



Finance & Administration Committee

Information Item IV-B

November 3, 2016

FY2017 First Quarter Operating Update

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
201807

Resolution:
☐ Yes ☒ No

TITLE:

FY2017 First Quarter Operating Update

PRESENTATION SUMMARY:

Staff will present a summary of FY2017 first quarter operating results, including ridership, revenue, and expenses.

PURPOSE:

To inform the Finance Committee on Metro's ridership, revenue, and operating expenses through the first quarter of FY2017.

DESCRIPTION:

Key Highlights:

- Through the first quarter of FY2017, Metro's operating budget has an unfavorable net position of \$18.0 million. This is the result of a \$36.6 million negative revenue variance partially offset by \$18.6 million of expenditure savings.
- For the quarter, total ridership on all modes was down 10 percent versus last year and was 13 percent below budget. Ridership was down on Metrobus and Metrorail during the first quarter compared to the same period last year, but increased slightly on MetroAccess.
- Total Metrorail ridership in the quarter was down 13 percent compared to FY2016 and was 15 percent below budget. This decline is due to the SafeTrack efforts that began in June (and were not incorporated in the budget) as well as continuing challenges from telecommuting, low gas prices, and competing transportation options.

Background and History:

Metro's \$1.75 billion FY2017 operating budget provides for the personnel, materials and supplies, fuel and propulsion power, and services to operate Metrobus, Metrorail, and MetroAccess.

Discussion:

Summary

Metro finished the first quarter of FY2017 with a negative net operating position of \$18.0 million. Operating expenses for the first quarter were \$423.1 million, or \$18.6 million

below budget, while operating revenues were \$195.2 million, or \$36.6 million below budget.

First quarter favorability in operating expense was the result of lower costs for salaries/wages, services, and fuel and propulsion. While Metro continues to tightly control operating expenses, unbudgeted costs to support maintenance activities have impacted the FY2018 operating budget. However, this has been more than offset by expense savings from decreased propulsion utilization and favorable fuel rates. Personnel costs are also favorable to budget due to the ongoing actions to eliminate 500 positions as directed by the GM/CEO earlier this year.

Operating revenues were unfavorable to budget in the first quarter due to decreased ridership and fare revenue on both rail and bus. Service interruptions due to the SafeTrack program affected rail and bus ridership in certain corridors, while overall ridership continued to face service reliability challenges as well as feel the impact of alternative transportation options, low gasoline prices, and telecommuting. The lower rail and bus ridership has continued to adversely impact revenue.

Ridership & Revenue

Total transit ridership on all modes in the first quarter was 77 million trips, a decrease of nine million trips or 10 percent compared to the prior year. Ridership in FY2017 was originally forecasted to increase slightly, so actual trips in the first quarter finished below budgeted trips more sharply, by 11 million or 13 percent. The significant ridership declines of FY2016 began in August 2015, remained relatively stable through March 2016, and then worsened in the fourth quarter. Consequently July 2016 ridership was down sharply versus the prior year: rail by 21 percent and bus by 12 percent. Ridership losses were more moderate in August and September (eight percent on rail and two to seven percent on bus).

Metrorail

Total rail ridership in the first quarter of FY2017 was 44.9 million trips, a decline of nearly 13 percent or 6.5 million trips compared to the same quarter last year. Ridership was down broadly across all time periods, days of the week, and individual stations. Consequently, rail revenue was down 15 percent versus prior year and was 17 percent under budget through the first quarter. Parking revenue was similarly down 11 percent compared to prior year and was below budget by 17 percent. Since the SafeTrack “surges” are the most significant factor in the revenue and ridership declines in the first quarter, below is a discussion of the surges occurring principally in the first quarter.

July (Surges 3-5)

In July Metrorail ridership was down 21 percent or 3.9 million trips, and was below budget by 20 percent (3.7 million trips). Average weekday ridership was down 15 percent versus prior year, and Saturdays were down 29 percent.

Surges 3 and 4

Surges 3 and 4 involved shutdowns of portions of the Blue and Yellow Lines between Pentagon City and Braddock Road stations. Notable highlights include:

- 11,000 “virtual tunnel” transactions per weekday from customers riding rail-to-shuttle-to-rail through the closed segments during both surges

- Parking at stations south of King Street was down 60-73 percent
- Rail stations unaffected by the surge were down approximately 11-13 percent on weekdays.

Changes in all-day ridership were more moderate, as midday and reverse-commute ridership remained steady, despite the reductions in service. All-day ridership at the traditional commuter and park-and-ride stations like Franconia-Springfield, Van Dorn, and Huntington was down 30-45 percent.

Surge 5

Surge 5 involved continuous single-tracking of the Orange and Silver Lines between East Falls Church and Ballston, and a 60-70 percent reduction in train frequency west of Ballston at peak times. Overall ridership losses were 21 percent west of Ballston, and 12-18 percent residual losses persisted in markets related to Surges 2-4, as ridership did not “bounce back” fully after normal service resumed. On the last weekday of Surge 5, a derailment at East Falls Church station outside the work zone significantly impacted service and ridership for the next three days.

August (Surges 6 and 7)

In August Metrorail ridership was down eight percent (1.3 million trips) compared to prior year, and was below budget by 14 percent (2.5 million trips). Average weekday ridership was down 11 percent versus prior year, and weekends were down 20 percent.

Surge 6

Surge 6 involved continuous single-tracking of the Red Line between Silver Spring and Takoma, resulting in a 75 percent reduction in train frequency between Silver Spring and NoMa, a 50 percent reduction in frequency between Glenmont and Silver Spring, and a 25 percent reduction in frequency between Grosvenor and NoMa.

- Overall loss due to the surge was 19,000 trips per weekday, a decrease of 10 percent for trips originating at stations with reduced service.
- Residual losses from the previous surges hovered around nine percent, down from around 12 percent during Surge 5.

Surge 7

This Surge involved continuous single-tracking and weekend line segment shutdowns between Shady Grove and Twinbrook.

- 35 percent rail ridership loss at Shady Grove and Rockville
- Nearly half of all lost riders at Shady Grove and Rockville diverted to Twinbrook and Grosvenor, helped by Montgomery County RideOn shuttles and parking customers
- Very few customers shifted to existing Metrobus routes
- Parking was down over 50 percent at Shady Grove and Rockville, with some diversion to Twinbrook and Grosvenor

September (Surge 8)

In September Metrorail ridership was down eight percent (1.3 million trips) versus prior year and was below budget by 12 percent (2.0 million trips). Of the 1.3 million lost trips, approximately 0.6 million were during Surge 8 (11 days in September). Average

weekday ridership was down 7 percent versus prior year and weekends were down 14 percent.

Metrobus

Total bus ridership in the first quarter of FY2017 was 32 million trips, a decline of 2.2 million trips or six percent compared to the same quarter last year. As a result bus revenue was down 10 percent versus prior year and was 11 percent below budget for the quarter. Specific performance highlights from each month are provided below.

July (Surges 3-5)

Surges 3 and 4

More customers diverted to bus during Surges 3 and 4 than in prior Surges. Overall, the bus shuttles transported 17,000 customers per day during Surge 3, and around 25,000 per day during Surge 4. The sheer volume of ridership on the shuttle buses made the shuttle operation Metro's busiest bus line, albeit temporarily. Metroway also saw a very significant increase in ridership – up close to 200 percent, or nearly tripling its usual load, despite no increase in peak service levels.

Surge 5

Diversion of rail customers to Metrobus was light but noticeable, similar to Surge 1, and less than Surges 3 and 4. Nearby bus routes were up roughly 10 percent, with routes 38B, 3Y and 2A carrying the most additional riders. Other Metrobus routes in the general area, and all routes system-wide, were down 6-8 percent.

August (Surges 6 and 7)

Surge 6

Bus ridership changes were mixed. Significant increases in ridership occurred on the route S9 (up 30 percent) and route 79 (up 4 percent). In total, routes providing supplemental service experienced a six percent increase in ridership compared to the equivalent week in July 2016. Metrobus also advertised additional "alternative" routes without supplemental service, but ridership on those routes on average saw no change from July 2016.

Surge 7

Montgomery County RideOn operated bus shuttles between Shady Grove and Grosvenor during Surge 7, which recorded roughly 1,700 boardings per day on weekdays, and helped drive increased rail ridership at Grosvenor. Very little change in Metrobus ridership was directly attributable to Surge 7. The only exception was a moderate increase in ridership on routes J7 and J9 (I-270 express buses) in comparison to July 2016.

MetroAccess

Total ridership on MetroAccess for the quarter was 0.6 million trips, reflecting growth of five percent over FY2016, but was below projected growth by two percentage points. MetroAccess revenue was up marginally compared to prior year (three percent) but was three percent below budget for the quarter.

Operating Expenses

FY2017 operating expenses for the first quarter were favorable to budget by \$18.6 million, or 4.2 percent, primarily as a result of reduced personnel expenses. Total

expenses were 1.8 percent less than the same period in FY2016.

Labor

FY2017 personnel expenses (including salaries/wages, overtime, and fringe) of \$318.6 million were favorable to budget by \$13.2 million or 4.0 percent.

Positions and Staffing

In June 2016, the GM/CEO directed the elimination of 500 positions in FY2017. Accordingly, Metro has reduced vacant positions and identified positions that are no longer critical to Metro's core business requirements. 372 of the 500 positions have been eliminated, and as of September 30 Metro's vacancy rate is 5.0 percent, as compared to a rate of 7.4 percent prior to the reduction in positions.

Overtime

Overtime expenses of \$23.1 million in the first quarter of FY2017 were over budget by \$0.7 million or 2.9 percent. This unfavorable variance was primarily due to additional staff support by Track and Structures for track repair work and inspections, as well as work by Traction Power Staff to install heat tape and repair lighting at emergency trip stations. WMATA is taking advantage of periods of SafeTrack-required single tracking to complete other regular maintenance.

Fringe Benefits

Fringe benefit expenses were \$2.4 million below budget at the end of the first quarter. The workers compensation reserve account was favorable by \$3.5 million as contribution obligations have been met. FICA, pension and healthcare were favorable by a combined \$2 million.

Labor expenses totaling \$23.3 million, which support eligible preventive maintenance (PM) activities on railcars and buses, have also been transferred to the Capital budget as planned.

Non-Personnel

Non-personnel expenses of \$104.5 million in the first quarter were below budget by \$5.4 million or 5.0 percent. Expense savings in services and fuel were offset by increased expenses in materials and supplies.

Services

Services were \$2.3 million below budget in the first quarter, due largely to the timing of service contracts that will not generate significant expenses until later in the fiscal year.

Offsetting the favorability resulting from the delayed contracts is MetroAccess service expenses, which were unfavorable to budget by \$1.2 million. This variance was due to slightly higher contract rates for one of the service providers than were assumed in the budget as well as late-trip credits to passengers.

Material & Supplies

Materials & Supplies expenses exceeded budget by \$9.6 million due to parts purchases to support continued railcar rehabilitation. Certain railcar parts procurements do not comply with FTA procurement requirements, and these parts must be purchased through the operating budget. In addition, supplies for bus maintenance exceeded

budget as a result of higher than projected costs for vehicle parts and materials.

Fuel & Propulsion

The average diesel fuel rate for the first quarter of FY2017 was \$1.44 per gallon compared to a budgeted rate of \$2.17 per gallon, resulting in a net savings for Metrobus. Gasoline rates were similarly favorable at \$1.36 per gallon compared to a budget of \$2.78. Consequently, Fuel expenses were \$3.1 million (or 33 percent) below budget.

Propulsion and electricity expenses were also favorable due to below budget consumption. Propulsion volume was 5.5 percent below forecast due to lower-than-scheduled railcar miles and less than maximum railcars during peak service. Electricity utilization by facilities was 2.0 percent below budgeted volume.

Capital Overhead Allocation

Beginning in FY2017, and with approval from the Federal Transit Administration (FTA), WMATA has changed how indirect costs are applied to capital projects and credited to the Operating Budget. This change meets FTA requirements for reimbursement of indirect costs. In FY2017 the total capital overhead allocation is shown as a credit on a separate line on the financial report, labelled "Capital Indirect Allocation." For the first quarter of FY2017 the capital indirect allocation was a credit of \$12.7 million. This is \$1.9 million favorable to budget due to increased capital expenses in support of SafeTrack.

FUNDING IMPACT:

Information item only -- no alternatives considered.	
Project Manager:	Thomas J. Webster
Project Department/Office:	CFO/OMBS

TIMELINE:

Previous Actions	March 2016: FY2017 Operating Budget approved by Board July 1, 2016: FY2017 begins
Anticipated actions after presentation	February 2017: FY2017 Second Quarter update provided to Board

RECOMMENDATION:

No action required -- information only.



Washington Metropolitan Area Transit Authority

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Finance Committee
November 3, 2016






FY2017 First Quarter Summary

- Metrorail ridership down substantially due to SafeTrack and ongoing reliability challenges, as well as continuing external challenges (competition, gas prices, etc.) – rail ridership down 13 percent compared to same three months last year
- Metrobus also down, in part due to effects of SafeTrack
- Achieved \$19 million in expense savings but not sufficient to offset \$37 million revenue variance



Net Operating Position

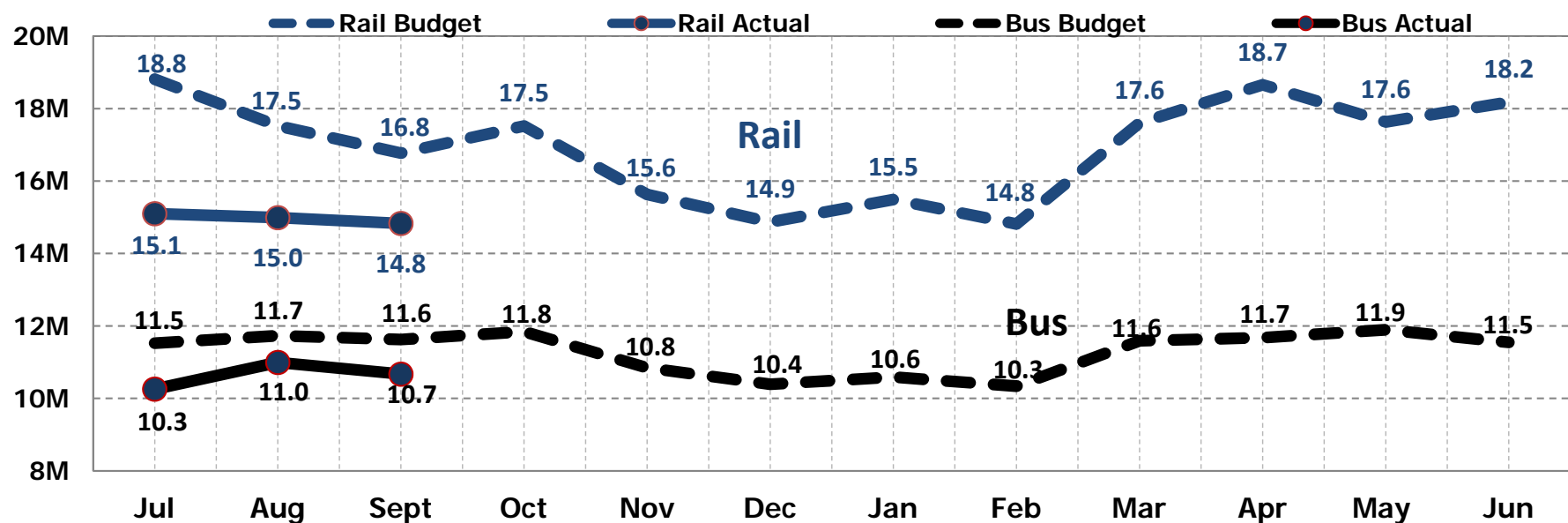
<i>(millions)</i>	FY2017-Q1		Variance		
	Budget	Actual	\$	Percent	Direction
Revenue	\$ 232	\$ 195	\$(37)	-16%	
Expense	\$ 442	\$ 423	\$(19)	-4%	
Net Subsidy	\$ 210	\$ 228	\$ 18	9%	
Cost Recovery	52%	46%			



Ridership

RIDERSHIP (trips in thousands)









Q1/YTD	Q1-FY2016	Q1-FY2017		Variance	
	Actual	Budget	Actual	Prior Year	Budget
Metrorail	51,343	53,107	44,916	-13%	-15%
Metrobus	34,124	34,879	31,918	-6%	-8%
MetroAccess	574	613	603	5%	-2%
System Total	86,042	88,599	77,437	-10%	-13%





Operating Revenue








FY2017 Ridership and Revenue Through Q1

Mode	Measure	Budget	Actual	Variance
Rail	Ridership	53 million	45 million	
	Revenue	\$160 million	\$132 million	
Bus	Ridership	35 million	32 million	
	Revenue	\$39 million	\$35 million	
Access	Ridership	0.6 million	0.6 million	
	Revenue	\$2.5 million	\$2.4 million	
Parking	Revenue	\$12 million	\$10 million	
Non-Passenger	Revenue	\$15 million	\$13 million	



Operating Expense

FY2017 Operating Expenses Through Q1

Expense Category		Budget	Actual	Variance
Labor	Salaries, Wages and Fringe	\$332 million	\$319 million	
Non-Labor	Fuel, Propulsion and Utilities	\$32 million	\$27 million	
	Services	\$56 million	\$54 million	
	Materials and Supplies	\$20 million	\$29 million	
	Insurance and Other	\$13 million	\$7 million	
	Capital Indirect Allocation	(\$11 million)	(\$13 million)	
Total Operating Expenses		\$442 million	\$423 million	



FY2017 Outlook

- Ridership uncertainty due to SafeTrack
- Continue focus on safety and service reliability
- Continue to monitor ridership and revenue and update projections
- Mitigate operating expenses wherever possible and update Board after second quarter



Next Steps

- **February 2017:** FY2017 Second Quarter Financial Report