Washington Metropolitan Area Transit Authority

Board Action/Information Summary

Action	Information	MEAD Number: 201269	Resolution: Yes	No

TITLE:

FY2016 Budget Work Session

PRESENTATION SUMMARY:

This presentation provides information on various options – including additional administrative actions, fare increases, service reductions, and one-time funding sources – for further reducing the jurisdictional operating contribution in the proposed FY2016 operating budget. These options will be used as the basis for creating the public hearing docket that is required as part of the budget adoption.

PURPOSE:

To review expense and revenue changes in the proposed FY2016 budget since the proposal in December and to review and discuss various options requested by the Board for further reducing the jurisdictional operating contribution.

DESCRIPTION:

Key Highlights:

- The FY2016 net operating subsidy was reduced from $919 million in the November preview to $883 million in the December proposal by reducing initiative spending, eliminating non-safety sensitive positions, and transferring certain bus routes to the local jurisdictions.
- The total net operating subsidy as of January has been further reduced by a net amount of $5.5 million to $877 million as a result of reduced energy cost forecasts, elimination of the proposed bus route transfers, and reduced bus operator hiring for fatigue risk management.
- The public hearing docket will set out a broad set of possible fare and service changes for public consideration and feedback. The Board may choose to adopt a budget that does less than what the docket describes, but not more.
- If all the options below are included, the docket would contain a total of $45 million in options (fare increases and service reductions) to further reduce the proposed local subsidy contribution:
    - $0.10 fare increase for Metrobus and Metrorail that would generate $22 million in additional revenue for FY2016 (with increases also occurring on MetroAccess if current fare policy is unchanged)
    - Headway increases on Metrorail that would reduce net subsidy in FY2016 by $10 million
    - Elimination of Friday/Saturday late night service that would reduce net subsidy in FY2016 by $3 million

- Elimination of low-productivity bus services that would reduce net subsidy in FY2016 by $10 million

Background and History:

The total net jurisdictional contribution in the FY2015 approved operating budget – including existing debt service payments, the use of preventive maintenance funding, and the application of a one-time surplus from FY2013 – is $779 million. This figure serves as the baseline against which the FY2016 budget is compared.

In the November budget preview, a total net jurisdictional operating contribution of $919 million for FY2016 was presented. This figure, which represents an increase of $140 million or 18 percent over FY2015, included all proposed operating initiatives from the various Metro departments and did not include any specific expense reductions relative to the current baseline. Direction received at the November committee meeting indicated that the funding increase included in the preview was too large relative to the financial constraints facing the local jurisdictions.

In December, the GM/CEO presented the FY2016 Proposed Operating Budget and Six-Year CIP. The total increase in jurisdictional operating contribution relative to FY2015 in the December proposal was $103 million, a decrease of $37 million from the November preview. This reduction was achieved through the deferral of many worthwhile service initiatives (including the planned investment in the Metrobus PCN and SOGO programs) in order to focus on the fatigue initiative; a proposal to transfer a limited amount of Metrobus service to the local jurisdictions as the starting point for a broader "recalibration" of the regional bus network; and the freezing/elimination of 50 non-safety sensitive administrative vacancies, for a savings of approximately $5 million.

On January 8, 2015, staff conducted an initial budget work session with the committee and provided answers to a range of questions that were raised following the December proposal. The special committee meeting of January 22, 2015, serves as a follow-up work session in order to support the Board's decision-making regarding the creation of a public hearing docket for February.

Discussion:

Since the December proposal, three substantive changes have occurred that have been incorporated into a new working version of the FY2016 operating budget. This working budget serves as the new starting point for the ongoing budget process. The three changes are:

- *Energy costs*: Given the recent declines in energy prices, as well as the extension of the federal compressed natural gas (CNG) tax credit, Metro has been able to reforecast and lock in lower costs for propulsion and fuel in the FY2016 budget. Total energy costs are reduced by $9.5 million, with approximately half the savings due to a recently finalized diesel fuel hedge.
- *Bus route transfer*: Board members and jurisdictional representatives indicated significant interest in evaluating a long-term plan to implement the proposed "recalibration" of regional bus services. However, the Board concluded that such transfers of service cannot happen quickly enough to have an impact within

FY2016. Therefore, approximately $8 million worth of Metrobus expenses (both personnel and non-personnel) have been added back in the budget. An additional $1.2 million of corresponding bus fare revenue has also been added back, so that the total subsidy increase from this action is $6.8 million.

- *Bus fatigue positions*: During the initial January work session, Metro executive leadership indicated that the 25 new bus operator positions being created in FY2015 would be sufficient to maintain 97 to 98 percent compliance with the Hours of Service policy and to achieve the Board's Fatigue Risk Management goals. Therefore, the request for 75 additional positions included in the December proposal has been reduced to 25. In addition, staff has determined that approximately 25 percent of the gross cost of adding new positions can be offset within the budget by reductions in overtime. The net reduction in the budget due to this change is $2.8 million.

Altogether, these three changes reduce the FY2016 net jurisdictional operating contribution by $5.5 million to $877 million.

To reduce the jurisdictional operating contribution further, the Board may consider a range of options, including:

- Additional administrative reductions of up to $5 million
- Off-cycle fare increases (could be implemented by September 1, 2015)
- Service reductions on bus and/or rail (could be implemented by October 1, 2015)
- One-time funding options

Each of these options is described in more detail below.

Additional Administrative Reductions
As noted above, the budget already includes the freezing/elimination of 50 non-safety sensitive vacancies with an associated expense savings of $5 million. Departmental leadership confirmed that those targeted vacancies could be eliminated without any negative business impacts.

Additional administrative expenses reductions of up to $5 million, however, will have negative business impacts. Such reductions could include staff reductions, and if pursued, these business impacts would be identified for the Board's consideration prior to the budget adoption in May.

Fare Increases
The Board's current policy is to consider fare changes on a biannual basis, and fares were increased as part of the FY2015 budget process. However, in light of current funding constraints, a small off-cycle fare increase could be considered for FY2016. Given the current plan for budget adoption in May, and the 90-day timetable to implement new fares (signage changes, farebox programming, etc.), any fare change would be implemented on or about September 1, or for ten months of the fiscal year.

- A $0.05 fare increase on both Metrobus and Metrorail (in both the peak and off-peak) would generate approximately $11 million in additional fare revenue ($4 million from bus, $7 million from rail) in FY2016 if implemented on September 1. Due to the fare increase, approximately one million existing passenger trips would

be lost, with 70 percent of those trips being from rail. The average commuter would see a cost increase of approximately $2.00 per month.

- A fare increase of $0.10 on both Metrobus and Metrorail would essentially double the figures above, generating a net fare revenue increase of approximately $22 million and reducing ridership by two million trips.
- If the MetroAccess fare policy/structure remains unchanged (i.e., twice the comparable fixed route fare, up to a maximum of $6.50), then MetroAccess fares for some customers would also increase.
- In forecasting the impact of a proposed fare increase, the assumed elasticity with respect to price (that is, the factor determining what percentage of ridership is lost in response to a given percentage increase in the fare) is assumed to be lowest for bus trips and for shorter, peak-hour rail trips, and highest for longer peak-hour rail trips, given the recent ridership weakness Metro has seen in those long rail trips.

Service Reductions

As with fares, the budget adoption timetable limits how quickly service changes could be implemented in FY2016. The options described below assume the service changes would be implemented on or about October 1, or for nine months of the fiscal year. Two separate rail service reduction options are described, along with a bus service reduction option.

By increasing headways (i.e., decreasing frequency) on Metrorail throughout the day, expenses for operator labor, propulsion, and parts can be reduced. If off-peak headways are increased from 12 minutes to 15 minutes (or 15 minutes to 20 minutes, as on Sundays), and peak headways are increased from 6 minutes to 8 minutes (except on the Blue Line), the total gross operating cost savings for a full year would be $24 million. This would be offset, however, by an estimated fare revenue decline of $11 million, for a total 12-month subsidy decrease of $13 million. If implemented on October 1, the achievable subsidy decrease for FY2016 is approximately $10 million.

This change in rail service levels would have major customer impacts. In addition to the loss of three to four million trips, riders would experience longer average wait times and experience significantly worsened crowding at key load points within the system. For example, riders at stations such as Rosslyn (Silver Line) and Gallery Place (Red Line) in the AM peak would see crowding (measured as average passengers per car) increase by 25 to 35 percent.

A second rail service option is to eliminate late night (midnight to 3:00AM) service on Friday and Saturday nights. The gross operating cost savings would be approximately $8 million for a full year, offset by a loss of more than one million riders paying peak fares ($4 million in total revenue), so that the total subsidy decline would be only $4 million. If implemented on October 1, the net impact for FY2016 would then be $3 million. Taken by itself, this change could also raise Title VI equity concerns, given that late night service has proportionally greater usage by low income and minority populations than rail service overall.

The bus service reduction option is to eliminate low productivity service throughout the entire network. Under this approach, no routes would be eliminated, so that region-wide coverage would remain, but particular trips with low utilization would be deleted. Similar

to the rail service scenarios, a gross cost reduction of $18 million, with an associated revenue loss of $4.5 million, leads to a full year subsidy reduction of $13.5 million. If implemented for nine months, these changes would save $10 million in subsidy. Also as with rail, these cuts would have major customer impacts, with ridership losses exceeding two million trips, longer wait times, and more overcrowding on routes already facing high demand.

One-Time Funding Options
Three separate options are included for consideration:

- Utilize TIIF Funds: Earlier in January, the PPDRE committee approved the closing of Metro's Transit Infrastructure Investment Fund (TIIF). Although the current plan is for all TIIF joint development funds (both existing and in the future) to be transferred to the Capital Improvement Program (CIP) to support capital projects, the Board could choose to allocate a portion of the existing funds (up to $27 million) to support the operating budget in FY2016.
- Defer OPEB: In FY2015, the Board committed to funding a trust for future OPEB (Other Post-Employment Benefits) liabilities. This was expressed the FY2015 budget adoption (Resolution #2014-15) as a statement that "the Board of Directors remains committed to an appropriately funded OPEB Trust, and directs that future budgets be submitted with contributions consistent with that principle." The original plan was to contribute $5 million in FY2015 and $10 million in FY2016. In the final FY2015 approved budget, however, only $4 million was allocated for the OPEB trust. In the December FY2016 proposal, and in the current working budget, the OPEB contribution is set at $11 million – that is, getting back to the original contribution plan and also making up the $1 million not contributed in FY2015. The Board could choose to allocate fewer resources towards Metro's OPEB liabilities, which would reduce the FY2016 subsidy amount.
- Shift investment from capital to operating: In some cases, local jurisdictions may be more concerned with the total contribution that they are required to make to WMATA in FY2016 and less concerned with how that contribution is split between the capital and operating budgets. In that case, if certain projects currently in the proposed CIP for FY2016 could be deferred, that could potentially free up jurisdictional funding to be used to support the operating budget.

The administrative expense reductions and one-time funding options described above do not require a public hearing, but the fare increases and service reductions would have to be included in a Board-approved docket and subject to public hearing as well as a full vetting through WMATA's public participation and outreach process. The docket sets out the broadest set of possible options for public consideration and feedback. When adopting the final budget later in the spring, the Board may choose to do less than what is described in the docket, but not more. (For example, if the docket advertises a $0.10 fare increase, the Board could approve a $0.05 increase, but not a $0.15 increase.) Given the fare and service options described above, a docket including all of them would contain a total of $45 million in subsidy reduction options.

In addition to any major fare or service changes, four other items are proposed for inclusion on the public hearing docket for FY2016:

- Parking: Metro currently collects parking fees at its rail stations until midnight,

when the rail system closes. Data indicate that many park-and-ride customers wait in line inside the parking garages prior to midnight and then exit immediately after the gates rise. Metro also has experienced issues with local apartment-dwellers (at stations such as Rhode Island Avenue and Dunn Loring) parking their cars overnight inside Metro's facilities and then exiting each morning before the gates are lowered. Metro staff proposes to extend the hours of collection by at least one hour in both the morning and the evening. This will generate additional parking revenue and also make it easier for our customers to find parking spaces in the morning. Metro staff, in coordination with the District of Columbia, also propose to raise the daily parking fee at the Minnesota Avenue station from $3.60 to $4.60, which would put it at parity with the other DC stations. The daily rate was originally kept low at Minnesota Avenue to encourage usage, but utilization has increased recently to 92 percent. Taken together, these parking actions would generate approximately $0.5 million in additional revenue.

- TransitLink Card (TLC): The TLC pass is a discounted, unlimited-ride monthly Metrorail pass that can only be purchased along with a monthly MARC, VRE, or MTA Commuter Bus pass. The TLC is one of the few remaining paper farecard products in the Metrorail system. As part of the broader effort to eliminate paper-magnetic farecards, Metro staff have explored a number of options for transitioning the TLC product to SmarTrip®, but none have proved satisfactory to both WMATA and the partner agencies. Therefore, the docket will propose the elimination of the TLC product. Although some commuters may choose other travel options and not ride Metrorail, staff expects most commuters to continue riding Metrorail using stored value, such that the net revenue impact is minimal. It should also be noted that MARC and VRE monthly pass holders will continue to be able to ride Metrobus for free (as prescribed in the tariff), even if the TLC product is eliminated.
- Early/late service: Metro currently charges $29,500 per hour to event organizers who request Metrorail service beyond the normal operating hours (e.g., the Marine Corps Marathon requests two hours of additional morning service each year in order to get runners to the starting line of the race). The organizer is then given a credit against that charge for the fare revenue generated by riders using the system during the extra service period. This pricing structure has not been updated in many years, and Metro staff will bring forward a set of potential changes to be considered as part of the FY2016 budget adoption.
- Capital Improvement Program: Every year, as a separate docket item, Metro reviews its CIP and proposed program of capital projects with the public in advance of submitting its federal grant applications.

FUNDING IMPACT:

Information item only, no immediate funding impact.	
Project Manager:	Thomas J. Webster
Project Department/Office:	CFO/OMBS

TIMELINE:

	November 2014 – Budget preview discussion

Previous Actions	December 2014 – Presentation of GM/CEO's Proposed FY2016 Operating Budget and Six-Year Capital Improvement Program (CIP) January 2015 – First Board budget work session
Anticipated actions after presentation	February 2015 – Adoption of public hearing docket May 2015 – Approval of FY2016 Budget

RECOMMENDATION:

No recommended action at this time - information item only.

Washington Metropolitan Area Transit Authority

FY2016 Budget Work Session

Finance & Administration Committee
January 22, 2015

FY2016 Budget Recap

FY15 Approved:
Net operating subsidy of $779 million

November Preview:
$919 million
($140 million increase)
Included all initiatives and no expense reductions

December Proposal:
$883 million
($103 million increase)
Fatigue initiatives, vacancy elimination, bus service transfer

January Working…

FY2016 Operating Budget Update

- Since December, updates to energy, bus service, and bus operator hiring
- Net subsidy reduction of $5.5 million

	DECEMBER PROPOSED	Energy Costs	Bus Route Transfer	Bus Fatigue Positions	JANUARY WORKING
Expenses	$1,823.7	($9.5)	$8.0	($2.8)	$1,819.4
Revenues	931.3		1.2		932.5
Gross Subsidy	892.4	(9.5)	6.8	(2.8)	886.9
Preventive Maint.	(30.7)				(30.7)
Prior Year Surplus	0				0
Debt Service	21.2				21.2
Net Subsidy	$882.9				$877.4

(millions)

Funding Context

- Baseline expense growth in FY2016 is 4 percent
  - Revenue weakness is primary driver of subsidy growth
- Jurisdictional contribution grew 6 percent in FY2015
- At current "working" contribution of $877 million, additional subsidy reductions would be needed to meet the following targets:

Target	% Increase from FY2015	Additional Subsidy Reduction Required
Same increase as FY2015	6%	$51 million
Subsidy growth equal to baseline expense growth	4%	$67 million
Flat (no growth)	0%	$98 million

Options to Further Reduce Jurisdictional Contribution

- Additional administrative reductions
- Fare increase
  - Implemented by September 1 (10 months)
- Service reductions
  - Implemented by October 1 (9 months)
- One-time funding sources

Additional Administrative Reductions

- Up to $5 million reduction in administrative expenses:
  - Some negative business impacts
  - Could include staff reductions, which would be identified prior to May budget adoption

Off-Cycle Fare Increase Options

- $0.05 increase on bus/rail:
  - $11 million revenue increase
    - $4 million on bus, 0.3 million trips lost
    - $7 million on rail, 0.7 million trips lost
  - $2 per month for most commuters

- $0.10 increase: on bus/rail:
  - $22 million revenue increase
    - $8 million on bus, 0.6 million trips lost
    - $14 million on rail, 1.4 million trips lost

- If MetroAccess fare structure unchanged (twice comparable bus/rail), would also increase

Rail Service Option: Headway Increases

- Off-peak: 12 min → 15 min and 15 min → 20 min (depending on day/time)
- Peak: 6 min → 8 min (except Blue Line)
- Net subsidy savings of $10 million
- Major customer impacts:
  - Loss of 3-4 million trips
  - Longer wait times
  - Worsened crowding:
    - Passengers per car would increase 25-35% in peak

Rail Service Option: Eliminate Late Night Service

- Eliminate Fri/Sat service from midnight-3:00AM
- Net subsidy savings of $3 million
- Major customer impacts:
  - Loss of more than 1 million trips
  - Impacts on local businesses
  - Title VI concerns

Bus Service Option: Cut Low Productivity Service

- Eliminate service only where least used
- Net subsidy savings of $10 million
- Major customer impacts:
  - Ridership loss of 2+ million
  - Longer wait times and more crowding – distributed across the system

One-Time Funding Options

- Allocate portion of existing TIIF funds to operations ($0 to $27 million)
- Defer portion of FY2016 contribution to OPEB trust ($0 to $11 million)
- Shift jurisdictional investment from capital program to operations ($0 to $30 million)

Public Hearing Docket for Major Service and Fare Options

- Docket sets out broadest set of possible options for public consideration and feedback
- **<u>When adopting budget, Board may choose to do less but not more</u>**
- Given options described, docket would include $45 million in subsidy reduction options:
  - $0.10 fare increase ($22 million)
  - Rail headway increases ($10 million)
  - Rail late night service elimination ($3 million)
  - Bus low-productivity service elimination ($10 million)

Illustrative Scenarios

Scenario	Description	Fares	Service	Subsidy Reduction
1	Only service changes (rail and bus)		$23	$23
2	$0.05 increase + rail changes	$11	$13	$24
3	$0.05 increase + bus changes	$11	$10	$21
4	Only $0.10 fare increase	$22		$22
5	Full docket of fares and service changes	$22	$23	$45

(millions)

Additional Docket Items

- Parking changes:
  - Lengthen hours of collection (1 hour in both AM/PM)
  - Increase daily parking rate at Minnesota Ave station
  - Together will generate approximately $0.5 million
- Elimination of TransitLink Card (TLC)
  - Expect $0 revenue impact
- Update rates charged to event organizers for early/late rail service (concerts, races, etc.)
  - Impact depends on pricing, but expect close to $0
- Review of CIP projects prior to federal grant applications