

METROPOLITAN TRANSPORTATION AUTHORITY
Special Overtime Report
Presentation to the Finance Committee - September 2013

Introduction

In response to unfavorable overtime results versus budget in the first half of the year, MTA Division of Management & Budget was requested to develop a report that would detail the major issues that were driving the overages. It was decided that the report would focus on June results against the Adopted Budget ('budget'). Subsequently, however, July overtime results have been reported that are not only in excess of the budget, but are also much higher than the new Mid-Year Forecast ('MYF' or 'forecast'). Therefore, while many of the tables and accompanying analysis are in the June actuals vs. budget mode, some July results and trends vs. the new forecast are also included.

This report starts with an MTA Summary followed by individual Agency reports from: NYCT, LIRR, MNR, B&T, MTA Bus and MTA HQ.

MTA Summary Special Overtime Report Presentation to the Finance Committee - September 2013

Overtime is a necessary component of MTA operations and is particularly beneficial for addressing non-linear situations such as weather and other emergencies, unscheduled maintenance and repairs, backfilling open positions due to vacancies and employee availability, or where a longer tour is more efficient than adding a second shift. Overtime work also makes sense when the work is for projects of a limited duration. While most overtime is essential to MTA operations, it can be expensive and has to be managed effectively.

The use of overtime should be considered against the alternative fixed cost of hiring additional employees. For example, overtime can have an inverse impact on straight-time and fringe benefit costs. Higher overtime can lead to lower straight-time and fringe costs, and vice-versa. Overtime costs can also impact future finances because of their impact on pensions. Labor contracts often include provisions for distributing overtime that favors senior employees; consequently, overtime earned by those employees during their last three years of employment boosts their future pensions.

Overtime discussions typically focus on work performed by non-reimbursable employees since that is the largest component of overtime and is generally more operational in nature; however, reimbursable overtime is equally important, directly impacting the capital program.

Background

In 2010, the MTA responded to a fiscal crisis by implementing a number of cost savings initiatives. Included within that strategy was the institution of an aggressive program to rein in overtime through a series of management controls. Efficiency savings targets were established approximating \$20 million in 2010, growing in excess of \$60 million annually. To monitor our progress towards meeting these targets, we began requiring a *Decomposition Report*, a new monthly report categorizing types of overtime, to be included with operating committee agenda materials.

B&T has made substantial progress in its overtime reduction goals and was aided by a consolidation of its maintenance functions. However, overall, the MTA has been unable to meet its overtime reduction goals due to a combination of “uncontrollable” and “controllable” factors.

The “uncontrollable” factors, including severe weather conditions such as Superstorm Sandy (Sandy), have been a major cause of overtime overages. Some of the extraordinary weather events that occurred in the last four years have included: a blizzard in 2010, convective heavy rainfall, Tropical Storm Irene and a late October ice storm in 2011, followed by two Nor'easter storms and Sandy in 2012. In addition to the weather events, a series of derailments occurred during the first half of this year that has also had serious impacts.

The MTA is critical to the New York region and any shut-down of operations has dramatic consequences; accordingly, the MTA has made conscious decisions to utilize

overtime to get operations back and running. This work was absolutely necessary; however, we strongly believe that Financial Plans should have better anticipated this type of work. The November Financial Plan will include appropriate adjustments.

“Controllable”, or programmatic, elements of overtime have also exceeded budgeted targets. Vacancy/employee availability issues have also contributed to slippages from the original goals. Vacancy levels have exceeded budgeted goals, and targets for reducing sick time have not been met. Some of the increase in “controllable” overtime has been the result of maintenance and other important work such as NYCT’s FasTrack program, as well as signal and track repairs and car overhaul work at the operating Agencies. Filling vacancies more effectively will improve the performance in this area. When the additional overtime makes operational sense, the MTA has to do a better job of forecasting the need. These issues are described later in this section and in the specific Agency sections.

The following chart reveals actual overtime information at the MTA from 2009 through 2012, as well as the projected levels included in the July Plan.

Overtime										
Actual ¹					2013 July Financial Plan					
	2009	2010	2011	2012	2013 Adopted Budget	2013 Mid-Year Forecast	2014 Preliminary Budget	2015	2016	2017
Non-Reimb.	\$547	\$491	\$539	\$574	\$507	\$556	\$503	\$509	\$509	\$518
<i>yr. over yr. change</i>		(\$56)	\$48	\$35	n/a	(\$18)	(\$53)	\$6	\$0	\$9
Reimb.	\$117	\$124	\$116	\$107	\$93	\$97	\$95	\$94	\$95	\$96
<i>yr. over yr. change</i>		\$7	(\$8)	(\$9)	n/a	(\$10)	(\$2)	(\$1)	\$1	\$1

Note: ¹ For comparison purposes, 2009 and 2010 Actuals reflect the reclassification of certain contractual wages for NYCT/DOB and LIB that were previously captured and reported in Payroll.

The actuals demonstrate the savings realized in 2010, along with the slippage experienced in 2011, 2012 and YTD 2013.

The 2013 July Plan includes the 2013 MYF of \$556 million for non-reimbursable overtime, representing a \$49 million increase from budget. Reimbursable overtime in 2013 increased slightly from \$93 million in the budget to \$97 million in the MYF. The major drivers of these increases are noted above, are summarized in the consolidated materials of the 2013 July Financial Plan and are detailed in Agency sections of that Plan. They are also significantly impacted by early-year 2013 results.

The MYF was adjusted to capture the higher levels of overtime for Sandy work, other weather and the increased controllable work described above. However the forecast is likely understated as evidenced by July YTD actuals that are well in excess of the new forecast.

The July Plan projections for the years 2014-2017 are significantly lower than the levels experienced since 2010, based upon the assumption that we will do a better job of filling vacancies, availability statistics will improve, and other operating improvements can be successfully implemented. It appears that these targets may not be realistic, and may need further refinement between now and the November Plan.

June Year-to-Date Results

The following highlights the major drivers of the overage and the courses of action taken by the Agencies.

Actuals vs. Adopted Budget -- Total overtime exceeded the budget by \$69 million, or 23%. Non-reimbursable overtime of \$296 million exceeded the budget of \$251 million by \$45 million. Total reimbursable overtime of \$73 million exceeded the Adopted Budget of \$49 million by \$24 million, reflecting the impact of higher coverage necessitated by the Subways Capital Track Program at NYCT, greater bus shuttle service provided by MTA Bus to support NYCT, rescheduling the Jamaica to Queens concrete tie program at the LIRR as well as MTA-wide Sandy-related reconstruction work.

The following table details Overtime by Category:

**Metropolitan Transportation Authority
Special Overtime Report - June 2013 YTD Results
Non-Reimbursable/Reimbursable Overtime¹**

(\$ in millions)

NON-REIMBURSABLE OVERTIME	June Year-to-Date		
	Budget	Actual	Variance
<u>Scheduled Service</u>	\$94.8	\$91.9	\$2.9 3.1%
<u>Unscheduled Service</u>	\$43.6	\$45.6	(\$1.9) (4.4%)
<u>Programmatic/Routine Maintenance</u>	\$63.1	\$70.2	(\$7.1) (11.2%)
<u>Unscheduled Maintenance</u>	\$1.0	\$1.5	(\$0.5) (51.5%)
<u>Vacancy/Absentee Coverage</u>	\$29.0	\$38.9	(\$9.9) (34.0%)
<u>Weather Emergencies*</u>	\$8.8	\$37.7	(\$28.9) >100%
<u>Safety/Security/Law Enforcement</u>	\$5.0	\$4.6	\$0.4 8.7%
<u>Other</u>	\$5.3	\$5.4	(\$0.0) (0.9%)
Subtotal	\$250.7	\$295.7	(\$45.0) (17.9%)
REIMBURSABLE OVERTIME	\$48.9	\$72.8	(\$23.9) (49.0%)
TOTAL OVERTIME	\$299.6	\$368.5	(\$68.9) (23.0%)

* Exceeds 100%

NOTES:

¹ For consistency purposes, grant funds provided for MTA HQ Directed Patrol overtime police coverage have been reclassified to reimbursable overtime, from non-reimbursable overtime. Consequently, results will differ from those reported in the July 2013 monthly Consolidated Accrual Statement of Operations by Category and the Consolidated Overtime Decomposition Reports.

- Totals may not add due to rounding
- Percentages are based on each type of Overtime and not on Total Overtime
- Excludes SIR data

The following highlights the primary areas of year-to-date overages based on the decomposition categories:

Weather Emergencies resulted in \$29 million of the variance. The biggest contributor of the overage was due to work related to Sandy which accounted for roughly \$20 million of that unfavorable year-to-date variance. Work included, but was not limited to, supplemental bus and shuttle service for subway and train lines that were damaged, repair of signals in flooded areas that were immersed in salt water, station repairs, and extensive damaged track work. Since Weather Emergencies are unpredictable events that can be particularly disruptive to MTA services and destructive to its properties, Agencies are taking greater steps to protect/"harden" their assets and to improve storm preparedness.

Vacancies/Employee Availability, which contributed \$10 million towards the June year-to-date overage, was the second leading cause for overtime, particularly at NYCT and the LIRR.

Vacancies - Agencies have attempted to plan for increasing levels of attrition, and have developed hiring and training programs to back-fill positions as they become vacant. Vacancy levels, however, have exceeded budgets. This category has financial implications that are far-reaching, in that there is a much better chance of vacant positions being temporarily backfilled with senior employees (depending on the craft) on overtime which will inflate pensionable earnings. Conversely, while vacancies can result in increased overtime, they have a corresponding favorable impact on non-reimbursable straight-time payroll and health & welfare costs.

While there are many factors that impact straight-time payroll and health & welfare costs, vacancy levels are an important component. For those categories, June year-to-date straight-time payroll results were \$24 million favorable against the Adopted Budget. The November Plan will adjust for more realistic vacancy assumptions. That likely result will be an increase in overtime, and decreases to straight-time payroll, payroll taxes and health & welfare.

Employee Availability remains a challenge for the MTA. It takes into account many factors, including projecting the expected number of days off due to sick, employee on-duty lost-time accidents, vacation, training, Family Medical Leave Act, jury duty, union business, and disciplinary actions, etc. Availability targets have not been met in many instances. The correction of this issue will require more stringent management as well as more cooperation from organized labor.

Programmatic/Routine Maintenance contributed \$7 million towards the June year-to-date variance, of which \$3 million was attributable to the timing of the NYCT Overtime Cash-Out Program that was paid in January 2013, instead of December 2012. MTA Bus exceeded its budget for this category by \$1 million as a result of increased efforts to repair defects found during scheduled inspections, while LIRR incurred \$1 million in additional overtime due to performing additional track repairs and wood timber track replacement work.

For details by overtime decomposition category, please refer to the Agency sections that follow.

The following table details overtime variances by Agency and decomposition category.

**Metropolitan Transportation Authority
Special Overtime Report - June 2013 YTD Results
Overtime by Agency and Decomposition Category
(\$ in millions)**

	June Year-to-Date												Reimb.	Total YTD Variance (N/R & R)
	Non-Reimbursable													
	Total Adopt. Bud.	Act.	Total N/R Var.	Variance by Decomposition Categories										
Sched. Svce.				Unsched. Svce.	Prog./ Routine Mtce.	Unsched. Mtce.	Vacancy/ Absentee Coverage	Weather Emerg.	Safety/ Security/ Law Enforce.	Other				
NYCT	151.3	\$185.1	(33.8) -22.3%	0.9	(1.3)	(4.6)	0.0	(6.7)	(24.5)	0.1	2.1	(20.4)	(\$54.2)	
LIRR	35.6	\$45.1	(9.5) -26.6%	(0.1)	(0.6)	(0.8)	(0.4)	(3.9)	(2.4)	0.0	(1.3)	(1.4)	(\$10.8)	
MNR	26.8	\$28.9	(2.1) -7.7%	(0.6)	0.0	(0.5)	(0.3)	0.4	(0.6)	0.0	(0.5)	(0.8)	(\$2.8)	
B&T	10.9	\$9.0	1.9 17.1%	(0.1)	0.2	(0.0)	0.2	1.0	0.2	0.5	(0.2)	0.2	\$2.1	
MTAHQ ¹	4.4	\$4.7	(0.2) -5.2%	0.0	0.0	0.0	0.0	0.1	0.0	(0.2)	(0.1)	(1.6)	(\$1.8)	
MTA Bus	21.7	\$23.0	(1.3) -6.0%	2.8	(0.3)	(1.2)	0.0	(0.8)	(1.6)	0.0	(0.1)	0.0	(\$1.3)	
TOTAL	\$250.7	\$295.7	(\$45.0)	\$2.9	(\$1.9)	(\$7.1)	(\$0.5)	(\$9.9)	(\$28.9)	\$0.4	(\$0.0)	(\$23.9)	(\$68.9)	

NOTES:

- ¹ Includes reclassification of grant-related overtime to reimbursable overtime, from non-reimbursable overtime, as noted on prior table.
- Percentages are based on the deviation from the Adopted Budget.
- Excludes SIR data

Detailed information by Agency can be found later in this report; however the summary of results is as follows:

NYCT contributed \$54 million towards the total June YTD variance, \$20 million of which was due to reimbursable labor cost overruns. Of the non-reimbursable amount (\$34 million), approximately 72% of the overage was weather-related, the bulk of which was due to residual Sandy recovery work. Other factors contributing towards the unfavorable results (approximately \$9 million) include additional unscheduled bus service, vacancy coverage and subway/bus maintenance requirements.

LIRR exceeded the June YTD budget by \$11 million, most of which was driven by ongoing vacancy issues in its Maintenance of Equipment division, particularly in craft and foremen positions, and continuing employee availability issues, as well as weather-related coverage and increased routine maintenance work.

MNR contributed \$3 million to the June YTD variance, of which \$1 million was reimbursable. The majority of the non-reimbursable overage was necessitated by the acceleration of a newly instituted Maintenance of Way Infrastructure Improvement Program and bus support provided by MTA Bus following a derailment on the New Haven line.

B&T was \$2 million favorable to date.

MTAHQ exceeded the budget by approximately \$2 million, mostly due to greater reimbursable police coverage for the Agencies, increased grant-funded work, and timing.

MTA Bus generated a \$1.3 million unfavorable YTD variance, mostly due to Sandy-related recovery work and accelerated maintenance on defects found during scheduled bus inspections, reflecting a shift by management to preventive and proactive maintenance strategies from unscheduled and reactive maintenance work.

July YTD vs. Mid-Year Forecast¹

Note: ¹Includes reclassification of MTAHQ grant-related overtime as noted earlier in this report.

The July Financial Plan includes adjustments to agency overtime baseline budgets to more accurately reflect additional Sandy reconstruction and recovery efforts, as well as increased programmatic, routine maintenance work, such as the RCM Program at the LIRR, and to reduce the backlog on signals and stations repairs at NYCT.

The YTD variances previously highlighted in this report were also factored into the development of the revised Mid-Year Forecast for overtime; however, July YTD results vs. that forecast were \$20.9 million (5.0%) unfavorable. For the month of July alone, results were \$10.5 million (18.5%) over target. The Mid-Year Forecast is likely understated and overages in the remaining months are likely to continue.

For the remainder of the year, results will be compared with the MYF; however, it is important not to lose sight of these numbers in contrast to the original budget. Comparing July actuals with the budget results in unfavorable variances of \$57.1 million for non-reimbursable, \$26.6 million for reimbursable, for a total overage of \$83.7 million (23.9%).

Against the MYF, total non-reimbursable overtime of \$352.8 million was \$12.8 million (3.8%) unfavorable, reflecting more unscheduled service, higher vacancy/absentee coverage requirements, accelerated maintenance programs and additional residual Sandy-related recovery work. Record heat in July further contributed to the overage.

Total reimbursable overtime of \$85 million exceeded the Mid-Year Forecast of \$76 million by \$8 million. Most (\$7 million) of that variance was generated by NYCT and directly attributable to its Subways Capital Track Program – a programmatic adjustment that was excluded from the Mid-Year Forecast.

Conclusion/Recommendation

Overall, year-to-date results have been very unfavorable against both the budget and the mid-year forecast. Much of that overage against the budget was from severe weather and Sandy-related work; and some of that additional cost was offset by straight-time payroll and health and welfare savings.

Aside from weather, the primary cause for the overages, both against the budget and the mid-year forecast were controllable in nature; particularly in the areas of vacancy/absentee coverage, programmatic/routine maintenance, and unscheduled service and maintenance. These issues reaffirm the need for better management control of overtime usage and improved overtime forecasting.

Currently the July Plan forecasts for 2014 and beyond are well below those expense levels experienced in the years 2011 through 2013, and approximate the targets established in 2010. It appears that these targets may not be realistic, and may need further refinement between now and the November Plan.

Those forecasts, however, will contain overtime efficiency targets. Meeting these targets will be challenging and will require strict management focus. Consistent with some of the strategies that were developed in 2010, Agencies are committed to reduce overtime by:

- Aggressively hiring new employees;
- Implementing disciplinary measures to reduce excessive sick time;
- Making further improvements to safety to reduce employee accidents;
- Improving operating procedures; and
- Increasing the pool of employees-in-training for critical operating positions.

Detailed reports by Agency follow this section.