Finance & Administration Committee

Information Item IV-B

January 14, 2016

FY2017 Budget Work Session

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

Action / Information	MEAD Number:	Resolution:
○ Action ◉ Information	201702	○ Yes ◉ No

TITLE:

FY2017 Budget Work Session

PRESENTATION SUMMARY:

Staff will provide a recap of the GM/CEO's proposed FY2017 budget; follow up on Board member questions from the budget proposal presentation in December; and provide an update on the status of the renewal of the Capital Funding Agreement (CFA).

PURPOSE:

Staff will provide a recap of the GM/CEO's proposed FY2017 budget; follow up on Board member questions from the budget proposal presentation in December; and provide an update on the status of the renewal of the Capital Funding Agreement (CFA).

DESCRIPTION:

Key Highlights:

In December, the GM/CEO proposed an FY2017 budget for the Board's review and consideration. The proposal includes the $1.8 billion FY2017 operating budget and the $6.0 billion FY2017-2022 Capital Improvement Program (CIP), which anticipates $1.13 billion in capital expenditures in FY2017 primarily for safety and state of good repair projects already underway.

- The operating budget proposes no fare increases and no service cuts, and it holds total jurisdictional subsidy flat by funding more preventive maintenance (PM) activities in the capital budget. The operating budget assumes a $20 million expense reduction from the Board's ongoing efficiency workplan, along with an additional $2 million administrative reduction.
- The CIP funds critical safety investments for customers and employees as well as necessary state of good repair investments to ensure the reliable and effective performance of the Metro transit system.

Background and History:

During the presentation of the proposed FY2017 budget at the December 2015 Finance & Administration Committee meeting, Board members raised a number of questions regarding the proposal. This presentation provides answers to those questions and offers Board members an opportunity to discuss the proposed budget. Board members also have requested an update on the progress toward renewing the Capital Funding

Agreement (CFA), which expires at the end of FY2016. An update on CFA discussions to date and future milestones is also provided.

Discussion:

Proposed Change to Funding of Eligible Preventive Maintenance (PM) Activities
The FY2017 operating budget proposes no fare increases, no service cuts, and no increase in jurisdictional subsidy contribution. While the assumed cost savings from the Board's ongoing efficiency workplan are critical to this flat subsidy growth, another key element is the increased funding of eligible preventive maintenance (PM) expenses with federal grants.

Metro already funds eligible PM expenses in both the operating and capital budgets. The Board's current policy allows $31 million worth of these expenses to be funded with FTA grant funds, but that amount covers only a portion of Metro's eligible labor expenses for vehicle (bus and railcar) maintenance, and the entire universe of PM expenses (including vehicle parts and maintenance efforts on track and structures, stations, and other facilities) is substantially larger than that. Moreover, FTA has encouraged Metro to consider funding more PM through federal grants, which would ensure that federal funds are being used for safety and state of good repair activities and would simplify grant administration.

This proposal to increase utilization of grant funds for PM expenses is only for FY2017. By holding jurisdictional contributions flat, this change provides the GM/CEO and the Board an opportunity to 'reset' the budget and the expectations for Metro going forward. However, if increased usage of PM is repeated in future years, then additional jurisdictional capital funding will be required, or else certain capital projects would have to be deferred.

Federal Funding Outlook
The *Fixing America's Surface Transportation (FAST) Act* was signed into law on December 4, 2015. This surface transportation legislation reauthorizes the key federal formula grant funding programs that Metro relies on to support its capital program, including the Urbanized Area Formula Program (Section 5307), the State of Good Repair Program (Section 5337), and the Bus and Bus Facilities Program (Section 5339).

The Federal Transit Administration (FTA) has provided estimated figures for the impact of the new FAST Act on Metro's grant funding. In Federal FY2015, under the previous *Moving Ahead for Progress in the 21st Century (MAP-21)* legislation, Metro was awarded a total of $288 million in grant funding from the three programs identified above. Under the new FAST Act, FTA estimates that Metro will be awarded a total of $310 million in grant funding from these three programs, an increase of $22 million or approximately eight percent. Beyond Federal FY2016, formula grant funding is projected to increase at 1 to 2 percent annually. These estimates will be confirmed prior to budget adoption following FTA's apportionment of the funds.

In addition, $148.5 million will be available to Metro through the *Passenger Rail Investment and Improvement Act (PRIIA)* program in Federal FY2016 as a result of recent positive action by Congress. As part of the recently passed *Omnibus*

Appropriations Act for Fiscal Year 2016, the federal government will provide its full annual PRIIA contribution to Metro, to be matched by an equal amount of jurisdictional funding from the District of Columbia, Maryland, and Virginia. This funding partnership, which has been in effect since 2009 and is authorized for ten years, provides critical resources to Metro for safety improvements, railcar purchases, and other important state of good repair investments.

Metro staff will incorporate these new federal funding estimates into an updated FY2017-2022 Capital Improvement Program (CIP), while maintaining the same proposed project expenditures. The net increase in federal funding (including the required local match) will be offset by a reduction in planned jurisdictional long-term debt.

<u>Fares: Reduction in the Rail Peak Period Maximum Fare</u>
As reported to the Board in November, a permanent reduction in the peak-period maximum rail fare from $5.90 to $5.00 would generate a small amount of incremental ridership (approximately 160,000 trips per year), but would also cause a reduction in rail fare revenue of approximately $6.5 million per year.

In general, riders making the longest trips – particularly those traveling in the peak with fares currently in the $5.00 to $5.90 range – have fewer options for trip-making and show the lowest price elasticity. That is, for a given increase (decrease) in the price, this group of riders shows a relatively small decrease (increase) in the number of trips taken. Recent analysis by the University of Maryland, which was used in the original information provided to the Board, indicates that the peak period elasticity for riders making these long trips is around -0.15. This means that a 10 percent decrease in price will result in only a 1.5 percent increase in ridership. Even if this elasticity were doubled, the net result of a permanent reduction in the max fare to $5.00 would still be a loss of net revenue of more than $5 million per year.

If the Board intends to undertake a pilot program for a lower maximum fare, then specific authorization to staff is required, as was provided for the concept test of the 'name your own price' pass.

<u>Fares: Elimination of SmarTrip Loading on Metrobus</u>
In addition to simply paying the bus fare with a SmarTrip® card or with cash, Metrobus passengers are able to 'load' funds onto their SmarTrip® cards at the bus farebox. While this feature provides a benefit to riders who have not added funds to their cards by other means (e.g., at a rail station, online, or at a participating retail outlet), it slows the passenger boarding process. Each individual transaction may be relatively short, but over the course of an entire bus route the load transactions can lead to increased dwell times and slower average speeds. Faster bus speeds can have a positive impact by improving the customer experience as well as reducing the cost to operate the Metrobus system.

Metro has considered eliminating the SmarTrip® loading ability in the past, but has never approved its implementation. DASH Bus in Alexandria did recently implement this change on their bus fareboxes, and with bus speeds across the region continuing to decline, Metro is looking for ways to improve the customer experience, increase ridership, and reduce costs.

The primary cost of removing the loading ability is that it would eliminate a customer benefit for those riders – notably lower-income, bus-only riders – who may have difficulty accessing the other methods of adding funds to their SmarTrip® cards. In particular, there are sections of the region (primarily in Southeastern DC and Prince George's County) that are not close to Metrorail stations and that have few retail locations available. While these passengers could still pay their bus fare directly with cash, they would not able to make a bus-to-bus transfer, which is only available with a SmarTrip® card. Making such a change without providing any mitigation (such as additional retail availability, off-board loading kiosks, or other means) could present Title VI equity concerns.

The weighing of the benefits and costs of this change involves important Board policy decisions, and staff will provide additional options to the Board for consideration, including:

- Elimination of SmarTrip® loading on all routes and proposed mitigation actions
- Elimination of SmarTrip® loading on only a subset of routes (e.g., only on MetroExtra services, or only in certain heavily congested corridors) and proposed mitigation actions (if any)
- Deferral of change and conditions for future consideration

<u>MetroAccess Results</u>
MetroAccess ridership has been growing steadily in the past few years, and the FY2017 proposed budget reflects a continuation of this trend. The table below summarizes MetroAccess ridership and overall financial performance (expense, revenue, and subsidy).

figures in millions

	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Proposed
Expense	$106.2	$113.4	$121.2	$125.6
Revenue	$7.5	$9.0	$8.5	$10.0
Subsidy	$98.7	$104.4	$112.7	$115.6
Ridership	2.13	2.24	2.34	2.44

<u>Operating Budget Clarifications</u>

- *Non-passenger revenue*: In FY2016, Metro utilized one-time or non-recurring funding that was available as a result of the Board's decision to close the Transit Infrastructure Investment Fund (TIIF). All future funds that would have gone into the TIIF are now being directed to the Capital Improvement Program (CIP), but the $27 million of existing, unprogrammed TIIF funding was directed to the FY2016 operating budget to offset Metrorail expenses. This funding is not available in FY2017, and this is the cause of the large negative variance in non-passenger revenue from FY2016 to FY2017.
- *"Other" expenses*: The budget line item for Other Expenses now includes the category 'Capital Allocation.' Metro has identified changes that are needed to the methodology for allocating costs to the capital program. As a result of these changes, a capital allocation is now explicitly included as a credit within the Other

Expense line, rather than being spread out across multiple line items. Metro staff will be providing a detailed explanation of the old and new cost allocation approaches to the jurisdictional staff in the upcoming Jurisdictional Coordinating Committee (JCC) budget work sessions.

Update on Capital Funding Agreement (CFA) Renewal

Metro and the contributing jurisdictions are now focused on completing and executing a one-year extension to the current Capital Funding Agreement (CFA) that expires at the end of FY2016. Under this approach, Metro and the jurisdictions would continue under the existing agreement through the end of FY2017 with no other changes to the current terms. The extension would include a 'not to exceed' amount for required jurisdictional capital contributions (including local match, system performance, and debt) for FY2017.

For the Metro Board to meet its current schedule for approval of the CFA and adoption of the budget in April, jurisdictional approval on the one-year CFA extension is needed in March. Once the one-year extension is in place, Metro and the jurisdictions will resume work on a comprehensive multi-year funding agreement, including the addition of Loudoun County in advance of the opening of Silver Line Phase 2.

FUNDING IMPACT:

Information item only - no impact on current funding.	
Project Manager:	Thomas Webster
Project Department/Office:	CFO/OMBS

TIMELINE:

Previous Actions	December 2015 - GM/CEO proposal of FY2017 budget
Anticipated actions after presentation	• February 2016 – JCC budget work sessions (staff submitting questions in January), public hearing and outreach on CIP, Board capital budget and CFA work session • March 2016 – approval of CFA by jurisdictions, Board approval of debt issuance, update to Board on outreach and public hearing • April 2016 – FY2017 budget adoption and approval of CFA extension • May 2016 – submit federal grant applications • July 1, 2016 – begin FY2017

RECOMMENDATION:

No Board action required -- information item only.

Washington Metropolitan Area Transit Authority

FY2017 Budget Work Session

Finance & Administration Committee
January 14, 2016

Agenda

- Recap of proposed FY2017 budget
- Follow up on Board questions from December
- Review status of Capital Funding Agreement (CFA) renewal
- Next steps

FY2017 Proposed Budget Recap

- Operating Budget
  - No fare increases and no service cuts
  - Jurisdictional subsidy held flat through:
    - Funding more PM activities in the capital budget
    - $20 million expense reduction from Board efficiency workplan and $2 million additional administrative reduction
- Capital Improvement Program (CIP)
  - $1.13 billion proposed for FY2017, $6.0 billion proposed for full six years
  - Focused on safety and state of good repair
  - Includes $1.1 billion of long-term financing

Preventive Maintenance (PM)

- FY2017 operating budget is balanced in part by increased funding of eligible PM expenses with federal grants
  - Metro already funds such expenses in both the operating and capital budgets
  - Current Board policy of $31 million covers only a small portion of Metro's total eligible PM
  - FTA has encouraged Metro to consider this change
- Proposal is only for FY2017 – provides opportunity for GM/CEO and Board to 'reset'
  - If repeated in future years, additional capital funding will be needed or projects will be deferred

Federal Grant Funding Outlook

- *Fixing America's Surface Transportation (FAST) Act* signed on December 4
- Formula funding expected to increase **8 percent** in FFY16, 1-2 percent in subsequent years
- Estimated increase for Metro over FFY15 of $22 million ($310 million vs. $288 million)
- PRIIA also fully appropriated at $150 million
- New projections will be incorporated into CIP and reduce corresponding amount of planned long-term debt funding

Fares: $5.00 Maximum Rail Fare

- $5.00 peak max fare would cost $6 million in revenue, generate less than 0.2 million trips
  - Longest-distance travelers have fewer options and generally lowest elasticity
  - Doubling of elasticity assumption still results in significant revenue loss
- If a pilot or test of lower max fare is desired, explicit Board authorization is needed
- If successful, ‘name your own price’ pass will provide value to current and future customers

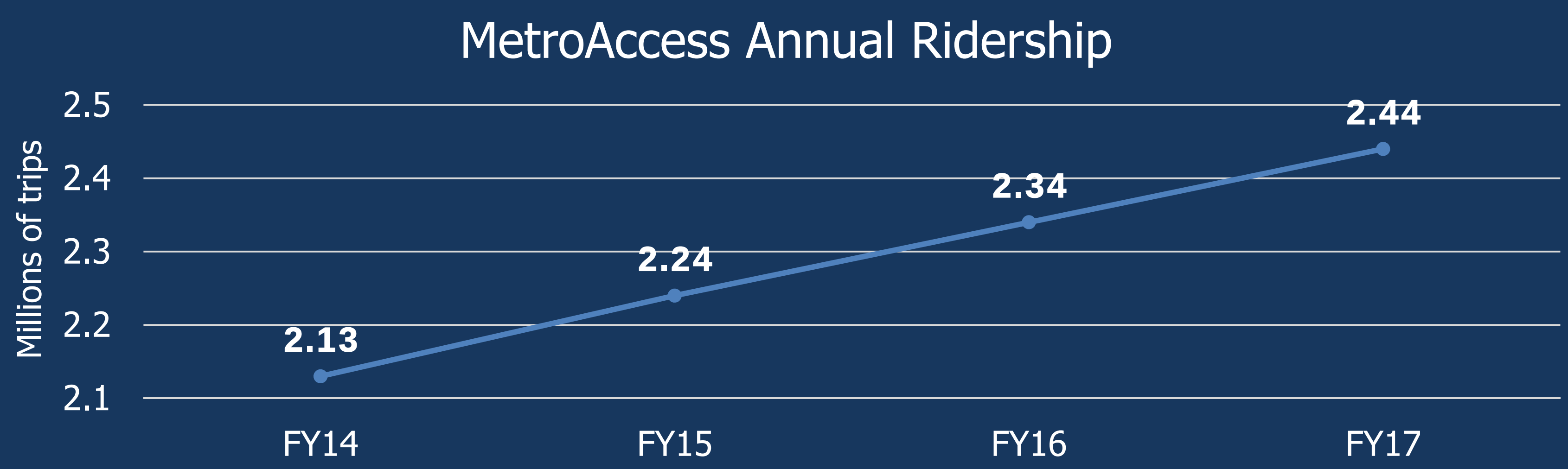
Fares: Elimination of SmarTrip® Loading on Metrobus

- Change has been considered by Metro in the past, was implemented earlier this year by DASH
- Primary benefit is faster loading of passengers – higher average speeds means better service and reduced operating costs
- Would remove a customer benefit and may have equity implications
- Additional options will be provided for Board consideration:
  - Full deployment with proposed mitigations
  - Limited rollout on most beneficial routes
  - Deferral to future

MetroAccess Results

	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Proposed
Expense	$106.2	$113.4	$121.2	$125.6
Revenue	$7.5	$9.0	$8.5	$10.0
Subsidy	$98.7	$104.4	$112.7	$115.6

figures in millions, includes all indirect and administrative expenses



Operating Budget Clarifications

- Non-passenger revenues:
  - Substantial decrease due to one-time use of TIIF funds ($27 million) in FY2016
- "Other" expenses:
  - New methodology needed for allocating costs to capital program
  - Capital allocation now included as credit against Other expenses
  - Staff will provide detailed explanation of old and new approaches to JCC in work session

Update on Capital Funding Agreement (CFA)

- Metro and jurisdictions now focused on one-year extension of CFA
- Continue existing agreement with no changes to current terms and include a 'not to exceed' amount of required contributions for FY2017
- For Metro Board approval of CFA and FY2017 budget in April, need jurisdiction approval of extension in March
- In FY2017, develop new multi-year agreement, to include Loudoun County

Next Steps

- **February** – JCC budget work sessions, public hearing and outreach on CIP, Board capital budget and CFA work session
- **March** – approval of CFA by jurisdictions, Board approval of debt issuance, update to Board on outreach and public hearing
- **April** – FY2017 budget adoption and approval of CFA extension
- **May** – submit federal grant applications
- **July 1, 2016** – begin FY2017