



**Finance & Administration Committee**

**Information Item IV-D**

**September 11, 2014**

**FY2015 Operating Budget Update**

Washington Metropolitan Area Transit Authority  
**Board Action/Information Summary**

Action  Information

MEAD Number:  
201003

Resolution:  
 Yes  No

**TITLE:**

FY2015 Operating Budget Update

**PRESENTATION SUMMARY:**

This information item will update the Committee on the FY2015 operating budget, focusing specifically on a) targeted operating expense reductions of \$45 million and b) initial ridership results. The presentation will also provide an overview of key budget principles and issues for FY2016 ahead of the Committee's upcoming meetings in the Fall.

**PURPOSE:**

This is an information item to provide the Committee with an update on Metro's FY2015 operating budget and to look ahead to the FY2016 budget development process.

**DESCRIPTION:**

**Key Highlights:**

- At the GM/CEO's direction, staff have identified \$45.5 million of targeted expense reductions within the FY2015 operating budget. These expense reductions will cover the FY2014 operating subsidy deficit, provide additional cushion against revenue declines in the FY2015 budget, and provide budget capacity to increase internal compliance resources. These reductions will not impact safety, security, or compliance, or reduce customer service.
- Ridership indicators in early FY2015 are positive, as rider reaction to the fare increase in late June has been minimal (with bus ridership up and rail ridership flat), and the Silver Line successfully opened on July 26.
- The FY2016 budget, which is currently scheduled to be formally proposed in December 2014 and adopted in March 2015, will continue to advance programmatic budgeting and business plan actions linked to the strategic plan.

**Background and History:**

Metro ended FY2014 with an operating subsidy deficit as a result of rail ridership and revenue that were below budget. In order to address this deficit, rather than requesting additional subsidy contributions from the jurisdictions, the GM/CEO committed that the deficit would be made up through targeted expense reductions in FY2015. Additional expense reductions have also been identified to provide additional cushion against potential below-budget ridership in FY2015.

**Discussion:**

FY2015 Targeted Expense Reductions

The initial need for targeted expense reductions in FY2015 was identified by the General Manager in the spring when it became clear that Metro might end FY2014 with an operating deficit in excess of the \$10 million already set aside out of the FY2013 surplus. At that time, the GM committed that Metro would not ask the jurisdictions to cover any additional deficit through direct contributions, but instead that Metro would make up the difference through reduced expenditures in FY2015. Based

on preliminary, un-audited financial results Metro ended FY2014 with a deficit of \$23 million, so the additional deficit amount to be made up via the expense reductions is \$13 million.

However, further expense reductions were also identified to serve two additional purposes:

- First, to mitigate potential revenue shortfalls in FY2015 due to delay and uncertainty associated with the Silver Line, as well as general weakness in rail ridership.
- Second, to establish and strengthen the internal compliance capacity within the Authority.

Approximately \$45 million in targeted reductions have been identified to address these three needs. The commitment from the ELT members is that these reductions – be they deferrals, delays, or eliminations – will not impact safety, security, or compliance, and will not reduce customer service. (The new initiative to introduce bus "ambassadors" will be delayed.) There is no reduction in the top line operating budget figure, which remains the same as what was adopted in March, so no formal budget amendment is required from the Board. However, the departmental budget targets have been revised.

The \$45 million in expense reductions are summarized in the table below. The reductions are split between non-personnel (60 percent) and personnel (40 percent), with the largest reductions occurring in wages/fringes and services. The personnel expense reductions are being achieved primarily through deferral of planned hiring.

	FY2015 Approved Operating Budget	FY2015 GM Operating Budget Target	Reduction	Percent
<b>Personnel Expenses</b>				
Wages/Fringe	\$1,197.2	\$1,182.8	(\$14.4)	-1.2%
Overtime	\$74.9	\$70.8	(\$4.1)	-5.5%
<b>Total Personnel</b>	<b>\$1,272.2</b>	<b>\$1,253.7</b>	<b>(\$18.5)</b>	<b>-1.5%</b>
<b>Non Personnel Expenses</b>				
Services	\$209.7	\$196.8	(\$12.9)	-6.2%
Materials & Supplies	\$105.7	\$101.2	(\$4.5)	-4.3%
Utilities	\$129.4	\$121.0	(\$8.3)	-6.5%
Casualty & Liability	\$29.6	\$29.6		
Leases	\$6.8	\$6.8		
Miscellaneous	\$5.0	\$3.8	(\$1.2)	-24.0%
Reimbursements	(\$3.5)	(\$3.5)		
<b>Total Non-Personnel</b>	<b>\$482.6</b>	<b>\$455.6</b>	<b>(\$27.0)</b>	<b>-5.6%</b>
<b>TOTAL EXPENSE</b>	<b>\$1,754.8</b>	<b>\$1,709.3</b>	<b>(\$45.5)</b>	<b>-2.6%</b>

#### Early Indicators for FY2015

Metro implemented the FY2015 fare changes on Sunday, June 29. These fare changes were relatively incremental and were not projected to have much (if any) impact on ridership. So far, that is proving to be accurate:

- Despite a nine percent increase in the base bus fare from \$1.60 to \$1.75, ridership in July increased by two percent.
- Also, in deciding to eliminate the cash surcharge on bus, staff observed that SmarTrip usage was driven by the availability of the free transfer and the 7-day bus pass, rather than by the price differential. So far that is has proved to be true, with cash usage holding steady at five to six percent of trips, the same as before the fare increase.
- Metrorail ridership also held steady compared to last July despite the three percent fare increase (approximately 10 cents per trip).
- We have seen initial evidence of a decline in parking utilization at stations in Prince George's

County following the parking surcharge increase there, particularly at Greenbelt. There have also been some complaints from customers about the new charge. However, it is advisable to wait until September to fully gauge the impact of the fare increase on parking, both in Prince George's County and system-wide.

Metro also opened the Silver Line on July 26. The response from customers has been very positive, and we have seen some interesting trends through the first few weeks:

- As expected, there has been a major shift in ridership from West Falls Church to Wiehle Avenue as a result of bus route changes – there is no net growth in ridership as a result of those changes, but there is a minor increase in fare revenue (due to longer rail trips).
- There is evidence of reverse commuting (that is, morning exits), particularly at Tysons Corner but also at Wiehle, as well as strong PM peak and evening activity (both entries and exits) at Tysons Corner. NBC 4 recently reported on the strong gains in mall traffic that Tysons Corner Center has reported.
- There also appears to be good net growth on the weekends.
- So far, Blue Line ridership has remained fairly constant since the Silver Line began operation, but that is something to watch over a longer period.
- All these results are preliminary, and staff should have a better sense of the trajectory for FY2015 by the end of September.

FY2016 Budget Development

Staff are already preparing initial materials for the FY2016 operating and capital budgets. In every key decision, we will link back to the strategic plan and to the business plan actions that flow from those strategies. We also will budget programmatically, to support our Authority-wide efforts at safety, customer service, state of good repair, and other key areas. This includes:

- The capital budget will continue to focus on safety and state of good repair investments, but will also build on the \$75 million commitment to Metro 2025 in the current budget by making additional investments to support 8-car trains, station capacity improvements, and the bus priority corridor network.
- Fatigue management and internal compliance will be particular areas of programmatic focus in FY2016. Determining the amount and timing of additional hiring needed to comply with the new fatigue management guidelines will be a joint effort between Safety, OMBS, the Office of Performance, and the operating departments.
- Metro will continue to identify and implement further opportunities for increased efficiency. For example, the paper farecard elimination project that was approved as part of the capital budget adoption in May will begin to pay dividends in the latter half of FY2016, and the budget will capture those savings.
- And finally, following Board policy, there is no plan for a fare increase in FY2016.

**FUNDING IMPACT:**

The expense reductions described above will impact departmental budget targets and will result in the deferral of certain hirings, purchases, and other actions. However, the overall FY2015 operating budget figure will not change. Therefore, this item is informational only and has no direct impact on funding.	
Project Manager:	Thomas J. Webster
Project Department/Office:	OMBS/CFO

**TIMELINE:**

<b>Previous Actions</b>	August 2014 - Board memo on targeted FY2015 operating expense reductions
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**Anticipated actions after presentation**

October 2014 - FY2016 ridership and revenue forecasting preview at Finance & Administration Committee (next step in FY2016 budget development process)

**RECOMMENDATION:**

No action required, information item only.



Washington Metropolitan Area Transit Authority

# FY2015 Operating Budget Update

Finance and Administration Committee  
September 11, 2014



# Purpose

- Initial look at FY2015
  - Operating expense reductions
  - Ridership
- Preview FY2016 budget process





# FY2015 Operating Expense Reductions

- Targeted expense reductions needed for:
  - *FY2014 year-end deficit*: avoid additional jurisdictional contribution (above \$10 million already reserved)
  - *FY2015 subsidy*: mitigate additional potential revenue shortfall
  - *Compliance*: provide budget capacity to respond to compliance requirements and implement corrective actions



## Reduction of \$45.5 Million

- \$45.5 million (2.6 percent of adopted budget) of reductions identified
  - Distributed across modes and departments
  - Will not impact safety, security, or compliance or reduce customer service
- No budget amendment required, but department budget targets will be revised



# Summary of Expense Reductions

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# Early Indicators for FY2015

- Minimal fare increase impact on ridership
  - Metrobus up 2 percent over last July; cash usage flat despite surcharge elimination
  - Metrorail flat compared to last July; weekends showing improvement
  - Wait until September to gauge parking
- Successful Silver Line opening on July 26
  - Shift to Wiehle from West Falls Church
  - Reverse commute and evening activity at Tysons Corner (mall has reported strong traffic gains)
  - Increase in overall weekend travel



# FY2016 Budget Principles

- Continue to advance programmatic budgeting and business plan actions (linked to strategic plan)
  - Commitment to Metro 2025 investments as part of new Capital Funding Agreement
  - Focus on program areas of fatigue management and internal compliance
  - Continue to identify/implement efficiency and effectiveness opportunities
  - No planned fare increase



# Next Steps

## **October 2014**

- FY2016 Ridership and Revenue Discussion
- Momentum Progress Report/Business Plan Update

## **November 2014**

- Preliminary FY2016 Budget Overview

## **December 2014**

- Presentation of GM/CEO's FY2016 Budget and Six-Year CIP

## **January-February 2015**

- FY2016 Budget Discussions

## **March 2015**

- Adoption of the FY2016 Budget and Six Year CIP