to advance performance. As a result, the Authority now has much-improved capacity to both diagnose and correct failings, whether those of its vendors or those of its own making.
III. A new relationship with major MBTA unions

The majority of the financial savings achieved by having the waiver stemmed from bargained agreements with T unions. Through the waiver period, the Authority was clear that its goal was productivity improvements driving cost reductions. These can be achieved either by the public workforce or by the private sector. Even a cursory review of the Authority’s collective bargaining and binding arbitration history shows that before privatization was an option, little progress was made.

The waiver led to the landmark agreements with its two largest unions. These agreements, which benefit both union members and system users, would not have been possible without the leverage of testing the market for private sector services.

Carmen’s Union Local 589 Agreement

Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Wavier</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>Legacy CBA: Run Rate Costs</td>
<td>New CBA: $217.9M total savings over 10 years</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td><img src="inefficient-work-rules" alt="X" /></td>
<td>+ Work rule reform including 10 hour shifts</td>
</tr>
<tr>
<td></td>
<td><img src="unsustainable-wage-structure" alt="X" /></td>
<td>+ Reduces wage growth, new progression tables</td>
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<tr>
<td></td>
<td><img src="lack-of-overtime-controls" alt="X" /></td>
<td>+ 40Hr work week trigger for OT eligibility</td>
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<td></td>
<td><img src="limited-workweek-flexibility" alt="X" /></td>
<td>+ 4-day workweeks improve scheduling</td>
</tr>
<tr>
<td></td>
<td><img src="paper-based-picking-and-scheduling" alt="X" /></td>
<td>+ Adoption of modern technology</td>
</tr>
<tr>
<td></td>
<td><img src="antiquated-payroll-technology" alt="X" /></td>
<td>+ Adoption of state payroll system</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td><img src="disagreement-on-garage-expansion" alt="X" /></td>
<td>+ Written agreement on expansion rights</td>
</tr>
<tr>
<td></td>
<td><img src="disadvantageous-CBA-pattern" alt="X" /></td>
<td>+ New pattern for other CBA negotiations</td>
</tr>
</tbody>
</table>

Highlights:

- The agreement aligns the rate of wage growth for Local 589 members with the MBTA’s overall rate of revenue growth;
- The pact marks the first substantial changes to work rules that have been in place since 1913;
- The agreement allows for private contracts for bus diversions in support of capital projects, allowing the Authority to schedule multiple projects simultaneously and thus accelerate achievement of a State of Good Repair;
• This provision allowing private bus companies for such diversions has been used during major projects, including replacement of the Beverly drawbridge, installation of Positive Train Control on commuter rail, and replacement of the Commonwealth Avenue Bridge, including Green Line track and power improvements and major rehabilitation of the Wollaston Red Line station;
• The agreement enables additional innovation and future partnering with the private sector;
• The contract set a new pattern for negotiations with other MBTA unions.

Machinists Local 264 / Bus Maintenance
The MBTA’s internal analysis of its bus maintenance activities, backed by independent assessments, found that the MBTA’s costs on a per-vehicle-mile basis were more than twice the national average for comparable transit systems. The challenge was to reduce costs without undermining the Authority’s high level of bus maintenance.

Waiver-related Action:
The Fiscal and Management Control Board directed the MBTA to pursue a three-part approach to reducing bus maintenance costs. The first part of this approach – which was the FMCB preference – was to achieve cost savings and productivity improvements through negotiations with the unions representing MBTA bus maintenance employees. The second approach was to enhance productivity through internal management initiatives, including streamlining staffing levels and modernizing business processes. The third component was to test the market by issuing an RFP seeking bids from private sector leaders to improve bus maintenance productivity while providing safe and reliable service.

Pursuant to that third component, the MBTA issued an RFP on July 21, 2017, seeking proposals from vendors to provide maintenance of MBTA-owned buses at up to three of the MBTA’s nine bus maintenance facilities (Arborway, Quincy, and Lynn).
Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>L264 CBA: Run Rate Cost</td>
<td>New L264 CBA: $61M total savings over 10 years</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>X Inefficient work rules</td>
<td>+ Work rule reform including 10 hour shifts</td>
</tr>
<tr>
<td></td>
<td>X Unsustainable wage structure</td>
<td>+ Reduces wage growth, new progression tables</td>
</tr>
<tr>
<td></td>
<td>X Lack of overtime controls</td>
<td>+ 40-hour work week trigger for OT eligibility</td>
</tr>
<tr>
<td></td>
<td>X Lack of standard repair times</td>
<td>+ Implementation of standard repair times</td>
</tr>
<tr>
<td></td>
<td>X Limited workweek flexibility</td>
<td>+ 4-day workweeks to improve scheduling</td>
</tr>
<tr>
<td></td>
<td>X Unclear career pathways</td>
<td>+ Improved career pathway for junior FTEs</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>X LEAN approach stalled at garages</td>
<td>+ LEAN approach adopted by mgmt. and labor</td>
</tr>
<tr>
<td></td>
<td>X Disagreement on garage expansion</td>
<td>+ Written agreement on expansion rights</td>
</tr>
<tr>
<td></td>
<td>X CBA not in pattern with L589 deal</td>
<td>+ Adopts pattern in new L589 CBA</td>
</tr>
</tbody>
</table>

Highlights:

- The new contract with Machinist Local 264, which represents most bus maintenance employees, will save the Authority about $61 million over ten years through work rule and other reforms, including:
  - No overtime until 40 weekly regular hours worked;
  - Requirement to earn ASE (Automotive Service Excellence) certification to become a mechanic;
- The agreement sets the stage for management and labor to achieve further savings and productivity improvements;
- The combination of this collective bargaining agreement, along with a series of unilateral changes by management to reduce costs and improve bus maintenance productivity, led the Authority to conclude that it was no longer necessary to contract out bus maintenance.
IV. Contracts pursued under the waiver

Third Party Administrator

Problem:
The Governor’s Special Panel in 2015 found that excessive absenteeism was causing substantial overtime costs and was contributing to the cancellation of tens of thousands of bus trips annually. The FMCB called for the MBTA to audit employees’ use of FMLA. The audit led to a series of corrective internal steps, including better training and a new attendance policy that became effective in January 2016. While these measures helped to improve leave management at the MBTA, the Authority lacked sufficient internal capacity to properly manage and oversee leave and attendance policy.

Waiver-related Action:
An RFP for a Third Party Administrator (TPA) to review and improve leave and attendance policies, manage leaves and operate an employee call center was the first to be issued pursuant to the waiver. On May 13, 2016, the MBTA signed contract with UPMC WorkPartners for three years with a one-year option at an annual cost of about $750,000. Among other things, the contract requires:

- A centralized 24/7 Absence Call Center, providing easy self-service access for employees using multiple media and real-time notification of employees’ supervisors;
- Detailed information collection and data management on attendance history and medical documentation;
- Legal compliance for federal and state leaves in addition to relevant MBTA policies;
- Rigorous absence case management.

While the contract terms have not changed since 2016, the MBTA did issue a change order to include the types of leaves that qualify for the Commonwealth’s Earned Sick Time benefit. The budgeted cost of the contract for FY2019 is $800,000.
Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>X Inconsistent eligibility screening</td>
<td>+ Consistent screening under the law</td>
</tr>
<tr>
<td></td>
<td>X Inadequate documentation requirements</td>
<td>+ Medical documentation enforced</td>
</tr>
<tr>
<td></td>
<td>X Poor case management</td>
<td>+ Active, real-time case management</td>
</tr>
<tr>
<td></td>
<td>X Abuse of FMLA and ADA</td>
<td>+ Monitoring of FMLA and ADA usage</td>
</tr>
<tr>
<td></td>
<td>X Inadequate re-certification process</td>
<td>+ Managed re-certification process</td>
</tr>
<tr>
<td></td>
<td>X Poor data tracking</td>
<td>+ Accurate data tracking</td>
</tr>
<tr>
<td></td>
<td>X Untrained staff oversight</td>
<td>+ Trained and highly responsive staff</td>
</tr>
<tr>
<td></td>
<td>X Long backlog of unprocessed cases</td>
<td>+ Tightly managed case backlog</td>
</tr>
<tr>
<td></td>
<td>X No central call center for case mgmt.</td>
<td>+ Centralized 24/7 call center</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>X Enforcement distracted operations staff</td>
<td>+ Operations staff focus on performance</td>
</tr>
<tr>
<td></td>
<td>X Hindered ability to plan and staff routes</td>
<td>+ Improved ability to plan and staff routes</td>
</tr>
<tr>
<td></td>
<td>X Impaired customer service</td>
<td>+ Opportunity to improve customer service</td>
</tr>
</tbody>
</table>

Highlights:

- Between the FY2017 high of 9,851 requests and FY2018 – the first full year of UPMC administration - the total number of FMLA requests fell 60.5 percent;
- UPMC has streamlined the review process for FMLA requests, leading to an 82 percent reduction in requests that were still pending approval at the end of FY2018;
- More rigorous scrutiny of requests, increased capacity to review and evaluate requests, and a better understanding of FMLA regulations have led to an increase in FMLA denials;
- UPMC has streamlined the review process for FMLA requests, leading to an 82 percent reduction Bus supervisors no longer have to field calls about employee absences so they can actively maintain their focus on operations and performance;
- Employees have access to real-time information on their leave balances and application status of any pending leaves; they can now make a single call for all unscheduled time-off;
- UPMC is helping the MBTA better understand the full range of rules and regulations associated with FMLA, as well as patterns of FMLA absence among employees;
- Reductions in absenteeism — FMLA-related or not — mean fewer dropped bus trips, which inconvenience riders.

The MBTA still faces issues with FMLA-related and other employee absences, which can lead to occasional inconvenience to customers, such as dropped bus trips due to lack of operators.
While these problems are occurring independently of the TPA contract, MBTA management and the TPA are making progress on solutions.

**Total FMLA Requests (FY15-FY18)**

![Total FMLA Requests Bar Chart](image)

**Total FMLA Requests Pending (FY15-FY18)**

![Total FMLA Requests Pending Bar Chart](image)

**Total FMLA Request Denials (FY15-FY18)**

![Total FMLA Request Denials Bar Chart](image)
Cash collection and processing

Problem:
Outside agencies had long documented serious problems with the MBTA’s cash collection and counting operations. In September 2012, for example, a report from the State Auditor on the MBTA’s automated fare collection system found, among other things, that actual cash fare box receipts deposited between July 1, 2006 to June 30, 2011 were $123.8 million while the system software recorded $225.5 million in fare box cash receipts, a variance of nearly $102 million. Despite occasional efforts to resolve problems, the Authority’s cash collection and counting process remained inefficient, ineffective, and unsafe for employees. Moreover, cash collection operations diverted time and resources away from more critical customer-facing priorities and core transit functions. Even with the history of problems, the MBTA had never conducted a comprehensive, top-to-bottom review and assessment of its cash processing operation and procedures. Rather, the Authority remained one of the few major public or private institutions to handle and process their own cash; most have instead turned that sensitive function over to market leaders with proven capacity.

Waiver-related Action:
Based on information provided to it by a team of outside experts and MBTA staff, the FMCB authorized an RFP on July 22, 2016. On October 6, 2016, the FMCB voted to award a two-year, $7.2 million contract to Brinks Inc., with the option for three additional one-year contracts. The total value of the five-year agreement is $18.7 million.

Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>Fully Loaded MBTA Cost: $11.8M (FY16)</td>
<td>Brinks Cost: $3.1M (FY18)</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>X Unreliable cash reconciliation</td>
<td>+ Daily cash reconciliation</td>
</tr>
<tr>
<td></td>
<td>X Unsafe working conditions</td>
<td>+ Secure Brinks facilities</td>
</tr>
<tr>
<td></td>
<td>X Inefficient armored truck routes</td>
<td>+ Efficient Brinks run truck routes</td>
</tr>
<tr>
<td></td>
<td>X Unproductive staffing levels</td>
<td>+ Efficient staffing levels</td>
</tr>
<tr>
<td></td>
<td>X Technology and IT challenges</td>
<td>+ Best in class technology</td>
</tr>
<tr>
<td></td>
<td>X No Service Level Agreements</td>
<td>+ Contract with SLAs and penalties</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>X Non-transportation use of real estate</td>
<td>+ Real estate flexibility for core mission</td>
</tr>
<tr>
<td></td>
<td>X Capital costs for armored trucks</td>
<td>+ Capital available for core system</td>
</tr>
<tr>
<td></td>
<td>X Capital costs to maintain “secure” site</td>
<td>+ Capital available for core system</td>
</tr>
<tr>
<td></td>
<td>X Poor revenue visibility</td>
<td>+ Revenue visibility for CFO</td>
</tr>
<tr>
<td></td>
<td>X Veteran bus operators off the street</td>
<td>+ Veteran bus operators serving customers</td>
</tr>
</tbody>
</table>
Highlights:

- The annual cost of the Brinks contract is about 75 percent less than what the MBTA was spending in fully loaded annual costs to collect and process cash;
- The Brinks contract has improved cash collection efficiency and reduced the time from collection to deposit by eighty percent;
- Actual costs under Brinks in FY2018 are almost 15 percent lower than budgeted costs;
- MBTA employees who did back-room cash collection and processing are now able to perform more directly customer-facing tasks, and capital dollars that the MBTA would have had to spend to upgrade its own “money room” are instead going to more core system improvements;
- MBTA employees no longer face risks to personal safety that existed under the former, Authority-operated system;
- Historically, the MBTA had been unable to reconcile how much cash (mainly from fares) employees collected across the system with how much was deposited in the bank. Brinks now provide a daily reconciliation report.

Cash Collection and Handling Costs, MBTA vs Brinks

Hours to Collect and Deposit Cash, MBTA vs Brinks
Warehouse and Logistics

Problem:
A 2015 external review of the productivity and performance of MBTA warehouses and logistics operations revealed a completely broken system with standard business practices that were either not in place or properly followed. These shortcomings had a direct impact on riders: broken vehicles accounted for about one in five dropped bus trips, and missing parts and long wait times for parts were a major factor in why trips were dropped. Among other things, the analysis found:

- At about 56 percent, the MBTA’s inventory accuracy was egregiously below the industry standard of 99 percent accuracy;
- Inventory management programs, procedures, and policies were not effectively managed or executed. In fact, the T had not executed a full physical inventory for over 15 years;
- The average time to deliver parts was 68 hours from time of order to time of delivery.

Waiver-related Action:
These inefficiencies suggested that there were limitations within the MBTA that would continue to affect services unless immediate action was taken to bring warehouse operations up to a minimum level of service. On January 9, 2017, the FMCB approved a five-year contract with Mancon, Inc. to manage the MBTA's warehouse operations and staff a portion of the stock rooms in MBTA carhouses and bus garages.

Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>Fully Loaded MBTA Cost: $12.1M (FY17)</td>
<td>Mancon Cost: $7.1M (FY18)</td>
</tr>
</tbody>
</table>
| Direct Benefits    | X Poor inventory accuracy  
X Unorganized storage process at garages  
X Central warehouse in disrepair  
X Slow and unreliable parts delivery  
X No emergency parts delivery  
X Limited warehouse coverage  
X No standard business processes | + Dramatically improved inventory accuracy  
+ Organized and standardized processes  
+ New, modern central warehouse  
+ Predictable and vastly improved delivery  
+ Two-hour emergency delivery service  
+ 24/7 warehouse coverage  
+ Standard business processes in place |
| Indirect Benefits  | X Poor parts mgmt. leads to dropped trips  
X Limited mechanic productivity  
X Funds tied up in excess inventory  
X Capital funds required to repair facilities  
X Limited accountability for managers | + Improved parts mgmt. support uptime  
+ Aid standard repair time implementation  
+ Funds available for core system  
+ Capital available for core system  
+ Support LEAN culture |
**Highlights:**
Working with the vendor, problems that came with this complex transition are being resolved and this year has seen a significant push to complete the transition of MBTA warehouse operations to a fully functional third party. The partnership has led to several significant improved efficiencies in warehouse and maintenance operations:

- The time to deliver parts has been drastically reduced – currently, 90 percent of all parts are received by 10:00 am the day after a part has been ordered;
- Materials from the Everett and Charlestown warehouses have been moved and consolidated into a brand new central warehouse in Stoughton;
- The new central warehouse is undergoing a full wall-to-wall count of all inventory locations, a task that previously could not be done due to the condition of inventory records. Inventory accuracy averages have increased from 57 percent to about 80 percent from February 2018 to May 2018;
- A protocol for cycle counting base location stock rooms was developed, standardized and implemented across locations;
- The logistic and supply chain team has been reorganized to accommodate better integration with the project operations team.

**Warehouse Inventory Accuracy**

![Warehouse Inventory Accuracy Chart](image)

- Everett warehouse, pre-Mancon, 2/6/17
- Everett warehouse, Mancon, 2/21/17
- New Stoughton warehouse, Mancon, 7/2018
Customer Service Call Center

**Problem:**
From FY2013 to FY2016, the volume of inquiries to the MBTA’s Customer Communication Center, which records, communicates, and resolves customer complaints, fell by 25 percent. At the same time, however, the cost to operate the in-house operation rose by six percent. When the MBTA received an innovative proposal from an outside vendor to provide call center services similar to or better than those being performed internally, the FMCB pursue it.

**Waiver-related Action:**
A RFP issued in December 2016 generated eight responses. Four bidders were interviewed and pricing was opened for two bidders. On May 1, 2017, the FMCB authorized the MBTA to enter into final contract negotiations with Global Contact Services (GCS) to run MBTA customer contact operations. A $5.8 million contract for three years plus two one-year options was signed with GCS on June 1, 2017.

GCS agreed to transition its two separate MBTA services (call center and RIDE dispatch service) due to changes on the RIDE side of GCS’ business. The need to select a new vendor was unrelated to GCS’ performance as the call center operator. Three bidders responded to the MBTA’s Request for Proposals. On June 1, 2018, the MBTA entered into a new contract with Exela Technologies.

Because of their experience with the initial GCS contract, MBTA staff were better equipped and prepared to enter into a renegotiation process for the transfer of the contract to a new vendor. Through this process, the MBTA was able to update the contract terms and cost to better reflect the needs of call center operations, enabling the Authority to save even more money than originally anticipated. While the initial contract with GCS was for $5.8 million, the new contract with Exela is for $4.9 million over a five-year period.
Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>Fully Loaded MBTA Costs: $14.3M (5 years)</td>
<td>EXELA Costs: $4.9M (5 years)</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>X Falling call volume with fixed internal cost</td>
<td>+ Flexible contracting terms reflect volume</td>
</tr>
<tr>
<td></td>
<td>X Unproductive staffing model</td>
<td>+ Performance drives staffing levels</td>
</tr>
<tr>
<td></td>
<td>X Experienced FTEs handling basic queries</td>
<td>+ Refocuses FTEs on complaint resolution</td>
</tr>
<tr>
<td></td>
<td>X Antiquated IVR technology</td>
<td>+ Contract incentives best-in-class tech</td>
</tr>
<tr>
<td></td>
<td>X Lack of industry service level agreements</td>
<td>+ Strong SLAs enforced in contract</td>
</tr>
<tr>
<td></td>
<td>X Limited coverage window for customers</td>
<td>+ Extended hours of coverage / weekend</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>X Coverage challenge during winter storms</td>
<td>+ No coverage constraints due to storms</td>
</tr>
<tr>
<td></td>
<td>X No redundancy in case of emergency</td>
<td>+ Redundancy in case of emergency</td>
</tr>
<tr>
<td></td>
<td>X Inability to scale to handle large volume</td>
<td>+ Scalability in times of increased volume</td>
</tr>
</tbody>
</table>

Highlights:
- The outsourced call center has expanded weekday hours and provides customer service on weekends, which had been discontinued with the MBTA’s in-house Customer Communication Center due to budgetary pressures;
- MBTA has shifted the focus of internal staff to customer complaint resolution and service delivery improvement. The Authority also benefits from new state-of-the-art call center technologies, which help to improve the customer experience and reduce call volume;
- The fixed fee model incentivizes the vendor to create robust self-service options for callers, while penalty and incentive regimes help ensure that demand is met during peak service hours, emergencies, or weather disruptions;
- Even as it significantly improves service for customers, the MBTA is spending nearly two-thirds less in annual costs for the service.

Call Center Five-Year Operating Costs

[Graph showing cost savings]
Customer Service Agents Program

Problem:
The MBTA needed to improve customer service in its stations significantly. Under the former system, not all stations had personnel available to assist customers; even in stations with agents, the hours of coverage and technical capacity of the agents to deliver services was limited.

Waiver-related Action:
After posting an RFP for vendors to take over the functions of the Customer Service Agents (CSA) program, the MBTA on July 31, 2017 signed a contract not to exceed $4.1 million for one year with three one-year options with Mydatt Services Inc. (doing business as Block by Block). When fully phased in by FY2019, this partnership, which is now being fully implemented, is expected to save the Authority about $4 million a year while delivering significantly more service to customers.

Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>Fully loaded MBTA Costs: $19.6M (FY17)</td>
<td>Block by Block Costs: $14.8M (FY18)</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>Limited station coverage</td>
<td>Expanded coverage at busiest stations</td>
</tr>
<tr>
<td></td>
<td>Limited hours of service</td>
<td>Expanded hours of coverage, weekends</td>
</tr>
<tr>
<td></td>
<td>Work rule restrictions</td>
<td>Flexibility, focus on customer experience</td>
</tr>
<tr>
<td></td>
<td>Lack of modern technology</td>
<td>Utilize tablets and other technology</td>
</tr>
<tr>
<td></td>
<td>Employees transitioning to operator role</td>
<td>Hired for customer centric attributes</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>Limited ability to scale coverage rapidly</td>
<td>Ability to shift resources on demand</td>
</tr>
<tr>
<td></td>
<td>Limited real time reporting capability</td>
<td>Additional real time reporting capability</td>
</tr>
</tbody>
</table>

Highlights:
- The contract is expected to save the Authority about $4 million a year while delivering significantly more service to customers;
- Compared to pre-contract program operated internally by the MBTA, the contract has led to additional service hours in stations and significantly increased weekend coverage;
- Since the initial launch with two pilot stations in August 2017, the MBTA has expanded the program to 23 stations;
- Block by Block “Transit Ambassadors” utilize tablets and other technology to more quickly provide accurate information to customers; they are also able to report system issues in real time to MBTA operations, maintenance or other departments;
• Use of CSAs has freed MBTA full-time employees to operate vehicles or perform other core system operations.

Response from customers and internal stakeholders at the MBTA alike has been overwhelmingly positive. Unedited examples of feedback received through the MBTA website regarding the CSA agents include:

• “The transit ambassador at Haymarket today was so helpful”
• “I needed some assistance and a young woman... at South station was extremely helpful. She has a great attitude and is a terrific representative for the MBTA”
• “Kudos to two very helpful staff members: Airport T Station”
• “The comment is the contractor block to block that is working with MBTA is doing a superb job... Please add more red shirt MBTA representatives”
• “Customer called in to commend T ambassadors both the idea and the employees”
• “Just walked by a @MBTA Transit Ambassador just smiling and waving, wishing people a happy ride. Very nice and classy move that made me a little bit happier”
• “Having these young people in red, the transit ambassadors, make the T rides safe, more tolerable, pleasant, and gives the T... an incredible face lift... if you need support for this program, please feel free to forward this to whomever and to call upon me”
• “Had an awesome experience yesterday with a nice young man at Maverick Station”
• “I just want to give a thumbs up and recognition to the young lady working at the Chinatown station... she also ran and pulled him away as he teetered on the edge of the platform before the train pulled into the station. I can’t even imagine what could have happened to that man had she not been alert and proactive. She did awesome”
Police Dispatch

Problem:
Historically, the MBTA Transit Police had staffed its dispatch center with uniformed police officers, which diverted these officers from their primary role of monitoring the system and protecting and assisting customers. This past practice also generated significant police officer overtime costs. Given the specialized, rigorous training MBTA officers go through to keep MBTA employees and customers safe, the Authority wanted to be able to return officers who were sitting in dispatch to duties on the system.

Waiver-related Action:
After the FMCB raised issues about an initial RFP issued on February 26, 2016, MBTA staff issued a new police dispatch RFP on June 19, 2017. This ability to recognize deficiencies and potential conflicts internally during the procurement process and subsequently course-correct for them reflects the MBTA’s improved capacity around procurement and contracting developed during the Pacheco waiver.

One bidder responded to the RFP and on September 25, 2017, the FMCB approved a three-year contract with IXP Corporation, with the option for a two-year extension. The contract calls for annual payments of $965,024 to IXP, for a maximum five-year total of $4.8 million. IXP fully assumed MBTA police dispatch operations responsibilities as of January 1, 2018.

Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>21 officers limited to desk work</td>
<td>11 officers reassigned to patrol system</td>
</tr>
<tr>
<td></td>
<td>High overtime costs for office work</td>
<td>Overtime for office work reduced</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>Constrained new patrol plan execution</td>
<td>Flexibility to execute new patrol plan</td>
</tr>
<tr>
<td></td>
<td>Limited resources to reduce crime</td>
<td>Additional resources to reduce crime</td>
</tr>
</tbody>
</table>

Highlights:
While annual costs for police dispatch under the contract remain roughly the same as they were when operated by the MBTA itself, the police dispatch contract has resulted in significant benefits to both the MBTA and, especially, the riding public.

- Eleven police officers have been able to return to full-time system patrol rather than sitting in the dispatch center;
- Overtime costs have declined;
- Part 1 crimes (including offenses like robbery and burglary) are down across the system.
Automated Fare Collection (AFC 2.0)

Problem:
The MBTA’s current Automated Fare Collection (AFC) system is antiquated and negatively affects the Authority in a variety of ways, from lack of reliable data for planning and other purposes to delays on buses as riders fumble for cash as they board. The complex upgrade to AFC 2, which will represent a complete overhaul of the MBTA’s fare collection system, requires the services of two separate vendors: first, a Systems Integrator (SI) will be responsible for overall system design as well as software development and integration; a Design-Build (DB) will then be responsible for the final design and installation of the physical infrastructure.

Waiver-related Action:
The first phase was a Request for Qualifications issued on July 18, 2016; the next phase was a formal Request for Proposals (RFP) process with the pre-qualified vendors selected based upon best value to the MBTA. Two bidders submitted complete technical and financial proposals. The procurement team scored each proposal according to its technical and financial details and recommended Cubic|John Laing as the SI vendor. On November 20, 2017, the FMCB approved a 13-year contract with two five-year extension options with Cubic|John Laing worth $699.2 million. The contract covers both capital costs and operating expenses for the 23-year period.

The contract between the MBTA and Cubic|John Laing is performance-based, with primary payments commencing upon systems operations and subject to compliance with key performance indicators. This project delivery combines the core, long-term functions of the project under a single contract in order to provide for:

- A single point of responsibility;
- Expedited project delivery;
- A life-cycle cost approach to project decision making.

The RFQ for the DB portion of the AFC 2.0 upgrade was issued in 2017; three firms qualified and the RFP process will begin this fall. AFC 2.0 is set to go live in 2020.
Summary Results:

<table>
<thead>
<tr>
<th>Categories</th>
<th>Pre-Waiver</th>
<th>Post-Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>N/A</td>
<td>New AFC 2.0: $13M total savings over 10 years</td>
</tr>
<tr>
<td>Direct Benefits</td>
<td>X  Antiquated fare collection technology</td>
<td>+  Modern best-in-class technology</td>
</tr>
<tr>
<td></td>
<td>X  Limited means of payment</td>
<td>+  Flexible means of payment for customers</td>
</tr>
<tr>
<td></td>
<td>X  Limited fare product flexibility</td>
<td>+  Flexible fare product capability</td>
</tr>
<tr>
<td></td>
<td>X  Poor back office reporting capability</td>
<td>+  Improved reporting and data management</td>
</tr>
<tr>
<td></td>
<td>X  No point-of-sale network</td>
<td>+  Robust point-of-sale network</td>
</tr>
<tr>
<td></td>
<td>X  Longer dwell time for cash payments</td>
<td>+  Shorter dwell times, improved performance</td>
</tr>
<tr>
<td></td>
<td>X  Lack of Service Level Agreements</td>
<td>+  Robust set of Service Level Agreements</td>
</tr>
<tr>
<td></td>
<td>X  No incentive regime</td>
<td>+  Robust incentive and performance regime</td>
</tr>
<tr>
<td>Indirect Benefits</td>
<td>X  AFC capability trails global leaders</td>
<td>+  Aligned with peer transit agencies</td>
</tr>
</tbody>
</table>

Highlights:

- Anticipated savings to the T total $13 million over ten years;
- AFC 2.0 will improve the customer experience by standardizing payment methods across all modes, reducing vehicle dwell time, allowing greater flexibility in future fare policy, and permitting additional integration across modes;
- This system will greatly expand ways to pay fares with mobile phones, MBTA-issued smart cards, and contactless credit cards directly at all gates, commuter rail stations and ferries, and onboard all buses and Green Line vehicles;
- AFC 2.0 will expand the point-of-sale network with the introduction of new devices to partner with retail locations and allow more convenient access to cash reloading off-board;
- A new back office system will improve revenue accounting and reporting and allow for the adoption of more innovative fare structures;
- AFC 2.0 will also enable the MBTA to better capture data about rides and trips, assisting both operations and planning.
V. Conclusion

The MBTA’s waiver from the requirement of the Pacheco Law has played a key role in helping make the Authority a much better agency, operationally and fiscally. While the waiver itself was limited to three years, its benefits to the MBTA are permanent.

This report has detailed the significant cost savings, efficiencies, and improved performance that are the direct result of the waiver. In some cases, these benefits derive from individual contracts with private sector vendors that were awarded over the last three years. Even greater gains – financial and operational – are tied to how the waiver changed the long-standing collective bargaining dynamic at the Authority, leading to agreements with major MBTA unions that produced fundamental work rule and other reforms.

Competition is a good thing. By driving productivity and innovation, competition has made the MBTA more efficient, cost-effective, and responsive, especially in the face of the rapid pace of change driven by demographic, technological, climate and other factors. The waiver has delivered real benefits to the Authority and the customers, communities, and economy that depend upon the MBTA.