
Office of Utilities Regulation


Jamaica Urban Transit Company Limited Fare Application

Recommendation to the Minister of Transport and Works



OFFICE OF UTILITIES REGULATION

October 14, 2009

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DOCUMENT TITLE: Jamaica Urban Transit Company Limited Fare Application
<p>1. PURPOSE OF DOCUMENT</p> <p>This document contains the Office's recommendations to the Minister of Transport and Works on the Jamaica Urban Transit Company (JUTC) fare application.</p>
<p>ANTECEDENT DOCUMENTS</p>
<p>APPROVAL</p> <p>This document is approved by the Office of Utilities Regulation.</p> <p>On behalf of the Office:</p>  <p>.....</p> <p>Ahmad Zia Mian Director General</p> <p>October 14, 2009</p>

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CHAPTER 1: SUMMARY OF RECOMMENDATIONS

Fare Recommendations

- 1.0 The OUR has estimated the fares shown in Table 1.0 as those needed to cover the economic costs. This can be achieved by increasing fares to: \$131 for Normal (adult) passengers; \$40 for Concessionary passengers; and an average of \$361 for Premium services passengers.

Table 1.0

Economic Cost Recovery			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$131	\$5,504,456,833.74
Concessionary	20,291,596	\$40	\$811,663,833.17
Charters, Advertising and Other			\$173,933,044.87
Subtotal	62,424,543		\$6,490,053,711.78
Premium	836,800	\$361	\$301,902,751.91
Charters and Advertising			\$98,788,787.38
Total	63,261,343		\$6,890,745,251.07

- 1.1 The fares in Table 1.1 are those that are needed to cover the JUTC's operational costs only. To achieve this, the JUTC will require a fare increase to \$95 for Normal adult passengers, \$30 for Concessionary passengers, and an average of \$182 for commuters using the Premium service.

Table 1.1

Operational Cost Recovery			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$95	\$4,007,542,908.75
Concessionary	20,291,596	\$30	\$608,747,874.88
Charters, Advertising and Other			\$173,933,044.87
Subtotal	62,424,543		\$4,790,223,828.50
Premium	836,800	\$182	\$152,703,091.70
Charters and Advertising			\$98,788,787.38
Total	63,261,343		\$5,041,715,707.58

- 1.2 Under the first scenario (covering economic cost), the JUTC will require a subsidy of \$3.0 billion. Under the second scenario (recovery of operational costs only) the JUTC will require a subsidy of \$1.3 billion. The calculations for both scenarios are presented in Table 1.2 and 1.3 respectively.
- 1.3 On the other hand, if the proposed fares for the Regular service of \$70 for adult passengers and \$20 for Concessionary passengers are approved Tables 1.2 indicates the required subsidy to cover economic cost and Table 1.3 what is required to cover operating cost.

Table 1.2

Required Subsidy to Cover Economic Cost with JUTC Proposed Rates			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$70	\$2,949,306,297.10
Concessionary	20,291,596	\$20	\$405,831,916.59
Implied Government Grant			\$2,960,982,453.22
Charters, Advertising and Other			\$173,933,044.87
Total	62,424,543		\$6,490,053,711.78

Table 1.3

Required Subsidy to Cover Operational Cost with JUTC Proposed Rates			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$70	\$2,949,306,297.10
Concessionary	20,291,596	\$20	\$405,831,916.59
Implied Government Grant			\$1,261,152,569.95
Charters, Advertising and Other			\$173,933,044.87
Total	62,424,543		\$4,790,223,828.50

Other Recommendations

- 1.4 The OUR recommends that the Ministry of Transport and Works and or the Transport Authority urgently devise measures to effectively regulate the transport sector and reduce the proliferation of illegal transport operators.
- 1.5 The Transport Authority, in consultation with the JUTC, should develop a timetable which will remain fixed for a period of at least one year, reducing the need for commuters to make frequent checks. This should be published in the newspapers once per month on a specified date. Greater effort also needs to

be placed on publicising the existence and location of the schedule as well as encouraging commuters to use it to plan their trips. The Schedules must also be posted at main terminals.

- 1.6 The average on time pull-out being achieved by the JUTC is unacceptable and contributes to commuters' frustration with the company. The company achieved a 69.7% on time pull-out during the mornings for FY 2008/2009 and 52.2% during the evenings. The Transport Authority, in consultation with the JUTC should have enough data on average daily bus availability and traffic patterns at different points of the day to be able to create a timetable which it can realise with greater accuracy.
- 1.7 The JUTC must improve maintenance. Data submitted by the company shows that at least 38% of the buses in the fleet did not operate during the financial year and were in need of repair. The government has procured new buses for the JUTC, which can replace defective buses and improve the efficiency of the JUTC's operations. However, unless a proper programme of servicing and maintenance is implemented, these buses will also be in a state of disrepair in a few years, leaving the JUTC in no better position than it is in now.
- 1.8 The Premium service offered by the JUTC should be able to cover its own costs. Currently, the revenue generated by the Premium service is inadequate to cover the economic or operational costs of providing this service. This clearly indicates that the JUTC needs to re-examine its Premium service with a view to bringing it to full cost recovery. This can be done by reducing the costs associated with providing the service or increasing the revenue generated by the service or a combination of both. Tax payers must not be required to bear the burden of providing this service.
- 1.9 The application submitted by the JUTC makes no provision for the payment of regulatory fees although this is a legitimate charge on the Company's budget given the frequent resort to the OUR to provide recommendation on economic fares. The regulatory fee attributable to the JUTC for the current year and which to date is still outstanding amounts to \$5 million. The JUTC should make clear provision within its cost of operations for the discharge of its regulatory obligations.
- 1.10 The Fare Adjustment Mechanism (FAM) developed in 2005 should be implemented to address changes in fuel price and other foreign and local inputs used by the JUTC. The FAM shall be calculated annually and fares adjusted on October 1 of each year. However, if there is a cumulative fuel price change of 30% or more within a given six month period, arrangements should be made to adjust the fuel component of the FAM semi-annually. The second adjustment should be made on April 1.

CHAPTER 2: BACKGROUND AND THE JUTC PROPOSAL

INTRODUCTION

- 2.0 The Jamaica Urban Transit Company (JUTC) Limited is a Government of Jamaica (GOJ) owned entity established in 1998 to provide exclusive bus transport services to commuters travelling in the Kingston Metropolitan Transport Region (KMTR). The Company currently operates from three depots – one in Kingston (Rockfort), one in Portmore; and the other in Spanish Town (Twickenham).
- 2.1 The JUTC provides two types of services to its customers namely: Regular Service which includes normal (adult) and concessionary passengers; and Premium Service which also includes express. Both types of services have a flat fare structure which means that the fare charged for the services is independent of the distance being travelled. Normal service is the standard service provided to the adult public with passengers presently paying a fare of \$50. For the 2008/2009 financial year (FY), passengers travelling on this service accounted for 59.0% of total passenger load (ridership) and contributed 77.2% of total revenue. Table 2.0 shows **that** the percentage of Normal passengers, relative to overall passengers, has been declining over the past three years,
- 2.2 The Concessionary service is provided to children (below age 12), students in uniform, pensioners and the disabled. This service is currently priced at \$15, significantly (70%) below that of the Normal service. For the FY 2008/2009, Concessionary service accounted for approximately 39.4% of the total passenger load and contributed approximately 14.7% of total revenue. The percentage of Concessionary passengers, relative to overall passengers, has been increasing over the past three years.
- 2.3 Express is a service where the buses make fewer stops compared to the Regular service. The regular service buses are required to stop at every bus stop provided a passenger is embarking or disembarking. The Premium service is priced higher than the other services to reflect the comfort and ambiance it provides. This service is operated out of the Portmore depot. The Express and Premium services accounted for approximately 1.6% of the total passenger load and contributed 4.5% to total revenue for FY 2008/2009. The current rate charged for these services range from \$60 to \$170.

Table 2.0

Percentage of Passengers by Type				
	FY 2006/2007	FY 2007/2008	FY 2008/2009	FY 2009/2010-Budget
Normal	63.16%	62.44%	59.03%	67.42%
Concessionary	36.23%	36.30%	39.42%	31.14%
Subtotal	99.39%	98.74%	98.44%	98.56%
Premium	0.61%	1.26%	1.56%	1.44%
Total	100.00%	100.00%	100.00%	100.00%

- 2.4 The Company was previously granted a fare increase in August 2005. A Fare Adjustment Mechanism (FAM) was also developed by the OUR as requested by the Ministry of Transport and Works (MTW). The FAM is a mechanism which is to be used to adjust the fares charged by the JUTC annually in accordance with changes in the company's input costs. However, the FAM has not yet been applied.

LEGAL AND REGULATORY FRAMEWORK

- 2.5 Presently there are three main regulatory bodies for the public passenger transport sector. These include the MTW, the Transport Authority and the OUR. The MTW is responsible for the overall policy decision-making in the sector.

- 2.6 The OUR is mandated to regulate the sector through the Office of Utilities Regulations (Amendment) Act 2000. According to Section 4(4):

"The Office shall have the power to determine, in accordance with the provisions of this Act, the fares which may be charged in respect of the provisions of a prescribed utility service."

The First Schedule of the OUR Act describes prescribed utility services to include:

"...the provision of public passenger transportation by road, rail or ferry."

Section 11 circumscribes the power to fix rate by the following provisions:

(1) Subject to subsection (3), the Office may, either of its own motion or upon application made by a licensee or specified organization (whether pursuant to subsection (1) of section 12 or not) or by any person, by order published in the Gazette prescribe the rates or fares to be charged by a licensee or specified organization in respect of its prescribed utility services.

(3)The provisions of subsections (1) and (2) shall not apply in

any case where an enabling instrument specifies the manner in which rates may be fixed by a licensee or specified organization.

- 2.7 The Transport Authority's responsibility for the sector extends beyond economic regulation. The Authority has responsibility for the licensing of all public passenger vehicles including taxis. In addition, the Authority is mandated to develop, implement and enforce quality of service standards for all operators in the sector.
- 2.8 The Transport Authority regulates through the following Acts of Parliament:
- The Public Passenger Transport (Kingston Metropolitan Transport Region) Act;
 - The Public Passenger Transport (Rural Area) Act;
 - The Transport Authority Act and;
 - The Road Traffic Act.
- 2.9 JUTC was issued a licence under the Public Passenger Transport (Kingston Metropolitan Transport Region) Act in 1998. Section 7(3) of the licence provides that:

.....the Transport Authority may from time to time by Order published in the Gazette revoke or alter any of the conditions as to the size, capacity and number of buses, times and frequency of trips, routes, stage structure, departure points and fare structure upon application of the Licensee.

- 2.10 Section 16 of the Transport Authority Act provides that the Authority may set fares for the sector *'with the approval of the Minister'*.

REGULATORY CONFLICT

- 2.11 The main Acts that govern the sector have provisions for both the OUR and the Transport Authority to regulate the economic and financial performance of the public passenger transport sector. In view of this problem, and until the legislative changes are enacted, a protocol has been agreed that the role of the Office at this time would be limited to that of advisor to the Minister on the economic regulation of the public passenger transport sector. Successive Ministers have confirmed that the Office is to assume full responsibility for the economic regulation (fare setting) but the requisite legislative amendment is yet to be enacted.

SUBMISSION FROM MTW

2.12 On April 16, 2009, the Office received a letter from the Minister of Transport and Works indicating that the JUTC has proposed that bus fares be increased and asked the OUR to provide the Minister with comments on the matter.

2.13 The JUTC proposed that fares be increased as follows:

- Concessionary fares for children, student passengers, disabled persons and pensioners to move from \$15 to \$20, an increase of 33.3%.
- Adult fare to move from \$50 to \$70, an increase of 40%

2.14 Included with the letter from MTW was a submission which reveals that since the last rate increase in 2005, the JUTC's revenues have fallen consistently from \$2,646 million in FY 2005/2006 to \$2,113 million in FY 2008/2009 while expenses have increased over the same period from \$3,813 million in FY 2005/2006 to \$4,510 million in FY 2008/2009 having reached as high as \$6,367 in FY 2007/08. The submission also shows that even with the inclusion of government grants, the company has been unable to cover its expenses and with the exception of FY 2005/2006 has repeatedly recorded net losses.

2.15 The primary reasons behind the JUTC's weak financial performance for FY 2008/2009 were listed by the company to be as follows:

- “1) *Intense competition from illegal and legal operators operating contrary their licenses. The most recent survey from the Transport Authority revealed that 3,158 vehicles were recorded in the KMTR; of this amount, 2,488 were recognised as illegal operators or legal operators operating contrary to their licenses. Due to these actions the JUTC is estimating passenger loss of 149,280 per day or 39.4 million passengers annually. The approximate revenue loss is \$1.57 billion annually.*
- 2) *Adverse weather conditions relating to hurricane Gustav.*
- 3) *The impact of rising fuel prices since the last fare increase.*
- 4) *The devaluation of the Jamaican dollar affected the JUTC's US\$ liability as well as the cost paid for fuel.*
- 5) *The high cost to maintain an aging bus fleet.*
- 6) *Increased salary cost under the new MOU.*
- 7) *Increased toll charges of 75%*

- 8) *Increased utility cost.*
- 9) *Increased inflation above budgeted.”*

2.16 The present fare structure is said to be below purported economic fare of \$73 per passenger. Even if the proposed fare increase is granted, the JUTC has projected that the company will still record a net loss of \$806 million, which compares to a net loss of \$1,470 million if the increase is not granted. The company has said that they would be in a position to break-even with a fare of \$85 for adults using its Regular service.

2.17 The JUTC reported that it has implemented the following efficiency measures:

- “1) *Reduction of employee to bus ratio from 6.6 to 5.18.*
- 2) *Reduction of accidents from 1: 21,596km to 1: 22,715km.*
- 3) *Smart card usage had increased from 5% to 20% thus reducing the effect of pilferage.*
- 4) *On time performance has increased from 65% to 71%.*
- 5) *Reduction in average daily defect return from 86 to 66.*
- 6) *Overtime has been reduced by 43%.*
- 7) *Conductors have been significantly reduced.*
- 8) *Actual and dead kilometres has been reduced by 25%.”*

2.18 Information from the Statistical Institute of Jamaica (STATIN) indicates that the proposed increase in adult fares would add 0.8 percentage points to the All Jamaica Consumer Point Index (CPI) and a 2.3 percentage point increase for the Greater Kingston Metropolitan Area (GKMA).

SUBMISSION FROM JUTC

2.19 In a letter dated April 30, 2009, the OUR requested that the JUTC provide additional data to aid the rate review process. The data was provided by the JUTC on July 28, 2009 and sets out the JUTC’s compliance with the recommendations of the Management Report compiled in 2002 to be as follows:

Recommendation	Status
1. Total cost shall be reduced by \$230 Million, based on operational fleet and fare structure.	With devaluation of the dollar, fuel cost movements, staff costs and cost of goods and services, the total operational cost remains marginally above the operational costs of 2003 – totalling \$3.343 billion.
2. To provide more than 90 million passenger trips per year.	The influx of illegal operators (2,488 illegal operators from 2006 survey), aging fleet and spiralling costs negated the Company's ability to achieve target.
3. To present a contract proposal to the Ministry of Transport & Works.	Contract proposal was for an increase in concessionary fares (\$15 to \$20)
4. To reduce accidents by 25%	Achieved 43% reduction.
5. To reduce breakdowns by 25%.	Achieved 33% over the previous year.
6. To have more than 40% of the passengers satisfied with JUTC's operational quality.	A new survey is to be commissioned to determine current views of passengers.
7. To introduce a cashless prepaid ticketing system where more than 10% of the total number of trips are done through the cashless system at the end of the year.	Proceeds from cashless system are now 22% of revenue.
8. To increase operational efficiency by more than 10% per bus compared with 2001/2002	<ul style="list-style-type: none"> • Freeze on employment in place • 2.3 crew ratio versus 2.5 has been achieved. • Driver & conductor numbers have reduced. • Indirect operational staff reduced. Originally the staff ratio was 7:1 it is now 4.5:1 versus international standard of 5:1. • Drivers are being assigned to routes for extended periods. • Reduction of Split shifts. This failed because turnover was high, salary low and damages increased. • Flexible duties were introduced. • MOU with the Union regarding payment was not achieved. • Implemented the review of route networks, introduced interlined routes and reduced idle time

	<ul style="list-style-type: none"> • Introduced strict follow up between payroll and completed trips. • Implemented a reduction in non-effective time between depot and terminals. • Introduced mechanism to increase and measure bus hours with salary hours.
9. To introduce Single Operator buses.	Achieved, with the exception of 50 Articulated units. Percentage achievement is 80%.
10. Portmore depot workshops to be completed and in operation.	This has been completed.
11. To increase workshop efficiency by 10% compared with 2001/2002.	<ul style="list-style-type: none"> • Service yardstick has been defined. • Service units introduced • Preventative maintenance is at 60%. It is severely hampered by lack of resources. • Job card system is fully implemented • Inventory system is fully implemented.
12. To have a modern, efficient parts store system.	Work in progress
13. To implement a revised, decentralized, business oriented organization at the Headquarters and the depots.	Work in progress
14. To have a marketing and information plan with required resources.	Work in progress
15. To develop a public transport infrastructure master plan through resources made available in the new generation.	Work in progress

PROPOSED EFFICIENCY IMPROVEMENTS

2.20 The JUTC has put forward the following list of efficiency measures which it proposes to undertake starting in the FY 2009/2010 in order to improve the performance of the company:

- Increase passenger trips to 82 million by FY 2011/2012;

- Achieve financial sustainability;
- Improve customer service;
- Rationalise the route network;
- Increase fleet rationalisation;
- Improve Staff to bus ratio;
- Increase smart card usage;
- Minimise tyre cost;
- Improve employee relations and competence;
- Improve safety and emergency management;
- Conserve energy and reduce environmental hazards;
- Improve access to information; and
- Achieve economic fare structure;

PUBLIC CONSULTATIONS

2.21 The Office, through its Consumer and Public Affairs Division, conducted three public consultations within the KMTR – Spanish Town, Portmore and Kingston. The purpose of the consultations was to capture the views of the public, especially those who use the services of the JUTC. The Office is grateful to the scores of persons who contributed to the consultation and has embraced many of the ideas and suggestions that were put forward.

CHAPTER 3: VIEWS OF THE COMMUTING PUBLIC

- 3.0 Commuters generally expressed mixed views about whether the JUTC deserved the fare increase. Some persons expressed the view that while the fare increase was warranted, it should not be implemented due to the current economic situation. It was even said that a fare increase at this time may lead to a fall in school attendance as parents are already struggling to find the money to give the children and as such the government should shoulder the needed increase.
- 3.1 The primary concern expressed by persons seems to surround the unreliable and poor quality service being provided by the JUTC. On numerous occasions persons highlighted the fact that the buses are dirty, even when coming straight from the depot in the early morning. Commuters also indicated that some JUTC staff members are disrespectful especially when questioned. Persons also voiced their dissatisfaction with having to endure long waiting times to get buses, a problem which seems to be more acute on some routes than others. In such cases, where inspectors were present, they failed to communicate with waiting commuters about the tardiness. There was also a constant complaint of buses being overloaded. It was generally felt that over the years, apart from the recently introduced air conditioned buses, the JUTC has done very little to improve the quality of the service offered to commuters.
- 3.2 Commuters also voiced their concerns about the inability of the JUTC to meet the published schedules, with even the digital destination boards in the transport centre failing to predict the departure time of buses with any great accuracy or consistency. It was also the view of many commuters that the schedules posted by JUTC were not generally accessible to the public as many persons did not have access to the internet or credit to call the JUTC helpline.
- 3.3 Some commuters questioned why the JUTC was requesting a fare increase without undertaking any cost cutting exercises. Others went further and claimed that the poor performance of the company was due to poor management with the fall in passenger trips sighted as an indication of the existence of operational inefficiencies and queried what the JUTC plans to do to reverse this trend. Some persons expressed the view that the company is top heavy with too many executives. The number of inspectors checking tickets on the buses was seen by some as excessive. Questions were also asked about why the company has taken the decision to send buses abroad for repair or buy new buses rather than repairing the buses locally.
- 3.4 Some persons were baffled by the recent decrease in fares for the Premium service in light of the request for the fare increase for the Regular service. The opinion expressed is that the JUTC was reducing fares for upscale passengers while increasing the fare paid by the poor.

RECOMMENDATIONS FROM THE PUBLIC

3.5 The following are some of the suggestions made by the public:

- Force persons to use smart cards and increase smart card outlets.
- Assess what illegal operators are doing which is causing them to take passengers from the JUTC
- Increase the number of buses
- Introduce shuttle system
- Make the schedule more accessible by having it published in the newspapers
- Study market to increase ridership

CHAPTER 4: OUR REVIEW OF RATE APPLICATION

4.0 To aid the analysis of the JUTC's proposed rate increase, the following are the major assumptions made by the Office:

Table 4.0

Major Assumptions			
	JUTC	OUR	Difference
Passenger Load (Ridership Number)	65,152,873	63,261,343	-1,891,530
Regular Services	64,214,572	62,424,543	-1,790,029
Premium Services	938,301	836,800	-101,501
Average Load Factor (%)			
Regular Services	81%	55%	-26%
Premium Services	100%	90%	-10%
Total Number of Employees	1,821	1,821	0
Total Kilometres (Number)	27,799,954	27,799,954	0
Regular Services	26,209,148	26,209,148	0
Premium Services	1,590,806	1,590,806	0
Average Number of Buses in Service Per Day	400	400	0
Regular Services	376	376	0
Premium Services	24	24	0
Average Price Per Litre of Fuel	62.13	63.53	1.40
Total Number of Tyres (New and Re-capped)	9,580	9,580	0
Regular Services		9,032	9,032
Premium Services		548	548

NUMBER OF BUSES

4.1 The JUTC has budgeted to increase the number of buses dispatched daily for the Regular service from 262 in the previous financial year to 376 in FY 2009/2010. The number of buses used to provide Premium service will remain unchanged at 24. The Government has already procured 100 new buses for the JUTC and injected \$150 million for the refurbishing and repair of another 50 buses. Therefore, the OUR made no adjustment to the budgeted increase in the number of buses dispatched daily.

LOAD FACTOR

4.2 As recommended by the OUR In 2005, a published timetable was introduced, which had some positive effects as the average load factor for Regular service increased from 59.5% in FY 2004/05 to as high as 66.0% in FY 2007/2008. The average load factor subsequently dipped to 61.0% in FY

2008/2009. The company has suggested that its ability to service routes properly has been adversely affected by buses being in various states of disrepair resulting in an inadequate number of buses being available on a regular basis. As a consequence, there has been a significant decline in ridership.

- 4.3 To correct the decline in the average load factor, JUTC proposes to increase the number of available buses and is presently rationalising its route network to reconfigure uneconomic routes. Against the background of the implementation of these corrective measures and a projected increase in passengers to be carried, JUTC expects the average load factor for Regular service to increase to 81.0% in FY 2009/2010.
- 4.4 Given the significant increase in the number of buses expected to be used to provide the Regular service in FY 2009/2010, the OUR is of the view that a 20 percentage point increase in the average load factor is overly ambitious as the company has never come close to achieving an increase of this magnitude. In fact, with such a large increase in the number of buses, the average load factor is likely to decline, especially in the first year. The OUR has therefore estimated an average load factor of 55%, which is in line with what the company has achieved since the start of the financial year.
- 4.5 The average load factor for the Premium service fell to 82.0% in FY 2008/2009 having been at 84.0% in the two previous financial years. JUTC is budgeting for this to rise to 100% in FY 2009/2010. This effectively means the buses would be running at capacity for every trip. It is difficult to see how this would be achieved while adhering to an advertised schedule. Even though the Premium service is fairly popular, this target is unlikely to be met. The OUR has set a revised target of 90.0%.

PASSENGER LOAD

- 4.6 The JUTC is projecting a passenger load (ridership) of 65.2 million in FY 2009/10 which represents a 56.2% increase over the 49.0 million passengers carried in the previous year. This increase is to be generated by a 33.1% increase in Regular passengers and a 23.1% increase in passengers on its Premium service. However, as shown by Table 4.1, the number of passengers using the Regular service has declined consistently over the past three years. On the other hand, the number of persons using the Premium service has grown steadily over the same period. Approximately 90% of revenues (net of government funding) are from farebox revenue therefore, the sustained decline in ridership has had a material effect on the company's financial performance.

Table 4.1

Number of Passengers by Type (from JUTC)				
	<u>FY2006/2007</u>	<u>FY2007/2008</u>	<u>FY2008/2009</u>	<u>FY2009/2010 - Budget</u>
Normal (Adult)	41,587,705	33,099,665	28,925,889	43,922,976
Concessionary	23,852,496	19,246,274	19,317,295	20,291,596
Subtotal	65,440,201	52,345,939	48,243,184	64,214,572
Premium	400,443	667,308	762,346	938,301
Total	65,840,644	53,013,247	49,005,530	65,152,873

- 4.7 The company attributes the decline in passenger load primarily to the existence of illegal operators and legal operators functioning contrary to their licenses. JUTC has estimated that it is losing 39.4 million passengers annually, which translates to a revenue loss of approximately \$1.57 billion. As such, the company is calling on the Transport Authority to increase its efforts to effectively regulate the transport service.
- 4.8 JUTC has also indicated that its popularity with commuters has been declining due to inconsistent service and poor driving. A December 2006 survey estimates the customer satisfaction rating to be 43%, which is well below the long term target of 65% recommended in the management report.
- 4.8 It has also been suggested that the inadequate number of buses in operation is negatively impacting the company's ability to effectively service its routes. This unreliable service is due to some buses being in various states of disrepair. On average, 286 buses were dispatched in FY 2008/2009 (weekday peak), which is a mere 58% of the fleet allocation of 493 buses.
- 4.9 The company is anticipating that with the assistance of the Transport Authority there will be a sizable improvement in the number of passengers carried. It also plans to implement several measures to correct the deficiencies which have resulted in the declining passenger load in order to achieve the budgeted increase in ridership. These include implementing a marketing programme partly aimed at improving corporate image and rewarding employees who deliver good customer service. With respect to fleet utilization, the company plans to embark on a major programme of refurbishment which is aimed at increasing the average daily bus run-out to 400 from the present 286. The company has indicated that it will institute a regular maintenance programme which should result in minimal downtime of the fleet. The GOJ has already procured 100 new buses for the company and has given it funding to repair and refurbish 50 buses.
- 4.10 The Office is generally in agreement with measures to increase fleet utilisation and would like to see a situation where at least 90% of the fleet is available for use on a daily basis.

- 4.11 The average load factor for the Regular service in FY 2008/2009 was 61% with a ridership of 48.2 million. There were 262 buses dispatched during the year which means that on average each bus carried approximately 184,134 passengers. This means that at capacity, each bus can carry an average of 301,859 passengers per annum. Given the increased number of buses to be operated in the financial year and an expected average load factor of 55.0%, the JUTC should be able to carry 62.4 million passengers during the year as shown in Table 4.2.
- 4.12 Using the same methodology for the Premium service, Table 4.3 shows that with an increased load factor for FY 2009/2010 of 90.0%, the Premium service should be able to carry 836,800 passengers per annum.

Table 4.2

Number of Passengers by Type (from OUR)				
	FY2006/2007	FY2007/2008	FY2008/2009	FY2009/2010-Proj
Normal	41,587,705	33,099,665	28,925,889	42,132,947
Concessionary	23,852,496	19,246,274	19,317,295	20,291,596
Express	0	0	0	
Subtotal	65,440,201	52,345,939	48,243,184	62,424,543
Premium	400,443	667,308	762,346	836,800
Total	65,840,644	53,013,247	49,005,530	63,261,343

Table 4.3

OUR Determined Number of Buses			
	2008/2009		
	Regular	Premium	Total
Load Factor	61%	82%	
Ridership	48,243,184	762,418	49,005,602
Number of Buses Operated	262	24	286
Passenger Per Bus	184,134	31,767	215,902
	2009/2010		
	Regular	Premium	Total
Load Factor (10% increase)	55%	90%	
Targeted Ridership	62,424,543	836,800	63,261,343
Determined Number of Buses Operated	376	24	400
Average Capacity Per Bus	301,859	38,741	340,600

EMPLOYEE COST

- 4.13 The company has budgeted that 273 new workers will be added in FY 2009/2010 for a staff compliment of 1,821. This is primarily due to the addition of 149 new drivers. However, the budget submitted by the company indicates that wages and salaries paid to workers in several departments will be lower than that paid in the previous financial year even though the staff compliment and assignment in these departments is projected to remain unchanged. For instance, the wages and salaries paid to workers in the Traffic, Maintenance and Operations departments in FY 2009/2010 is budgeted to decline by 41.3%, 11.1%, and 51.6%, respectively, compared to FY 2008/2009 although there is no projected change to the number of workers in these department. The JUTC has not provided an explanation for this anomaly and therefore, the OUR has chosen to keep the budgeted wages and salaries in these departments unchanged at FY 2008/2009 levels. Employee cost was therefore increased from the budgeted \$1.2 billion to \$1.3 billion.
- 4.14 In FY 2008/2009, the company indicated that it had a fleet size of 493 buses, of this number only an average of 286 buses were dispatched per day during the year. Even with the assumption that 32 of the buses were used as standby buses¹, it means that 38.0% (175 buses) of the total number of buses were not operated for the entire year as they were in various states of disrepair. A bus that cannot be operated for such an extended period of time cannot reasonably be counted as part of the available fleet, especially not for purpose of determining required staff size. The OUR therefore concurs with the JUTC that the staff to bus ratio be calculated on the basis of buses operated as shown in Table 4.4.
- 4.15 In FY 2008/2009, the company had a staff to bus ratio of 5.4:1. The increase in the staff size to 1821 and the increase of the number of buses to 400 will result in a staff to bus ratio of 4.6:1.

Table 4.4

Staff to Bus Ratio (Buses Operated)				
	<u>FY</u> <u>2006/2007</u>	<u>FY</u> <u>2007/2008</u>	<u>FY</u> <u>2008/2009</u>	<u>FY 2009/2010 -</u> <u>Budget</u>
Number of Employees	2,763	2,106	1,548	1,821
Number of Buses	354	300	286	400
Staff to Bus Ratio	7.81	7.02	5.41	4.55

¹ This would be in line with a bus run-out of 90%

FUEL AND LUBRICANT COST

- 4.16 The Company spent \$838.4 million on fuel and lubricants during the FY 2008/2009 financial year and is anticipating that spending in this area will increase to \$1.1 billion in FY 2009/2010 (32.0%). Of this amount, \$60.9 million is attributable to the provision of the Premium service. The Office has made adjustments to some of the assumptions used to calculate the fuel and lubricant cost.
- 4.17 Firstly, for FY 2008/2009, the 262 buses dispatched for Regular service during the year covered 19.4 million Km exclusive of dead Km while the 24 buses used to deliver the Premium service covered 1.2 million Km². JUTC has indicated that it expects to reduce dead Km to 7.2% for the Regular service and 20.6% for the Premium service. Taking this into account, buses doing Regular service will cover a total of 26.2 million Km during FY 2009/2010 while buses used for Premium service will cover 1.6 million Km as shown in Table 4.5.

Table 4.5

	Vehicle Kilometres	Dead Kilometres	Total Kilometres
Regular	24,448,832	1,760,316	26,209,148
Premium	1,318,748	272,058	1,590,806
Total	25,767,580	2,032,374	27,799,954

- 4.18 The company has projected that the fuel burn rates (Km per litre) for buses delivering Regular and Premium service will fall to 1.52 and 1.38, respectively, from 1.63 and 1.75 achieved in FY 2008/2009. The OUR does not agree with these projections for a fall in fuel efficiency as they are not supported by the company's empirical data nor justified by any plausible explanation. As such the fuel burn rates achieved in FY 2008/2009 have been maintained.
- 4.19 Dividing the total distance to be travelled by the fuel burn rate, it is estimated that 16.1 million litres of fuel will be required for Regular service while approximately 0.9 million litres will be needed for the Premium service. Assuming an average fuel price of \$63.53³, fuel expenditure for Regular and Premium service as shown in Table 4.6 should be \$1.0 billion and \$57.8 million, respectively.

² Inclusive of dead kilometres the buses uses for Regular service did 21.1 million Km and buses used for Premium service did 1.6 million Km.

³ This is average price for diesel fuel since the start of the financial year as taken from Petrojam plus a \$2.0 mark-up.

Table 4.6

Fuel and Lubricant Usage and Expenditure					
	Fuel Burn Rate (Km per Litre)	Total Kilometres	Fuel Required (Litres)	Fuel Expenditure	Lubricant Expenditure
Regular	1.63	26,209,148	16,079,232	\$1,021,540,933.68	\$67,017,397.03
Premium	1.75	1,590,806	909,032	\$57,752,337.87	\$ 5,882,337.38
Total		27,799,954	16,988,264	\$1,079,293,271.55	\$72,899,734.41

4.20 JUTC reported that it spent approximately \$783.1 million on fuel in FY 2008/2009 which means that \$55.3 million was spent on lubricants. Using an estimated price of \$410.0 for a quart of lubricant in FY 2008/2009, it means that on average each bus used 471 quarts of lubricant for the year. Assuming inflation of 12.5%⁴ for FY 2009/2010, the price of lubricant will rise to \$461.3 per quart. Multiplying the estimated lubricant cost by the number of quarts needed gives a projected lubricant expenditure of \$67.0 million for Regular service and \$5.9 million for Premium service. This amounts to a total fuel and lubricants expenditure for FY 2009/2010 of \$1.2 billion compared to the \$1.1 billion projected by the company.

TOLL CHARGES

4.21 Data from the company indicates that during FY 2008/2009 a total of 140,912 cycle trips were made on Portmore routes. The company is projecting that trips between Portmore and Downtown will increase by 117.5% in FY 2009/2010 while, trips between Portmore and Half Way-Tree will increase by 94.4%. However, the company is budgeting for a 14.1% decline in Premium trips despite the fact that this area has shown very strong growth over the past two years⁵. The growth in trips on these routes suggests that the company plans to increase the number of buses assigned to Portmore. Given the budgeted number of trips and the new Class 3 toll rate⁶ applicable to JUTC buses, toll charges in FY 2009/2010 should be \$170.7 million relative to the \$91.5 million budgeted.

OTHER OPERATIONAL COSTS

4.22 Other than the changes mentioned before, the Office has also made adjustments to other expense items which have increased dramatically without any explanation. One such item is General Expenses which is projected to increase more than 10 fold in FY 2009/2010 relative to the previous financial year. This will instead be increased by the anticipated

⁴ Bank of Jamaica has estimated that inflation will be between 11 – 14 percent. The average of this is 12.5%.

⁵ In FY 2007/2008 Premium trips on Portmore toll routes increased by 68.6% and by 37.1% in the following FY.

⁶ This was \$280 up to August 2009 and \$340 thereafter.

inflation rate of 12.5%. Similarly, Administrative Head Office Expenses have been budgeted to increase by 53.5% without any justification and as such will also be adjusted by expected inflation. Notably, the JUTC has omitted to make provision for payment of regulatory fees which is a legitimate item of operating costs. The regulatory fee due and payable for the JUTC for the current year amounts to \$ 5 million. The OUR has therefore added this figure to the JUTC's operating costs.

4.23 As usual, the OUR will calculate not only the rate that would cover operational costs but also the fare that will cover economic costs. The difference between operational costs and economic costs is depreciation and return on investment. The company has budgeted \$561.2 million for depreciation in FY 2009/2010.

4.24 The rate of return on investment was calculated using the following assumptions:

- 1) A debt/equity ratio of 40:60;
- 2) Post-tax return of 14.5%, or pre-tax return of 21.64% on equity;
- 3) Cost of debt equals 15.46%;
- 4) The asset base assumed is \$6.7⁷ billion.

4.25 Therefore, the calculated rate of return [weighted average cost of capital (WACC)] is 19.17%. The expected return on investment for the current year is approximately \$1.3 billion.

OVERALL ECONOMIC COST

4.26 The Company submitted a budget with operating costs totalling just over \$5.1 billion, projected revenues amounting to \$3.8 billion, and anticipated government grant of \$776.0 million. This equates to a projected unfunded shortfall of approximately \$590.8 million. However, these costs do not include capital investment that is required to ensure the viability of the company. The capital costs, as measured by depreciation and return on investments, are determined by the OUR to be approximately \$1.8 billion.

4.27 However, after further assessment of the Company's costs, the OUR has determined JUTC's operating costs for FY 2009/2010 to be \$5.0 billion. This means that the total economic cost of operating the JUTC is approximately \$6.9 billion. (See Tables 4.7 and 4.8).

⁷ Total asset as at July 31, 2009.

Table 4.7

Economic Costs		
	JUTC Proposed Economic Costs	OUR Determined Economic Costs
Direct Costs	\$3,198,379,069.00	\$3,399,423,249.06
Indirect Costs	\$53,231,692.00	\$79,641,046.13
Overheads	\$745,302,182.00	\$731,906,576.13
Head Office	\$1,126,680,989.00	\$825,744,836.25
Regulatory Fees		\$5,000,000.00
Operating Costs	\$5,123,593,932.00	\$5,041,715,707.58
Depreciation	\$561,162,548.00	\$561,162,548.00
Return on Assets	\$1,287,866,995.50	\$1,287,866,995.50
Total Economic Costs	\$6,972,623,475.50	\$6,890,745,251.07

Table 4.8

OUR Determined Economic Costs by Service Type		
	Regular Services	Premium Services
Direct Costs	\$3,237,098,301.00	\$162,324,948.07
Indirect Costs	\$76,576,250.13	\$3,064,796.00
Overheads	\$712,434,446.80	\$19,472,129.33
Head Office	\$759,114,830.57	\$66,630,005.68
Regulatory Fees	\$5,000,000.00	
Operating Costs	\$4,790,223,828.50	\$251,491,879.08
Depreciation	\$515,881,896.98	\$45,280,651.02
Return on Assets	\$1,183,947,986.31	\$103,919,009.19
Total Economic Costs	\$6,490,053,711.78	\$400,691,539.29

OVERALL ECONOMIC COST

4.28 The revenue requirement for JUTC based on total economic costs is the sum of the total operating costs plus depreciation and return on investment.

Table 4.9

Revenue Requirement (Economic Costs)	
<u>Category</u>	<u>Amount</u>
Total Operating Cost	\$5,041,715,707.58
Depreciation	\$561,162,548.00
Return on Assets	\$1,287,866,995.50
Total Revenue Required	\$6,890,745,251.07
Revenue Projected	\$2,779,377,438.35
Shortfall	-\$4,111,367,812.73

4.29 As shown in Table 4.9, if the current rates are maintained, the shortfall in revenue is approximately \$4.1 billion. This means that revenues will have to be increased by 147.9% to cover expenses.

4.30 Against this background, the OUR has estimated the fares as shown in Table 4.10 as those necessary to cover the company's economic costs and the fares in Table 4.11 as those needed to cover the JUTC's operational costs only. To cover economic costs, the fares will need to be increased to \$131 for Normal (adult) passengers, \$40 for Concessionary passengers, and for passengers using the Premium services - fares averaging \$361 will be required. To cover operational costs, the JUTC will require a fare increase to \$95 for Normal adult passengers, \$30 for Concessionary passengers, and an average of \$182 for commuters using the Premium service.

Table 4.10

Economic Cost Recovery			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$131	\$5,504,456,833.74
Concessionary	20,291,596	\$40	\$811,663,833.17
Charters, Advertising and Other			\$173,933,044.87
			\$6,490,053,711.78
Subtotal	62,424,543		
Premium	836,800	\$361	\$301,902,751.91
Charters and Advertising			\$98,788,787.38
Total	63,261,343		\$6,890,745,251.07

Table 4.11

Operational Cost Recovery			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$95	\$4,007,542,908.75
Concessionary Charters, Advertising and Other	20,291,596	\$30	\$608,747,874.88
			\$173,933,044.87
Subtotal	62,424,543		\$4,790,223,828.50
Premium Charters and Advertising	836,800	\$182	\$152,703,091.70
			\$98,788,787.38
Total	63,261,343		\$5,041,715,707.58

- 4.31 The JUTC will require a subsidy of \$3.0 billion to cover economic costs or \$1.3 billion to cover operational costs if the proposed fares for the Regular service of \$70 for adult passengers and \$20 for Concessionary passengers are approved. Tables 4.12 and 4.13 outline the requirements.

Table 4.12

Required Subsidy to Cover Economic Cost with JUTC Proposed Rates			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$70	\$2,949,306,297.10
Concessionary	20,291,596	\$20	\$405,831,916.59
Implied Government Grant			\$2,960,982,453.22
Charters, Advertising and Other			\$173,933,044.87
Total	62,424,543		\$6,490,053,711.78

Table 4.13

Required Subsidy to Cover Operational Cost with JUTC Proposed Rates			
	<u>Determined Passenger Load</u>	<u>Determined Fare</u>	<u>Determined Revenue</u>
Normal (Adults)	42,132,947	\$70	\$2,949,306,297.10
Concessionary	20,291,596	\$20	\$405,831,916.59
Implied Government Grant			\$1,261,152,569.95
Charters, Advertising and Other			\$173,933,044.87
Total	62,424,543		\$4,790,223,828.50

CHAPTER 5: RECOMMENDATIONS AND CONCLUSION

- 5.0 The financial performance of the JUTC over the years has been poor and is likely to continue. Based on the analysis, even if the company is granted the requested increase and is able to achieve the OUR's estimated ridership and receive the projected grant support from the government, the Regular service would still record an operating loss of approximately \$480.2 million and an economic loss of \$2.2 billion. While the JUTC cannot be absolved from taking responsibility for its poor performance, the company is also being affected by competition from illegal operators.
- 5.1 Data presented by the JUTC indicates that based on a recent survey commissioned by the Transport Authority, 2,488 of the 3,158 vehicles in the KMTR were categorised as illegal operators or legal operators functioning contrary to their licence. As a result, the JUTC has estimated that it is losing 39.4 million passengers annually for an approximate revenue loss of \$1.57 billion per year. This situation cannot be allowed to continue at the expense of tax payers who have to bear the burden of the JUTC's annual losses. It is advised that the Ministry of Transport and Works and or the Transport Authority urgently devise measures to effectively regulate the transport sector and dissuade persons from engaging in illegal transport operations. If these persons are to be allowed to conduct business, then some sort of structure must be put to their operations with regulations developed to stipulate the rules and standards by which all operators must abide to level the playing field and rid the sector of the anarchy which now abounds.
- 5.2 Notwithstanding the existence of illegal competition, the comments from the public have made it clear that there are glaring problems with the quality of the service provided by the JUTC, which has no doubt contributed to persons migrating to the competition. The company continues to be afflicted by scheduling problems which have existed since the last rate review. The JUTC has implemented measures such as publishing a schedule on its website, offering a hotline number which commuters can use to get information as well as a digital destination board in the Half Way Tree Transport Centre. However, it seems the company changes the schedule on a daily basis based on the availability of buses, which makes forward planning by commuters fairly pointless and adds to their frustration. Also the means by which the schedule is made available to the public seems to exclude a large portion of the JUTC's market. Many of the commuters using the JUTC's service do not have regular access to the internet and so they are not able to make use of the online schedule. Many commuters are also without landline telephone service to make use of the toll free number, or mobile credit to call the mobile hotline number. The Transport Authority, in consultation with the JUTC should develop a timetable which will remain fixed for a period of at least one year, reducing the need for commuters to make frequent checks and this should be published in the newspapers once per month on a specified date. Greater emphasis also needs to be placed on publicising the existence and location of the schedule as well as encouraging commuters to use it to plan

their trips. It is not necessary to have a bus leaving every 5 minutes, what is needed is for commuters to know what time buses will be passing their stops so that they can plan their trips ahead of time.

- 5.3 The average on time pull-out being achieved by the JUTC is unacceptable and contributes to commuters' frustration with the company. The company achieved a 69.7% on time pull-out in AM for FY 2008/2009 and 52.2% in the PM. For the first 4 month of FY 2009/10 the company has managed to improve the AM average on time pull-out to 85.7% and 59.4% in the PM. While the improvement is a move in the right direction, the average on time pull-out in both the AM and PM needs to be brought up to at least 90%. The Transport Authority, in consultation with the JUTC should have enough data on average daily bus availability and traffic patterns at different points of the day to be able to create a timetable which it can realise with greater accuracy.

Table 5.0

Average On Time Pull-Out		
Period	AM	PM
Jun-08	71.3%	54.4%
Jul-08	74.3%	58.3%
Aug-08	68.0%	52.8%
Sep-08	70.8%	54.5%
Oct-08	71.5%	50.3%
Nov-08	71.8%	49.0%
Dec-08	61.3%	41.0%
Jan-09	59.7%	46.3%
Feb-09	75.8%	58.9%
Mar-09	69.7%	53.0%
Apr-09	84.0%	49.3%
May-09	87.3%	62.7%
Jun-09	86.5%	65.2%
Jul-09	85.1%	60.3%
Average	74.1%	54.0%

- 5.4 Greater emphasis needs to be placed on maintenance. Data submitted by the company shows that at least 38% of the buses in the fleet were not operated during the financial year as they were in need of repair. If the buses are properly maintained and serviced then there is no reason why a fleet with buses 8 to 10 years old should have such a high percentage of buses in a state of disrepair. It is also worth noting that many of the vehicles which have managed to provide effective competition to the JUTC are either of the same age as the JUTC's fleet or older. The OUR notes that the government has procured many new buses for the JUTC which can be used to replace defective buses and increase the reliability of the JUTC's operations however, unless a proper programme of servicing and maintenance is implemented,

these buses will also be in a state of disrepair in a few years leaving the JUTC in no better position than it is in now.

- 5.5 The Premium service is a special service being offered by the JUTC which should be able to cover its own costs. Currently, the highest rate being charged for Premium service is \$170, which is lower than the \$182 needed to cover operational costs and significantly less than the \$361 necessary to cover the economic cost of providing the service. This clearly indicates that there is a need for the JUTC to re-examine the Premium service with a view of bringing it to profitability either by reducing the costs associated with providing the service or increasing the revenue generated by the service or some combination of both. It is unreasonable to expect tax payers to also bear a part of the burden of providing this service.
- 5.6 The Fare Adjustment Mechanism (FAM) developed in 2005 should be implemented to address changes in fuel price and other foreign and local inputs used by the JUTC. The changes in foreign inputs is measured by the change in the foreign exchange rate, changes in local inputs is measured by the change in domestic consumer price index (CPI), and the change in the fuel input is measured by change in the price at which the company purchases fuel.
- 5.7 The formula for the calculation of the FAM is as follows:

$$FAM = w_1 * \Delta FI + w_2 * \Delta LI + w_3 * \Delta F$$

Where:

w_1 = weight for foreign inputs measured by the JA\$/US\$ exchange rate;

w_2 = weight for local inputs measured by the domestic CPI;

w_3 = weight for the fuel input;

Δ = the percentage change in the respective input and;

- 5.8 The weights for the FAM are as follows:

Table 5.1

Index	Weights
Foreign input	0.12
Local input	0.69
Fuel	0.19
Total	1.00

5.9 The following outlines the calculation of changes in each input factor:

$$\text{Change in input price} = \frac{\text{Current price of input} - \text{Base price of input}}{\text{Base price of input}} * 100$$

5.10 The current prices for a given year will become the base prices for the following year. The current prices for subsequent years will be based on the closing input values for the month of August in the particular year.

5.11 The FAM shall be calculated annually and fares adjusted on October 1 of each year. However, specific arrangements will be made to adjust the fuel component of the FAM semi-annually if there is a cumulative price change of 30% or more within a given six month period. This adjustment shall be made on April 1.