



**Massachusetts Bay  
Transportation Authority**

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# **Contract Oversight Update**

**FMCB**

**October 2016**



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## **MBTA is in the early stages of an authority-wide contract review to identify opportunities to increase revenues and reduce operating expenses**

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- **MBTA has contracts with hundreds of public and private sector business partners**
  - It is the responsibility of the MBTA to enforce contract terms with our business partners
  - Last update we covered wireless, office supplies, station cleaning, and use of statewide contracts
- **This update focuses on opportunities in two categories:**
  - **Own-source revenue:**
    - Station tenant contract management (Utility billing)
    - Customer contract management (Massport Silver Line)
  - **Cost control:**
    - Data / financial services (Financial advisor)
    - Benefits administration (GIC)
- **MBTA implemented a policy to end the practice of paying vendors with cash vouchers on 7/1/16**
  - Historically, the majority of spending was done through cash vouchers, which made accountability and transparency difficult
  - Shift to purchase orders will enhance accountability and visibility into contracts
- **Effort is on-going, using internal and external resources; update on key findings will be provided**



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## Tenant Contract Management – Utility Billing

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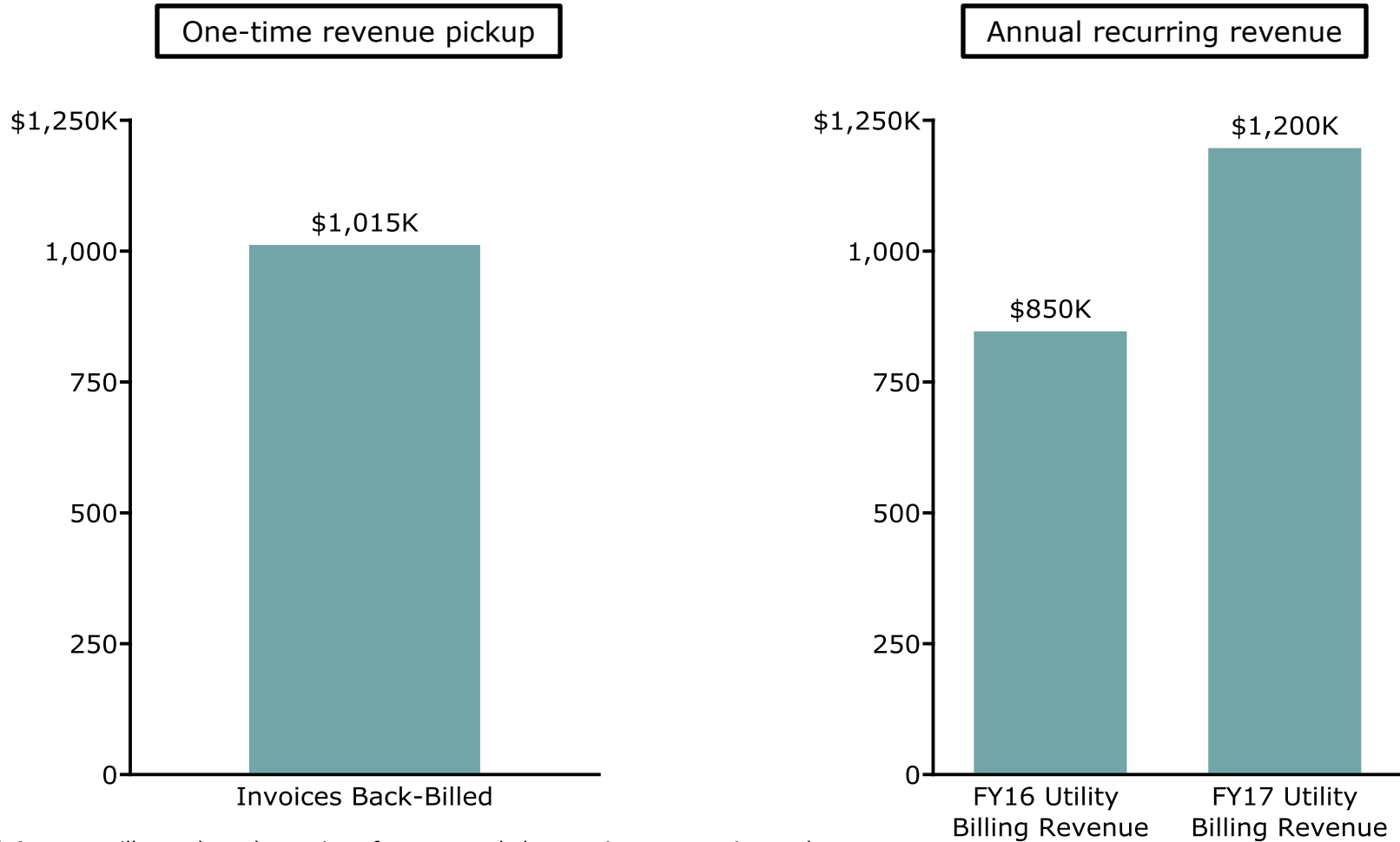
- The MBTA leases space across the subway system and should bill for utilities
  - Station tenant leases range in annual rent from ~\$2,400 to over \$250,000\*
  - All monthly rent billing is done by Mass Realty Group (MRG)
  - Leases generally require tenants to pay electricity
- The MBTA is responsible for invoicing tenants for electricity usage
- Historically, utility billing was a paper-based process coordinated through E&M
- We recently concluded the first systematic review of utility billing in over 15 years, led by Energy and Environment Department (E&E)
- Review identified found that 66 of 78 total accounts had not been invoiced for electricity in more than 20 months; the other 12 accounts had never been billed

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\* Excludes pushcart vendors and other small concessions.



**MBTA has recovered \$1M through invoice reconciliation; going forward recurring revenue from utility billing to increase by 40%**



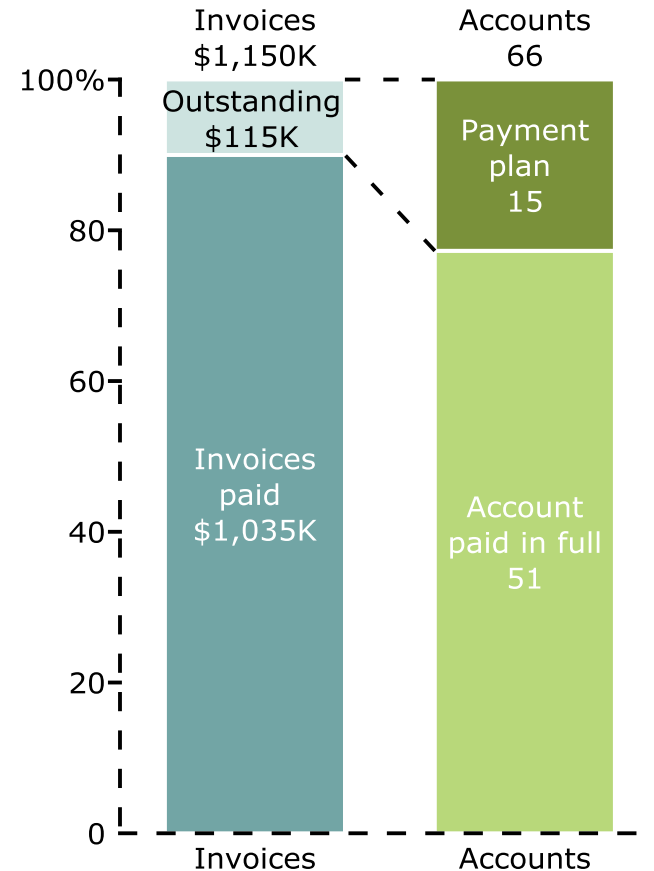
\* Amount will vary based on price of energy and changes in consumption and occupancy



## Accounts have been cooperative: Full recovery expected

E&E has worked to recoup outstanding invoices

- Of 66 accounts that had not been billed in 20 months:
  - 51 accounts have paid in full
  - 15 accounts are on payment plans with a path to full invoiced amount
- 12 additional accounts need to be created based on survey
- New process, overseen by E&E, ensures monthly billing
- Close coordination with Real Estate Department
- Moved to electronic metering forms and monthly billing
- Tenant lists updated regularly and cross referenced with Real Estate department
- All concession sites mapped – including ATMs and carts for accurate billing





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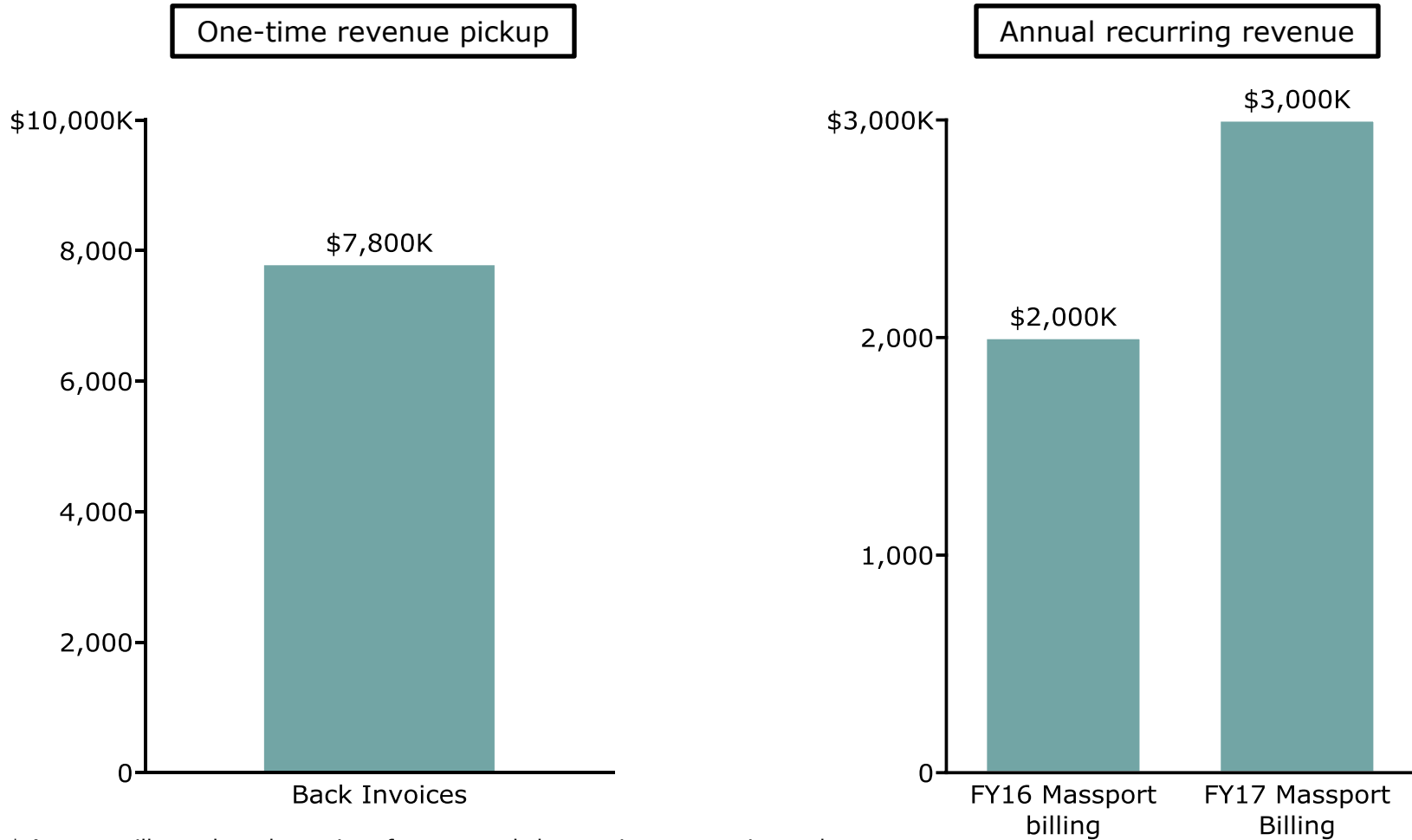
## Better Contract Management Produces Results – Massport (Silver Line)

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- In December 2004, MBTA and Massport executed an Interagency Operating and Maintenance Agreement for Silver Line service between South Station and Logan International Airport
- Revenue and costs (capital, operating, and maintenance) are shared according to a service mile calculation: MBTA 23.94% and Massport 76.06%
- It is the responsibility of the MBTA to accurately bill its customer in a timely manner
- For more than 10 years, the MBTA did not accurately calculate the operating and capital expenses associated with the Silver Line or accurately bill Massport per the terms of the contract
- Review identified \$7.8M in historical cost recovery due to the MBTA
- In August 2016, Massport paid \$1.6 million to the MBTA to reconcile actual figures for FY05-FY12 and its share of the mid-life overhaul cost for 3 buses
- In October 2016, Massport paid \$2.6 million to the MBTA to reconcile actual figures for FY13-FY15
- The MBTA expects to receive another \$3.6 million, which includes \$1.0 million for FY16 costs plus \$2.6 million for overhaul of the remaining 5 buses. Massport is currently reviewing this data
- Looking ahead, the MBTA forecasts annual billings of \$3 million to Massport
- Massport has been a great partner to the MBTA in this effort; the MBTA appreciates their cooperation and engagement



## MBTA on track to recover \$8M through invoice reconciliation; forecasts a 50% increase in recurring Silver Line billing

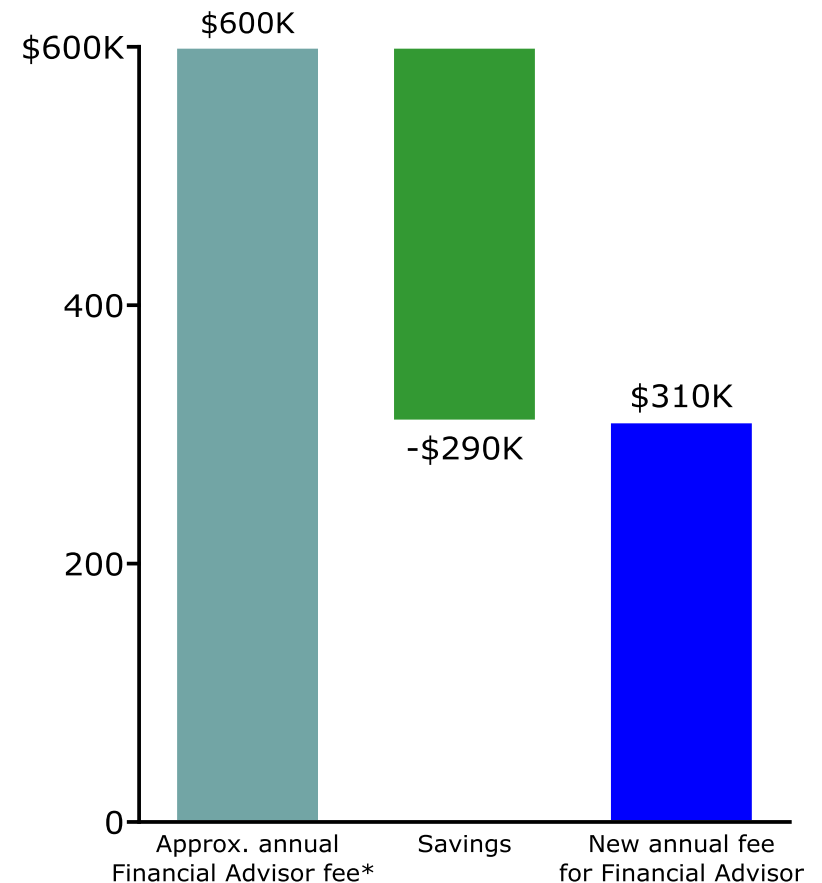


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## Financial Advisor Contract Management – 50% savings through in-sourcing

- Historically, MBTA relied on a Financial Advisor for a variety of services:
  - Debt service reserve fund reporting
  - Investment management and reporting
  - Swap valuation and reporting
  - Build America Bond subsidy filings
  - One-off projects (i.e. FDA amendments / terminations)
- On October 1<sup>st</sup>, MBTA terminated investment management and reporting service relationship
- MBTA can perform function in-house with current staff and resources
  - Established trading relationship with 6 banks
  - Investing in line with Investment Policy
- New arrangement will save roughly \$290K per year or about 50% of current annual spend of about \$600K
- Financial Advisor will continue to perform key functions and work closely with MBTA staff



\*Annual fee to Financial Advisor changes based on MBTA investable assets.





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## Benefits Administration / Reconciliation - Group Insurance Commission (GIC)

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GIC covers more than 250,000 enrollees; with dependents, coverage includes 436,000 people



Benefits include:

- Health plans: POS plans, PPOs, HMOs, and an EPO plan
- Long-term disability and dental
- Life insurance: basic and optional
- FSA: Healthcare Spending Account

State agencies and authorities process benefits with GIC in two ways:

- Vast majority of enrollees are “online” and interface electronically
- MBTA is “offline” with limited electronic integration, paper-based, double key entry



## 12,000 MBTA Employees & Retirees Enrolled in GIC

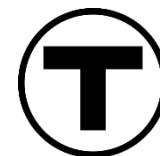
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GIC provides coverage to the MBTA, including 6,500 employees, 5,000 retirees and 400 survivors

- MBTA employees select health insurance and benefit coverage when hired and may make adjustments during open enrollment or a qualifying life event
- In FY16, MBTA employees and authority contributed \$29M and \$106M towards GIC health insurance and other benefits, respectively
- MBTA administers enrollment of benefit programs in coordination with GIC (as well as additional benefits through the Health & Wellness fund)
- MBTA should reconcile MBTA records with GIC records regularly

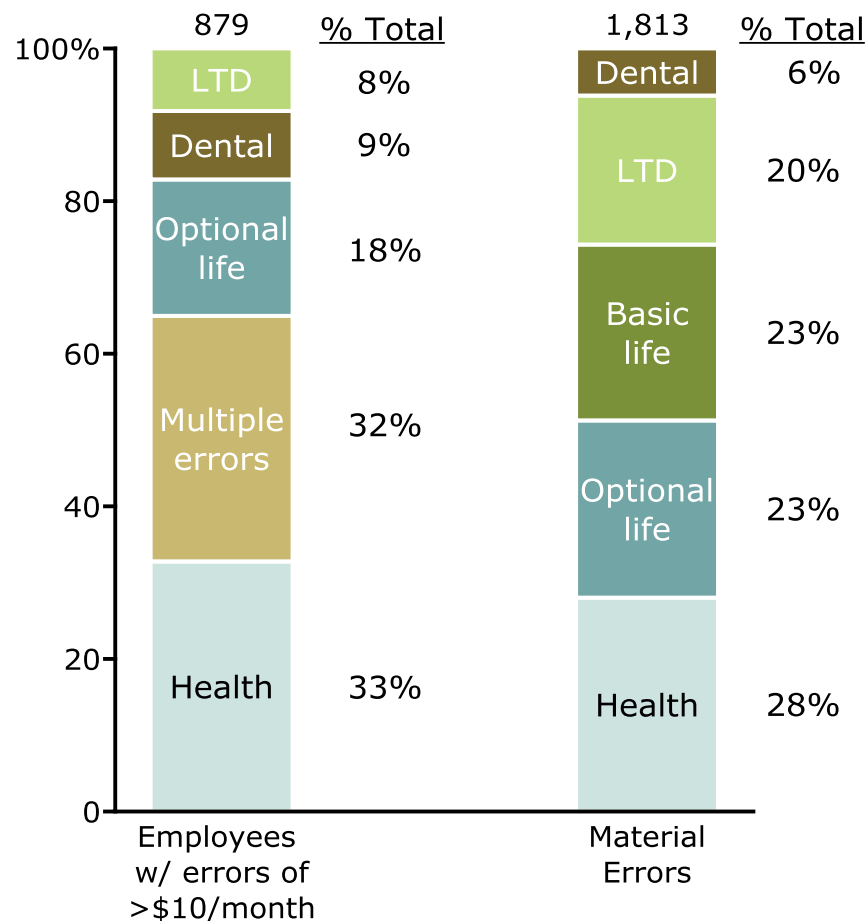
MBTA is an offline agency and transacts with the GIC via paper enrollment

- MBTA and GIC exchange paper files that record employee health care and benefit selections as well as their eligibility to receive certain benefits
- Data is inputted manually on MBTA and GIC systems, leading to potential errors
- Deductions from MBTA employee paychecks are based on MBTA HR benefit data



## After GIC Raised Reconciliation Issue, MBTA Conducted Review

- MBTA faced monetary risk and employees deserved to get issue resolved
- Due to lack of internal capability, MBTA had to contract with external experts
- Review by Accenture required about 12,000 hours of review by hand
- Goal of the review was to detail problems, correct errors, and recommend next steps
- 5 Accenture team members spent 6 weeks reviewing 13,000 pages of documents
- Team identified more than 4,000 errors, impacting 1,300 employees:
  - 879 employees with errors greater than \$10 per month
  - 1,813 material errors span multiple types of plans



Note: MBTA internal data as of August, 17 2016. Draft for Discussion & Policy Purposes Only



## Paper-Based System which Requires Manual Reconciliation Monthly

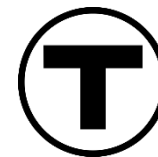
Review identified several critical deficiencies in MBTA benefits administration

- Lack of experienced workforce
- Poor IT systems and paper based processing
- Outdated and cumbersome business process
- Insufficient control points
- Lack of focus on core reconciliation responsibilities
- Failure to leverage available electronic options\*
- MBTA HR team has been replaced with new leaders over the past 90 days



\*Stockpiled paper reconciliation packages





## Errors Have Been Corrected, New Process in Place

MBTA is actively correcting employee benefit files and ensuring paycheck deductions are appropriately applied







- **Employees that have been uncharged historically will not be back billed**
- **Overcharged employees will be made whole for historical over deductions**
- Average change in corrected deductions is ~\$39.69 per month
- Changes in deductions vary by employee depending on type, number, and duration of discrepancies
- MBTA will settle past-due amounts to GIC with a one-time \$600K payment, which is in the FY17 budget

Plan type	Number of errors	Average deduction impact (+/-)
Optional life	421	\$1.10
Health	508	\$99.55
Long term disability	354	\$12.29
Basic life	418	\$1.10
Dental	112	\$44.73
<b>Total</b>	<b>1,813</b>	<b>\$39.69</b>

- GIC has been a great partner to the MBTA in this effort
- MBTA appreciates their cooperation and engagement



## MBTA HR and Benefits Process is Antiquated and Needs to be Modernized

MBTA Current state	Not a Best Practice
Printing payroll materials in house <ul style="list-style-type: none"> <li>• Checks</li> <li>• Pay stubs</li> </ul>	
In person pick up <ul style="list-style-type: none"> <li>• Offsite personnel travel to 10 Park Plaza to collect checks in person</li> </ul>	
No direct deposit requirement	
Multiple payment periods across bargaining units <ul style="list-style-type: none"> <li>• Weekly payroll</li> </ul>	
Paper-based reconciliation process	
No self service HR portal	



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## MBTA Will Shift to an Automated, Online Benefit System

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Options considered:

- Outsourcing to third party vendor
  - Many private companies provide human capital management services with technically sophisticated platforms to large, complex organizations
  - Most private organizations provide employee self service capabilities which eliminates manual processing and gives employees more control over their benefits
  - Massport works with Ceridian to administer their health insurance, benefit and payroll functions
- Insource to state government system
  - Commonwealth and GIC provide “online” services to most of their partners including MassDOT
  - Moving HRCMS would automate benefit entry and reconciliation, eliminating many potential points of human error
  - Human resources, benefits and finance team actively exploring possible transition with Comptroller and GIC



## Some agencies like Massport partner with third-party providers, others in-source to the state

### Partnering with third-party provider

Pros	Cons	Industry Players & Partners
<ul style="list-style-type: none"> <li>✓ Private sector best practices</li> <li>✓ Technically sophisticated platforms</li> <li>✓ Eliminate paper process</li> <li>✓ Offer self-service functions</li> <li>✓ Maintain and train own staff</li> </ul>	<ul style="list-style-type: none"> <li>✗ Procurement process challenges</li> <li>✗ Divert staff time and attention</li> <li>✗ Data migration &amp; business process risk</li> <li>✗ Requires vendor management staff</li> <li>✗ Cost structure risk</li> </ul>	

### In-sourcing to the State

Pros	Cons	Industry Players & Partners
<ul style="list-style-type: none"> <li>✓ Managed dozens agency transitions</li> <li>✓ Modern PeopleSoft platform</li> <li>✓ Eliminate paper process</li> <li>✓ Alignment with state government</li> <li>✓ Accelerated implementation timeline</li> </ul>	<ul style="list-style-type: none"> <li>✗ Forgo some current reporting functionality</li> <li>✗ Limited ability to add modules in future</li> <li>✗ Bi-weekly pay period mandate</li> <li>✗ Data migration &amp; business process risk</li> <li>✗ Cost structure risk</li> </ul>	