Finance & Administration Committee

Information Item IV-B

November 5, 2015

FY2017 Budget Discussion

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

Action	Information	MEAD Number: 201676	Resolution: Yes	No

TITLE:

FY2017 Budget Discussion

PRESENTATION SUMMARY:

Following the budget preview in September and the assessment of ridership and revenue trends in October, this presentation will provide high-level options for the FY2017 operating and capital budgets for the Board's consideration and discussion.

PURPOSE:

As the next step in the budget process, this presentation provides the Committee high-level options for both operating and capital investment in FY2017. The discussions and guidance resulting from this presentation will inform the GM/CEO's proposed FY2017 budget and six-year CIP scheduled for presentation in December.

DESCRIPTION:

Key Highlights:

- Four high-level options are presented for the FY2017 operating budget. These include a zero-subsidy growth scenario, which requires a change in WMATA's policy on funding of preventive maintenance activities; a 'business as usual' scenario which requires a 10 percent increase in jurisdictional contribution, but keeps fares and service at their current levels; and two scenarios with subsidy growth of 3 percent which require fare increases and/or service cuts.
- Three high-level options are also presented for capital investment, which will inform the ongoing discussions regarding the renewal of the Capital Funding Agreement (CFA). The base option maintains current levels of funding of approximately $6 billion over six years and continues required safety and state of good repair investment; the other scenarios of $7 billion and $8 billion in funding would allow for investment in currently deferred projects, a contingency for potential additional safety needs, and additional investments to prepare for the future.

Background and History:

The FY2017 budget development process was kicked off in September 2015 with a “preview” of the structural challenges facing the Authority – namely, expense growth (particularly wage and fringe benefit growth for personnel) that is outpacing revenue growth, leading to significant year-over-year increases in required jurisdictional

operating subsidy. Closing this structural gap will be critical to ensuring the long-term financial stability of the Authority.

In October, the Committee was provided with additional information on current trends in ridership, with a particular focus on the challenges facing Metrorail ridership. Compared to its peak in FY2009, Metrorail average weekday ridership in FY2015 had declined by approximately five percent due to a number of external challenges, including growth in telecommuting, reductions in the federal transit benefit, and new competitors in the transportation market. However, in FY2015 and the first quarter of FY2016, ridership has dropped further, and this drop appears to be linked to customer service issues, including declining service reliability.

As context, the November discussion begins with a reiteration of the structural and market challenges facing WMATA, and also provides information on the key drivers of WMATA's operating expenses. Personnel expenses make up over 70 percent of WMATA's FY2016 $1.8 billion budget, with salaries and wages of $822 million, overtime of $78 million, and fringes (including healthcare, pension, and other benefits) of $431 million. Within the category of non-personnel expenses that constitute the remaining 25 to 30 percent of the budget, the MetroAccess service contract is a significant and growing expense. Expenses for fuel and propulsion and insurance are also relatively fixed, at least in the short term, so the opportunities for efficiency are primarily in materials and supplies and other services contracts.

Discussion:

<u>Top Priorities for FY2017</u>
WMATA's top priorities for FY2017 are in three major categories:

- *Critical safety and security investments*: Ensuring the safety and security of our customers and employees is WMATA's highest priority. In FY2017, this will include:
    - Addressing National Transportation Safety Board (NTSB) recommendations
    - Implementation of Federal Transit Administration (FTA) Safety Management Inspection (SMI) requirements
    - Investments to upgrade the radio system and ensure wireless availability
- *Customer service initiatives*: To regain the trust and satisfaction of our current customers and to draw new customers to the system, WMATA will be focusing on customer-facing initiatives such as:
    - On-street capital investments (such as Transit Signal Priority) and complementary fare policy changes leading to faster Metrobus service
    - Better Metrorail pass products to encourage ridership (particularly in the off-peak) and generate incremental revenue
    - Potential changes to fare policy to recognize the impact of late clearing trackwork and other service disruptions
    - Continued delivery of new 7000 Series railcars, which are scheduled to continue to replace the oldest 1000 Series cars during FY2017.
- *Efficiency enhancements*: In order to reduce costs, bring expense growth in line with expected revenues, and reduce jurisdictional subsidy requirements, WMATA will:
    - Implement further administrative staff and expense reductions, on top of the

reductions already implemented in FY2016.
  - Implement the findings of the recently-initiated Board efficiency workplan
  - Take steps to maximize non-fare revenues such as advertising and concessions.

Operating Budget Options
Four high-level options are presented for the FY2017 operating budget:

- A "zero subsidy growth" option which keeps the jurisdictional subsidy contribution at the same level as FY2016 through a proposed change in WMATA policy with respect to eligible preventive maintenance (PM) expenses.
- A "business as usual" scenario with no changes to fares or service and also no change to the capitalization of PM, which results in a 10 percent increase in jurisdictional subsidy.
- Two options which limit the increase in jurisdictional subsidy to 3 percent over FY2016 – the first through a substantial fare increase, and the second through a combination of a smaller fare increase and targeted service reductions.

All four of the operating budget options are based on the following key assumptions:

- Savings of $20 million from the Board efficiency workplan
- Baseline ridership and revenue performance in line with the recent experience of August and September 2015 (i.e., down 7 to 8 percent compared to the same period last year)
- No budgeted departmental wage increases

Background on Funding of Preventive Maintenance (PM) Activities
Federal Transit Administration (FTA) Circular 9030.1E provides guidance to U.S. transit agencies on the administration and preparation of grant applications for the Urbanized Area Formula Program. Appendix E of the Circular provides specific guidance on Preventive Maintenance (PM), which the FTA defines as "all activities, supplies, materials, labor, services, and associated costs required to preserve or extend the functionality and serviceability of [an] asset in a cost effective manner, up to and including the current state of the art for maintaining such asset."

Preventive maintenance activities occur not only on revenue vehicles such as buses and railcars, but on roadway and track assets; structures such as tunnels and bridges; passenger stations; garages, yards and other storage and maintenance facilities; communications and control systems; fare collection equipment; and other asset categories required for the regular operation of the transit system. Preventive maintenance is an operating expense that is eligible as a capital project at an 80/20 federal/local match, so long as the expense is accounted for correctly under GAAP and the costs are not counted twice on any grant application.

At the Board's direction, WMATA currently applies for federal reimbursement of $30.7 million of eligible preventative maintenance expenses annually. However, WMATA's railcar and bus preventative maintenance labor costs alone would be eligible for reimbursement totaling approximately $95 million annually. The current approach leaves about two-thirds of those preventative maintenance labor costs ($64 million) in the operating expense budget, when they could be funded through FTA grants.

As noted above, one of the options under consideration for the FY2017 operating budget includes a proposal to change the Board's approach to PM to allow a higher ceiling for funding of preventative maintenance expenses through FTA grants. FTA is clear that such costs are eligible for federal funding as long as the treatment of the expenditures is fully compliant with GAAP. WMATA's PM labor costs are fully supportable and have recently been successfully drawn from FTA (i.e., subsequent to the FMO report and the imposition of manual drawdown and strict FTA review of reimbursement requests). Further timekeeping process improvements will ensure full compliance with FTA and FMO requirements. However, if more grant funds are used for preventative maintenance, additional non-federal funding may ultimately be required to fund non-PM capital investments.

Many other agencies utilize federal funding for portions of their preventative maintenance programs, including Maryland Transit Administration, MARTA (Atlanta), SEPTA (Philadelphia), New Jersey Transit, Miami-Dade Transit, and others.

Capital Funding Options

Three high-level funding options are also presented as starting points for the discussion of the renewal of the six-year Capital Funding Agreement (CFA):

- Total CIP funding of approximately **$6 billion** over six years, consistent with current funding levels, which would support only ongoing required investment in safety and state of good repair. This would cover investments in:
    - Safety projects (NTSB, SMI, Other)
    - Radio infrastructure and wireless
    - Replace railcars, buses, & Access vehicles
    - Track and structures rehabilitation
    - Power system and train control SOGR
    - Replace two bus maintenance facilities
    - Rehab and replace elevators & escalators
    - Increase Preventive Maintenance funding
    - Traffic signal priority for bus
- Funding of **$7 billion**, which would allow for increased investment in currently deferred projects, including:
    - Contingency for future safety requirements
    - New Electronic Payments Program (NEPP)
    - Additional power and signal system SOGR
    - MetroAccess fleet expansion
    - Maintenance facilities
    - Bus stop improvements
- Funding of **$8 billion**, which would further reduce investment backlog and allow WMATA to begin planning for future enhancements, including:
    - New railcar maintenance/overhaul facility
    - Replacement of additional obsolete bus garages
    - Core Capacity project planning (New Starts)
    - Jackson Graham Building rehabilitation
    - Systems and technology improvements

FUNDING IMPACT:

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

TIMELINE:

Previous Actions	September 2015 - FY2017 Budget Preview October 2015 - Review of Ridership and Revenue
Anticipated actions after presentation	December 2015 - Presentation of GM/CEO's Proposed FY2017 Budget January 2016 - Review of capital program delivery January-March 2016 - Board discussions and public/stakeholder outreach April - Budget adoption and execution of renewed CFA

RECOMMENDATION:

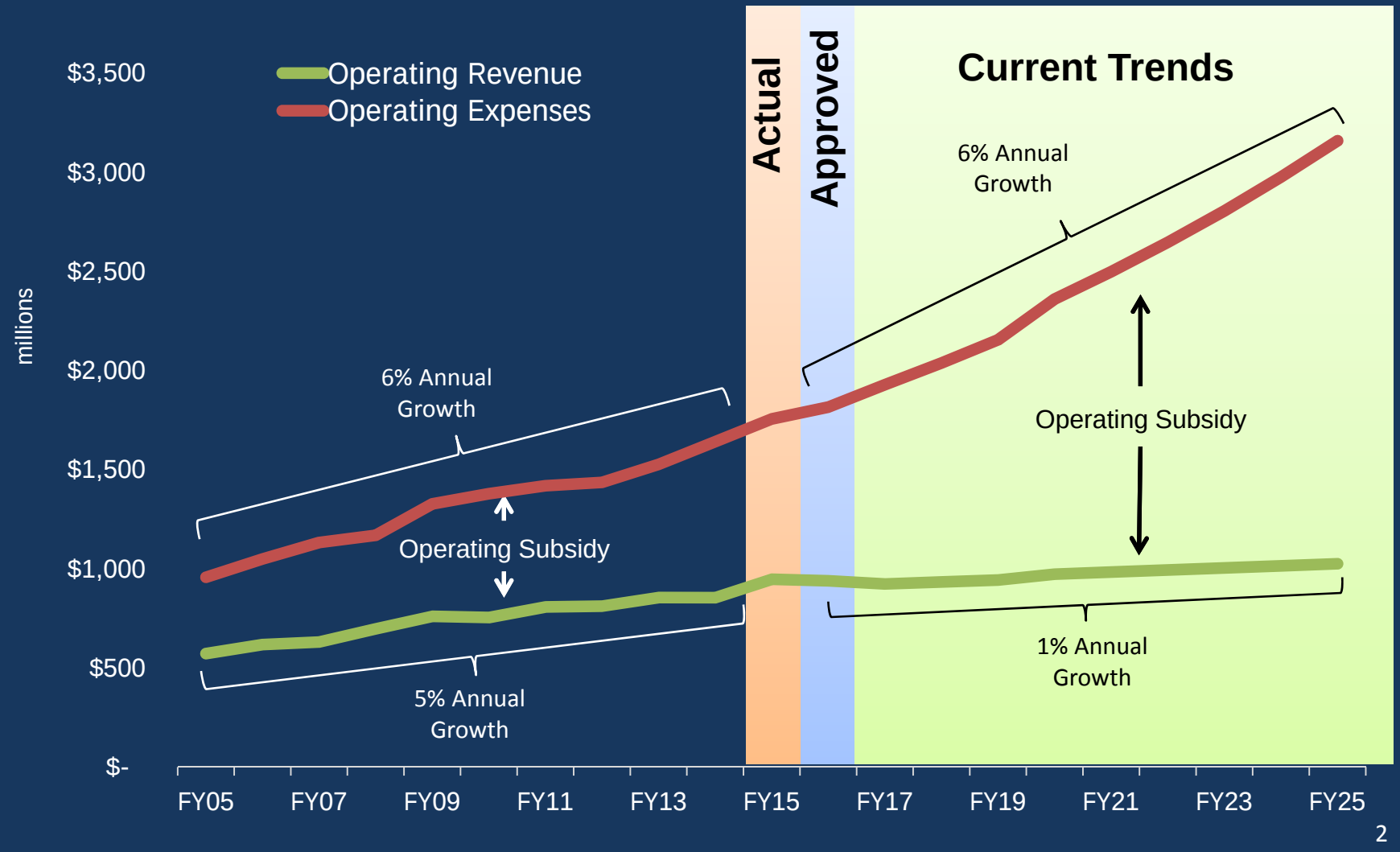
Information item only - no recommended action.

Washington Metropolitan Area Transit Authority

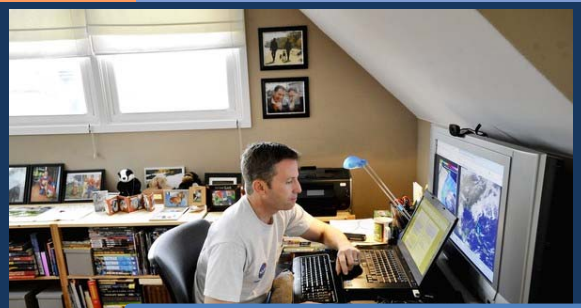
FY2017 Budget: Focusing on the Customer

Finance & Administration Committee
November 5, 2015

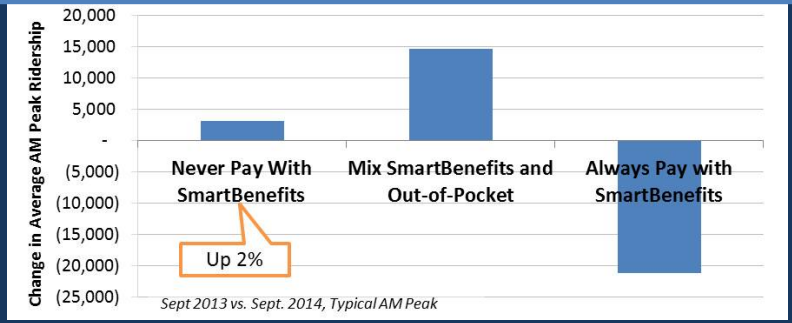
Ten-Year Outlook



Ridership Challenges

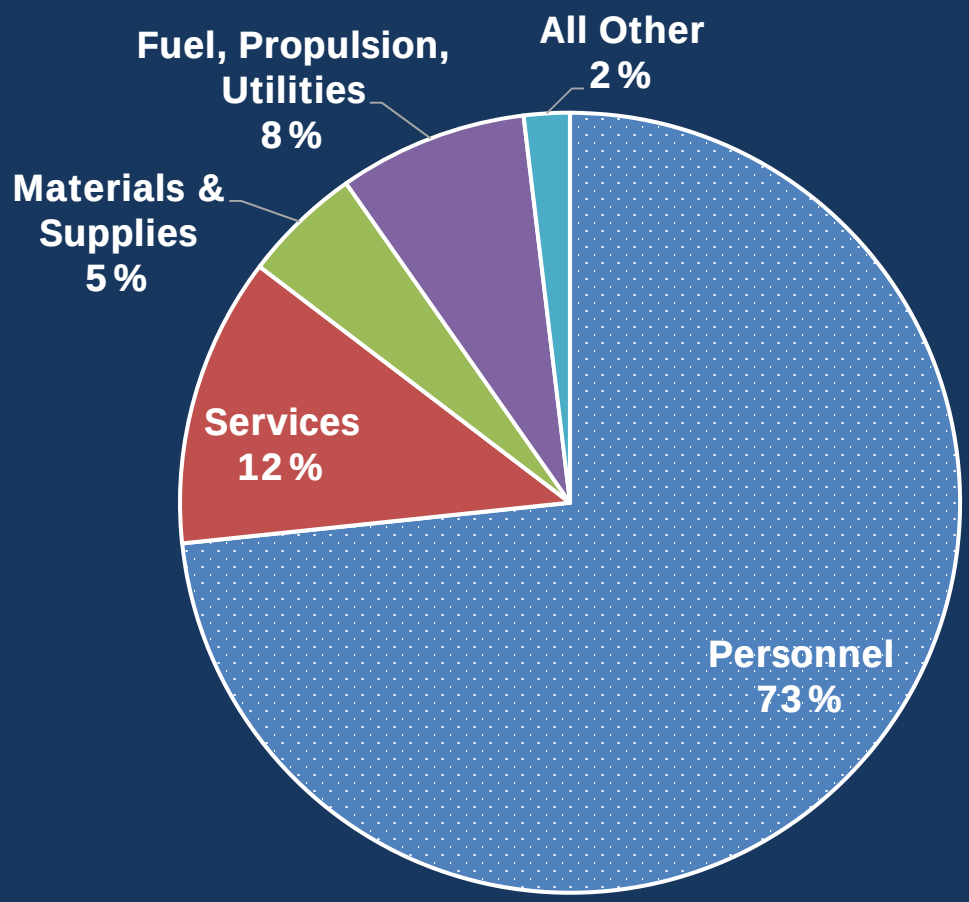


- ***New travel options***
- ***Service reliability***
- ***Reduced Federal benefits***
- ***Lower costs of driving***



Major Operating Expense Drivers

FY2016 Operating Budget of $1.81 Billion



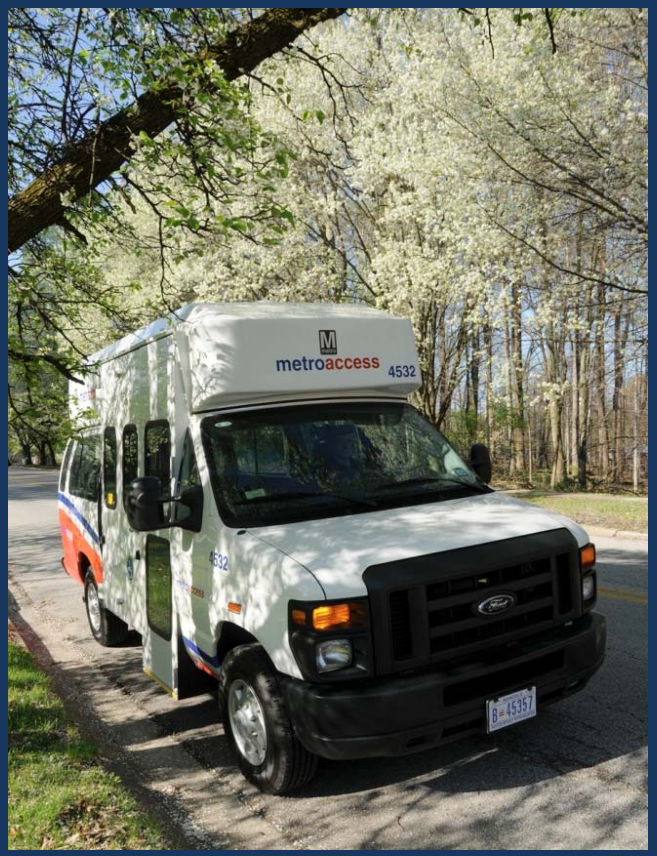
Personnel Commitments

- More than 70 percent of annual operating costs for personnel to plan, operate, maintain and manage service

- In FY2016 operating budget:
  - Salaries and wages $822 million
  - Overtime $ 78 million
  - Fringe benefits $431 million
  - **Total** **$1,330 million**

Non-Personnel Commitments

- Fuel and propulsion, insurance, etc., are relatively fixed
- Expecting continued growth in MetroAccess service contract
- Opportunities for efficiency in materials and supplies and service contracts



Critical Safety & Security Investments

Improve Safety and Security for Customers and Employees

Complete NTSB Recommendations

Implement FTA SMI Requirements

Upgrade Radio System and Wireless Availability

Customer Service Initiatives

Faster Metrobus Service

Better Pass Products

Fare Policy Changes Related to Trackwork and Disruptions

New 7K Cars Replace Oldest 1K Cars

Efficiency Enhancements

Administrative Staff/Expense Reduction

Board Efficiency Workplan

Maximize Non-Fare Revenues

Unfunded Liabilities and Risks

In addition to ridership, expiration of PRIIA, and uncertainty over reauthorization of MAP-21, key operating and capital needs remain unfunded, including:

- ✓ Employee Pensions - $1.1 billion
- ✓ Other Post Employment Benefits (OPEB) - $1.5 billion
- ✓ Short Term Debt - $0.2 billion
- ✓ Renewal of Capital Funding Agreement (CFA) to provide local match to federal grants - $8 billion
- ✓ Collective Bargaining Agreements - TBD
- ✓ Potential NTSB Recommendations - TBD

FY2017 Operating Budget Options

Category	FY2016 Approved	Zero Subsidy Growth	Business As Usual	Fare Increase	Service Cut + Fare Increase
Revenues	$938	$890	$890	$934	$897
Expenses	$1,783	$1,735	$1,820	$1,805	$1,767
Net Subsidy	$845	$845	$930	$871	$870
Efficiencies:		**$20M**	**$20M**	**$20M**	**$20M**
Fare Increase:		**$0.00**	**$0.00**	**$0.25**	**$0.10**
Service Cuts:		**None**	**None**	**None**	**$35-40M**
Ridership:		**Positive**	**Positive**	**Negative**	**Negative**
Wage Increase:		**$0**	**$0**	**$0**	**$0**
Subsidy Growth:		**0%**	**10%**	**3%**	**3%**

FY2017-2022 CIP Priorities

Safety & State of Good Repair

- NTSB Recommendations and SMI Requirements
- Radio Infrastructure Replacement
- Railcar, Bus, and Access Vehicle Replacement
- Track and Structures Rehabilitation
- Rehabilitation of Rail Power System

- Replacement Bus Facilities
- Escalator and Elevator Rehabilitation and Replacement

Six-Year Capital Funding Agreement: Options

$6 Billion: Focus on safety and state of good repair at current funding levels

- Safety projects (NTSB, SMI, Other)
- Radio infrastructure and wireless
- Replace railcars, buses, & Access vehicles
- Track and structures rehabilitation
- Power system and train control SOGR
- Rehab and replace elevators & escalators

$7 Billion: Increase investment on deferred projects

- Contingency for future safety requirements
- New Electronic Payments Program
- Additional power and signal system SOGR
- Maintenance facilities

$8 Billion: Begin to invest for the future

- New railcar maintenance/overhaul facility
- Replace additional obsolete bus garages
- Core Capacity project planning (New Starts)
- Systems and technology improvements

Next Steps

- **December**: GM/CEO budget proposal
- **January**: Review of capital program delivery
- **January-March**: Board discussions and public/stakeholder outreach
- **April**: Budget adoption and execution of renewed CFA