



Finance & Administration Committee

Information Item IV-C

June 12, 2014

FY2014 Third Quarter Operating Results

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

Action Information

MEAD Number:
200838

Resolution:
 Yes No

TITLE:

FY2014 Third Quarter Operating Results

PRESENTATION SUMMARY:

This presentation summarizes Metro's operating results through the third quarter of FY2014.

PURPOSE:

The Finance and Administration Committee will be informed of the FY2014 third quarter operating results.

DESCRIPTION:

Key Highlights:

- Through the third quarter of FY2014, Metro has a negative net operating position of \$6.3 million, with a negative revenue variance of \$21.0 million partially offset by a positive variance of \$14.7 million in expenditures.
- Year-to-date total ridership on all three modes is down 1.0 percent compared to last year and is 3.7 percent below budget. Ridership was significantly impacted by the severe winter weather of 2013-14 – federal government offices were completely closed for five days, and federal employees were offered unscheduled leave or telework on eight other days. Many local governments, school districts, and private sector employers were also closed on some or all of these days. Metrorail ridership and revenue have also been consistently below budget in the second half of FY2014 as a result of the delayed opening of the Silver Line.
- Altogether, the October government shutdown, the severe winter weather, and the delayed Silver Line opening are responsible for approximately \$26 million in negative revenue variance through March, with most of the impact coming in the third quarter.

Background and History:

Metro's \$1.7 billion FY2014 operating budget provides for the personnel, materials and supplies, fuel and propulsion power, and services to operate Metrobus, Metrorail, and MetroAccess.

Discussion:

Ridership & Revenue

Total combined rail and bus ridership in the first quarter of FY2014 was on budget, and total operating revenue was above budget by \$3 million over the same period. Ridership and revenue from rail and parking were negatively impacted in the second quarter by the federal government shutdown in October, but bus ridership continued to be relatively strong, and total operating revenue remained slightly above budget due to positive variances in non-transit sources.

However, the months of January through March were consistently negative against budget for both ridership and revenue. In addition to persistent severe winter weather, the delay in the opening of the Silver Line has caused a further negative variance to budget in each month of approximately \$2.8 million. As a result, the cumulative revenue variance has moved from positive \$2.5 million at the end of December to negative \$21.0 million as of the end of March.

The severe winter weather of 2013-2014 caused the Office of Personnel Management to declare five full closures of federal government offices, along with another eight days where offices were opened late and/or employees were offered the option of unscheduled leave or telework.

Fare revenue losses on the days of full government closure ranged from \$1.3 million to \$2.2 million, with the greatest losses occurring on days such as February 13th and March 3rd when the entire Metrobus system was closed. (Revenue on a typical weekday is approximately \$2.8 million.) Revenue losses on the other impacted days ranged from as little as \$0.1 million to as much as \$0.8 million, depending on the particular nature of the weather. The estimated total revenue impact of the winter weather (including other days in January that were impacted by snow and severe cold) is \$12 million. Altogether, the combined revenue impact through March of the winter weather (\$12 million), the Silver Line delay (\$8.4 million), and the October government shutdown (\$5.7 million) is a negative variance of approximately \$26 million compared to budget.

For the year-to-date, Metrorail ridership is below budget by 10.6 million trips (7 percent) as a result of the negative impacts identified above. However, despite facing similar shutdown and weather challenges, Metrobus ridership remains slightly above budget (1.0 million or 1 percent). MetroAccess ridership is 5 percent above budget for the year to date, with 1.56 million trips compared to budgeted ridership of 1.49 million.

Total revenues through March are \$625.4 million, which is \$21.0 million (3.3 percent) below budget. The negative variance in passenger fares and parking has been partially offset by non-transit revenues, which are \$4.1 million above budget. In addition to positive performance in fiber optic and advertising revenues, Metro received a one-time insurance payment in the second quarter that boosted non-transit revenues.

Operating Expenses

Year-to-date operating expenses through the third quarter are under budget by \$14.7 million or 1.2 percent. Services are favorable by \$20.0 million year-to-date, primarily as a result of favorable contract closeouts and the timing of various job orders. In particular, safety services are below budget due to a favorable closeout on an environmental services contract from a prior fiscal year, while MetroAccess contract expenses are unfavorable to budget due to an accrual for two contract claims and

increasing MetroAccess ridership. However, this unfavorability is offset by one-time cost savings related to the transition to the new MetroAccess service model. Metro has also locked in half of its diesel fuel budget and the entire propulsion budget through favorable hedges and fixed price contracts. As a result of these activities and lower than budgeted usage, expenses in Fuel, Propulsion, and Utilities are favorable by \$17.8 million year-to-date, which includes a \$0.8 million CNG tax credit variance. Congress did not extend the CNG tax credit incentive program after December 2013; unless it is reinstated, Metro will not realize an anticipated \$1.8 million of expense reductions during the last six months of FY2014.

Continued targeted investment in railcar maintenance (primarily in preparation for the Silver Line) and bus maintenance (in part due to damage from minor accidents and vandalism) has led to above-budget expenses in Materials and Supplies. However, this variance has been partially offset by the timing of other expenses including special purpose training materials, safety materials, and printing of bus schedules. Materials and Supplies are above budget by \$9.8 million year-to-date, a slight improvement over the \$10.9 million variance for the same period last year.

Personnel expenses are over budget by \$16.0 million year-to-date. Overtime expenses are over budget by \$14.7 million, a slight improvement over the \$16.0 million variance for the same period last year. Of that total, the estimated amount of overtime due to weather coverage is \$4.7 million. Overtime expenses have been partially offset by savings in salaries and wages, which are \$5.4 million under budget year-to-date, primarily due to vacancies. However, new wage rates and retroactive payments for employees represented by Local 689, Local 922, and Local 2 have reduced the overall favorability in salaries and wages. Fringe benefits are above budget by \$6.6 million due to higher than projected labor costs, DC workers' compensation assessment costs, and pension costs.

Forecast and Mitigation

The revenue risks to the FY2014 operating budget were evident by January 2014 once Silver Line service was delayed and the series of weather-related closures began. As a result, as part of the FY2015 budget adoption process, the Board set aside \$10 million from the FY2013 surplus as a reserve to address the potential year-end deficit in FY2014. However, the severe winter weather was even worse than expected, with major closures continuing into March, and weakness in rail ridership has continued into the spring with relatively low ridership surrounding this year's Cherry Blossoms, which has further increased the negative revenue variance. Therefore, in addition to utilizing the \$10 million reserve, Metro is also taking steps to reduce operating expenditures for the remainder of the fiscal year in order to mitigate the potential deficit. Despite total operating expenses being approximately \$15 million below budget through March, Metro operating departments have been directed to defer discretionary actions (such as services contracts) and to only undertake those safety- and customer-critical activities required to provide Metro's committed levels of bus, rail, and MetroAccess service.

FUNDING IMPACT:

This is an information item to present the highlights of Metro's FY2014 third quarter financial

performance. No specific action with a budget impact is requested at this time.

TIMELINE:

Previous Actions	FY2014 Second Quarter Operating Budget Performance Review presented to the Committee (February 2014)
Anticipated actions after presentation	Implementation of Approved Fare Changes and Beginning of FY2015 Budget Year (July 2014) FY2014 Year-End Financial Performance Review (September 2014)

RECOMMENDATION:



FY2014 Third Quarter Operating Results

Finance and Administration Committee
June 12, 2014



FY2014 Third Quarter Operating Budget Results

OPERATING BUDGET (\$ in Millions)

	FY2014 YTD		Budget Variance	
	Budget	Actual	\$	Percent
Revenue	\$646	\$625	(\$21)	-3%
Expense	\$1,239	\$1,224	\$15	1%
Subsidy	\$593	\$599	(\$6)	-1%
Cost Recovery	52%	51%		



FY2014 Third Quarter Revenue and Ridership

FY2014 Ridership and Revenue Through Q3

Mode	Measure	Budget	Actual	Variance
Rail	Ridership	159 million	148 million	
	Revenue	\$464 million	\$435 million	
Bus	Ridership	98 million	99 million	
	Revenue	\$105 million	\$111 million	
Access	Ridership	1.5 million	1.6 million	
	Revenue	\$6 million	\$6 million	
Parking	Revenue	\$35 million	\$34 million	
Non-Passenger*	Revenue	\$36 million	\$40 million	

* includes advertising, fiber optics, leases, etc.



Primary Causes of Revenue Shortfall

- Severe winter weather (\$12 million)
- Silver Line delay (\$8 million)
- Government shutdown (\$6 million)
- Transit benefit drop (\$1-2 million)

**Total estimated shortfall through
March: \$26+ million**



FY2014 Third Quarter Operating Expenses

FY2014 Operating Expenses Through Q3

Expense Category		Budget	Actual	Variance
Labor	Salaries and Wages	\$599 million	\$609 million	
	Fringe Benefits	\$287 million	\$293 million	
Non-Labor	Fuel, Propulsion and Utilities	\$116 million	\$98 million	
	Services	\$154 million	\$134 million	
	Materials and Supplies	\$56 million	\$66 million	
	Insurance and Other	\$28 million	\$25 million	
Total Operating Expenses		\$1,239 million	\$1,224 million	



Outlook for Remainder of FY2014

- Forecast
- Mitigation Efforts



Next Steps

July 2014

- Implement adopted fare changes and begin FY2015 budget year

September 2014

- Final year-end review of FY2014 financial performance

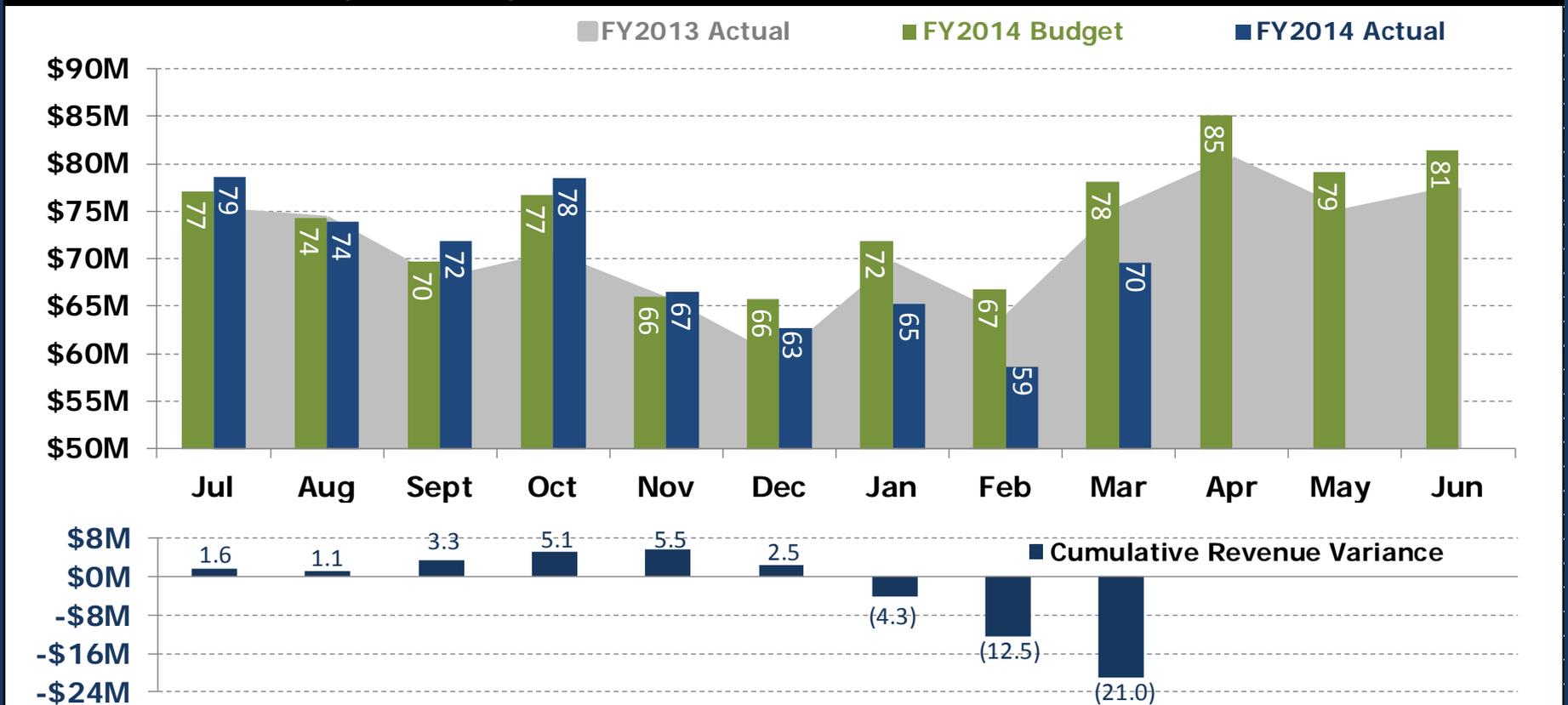


Appendix



FY2014 Operating Revenue

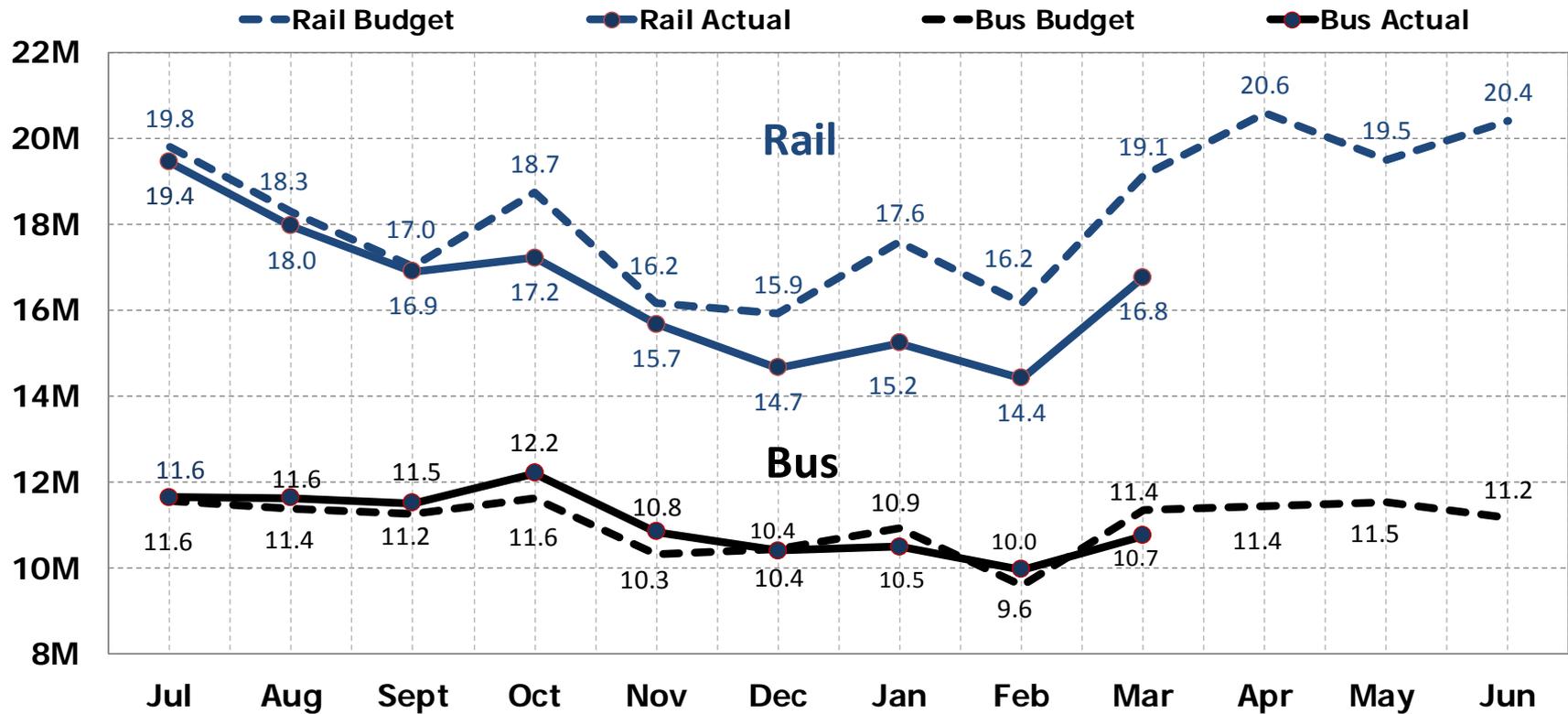
OPERATING REVENUE (in Millions)





FY2014 Rail and Bus Ridership

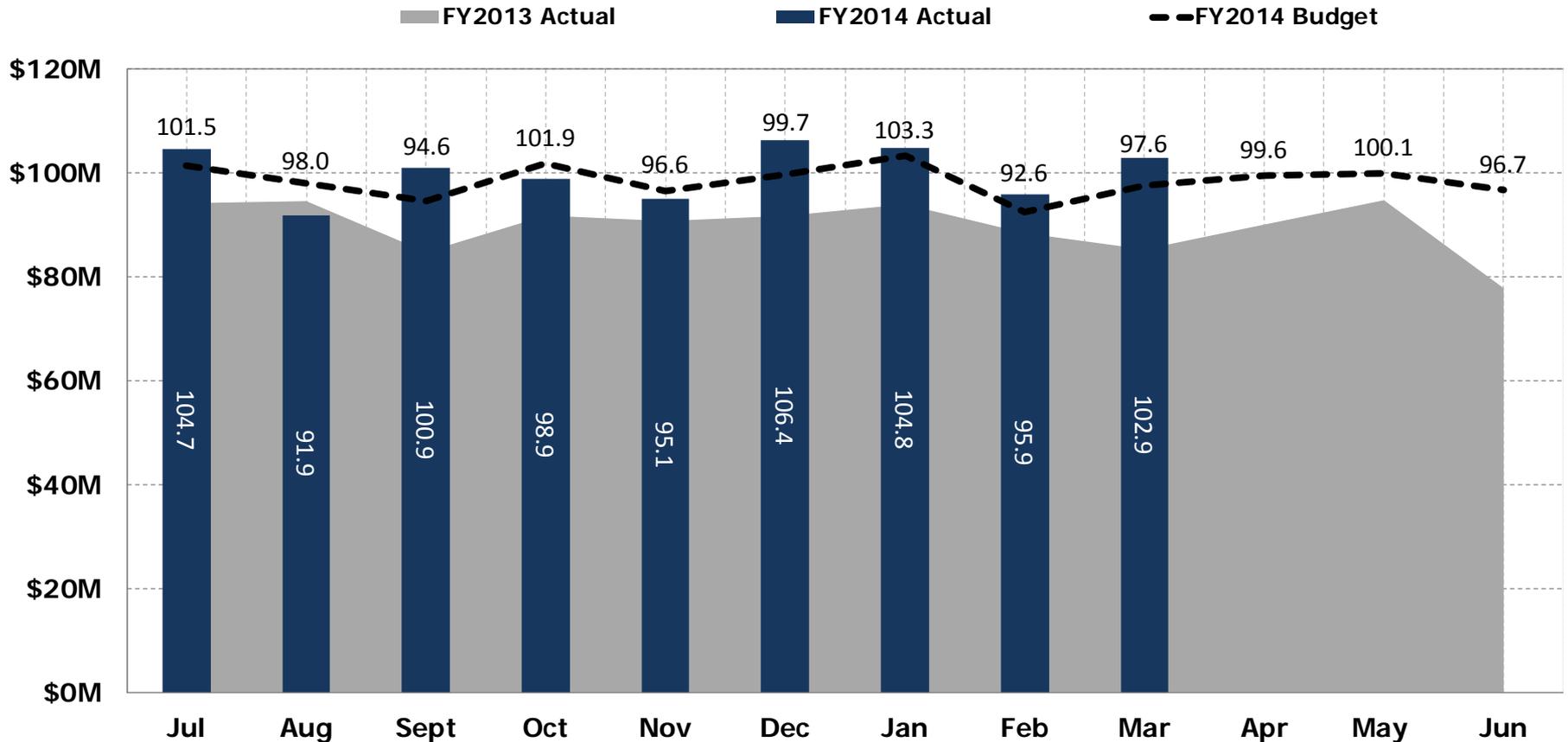
MONTHLY RIDERSHIP FOR RAIL AND BUS (in Millions)





FY2014 Labor Expenditures

FY2014 LABOR BUDGET VS ACTUAL (\$ in Millions)





FY2014 Non-Labor Expenditures

FY2014 NON-LABOR BUDGET VS ACTUAL (\$ in Millions)

