

Review of WMATA FY 2006 Operating Budget

Jurisdictional
Coordination Committee
Thursday, May 12, 2005



Executive Summary



Goals and Objectives: JCC FY'06 Budget Review Process

- Goal of JCC Review Process
 - Provide the WMATA Board with a budget review
- Objectives of JCC Review Process
 - Review the projected revenues
 - Review the projected expenses
 - Provide guidance for the budget process

Statements: WMATA Budget Process

- WMATA staff have been very professional, courteous, informative, and comprehensive in this review of the FY'06 Budget. We thank them for their efforts.

Expense Summary

- Expenses
 - Due to rising diesel fuel costs, the FY06 budget would require \$8 million in additional expense under today's prices. A swap should be evaluated.
 - FY 05 labor is greater than budget (YTD \$16 million). FY 07 labor structure should be analyzed in detail to ensure that overtime usage is justified.
 - MetroAccess presents continuing budget risk because of assumptions on usage and new contractor.
 - Review schedule for deploying 6000 series cars. Adjust passenger revenues or expenses to reflect car revenue miles.

Revenue Summary

- Revenues
 - FY 05 YTD \$8.2 million favorable passenger revenue variance and FY 06 passenger revenues were adjusted by increasing baseline \$8 million
 - Estimates of passenger revenue and ridership are based on expert judgment. Results should be compared to formal quantitative ridership and revenue models
 - Lack of access to bus farebox and ridership data by route and jurisdiction makes business decision-making difficult
 - TIIF funds are being proposed for operating expenses, a shift in Board policy. A policy should be considered for use of future unallocated TIIF revenues.
 - No comprehensive strategy for managing revenues. Revenues are over 50% of operating cash flow (\$579 million)

Budget Development Process

- Budget committee discussed beginning Zero Based Budgeting (ZBB) for FY07
- ZBB - Requires significant commitment by management.
- If ZBB is pursued, Customer Service recommended for FY07; compartmentalized, metrics in place.
- Rail Operations reorganization presents opportunity for participation in development teams.

Budget Process Summary

- Budget Process Improvement Opportunities
 - Review and apply best practices
 - Jurisdictional involvement key, such as for incorporating long-term perspective.
 - Stakeholder involvement increases buy-in.
 - Existing performance measures are geared to customer service. Need to establish productivity measures and benchmarks into budget process.
 - Provide guidance for FY07 development and review

Conclusions

- FY06 actions
 - Recommend approval of FY06 Operating budget; no substantial changes to revenue or expense.
 - Budget Committee should carefully consider Diesel fuel swap prior to approval.
- On going issues
 - Areas of risk and opportunity have been identified on both revenue and expense, which should be monitored.
 - Early FY07 guidance recommended
 - A number of issues are identified for further attention

Conclusions: on-going issues

- Work with jurisdictions to review best budget practices
- Incorporate productivity measures
- Develop quantitative revenue forecasting
- Develop revenue management strategy
- Improve route ridership data
- Consider TIIF policy
- Analyze overtime
- Monitor MetroAccess contract impact, rail car deployment schedule, and parking utilization
- Organize budget & capital oversight staff under CFO
- Provide more information in budget presentation

Detailed Review of Topics



Revenues:

- Revenue assumptions used by WMATA staff to build budget request:
 - No fare increase for FY 06, following fare increases in two prior years
 - Expert judgment and trend analysis to estimate ridership and passenger revenues; no formal fare elasticity models or bus ridership data available
 - Trend revenue at 2% growth plus new service added
 - No direct association of revenue or ridership to expense
 - Ridership and revenue not estimated by traveler profile only by mode (e.g., long distance/short distance commuter)

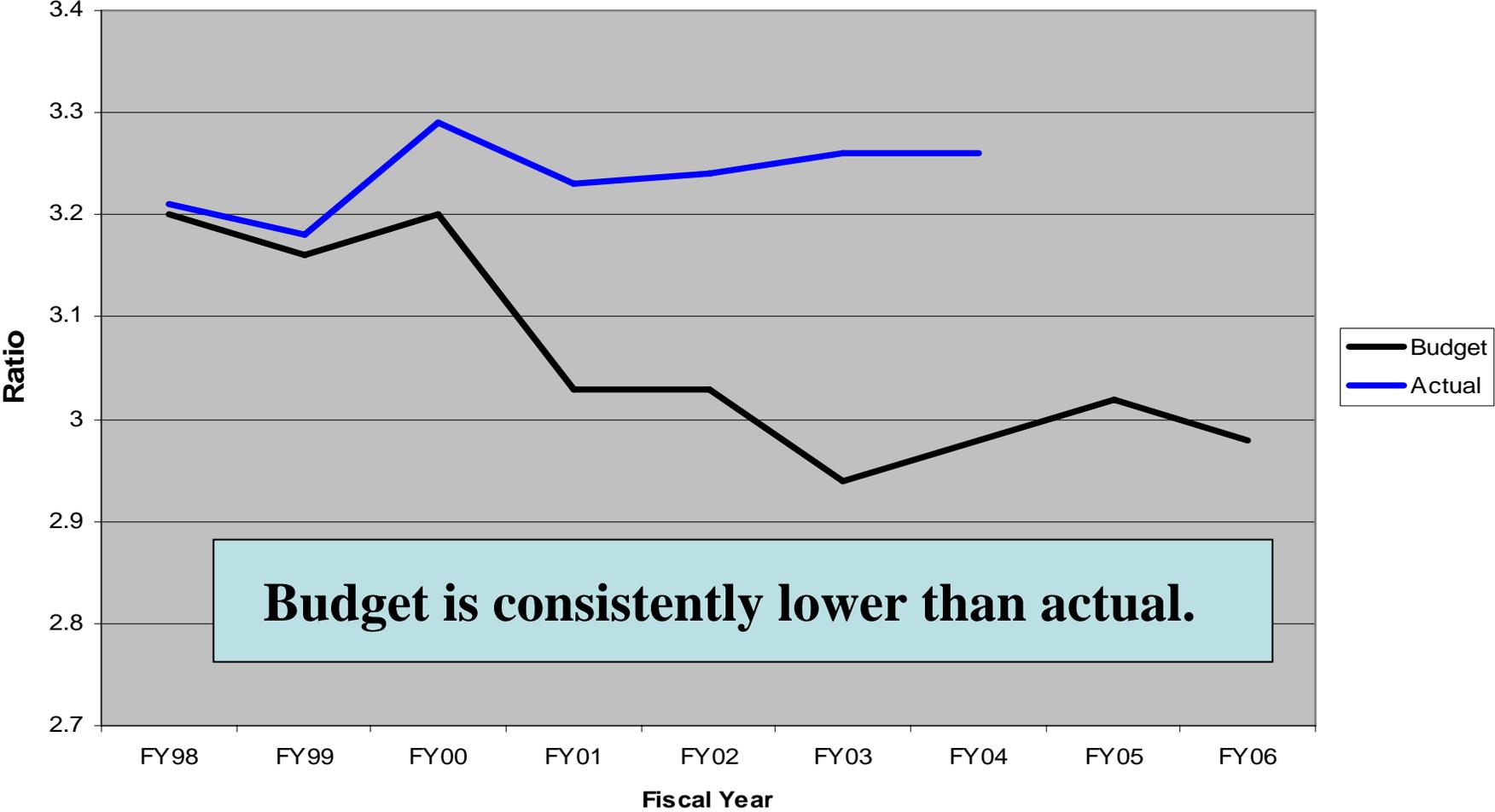
Revenues: Ongoing Areas of Concern

- Lack of ability to “drive top revenue line”
- Lack of formal ridership and revenue models used in developing budgets and service
- Lack of reliable bus data at route level
- Need to relate revenues to service provided in performance measures (e.g., passengers per revenue rail car mile, or revenue per bus mile)

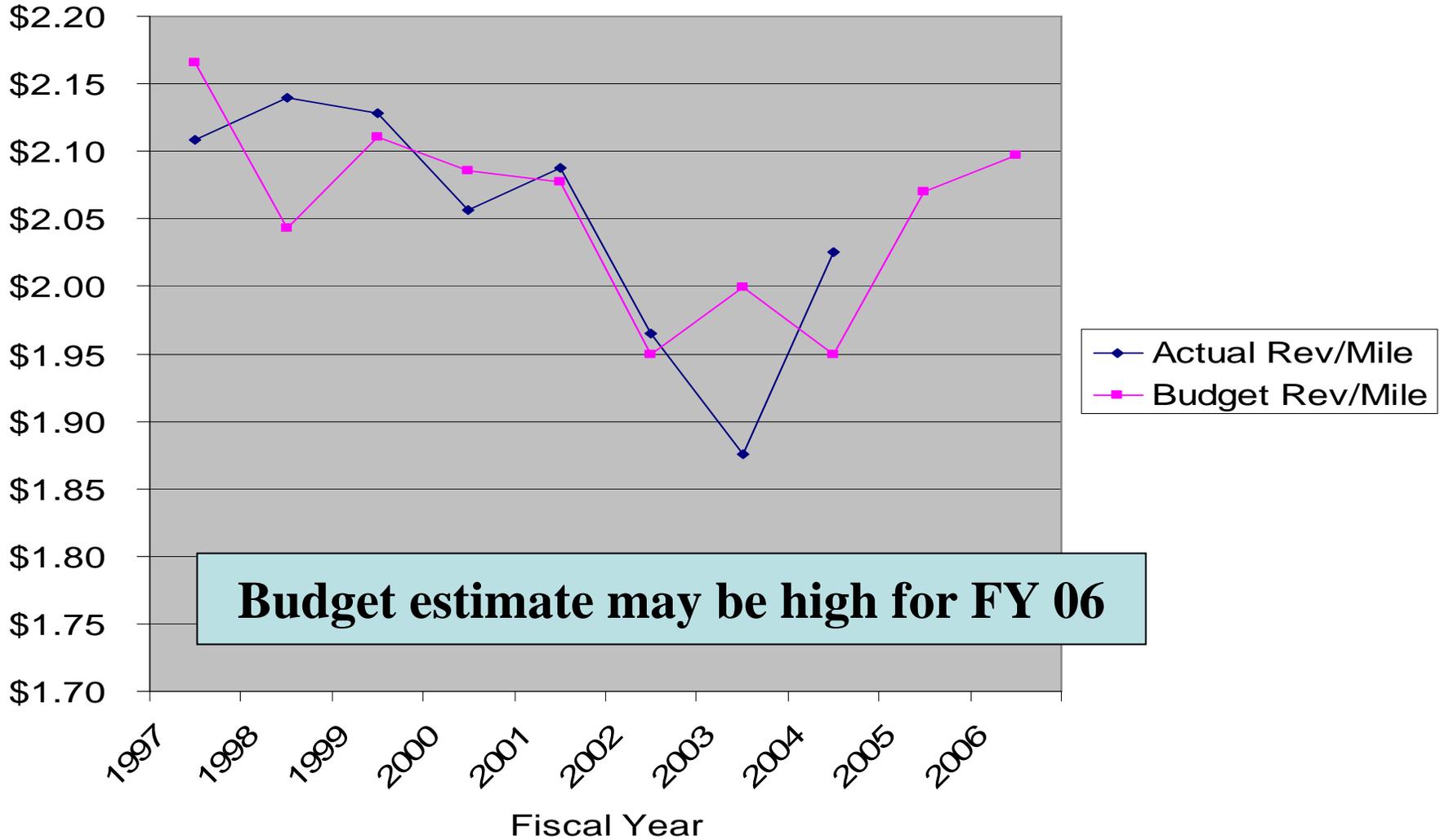
Revenue recommendations:

- Consider development of comprehensive revenue management strategy.
- Reconcile Metrorail budget based on passengers per revenue car mile; Target 3.1 passengers per revenue car mile vs. 2.98 in proposed budget (possible adjustment to revenue or expense).
- Reconcile Metrobus budget based on revenue per revenue bus mile; Target \$2.05 from \$2.10 in budget. (possible adjustment in revenue)
- Develop quantitative methodology for ridership and revenue forecasting.
- Parking revenues are \$3 million over budget for FY 05. Monitor utilization rates
- Projected \$28 million in unallocated TIF account through FY 09. Develop policy on how to use funds (capital or operating)

Passengers/Revenue Car Mile



Metrobus Revenue per Mile



Expense: Assumptions

- The cost of the Largo extension and New York Avenue station will be annualized. The cost of new programs, such as operating 6000 series cars, new security costs, and the effort to improve the customer service function are included in the budget. \$11.6 million increase of expenses for all.
- The assumed rate of growth of expenditures for labor and fringes will be less due to the use of a new labor contract in the budget. \$1.8 million expense reduction compared to December proposal.
- Lower health care utilization rates in FY 05 will be incorporated into the base. \$3.0 million expense reduction

Expense: Assumptions

- Assumptions (continued)
 - Bus service adjustments were introduced in FY'05. Others are planned for FY'06. Concerns have been raised that these adjustments will not be backed up by sufficient, timely, and accurate data to properly guide service adjustments.

Expenses:

Budget Growth and Budget Risks

- Areas of extreme growth:
 - Fringe benefits have been growing rapidly-WMATA has begun to institute programs to control costs, particularly in the area of health care benefits. (e.g., increasing employee contributions).
 - Much of the Metrorail cost increase appears to be due to annualizing the New York Avenue station and the Largo Extension, deploying 6000 series cars and adding security.
 - The major increase in claims reserve expense is due to end of a two-year funding holiday.

Expenses:

Budget Growth and Budget Risks

- Areas of budgetary risks:
 - Diesel Fuel and CNG- The current budget assumes \$1.40/gallon for its diesel fuel estimate. This is clearly less than the current market rate for diesel fuel. Currently this would result in \$8 million over the budget.
 - At this point there is no plan to seek increased subsidy for this expense.
 - Staff is reviewing different options to deal with this challenge, including swap agreements. It would cost approximately \$8 million to guarantee the current price in FY 06.
 - While not as great as the increase for diesel fuel, the increase for electricity and natural gas is a major cost increase item.

Expenses: Budget Growth and Budget Risks

- Areas of budgetary risks:
 - Labor- Previously, labor estimates were very accurate. This year, unexpected overtime is due to addressing major rail service disruptions and other factors. (FY 05 YTD is \$16.3 million over budget) Use of overtime should be examined in detail for the FY 07 budget.
 - Metro Access Costs- Aggressive cost control assumed for new contract.
 - Security Costs if new terrorism threats occur.

Expense Recommendations:

- Expenses:
 - Monitor possible cost increases as FY'06 progresses through close monitoring of the budget.
 - Take actions as early as possible to mitigate/ risks, if it is possible to do so.

Budget Process Review

- Budget development process
- Best budgeting practices
- Performance measures
- Budget book information

Budget Development

- Budget committee discussed beginning Zero Based Budgeting (ZBB) for FY07
 - Potential phased implementation
- One of several budget “reform” efforts
 - Emphasizes planning, prioritization, budget reduction
 - Bottom-up budgeting – no assumption of base
 - Individual units analyzed (Support goals? Can it be done more efficiently? Impact of elimination?)

Budget Development

- ZBB - Requires significant commitment by management
 - Takes staff time/resources
 - WMATA could utilize modified ZBB – one-time effort to re-establish base, sun-setting of new programs.
- If ZBB is pursued, Customer Service recommended for FY07; compartmentalized, metrics in place.
- Rail Operations reorganization presents opportunity for participation in development teams.

Best Practices

- Government Finance Officer's Association "Best Practices," defines a good budget process as:
 - Incorporating a long-term perspective
 - Establishing linkages to broad organizational goals
 - Focusing budget decisions on results and outcomes
 - Providing incentives to government management and employees

Budget Process

- Audit adjustments –unused subsidy typically returned.
- Financial control: office finance staff should report to CFO. (E&Y)
- Office of Capital program oversight should be assigned to CFO
- Planning and prioritization: focus on more narrow set of goals

Budget Process

- Need for ongoing, objective, independent review of operating/capital budgets.
- Access to information key; inclusion of stakeholders in development process.

Performance measures

- Ernst & Young report (2003) indicated that productivity measurement was a “key” area for improvement.
- Performance measures and benchmarks are GFOA “Best Practice.”
 - Integration into budget process, organizational and individual management strategies
- Jurisdictions utilize performance measures
- WMATA has strong customer-oriented benchmarks, but lacks productivity measures and marks.

Recommendations

- Review of “best practices.” Consider implementation in consultation with jurisdictions.
- Provide more detailed budget guidance, outlining process (ZBB or otherwise)
- Develop productivity measures and benchmarks, tied to incentives & accountability
- Provide additional information in budget presentation (list to be provided)

Members of the JCC

- Jim Maslanka (Chairman) (City of Alexandria)
- Gary Erenrich (Vice Chairman) (Montgomery County)
- Evelyn Bandoh (DDOT)
- Howard Benn (Montgomery County)
- Lou Farber (WSTC)
- James Hamre (Arlington County)
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