



Farewell to a Friend

Hundreds became a part of the celebration of the life and spirit of Senior Vice President Dave Gionet. You remember Dave as the bright and talented leader of the Fort Worth Public Transportation Corporation, one of the leaders of the Indiana Transportation Association, and a community leader and transit innovator. During the weekend we came to know the high school hockey star who played in three state championships, the brother, son, and uncle whose fighting spirit means so much to so many.

Special thanks to John Bartosiewicz, Betsy Kachmar and the FWPTC team for their exceptional efforts during this period. Thanks to Ken Housden on this important assignment.



Charlotte City Council Acts

Thanks to the great work of Steve Keiper, Reginald Arrington, Dwayne Pelfrey, and John Bartosiewicz, the City of Charlotte awarded a new five year agreement. This is an exciting period with rapid changes in ridership (17.4% ytd through June) spurred by \$4 gasoline and the nation's newest rail line. Express ridership and Blue Line ridership are growing dramatically. Thanks to the exceptional efforts of our team, fuel conservation is improved, overtime efficiency is better, accident rates are at the lowest point in recent history. Congratulations to our entire team.

McDonald Transit Associates, Inc. Mission Statement

The mission of McDonald Transit Associates, Inc. is to provide excellence in transportation services to the riding publics of its clients.

A dedicated and dynamic group of professional managers, we are committed to corporate growth at a pace that insures quality.

We seek the highest standards of ethics and honesty in all endeavors.

We take pride in our employees and their accomplishments both individually and corporately,

and will always seek to provide them with a rewarding working environment.

Clean Energy Finance

Most of our clients face budget challenges in operating budgets rather than capital budgets. Many transit systems are facing pressure to consider strategies to go even "greener" than before. The process of converting a fleet to CNG can be quite challenging, and quite rewarding. If your policymakers seek reasonable options for such a project, there are several paths that can be used together or individually.

VVTA decided to go to CNG using a combination of fast fill compressors and other back up capability. FWTA chose to go to multiple fast fill compressors because of the size of the fleet committed. We have operated other CNG vehicles that were fuelled off site, because the number of CNG vehicles was never planned to become large. Should your client want to build CNG facilities but not use large amounts of FTA 5307 or 5309 funds, Clean Energy Finance offers financing options for both vehicles and fueling equipment/facilities. Clean Energy Finance is accustomed to grant partial financing and government procurements. Some of the solutions may fit the FTA Capital Leasing requirements as well.

Inventors Among Us

Votran Director of Maintenance, Rick Kazawitch helped bus manufacturers redesign the seating and wheelchair securement deployment to maximize the passenger and wheelchair capacity of the mainstay medium duty small bus. His redesign saved taxpayers from over purchasing larger buses. Taxpayers throughout the state will benefit from Rick's design for paratransit interiors. His design is a model for Florida transit systems. Congratulations to our practical inventor.

Oxford Service Starts With Presidential Debate

Thanks to our client the Oxford/University Transit service begins on September 26, 2008. The University of Mississippi and Oxford will host Senator McCain and Senator Obama for the first of three presidential debates. The flexible fixed route service begins daily duties on October 1, 2008.

Congratulations to Tim Lett for our start up professional work, and to Christine Hines, Ken Housden, and Tim Lett for the operations planning efforts. We are excited to serve this community listed as one of the top places to live or retire by Money, Kiplinger, and AARP. Mr. Lett, working with our client has even modified the service level to accommodate the budget adjustments that were needed during the final phase of the feasibility assessment.

Orlando Lynx Leads Biodiesel

Florida Governor Crist has called for 10% reduction in greenhouse gases in the state by 2012. CFRTA chief executive, Linda Watson, is leading the charge to become the first transit agency to own and operate "on-demand" blended biodiesel. The Florida Department of Environmental Protection provided a grant based on the Lynx application for \$2.5 million to blend mixes from B20 to B100. Custom blends for testing will be possible and fuel blend changes in the event of petroleum shortage will be possible. Through use by the Lynx fleet, and the fleets of Orange County and the Orange Utilities Commission, over 800,000 gallons will be used by transit and over 1.2 million gallons will be used in total.



While Carbon Rules Wait, Ozone Rules Tighten

The debate over a pricing or allotment mechanism for carbon continues but the EPA does agree that tighter ozone standards are called for. The American Lung Association reminds us that if you cannot breathe, nothing else matters. The ALA, the Natural Resources Defense Council and thirteen states sued the EPA pointing out that the EPA scientist advisors recommended the new standard be changed to no higher than 0.070 parts per million over an 8 hour period. The EPA announced that the new standard would be 0.075, lower than the current 0.084 but too high for the attorneys general in Illinois, Pennsylvania, New Mexico, New Jersey, Oregon, California, and New York among the 13 states in the battle.

Some may think the debate over small differences in ozone are trivial, but J. Paul Leigh, a health economist from the University of California, tells Time/CNN that more than 2,200 lives were saved this year by the price of gasoline alone. (Time/CNN 7.29.08; STL P-D 7.28.08)

A Tale of Two Companies

Many of our purchasing departments understand the process of fuel futures contracts. The purchase of one contract guarantees the price of fuel at a certain month in the future. Southwest Airlines is one of the most active and successful traders of fuel futures. During most of 2008, the airline has lowered the effective cost of fuel to \$2 per gallon through hedge positions on over 70% of the fuel consumption.



The other extreme is a large private oil marketing firm, SemGroup. Little attention was paid to the devastating impacts of unfortunate timing and the fuel hedging of this Tulsa firm. On recent daily positions, the price of futures contracts for crude oil dropped over 14%. SemGroup had taken short positions betting that crude prices would fall, but as oil prices rose the firm took out long positions, betting the price would rise to offset the short positions. But each position is in itself a borrowing due to the margin call provision. The eventual loss was \$2.4 billion.

At times our current and prospective clients ask about fuel hedging strategies. We are pleased to discuss the strategies. But very few public clients ever pursue the strategy. The story of Southwest is the reason that interest persists and intensifies during price spikes. The story of SenGroup is the reason that few of our clients ever use the strategy with public procurements. (WSJ 7.24.08)

Be Prepared For Dramatic Funding Changes

High fuel prices have driven inflation upward, large vehicle sales off the cliff, and transit use is soaring. The next round in the impacts are the winners and losers from Costco to the Federal Highway Administration. Costco announced that its earnings are being reduced because consumers will not pay for the price increases needed to keep pace with the wholesalers costs. Costco lists hundreds of items that line its shelves which are more than 12% higher this year.

In the national trends, one of the most striking is the announcement by the FHWA that gas efficiency and conservation has derailed the funding of the normal program elements. The U.S. House of Representatives passed an emergency measure last week that moves \$8 billion in one time funding to the highway program so that current projects need not be halted. The mechanism according to Congressman John Mica, FL is obsolete. In the long term, Congress must address this problem.....in the short term, however, our only option is to pass this legislation and make sure the Highway Trust Fund remains sound and we avoid a transportation crisis." (WSJ 7.24.08)

Maryland Commits to Hybrids

The governor of Maryland, Martin O'Malley announced an innovative procurement direction in July, 2008. "Today, we are taking another step forward to create a sustainable environment for our children and future generations....By directing MTA to purchase only hybrids, we will transition to a fleet where the buses that serve the Baltimore region will be cleaner, quieter, more fuel efficient and more reliable." At the Maryland Aviation Administration, 100% of the bus fleet has already been converted to CNG or biodiesel.

Budget Lemons Into Lemonade

The most challenging issue a transit manager may face is the elimination of a significant element of the operations budget through the action of a political vote. The emotional response is to plead for fairness, compassion to the riders who will face service cuts and fare increases. The business response is to prepare for the changed environment.



What would you do faced with a transit system that had not a 20% operating ratio, but a 74% operating ratio and had been told that half of the remaining funding would be gone in a year? Toronto did what many of our leaders would have done, they turned lemons into lemonade. The Ontario government announced the change in funding. The City of Toronto began rapid detailed analysis of the bus service cuts that would be required. But they also began a rapid deployment of a broad grassroots outreach to ask taxpayers what they wanted in the "new" system. The results were packaged, analyzed, and refined into a progressive rapid transit improvement plan that had no guarantee of funding, but a tremendous guarantee of approval by the highest decision maker in a democracy, the voter.

Within a year, a new seven light rail plan was advanced that included subway and bus improvements. The Government of Ontario incorporated most of the plan into the 2020 plan for the larger region and has committed . There are many important details before construction, but the Toronto Transit Commission issues the initial requests for proposals for 5 garage complexes, 7 light rail lines, the replacement of the entire CLRV fleet, and the extension of one rapid rail line next month.

Remember LA, King of the Car?

It wasn't long ago that San Francisco was well ahead of Los Angeles in transit development and most Angelinos accepted the "fact" that lower densities and extensive freeway networks precluded the transit ridership needed

for rapid rail, light rail, commuter rail and BRT. Today our Burbank sys-



tem serves commuter rail, rapid rail and BRT connections. The steady increase of employment and population density is striking. The LAMTA area now has 7 employment hubs of 50,000 or more, and more than 65 with 10,000 or higher. The area also is home to 2 areas of over 12,000 persons per square mile, and four large areas of over 8,900 persons per square mile. Seventy percent of the service area now falls in the 6,400 persons per square mile or higher category that transit investment critics suggested could never be reached in the Los Angeles region. Part of the cause is the continuing growth and immigration that would happen regardless of transit and land use decisions, but part of the answer lies in the development of this 3,000 bus, 350 mile rail system. (LAT 7.15.08)

Commodity Prices Breaking, Permanent Lessons Remain

For the last three years, economist opinion articles have reminded us that rapid economic growth in the Chinese GDP was forcing changes throughout many parts of daily life. If your system had a large construction project underway, you noticed the rapid inflation in core commodities of steel, aluminum, copper and the on site production of concrete. The Chinese economic growth of 10% GDP per year continues to amaze, and the fact that so much infrastructure construction was taking place explain this relationship. The term "cooling" may not quite fit the Chinese economy, yet the tremendous growth rate is easing. The quarter ended June 30, 2008 was the fifth in a row in which the growth rate slowed a bit. And, in a command economy many prices are controlled such that the eventual impact of higher prices may not impact consumer behavior quickly. Many think the turn in fuel prices was caused as much by the Chinese jump in the subsidized price of fuel as it was by the 13 week steady decline in U.S. demand. Ten weeks ago economic commentators offered that even as the U.S. oil demand slowed the Chinese and Indian demand would not abate. Oil prices began the current down trend from \$148 per barrel to \$118 per barrel during the testimony on Capitol Hill of Federal Reserve Chair Benanke in late July. The incredible rise in corn, and other food commodities along with steel, copper and similar construction commodities are coming back from the meteoric rise, yet the new base levels are likely to be quite high compared to 2006. Oil at \$100 per barrel sounded alarming in 2006, but sounds calming in 2008.



Though fuel prices are dropping, it is hard to find gamblers to bet on \$2 per gallon gasoline returning. The impacts we have seen throughout our national experience at McDonald Transit systems mirror the APTA reports. Systems are increasing riders in all categories, with commuter express runs hit hardest. As excited as our managers become with double digit rider increases, there may be impacts far beyond the transit boardroom or station.

As James Kunstler observes, this time the fuel price spike hit while serious policy analysis was underway for both carbon efficiency and oil funded violence.

The serious implications may lead to long term changes that were once for the mega-city only. The way we produce food will be reviewed for how far the foods are shipped. The manner in which planning and zoning decisions are made will not forget \$4 per gallon gas and carbon efficiency. These decisions will change how we occupy the land. The way we travel is already changing before our eyes. Truck sales are down, people who need trucks for business will change rate structures. People who enjoy large trucks for commuting are hard to find. Thirty four states have joined the practice seen in Canada, Japan, and Europe of offering pay as you drive for auto insurance. This simple step has a very similar impact to gasoline price increases. Environmentalists tout the air benefits while underwriters call it one of the most important tools in reducing miles of travel. (LAT 7.15.08)

The Society for Human Resource Management reports that responding employers told them that 26% are allowing flexible work schedules, 18% are offering telecommuting, transit discount plans are given by 18%, while 12% are assisting with carpool programs and 7% with preferred parking for carpoolers. (What Employers Are Doing To Help Their Employees With High Gas Prices in 2008, SHRM Survey, JA.8.08)

Airline industry watchers note the five smaller firms who have declared bankruptcy. Auto industry watchers note that the electric performance car builder, Tesla, was given financing, sales tax exemption, and training credits worth over \$10 million to build the United States manufacturing plant in northern California. Yet while GM is rapidly changing to meet the market forces, the market value of its shares have been driven down. By July, if you could buy Avon, you could buy GM twice. If you could buy Home Depot, you could buy GM six times over. Perhaps GM stock will recover, perhaps new airlines will emerge, but change in transportation forced by fuel costs is not a someday issue, it is a now issue. (FT 8.1.08, SFC 6.30.08)