

### **Comments by Lou Thompson on the Financial Efficiency Review, MTC Draft Report, March 31, 2026, by Nelson\Nygaard, Consultant Team**

I am sorry that I cannot attend the April meeting due to a long-planned trip to Europe. I appreciate the opportunity to submit my comments in writing. Some of my comments clearly pertain to this report, others may be more relevant to the analyses we will conduct after the November election (if ever).

Overall, the report is well written and comprehensive, providing a summary of selected performance statistics for AC Transit, BART, Caltrain and SFMTA, along with a compendium of actions taken to reduce costs (and improve revenues) and limit capital investment during the stressful Covid period and the ensuing inflation. The report also catalogs the real estate holdings of the agencies and discusses the limitations on past and future development opportunities.

#### **Changes to the draft report**

While the statistics provided tell part of the story, I recommend addition to the final report of several performance indicators for each agency for all six Fiscal Years, not just FY 2024-25. All of these indicators are readily available in the National Transit Database:

- Annual Passengers
- Annual Passenger-miles
- Annual Seat-miles
- Annual Route miles served
- Breakdown of operating expenses by labor, materials, energy, etc.
- Percent of weekday vs. weekend service (passengers or passenger-miles)

These indicators would help to put some of the performance of the agencies into a better perspective, especially issues such as cost/passenger-mile, fares/passenger-mile, public funds/passenger and per passenger-mile.

It would be significant to know if there have been any studies on the demographics of the passengers themselves, such as average annual income, educational level, and type of employment. It would be useful to identify any studies covering user characteristics or preferences. This would be helpful in assessing the relationship between public funding provided and the economic needs of the passengers served. What do the agencies actually know about the markets they serve?

There is no discussion of the significance of the fact that Caltrain has a contract operator, whereas the other agencies operate with their own employees. Would analysis of the potential for contract operation be an early action that the three agencies could undertake, especially given that labor expenses are such a high percentage of costs and revenues?

The property holding discussion identifies the issues involved and the opportunities that each agency may have. The report would benefit from at least a short discussion of **why** agencies have been so slow to develop properties given their continual need for added revenue.

### **Early Action Strategies:**

- Many of the recommendations are common to most, or all, agencies. Is there a role for MTC to convene and coordinate?
- AC Transit. The issue of modifying the ZEB transition applies to all regional bus agencies, not just AC Transit and SFMTA. Should this be a unified effort spearheaded by MTC? This said, should the focus of the effort be on stretching out the program or generating the needed amount of investment to keep the program on schedule? The other recommendations appear unexceptionable.
- BART. Most recommendations seem correct and straightforward. Awarding or renegotiation of service contracts could be significant, and Caltrain has experience that might be useful. Capturing regeneration credits is also a common issue with Caltrain.
- Caltrain. The TASI contract is an important area for examination, especially as the impact of electrification becomes clearer. At the same time, other agencies should examine the Caltrain experience to see if it is applicable to them. Also, the issue of energy storage (and possibly solar generation) is important and potentially applicable to BART as well.
- SFMTA. Mostly straightforward and similar to other agencies.

### **Real Estate Inventory and Opportunities**

The discussion of real estate development issues is useful and informative. One salient fact that deserves emphasis is that (except for SFMTA, which is a special case) revenues from real estate development may be helpful, but there is NO indication that they will be a panacea (a common misconception among the public and politicians) in solving funding problems. Another fact is that, as suggested above, the apparent priority agencies have assigned to real estate development is less than one would expect given the revenue needs of the agencies. The reasons for the questionable priority could be: a focus on operations rather than finance; relatively low actual potential benefit; complexity and long-term effort compared with immediate survival; lack of clarity in agency objectives and focus. In the short term, the most useful opportunity might lie in strategies for pricing of parking, including charging for access by non-riders if capacity permits.

### **Next Steps and Recommendations**

I support the recommendation to improve and implement tracking and evaluative data. This should start with the added data suggested above but could be extended to a few measures of operating and capital efficiency that can be common to all four agencies. I also agree that MTC might take a stronger role in advocating for changes (i.e. ZEB or utility rate structures for regeneration) that affect multiple agencies. I support the suggestion that MTC take a role in defining reporting requirements for the area's transit agencies.

### **Longer-term issues that should shape our current thinking**

There are very few examples of publicly owned passenger transportation agencies that cover their full operating costs and capital needs wholly from passenger fares. In theory this is because the agencies incur costs for providing public benefits – reduced pollution or congestion,

improved safety, more concentrated land use, access to employment for those with lower incomes – that cannot, and should not, be recovered through fares. The bargain, often implicit, is that the operating agency will meet its market needs efficiently and adopt a fare structure that supports public objectives, while the owning agency will define the public objectives and fund the difference between fare revenues and full costs, including investment. The challenge of the SB 63 exercise lies in making the terms of that bargain **agreed and explicit** as they apply to the four agencies.

So, what are the issues in the future bargain (may well differ by agency)?

- Adjustment of efficient capacity to future (not past) demographics. How will future populations grow and be distributed? If daily commuting is never going to come back, at least at prior levels, when and how do agencies adjust?
- What is the balance between public support (willingness to fund) and social need? Is public support aimed at those who need it or, for example, are the wealthy being supported because they drive and cause congestion even though they do not need public support for welfare purposes.
- If the value of agency assets is restricted for public reasons (affordable housing, joint development, urban amenities, local zoning), how can the agency be compensated? If there are restrictive local zoning rules that also affect property development by an operator in the wider region, how can they be identified and either changed or compensated?
- How can fares be effectively coordinated and integrated across agencies, and what is the best fare structure to achieve public objectives? For example, should bicycles take up capacity for free that could otherwise generate revenue for the operator?
- Efficiency versus politics. Where should the responsibility lie for politically imposed inefficiencies such as union contracts and environmental limitations, and who should pay for public security when homeless are allowed for social reasons to intrude in stations and on passenger security?