



Oahu Transit Services, Inc.

811 Middle St. Honolulu, HI 96819-2316
telephone (808) 848-4400 facsimile (808) 848-4419
www.thebus.org



March 28, 2013

The Honorable Breene Harimoto, Chair
and Members of the Committee on Transportation
City Council
Honolulu Hale
530 South King Street
Honolulu, HI 96813

RECEIVED
MAR 28 9 43 AM '13
CITY CLERK
HONOLULU, HAWAII

Dear Chair Harimoto and Members of the Committee on Transportation:

Subject: Testimony on Bill 9 Relating to the Transit Management Services Contractor Before the Transportation Committee, Honolulu City Council, Thursday, March 28, 2013, 1:00 p.m.

Aloha members of the Committee on Transportation. My name is J. Roger Morton and I am President and General Manager of Oahu Transit Services. Mahalo for the opportunity to testify about Bill 9. My testimony is not for or against the Bill. How the City operates and manages TheBus and TheHandi-Van is the prerogative of this Council and the City Administration.

Transit in our community is very big business. Oahu Transit Services, Inc. is a large and complex company. With 1,850 employees, OTS is the State's 15th largest employer according to the Hawaii Business Magazine Top 250 issue. If we were a City Department, we would be the second biggest. The proposed budget for the next fiscal year is approximately \$224 million.

OTS is a quasi-government entity. In almost all respects, OTS operates as an instrumentality of the City and County of Honolulu with an independent Board of Directors – much like a City or State Commission. Members of the Board are well known in Hawaii business and government sectors. Current members include Chair Tony Guerrero and members Lex Alexander, Ed Hirata, Bennette Misalucha, Alana Kabayashi Pakkala and Adam Wong. The OTS Board has the direct authority to hire and fire top management and is also responsible for financial oversight and the selection of an independent auditor. The Board has no authority over transit policy which is the exclusive prerogative of the City Department of Transportation Services. When new Board members are selected, OTS bylaws provide that board members consult with City officials and obtain their recommendation. When a new board member is nominated, the nominee must be approved by the Director of DTS and may be removed.

In essence, the proposed bill would substitute the judgment of an independent Board of Directors with periodic management contracts awarded by the City. As the current bill is written, there would also be a need to set up a new corporate structure similar to OTS. This will take both time and resources. It could result in higher costs.

Any new entity would not be able to replace existing workers with less costly workers or a more favorable labor contract. The current City ordinance and the FTA Section 13-C agreement would preclude such an action and it is difficult to see where any cost savings would accrue. The City already has the authority in the current ordinance to contract with existing private bus companies to provide supplemental service and in fact, during the mid-nineties, the City did contract with four private bus companies to provide supplemental service.

It is likely that any new party would be required to establish a new non-profit firm similar to OTS. This is because another section of the ordinance requires any new Transit Management Services Contractor to assume the existing collective bargaining agreement between OTS and the Teamsters. These agreements include substantial financial liabilities that are now the liability of OTS and ultimately, through indemnification agreements, liabilities of the City. From a practical perspective, no existing business entity would be willing to assume these obligations in a current private firm. It would be necessary to establish another special purpose entity to avoid absorbing existing liabilities into a current business. If the development of a top management team is replaced by periodic contracts, it is hard to envision a scenario when top-notch Board members would agree to serve without any real responsibilities.

Currently, I serve as an at-will employee and the Board has the power to terminate me at any time and for any reason or for no reason. If the issue is a perception that management terms are better than open-ended employment for top management employees, there are more simple solutions than establishing a new corporate entity. For example, it is not unusual for top management employees at large public agencies to have employment contracts with specified terms. If this was the intent of Bill 9 and the wishes of a majority of Council members, the Council could specify that the bylaws of the Transit Services Management Contractor be amended to require such employment contracts.

There are many factors that cause bus costs to increase and I view it as our job to keep costs in check. Overall, I give us a reasonable grade. In the most recent Short Range Transit Plan, the study consultant benchmarked Honolulu's transit performance with 12 peer systems. The study found that Honolulu's operating expenses are 14% lower than the average and the operating subsidy is 26% lower than average. The same study indicated that OTS had 42% less administrative employees than the peer average and significantly more employees involved in direct transit operations.

At the end of the day, keeping transit costs reasonable is perhaps the most important role that any transit manager can have. Going forward, there is a need to hold the line on future labor contracts. And as we become a truly multi-modal transit system, there is a need to make sure we get bus/rail right.

The Porter report projected bus and Handi-Van costs will account for about 75 percent of total transit operating costs by 2030. It may well be advantageous to consider changes to the current organizational structure for TheBus and TheHandi-Van to ensure better integration of total transit service and to reduce costs by the sharing of some administrative functions. But it would be better that any future changes be thought out carefully considering the long-term needs of the City.

The Honorable Breene Harimoto, Chair and Members of the Committee on Transportation
March 28, 2013
Page 3

Thank-you for the opportunity to testify on this matter.



J. ROGER MORTON
President & General Manager

JRM:sw