Statement of Richard Sarles

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Before the Committee on Public Works and Transportation

Council of the District of Columbia

April 18, 2011

Good afternoon Chairman Wells and members of the Committee. I am Richard Sarles, Chief Executive Officer/General Manager of the Washington Metropolitan Area Transit Authority commonly known as Metro. Thank you for this opportunity to testify today on Metro's proposed fiscal year 2012 budget. The budget that I am presenting to the Committee today is not Metro's final budget. It is a snapshot of where we are today in the budgetary process, which continues until June when Metro's Board of Directors adopts the final version. Until then, the numbers are subject to revision.

With me today is Carol Kissal, Deputy General Manager for Administration and Chief Financial Officer, David Kubicek, Deputy

General Manager for Operations, Matt Brown, Managing Director for Management and Budget Services, Chief Michael Taborn, Metro Transit Police Department and Jack Requa, Assistant General Manager for Bus.

Metro's proposed fiscal year 2012 budget totals $2.37 billion. Of this total, $1.466 billion supports Metro's operating budget, excluding debt service; $850 million supports the capital improvement program; and just under $39 million advances reimbursable project costs, such as those supporting Circulator service.

The operating budget funds daily transit service provided by Metrorail, Metrobus and MetroAccess. Operating cost categories include personnel, paratransit services, motor fuel and rail propulsion cost.
The fiscal year 2012 capital budget funds the second year of a $5 billion, six-year program of prioritized capital needs. Our capital budget funds critically needed improvements to system safety, security, and

infrastructure. It funds procurement of long-life assets such as rail cars, buses, non-revenue service vehicles, and maintenance equipment.

The source of funding for WMATA's fiscal year 2012 budget includes:

1. $800.3 million in passenger, parking, and miscellaneous enterprise revenues - such as advertising and leasing;
2. $676.6 million of state and local funds for operations - including debt service - and $344.2 million for capital investment and reimbursable projects;
3. $398 million in federal funds, which can only be used to support the capital budget, and;
4. $154.5 million from other sources, such as prior year capital program balances obligated to complete work-in-process.

OPERATING BUDGET

Metro's proposed operating budget for fiscal year 2012 does not include fare increases or service reductions. And yet, at $1.466 billion, it represents a less than one percent increase over last year's $1.464 budget level. This was accomplished in multiple phases, beginning with $25 million of cost cutting in response to an initial challenge that I made to staff. We continued evaluating opportunities for further reductions and have finally achieved a total of $74.2 million in budget savings through appropriate capitalization, new operating efficiencies, and reduction in the scope of some initiatives. None of these cuts impact our priority efforts to improve safety and security, or to maintain the system in a state of good repair. For details of these proposed reductions, please refer to the appendix to my statement.

Despite the cost reductions achieved, the need for jurisdictional subsidy increases by $72 million over the fiscal year 2011 level. Approximately

$46 million of that increase is the result of a $30 million reduction in the preventive maintenance budget, returning it to historic levels; and $16 million of additional cost and lost revenue primarily associated with the FY 2010 snow storms and unanticipated ridership decline. We also anticipate slower revenue growth and that the impacts of regional bus sharing may increase subsidy needs by another $23.8 million.

The Board is now considering a number of options to help offset the added jurisdictional support that will be needed next year including:

- Monetize ground leases and seek present value now, rather than a future stream of annual lease revenue ($30-$50M);
- Capitalize preventive maintenance at FY 2011 levels ($30M);
- Reserve for wages ($35M), and;
- Implement changes to bus and rail service (subject to public hearings).

All of these options are less than optimal, that sentiment was reflected in our Board discussion last Thursday. In fact, except for the bus and rail service changes, they involve one time actions that simply put off the real need for another day. I should also caution that the preventive maintenance item cause problems beyond serving as a one-time measure. It takes away vital capital funding that we need to safeguard for the rebuilding of the system.

Revenues from passenger fares, advertising, fiber optic leases, joint development, and capitalized preventive maintenance cover 55% of the $1.466 billion operating budget. The remaining 45%, or $628 million, represents the total operating budget subsidy to be provided by the local governments.

The District of Columbia’s share of this subsidy is estimated at $235 million - excluding debt service and the fiscal year 2010 audit adjustment.   This would represent an increase of $21 million over last year. By transit mode, the District’s total would break down to approximately $44 million for Metrorail; $167 million for Metrobus; and $24 million for MetroAccess services.

The Board has authorized a series of public hearings to solicit citizen comments on proposed changes to bus and rail service. These changes could generate some cost savings for the District of Columbia and the other local jurisdictions. Currently, we estimate those potential savings at approximately $6 million for rail and $1million for bus. However, these savings are not expected to eliminate the need for increased subsidy contribution. Instead, we are projecting that the service changes currently being considered by the Board could <u>moderate</u> the level of that need.

Investment in Metro recognizes the agency’s role as an economic driver for the region, as well as commitment to ensure the continued mobility for the residents of D.C., particularly the customers served by MetroAccess and the student school subsidy program.

CAPITAL BUDGET

My priority objectives for the capital budget are to improve system safety and security, service reliability, and maintain the bus and rail systems in a state-of-good-repair. The capital budget is funded by a combination of:

- Federal appropriations including formula and Passenger Rail Investment and Improvement Act (PRIIA) grants;
- State and local contributions, including local match for formula and PRIIA grants, and System Performance Funds, and;
- Long and short-term borrowing.

We estimate the District of Columbia's share of Metro's fiscal year 2012 capital budget at $134 million. As you are aware Mr. Chairman, the six-year Metro Matters Capital Program ended with Metro's fiscal year 2010. Fiscal year 2011, our current program year, is the first year of the new $5 billion six-year Capital Funding Agreement. Fiscal year 2012 represents the second year of this program. My proposed fiscal year 2012 capital budget continues to focus on our safety and state of good repair priorities. It does not provide for expansion of service.

I have provided the most recent Board presentation on the operating and capital budgets as background information to my statement. Before closing, I would like to take this opportunity to thank Mayor Gray, and the members of the City Council, for their efforts in support of restoring the $150 million dollars in federal funding eliminated in the House version of the FY 11 CR. As we now turn our attention to FY 12, your support will be needed once again for our efforts to preserve critical federal funding levels for Metro – both during fiscal year 2012, and beyond. With that Mr. Chairman, I will stop here and address any questions that the committee may have.

Appendix to Richard Sarles Statement

Operating Budget – page 4

The proposed budget includes $74.2 million in reductions to the Operating Budget, including the appropriate capitalization of bus and rail overhaul activities, a health verification audit, and fuel and propulsion savings. Additional detail on the Operating Budget reductions is provided in the table below:

Cost Savings	$74.2
Capitalization of Greenbelt Annex and Brentwood overhaul shops	$9.0
Capitalization of Bladensburg and Carmen Turner overhaul shops	$21.5
Savings through health insurance verification audit	$3.3
Metro Police - Better resource deployment	$1.5
Fuel and Propulsion savings	$6.8
Reduction in parking contract for attendants	$1.6
Reduction in support services	$3.4
Bus and Rail cost changes	$1.9
Fringe benefit rate adjustment	$6.3
Metro Police position funded through a grant	$1.9
Capital projects for Track and Systems and Vehicles	$5.0
Overhead allocation and other	$7.7
Reduction in Casualty and Liability insurance reserve	$3.3
Planning functions classified to capital	$1.1