



**Finance & Administration Committee**

**Information Item III-C**

**November 6, 2014**

## **Proposed FY2016 Budget Review**

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

Action  Information

MEAD Number:  
201131

Resolution:  
 Yes  No

**TITLE:**

FY2016 Proposed Budget Preview

**PRESENTATION SUMMARY:**

Present the Board with a preview of the FY2016 budget, including linkages to the business plan, areas of specific focus, preliminary revenue and expense forecasts, a discussion of potential efficiency measures (to reduce expenses), and an overview of the FY2016-2021 Capital Improvement Program (CIP).

**PURPOSE:**

This presentation will preview the FY2016 operating and capital budgets. Although the budget is still in development, this presentation will give staff an opportunity to discuss the key areas of focus and major challenges in the FY2016 budget.

**DESCRIPTION:**

**Key Highlights:**

- Metro's look ahead to next fiscal year's budget includes an assumption that the Board will not adjust fares next year. The Board has established a practice of adjusting fares every *other* year in order to fairly share the cost of transit with all who benefit from the system as part of the regional transportation network.
- Revenue projections for next year include growth in bus ridership and level rail ridership. While both bus and train ridership has grown year over year, anti-transit tax policy has made driving more affordable than riding to work for some rail customers. Other ridership and revenue drivers include projected federal employment, a growth in telework, and other factors.
- Expense projections include significant investment in safety programs, such as the fatigue management system that limits consecutive hours and days of work for safety-critical jobs. Other expense drivers in Metro's projection include modest inflation which impacts the costs of materials and utilities, as well as cost of living adjustments included in Metro's collective bargaining agreements.
- The FY16 operating and capital budget funds the Authority's business plan, which maps out actions to continue building the safety culture, increase customer satisfaction, improve service delivery, connect the region, overhaul Metro's financial management policies and systems, and strengthen Metro's workforce.
- The budget forecast anticipates expenses associated with improved financial controls and compliance. For example, a new Internal Control & Compliance Office will have responsibility for the Authority's adherence to financial management controls, processes and procedures.

- The budget outlook also calls for management to identify and evaluate potential operating efficiencies.

### **Background and History:**

In October, the General Manager and Deputy General Manager for Operations presented highlights of the CY2015-2017 Business Plan. This plan continues the Authority's focus on building a safety culture, increasing customer satisfaction, improving service delivery, connecting the region, overhauling Metro's financial management policies and systems, and strengthening Metro's workforce. The FY2016 operating and capital budgets will allocate resources to meet these critical goals.

Also in October, staff presented information on recent trends in Metrorail ridership. While rail ridership is expected to grow this year due to the addition of Silver Line Service, it is expected to level off in FY16 due to the ongoing effects of anti-transit tax policy which subsidizes parking at 88% more than bus or train travel, for both federal employees and private sector workers using pre-tax commuter savings programs. Also, as a result of sequestration, retirement of federal workers and the drawdown of military activities abroad, the region's economy is experiencing a slight decline in federal government-related employment. Other trends, such as telework, also appear to be impacting rail ridership.

While long-term trends in population and employment for the region appear strong, rail ridership as a driver of revenue is expected to be level next year. Historically, annual rail revenue growth has helped to offset inflation and other expense drivers.

### **Discussion:**

#### [Link to Business Plan](#)

The FY2016 operating and capital budgets will allocate the resources necessary to achieve the goals of the Business Plan. The key programmatic focus areas of the budget will include:

- **Safety:** Safety continues to be Metro's number one priority, both for our customers and our employees. Initiatives like Close Call create an environment where all employees, regardless of position, are engaged in improving safety and reporting hazards that may exist within the system. Metro will continue to work on closing out the remaining five National Transportation Safety Board (NTSB) recommendations, notably the replacement of the 1000 series cars. Implementation of wayside worker warning will also be prioritized, which will provide another level of protection for employees inspecting and maintaining the right-of-way. Finally, adherence to the new Hours of Service policy (as part of the broader Fatigue Risk Management initiative) will protect passengers and employees by ensuring operators and maintenance staff have the rest they need to do their jobs safely. Progress is already being made to bring work schedules into compliance with new Hours of Service policy as scheduling practices have

been modified and as a result of an expansion of the Rail operator extra board and the filling of Bus operator vacancies.

- **Quality rail service:** In addition to the critical continued delivery of the new 7000-series cars, Metro will be laying the groundwork for safer and smoother rail travel with the full implementation of automatic train operations (ATO) by the end of 2017. Metro also continues to invest in New Electronic Payment Program (NEPP), the fare payment system of the future that will give riders more options to securely, and efficiently, pay for their Metro ride.
- **Stations:** The FY2016 budget will provide the resources for continued deployment of new and rehabbed escalators, and elevators in order to provide more reliable service and reduce delays for customers getting in and out of stations. Station cooling upgrades and other improvements will also continue as Metro invests to make the rail stations more comfortable and easier to navigate.
- **Quality bus and MetroAccess service:** Bus customers will have more seats, newer buses and increased service as a result of the FY2016 budget. The Bus and MetroAccess teams are also partnering with the jurisdictions to make more bus stops throughout the region accessible for all riders.
- **Facilities:** Metro will also invest in facilities in FY2016, including two new Metrobus facilities – Cinderbed Road and Southern Avenue – to keep buses serviced and running smoothly, as well as the Greenbelt test track to test the new 7000-series rail cars without disrupting regular service.
- **Customer service:** The FY2016 budget will continue to fund the Customer Care initiative that will transform Metro's culture into one that values customer satisfaction and that ensures that Metro engages customers in new ways and gathers their input whenever a major change is being considered.
- **State of good repair:** Finally, the FY2016 budget will continue to allocate substantial resources to the work of maintaining our system in a state of good repair, including a major rehabilitation project planned for nearly 19 miles of rail line between National Airport and New Carrollton. This rehab will improve all systems and infrastructure along the right-of-way, similar to what is currently underway on the Red Line.

#### Enhance Focus on Financial Reform and Fatigue Management

In addition to the programmatic areas described above, the FY2016 budget will allocate resources specifically to continuing the ongoing process of financial reform and to mitigating fatigue risk, through targeted additional hiring to comply with the new Hours of Service policy.

- **Financial Reform:** The investments in FY2016 will bring continuous improvement in controls and compliance for WMATA. The new Internal Control & Compliance Office will have organization-wide responsibility for adherence to proper financial management controls, processes and procedures. WMATA will also be developing a Board reporting process through Audits & Investigations (A&I) Committee that will be complementary to the WMATA Office of Inspector General (OIG) process, with less focus on report writing and more emphasis on process and procedural compliance assistance. The expected outcomes from these investments include verified compliance with all regulations, policies, and procedures; "clean" Financial Management Oversight (FMO) & Triennial reviews; and restoration of Electronic Clearing House Operation (ECHO)

privileges.

- **Fatigue Management:** As noted above, compliance with the new Hours of Service policy has already improved as a result of changes to scheduling practices and hiring in key areas. Additional Bus operator positions are in process for FY2015, and the FY2016 budget contemplates targeted additional positions for Bus and Track and Structures (TRST) to further improve compliance.

#### No Planned Fare Increase

The Board's stated policy is to consider fare increases on a bi-annual basis. Since fares were raised as part of the FY2015 budget, there is currently no plan to consider any fare changes for FY2016.

While ridership and revenue on bus and Access are expected to grow, and non-transit revenues are also expected to increase modestly, the projected lack of rail ridership growth results in a small overall decline in operating revenue compared to the FY15 budget. Combined with the required personnel cost increases as a result of recent collective bargaining agreements, as well as targeted hiring for fatigue and other initiatives, the preliminary projected increase in net operating subsidy (i.e., the local jurisdictional contribution) is substantial.

#### Opportunities for Efficiency

Given the projected local contribution growth in the preliminary FY2016 budget, Metro will be considering efficiencies to reduce overall operating expenses.

#### Commitment to Metro 2025

Metro plays a critical role in the economic growth of the region, and the agency's continued economic vitality is essential to the regional transportation system and quality of life. Following the Board's adoption of *Momentum*, Metro's jurisdictional funders, the business community, advocacy groups, and citizens coalesced around making its capital program a funding priority for the region. In early 2014, the Governors and Mayor announced an increased capital commitment of \$75 million to the agency, marking an important down payment towards *Momentum's* plan to reduce crowding and add system capacity. At that time, the regional leaders also committed to beginning work to renew the Capital Funding Agreement (CFA), with a larger commitment of capital to support and advance *Momentum* priorities.

The CFA is critical to achieving Metro 2025 objectives and to the finalization of the FY2016 capital budget and CIP. As mentioned in previous discussions, reaching an agreement in principle and identifying funding for the cornerstone of the program, the 8-car train cars is critical to take advantage of an option that Metro has to order more cars from Kawasaki. To let this opportunity pass would be costly to the region and its transit riders, as a new rail car contract will cost more and take much more time to implement. But even more importantly, delays in addressing the full funding needs of the Metro 2025 plan and specifically funding progress towards eight-car trains will mean lost economic growth for the entire region.

**FUNDING IMPACT:**

|  |                   |
|--|-------------------|
| This is an information item only with no direct funding impact. The direction received from the Board in this session, however, will guide the formal budget proposal in December. |                   |
| Project Manager:   | Thomas J. Webster |
| Project Department/Office:   | OMBS/CFO          |

**TIMELINE:**

|   |   |
|---|---|
| <b>Previous Actions</b>                       | October 2014 - Business Plan Update and Metrorail Ridership Discussion  |
| <b>Anticipated actions after presentation</b> | December 2014 - Presentation of GM/CEO's Proposed FY2016 Budget<br>January/February 2015 - FY2016 Budget Discussions<br>March 2015 - Adoption of the FY2016 Budget and Six-Year Capital Improvement Program |

**RECOMMENDATION:**

No action recommended - information item only.



Washington Metropolitan Area Transit Authority

# FY2016 Proposed Budget Preview

Finance & Administration Committee  
November 6, 2014



# FY2016 Budget Principles

- ✓ Advance programmatic budgeting and business plan actions linked to strategic plan
- ✓ Enhance focus on financial reform and fatigue risk management
- ✓ No planned fare increase
- ✓ Continue to identify/implement efficiency and effectiveness opportunities
- ✓ Commit to Metro 2025 investments as part of new Capital Funding Agreement



# Momentum Strategic Goals Guide Budget Decisions

**Build and Maintain  
a Premier Safety  
Culture and System**

**Meet or Exceed  
Customer Expectations  
by Consistently Delivering  
Quality Service**

**Ensure Financial Stability  
by Investing in our  
People and Assets**

**Improve  
Regional Mobility  
and Connect  
Communities**



# Delivering Results: Improving Safety for Customers and Employees

## Business Plan Results:

WMATA won first place for its Roadway Worker Protection Program at the 2014 Rail Safety & Security Excellence Awards.

## Continuous Improvements:

Launched first in the nation Confidential Close Call Transit Safety Reporting System for a rail transit system.

**Expected Safety Outcomes:** Continue to reduce injuries, and strengthen safety culture for employees and customers.



# Delivering Results: On-time, Reliable Metrorail Service

## Business Plan Results:

Since January 2012:  
train service up 3%  
railcar availability up 5%  
railcar reliability up 71%

## Continuous Improvements:

Begin retiring 1000-series  
cars and replace with new  
7000-series cars and  
continue working to  
restore full ATC  
by 2017

**Expected Rail Quality Outcomes:** Increase on-time performance and reduce rail car failures.



# Delivering Results: On-time, Reliable Metrobus Service

## **Business Plan Results:**

Improved on-time performance for four consecutive years.

## **Continuous Improvements:**

Implementing Priority Corridor Network service and replacing 100 buses per year.

**Expected Bus Quality Outcomes:** Improve on-time performance, reduce crowding, and improve fleet reliability.



# Delivering Results: Providing Quality, Sustainable MetroAccess Service

## **Business Plan Results:**

Seamless transition to performance-based business model.

## **Continuous Improvements:**

Leveraging human service agencies and taxi resources to provide less costly and more effective service.

**Expected MetroAccess Outcomes:** Maintain high-quality service and meet growing demand using regional resources and agencies.



# Delivering Results: Improving Escalator and Elevator Availability

## Business Plan Results:

Increased investment has led to the highest levels of availability since data started being collected in 2009.

## Continuous Improvements:

On schedule to replace 51 of the planned 120 replacements by the end of FY2017.

**Expected Escalator and Elevator Outcomes:** Reduce unscheduled outages, improve reliability, and standardize fleet.



# Delivering Results: Investing in Employees to Get the Job Done

## **Business Plan Results:**

Initiated MetroConnect Human Capital Management system.

## **Continuous Improvements:**

Implementing succession plan program, and realign job functions to meet current needs.

**Expected Human Capital Outcomes:** Better efficiency through improved HR processes, and increased employee engagement.



# Delivering Results: Modernizing the Fare Collection System

## Business Plan Results:

Awarded Contract to replace decades old fare system. Pilot program now underway

## Continuous Improvements:

With a successful pilot program, WMATA will roll out the New Electronic Payment Program across the system

**Expected Fare Collection Outcomes:** Reduced crowding at fare gates, reduced customer dissatisfaction, lower costs and fewer cases of fraud.



# Delivering Results: Caring for Customers

## **Business Plan Results:**

Established interdepartmental working-group that has delivered an action plan that will begin transforming agency.

## **Continuous Improvements:**

Build and begin implementing a long-range plan that aligns with the GM's customer-focused business model.

**Expected Customer Service Outcomes:** Building on successful safety model, begin culture change to customer-focused agency.



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# Financial Reform

- **Continuous Improvement**
  - New Internal Control & Compliance Office with organization-wide responsibility
  - New Board reporting process through A&I Committee
  - Complementary to OIG
- **Expected Outcomes**
  - Verified compliance
  - Clean FMO & Triennial Reviews
  - Restoration of ECHO privileges



# Managing Fatigue Risk

- Progress already being made to bring work schedules into compliance with new Hours of Service policy
  - Expansion of Rail operator extra board and filling of Bus operator vacancies
  - Additional Bus operator positions in process for FY2015
  - Additional positions for Bus and TRST in FY2016

*Champions of Safety*

**2014**



**Safety is always in style.**





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# Preliminary Operating Revenue Summary

|                              | FY15<br>Budget | FY16<br>Prelim | %<br>Change |
|------------------------------|----------------|----------------|-------------|
| <i>Passenger fares/fees</i>  |                |                |             |
| Bus                          | \$164.2        | \$167.5        | 2%          |
| Rail                         | \$675.6        | \$656.0        | -3%         |
| Access                       | 8.1            | 8.5            | 5%          |
| Parking                      | 48.4           | 48.5           | 0%          |
| <i>Non-passenger revenue</i> |                |                |             |
| Advertising                  | 20.0           | 20.5           | 2%          |
| Fiber optics                 | 16.0           | 16.5           | 3%          |
| Leases                       | 7.0            | 8.0            | 14%         |
| All other                    | <u>6.8</u>     | <u>7.0</u>     | 3%          |
| <b>TOTAL</b>                 | <b>\$946.1</b> | <b>\$932.5</b> | <b>-1%</b>  |

*figures in millions*



# Multi-year Operating Budget Preliminary Financial Plan

| <b>Operating Budget</b>        | <b>FY2015<br/>Budget</b> | <b>FY2016<br/>Preliminary</b> |
|--------------------------------|--------------------------|-------------------------------|
| Operating Revenues             | \$946                    | \$933                         |
| Operating Expenses             | 1,755                    | 1,861                         |
| <b>Gross Operating Subsidy</b> | <b>809</b>               | <b>929</b>                    |
| Preventive Maintenance         | (31)                     | (31)                          |
| Prior Year Surplus             | (20)                     | 0                             |
| <b>Net Operating Subsidy</b>   | <b>\$758</b>             | <b>\$898</b>                  |
| <b>Debt Service</b>            | <b>\$21</b>              | <b>\$21</b>                   |

*figures in millions*



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# Opportunities for Efficiency Under Consideration

- Seek reductions in administrative and operating expenses





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# FY2016-2021 Capital Investment Rebuilding the System

## Safety & State of Good Repair

- NTSB Recommendations
- Train control system software upgrade
- Bus, Rail, and Access Vehicle Replacement
- Escalator and Elevator Rehabilitation and Replacement
- Aggressive Track and Structures Rehabilitation
- 2K/3K Rail Car Replacement
- Replacement Bus Facilities
- New Electronic Payment System





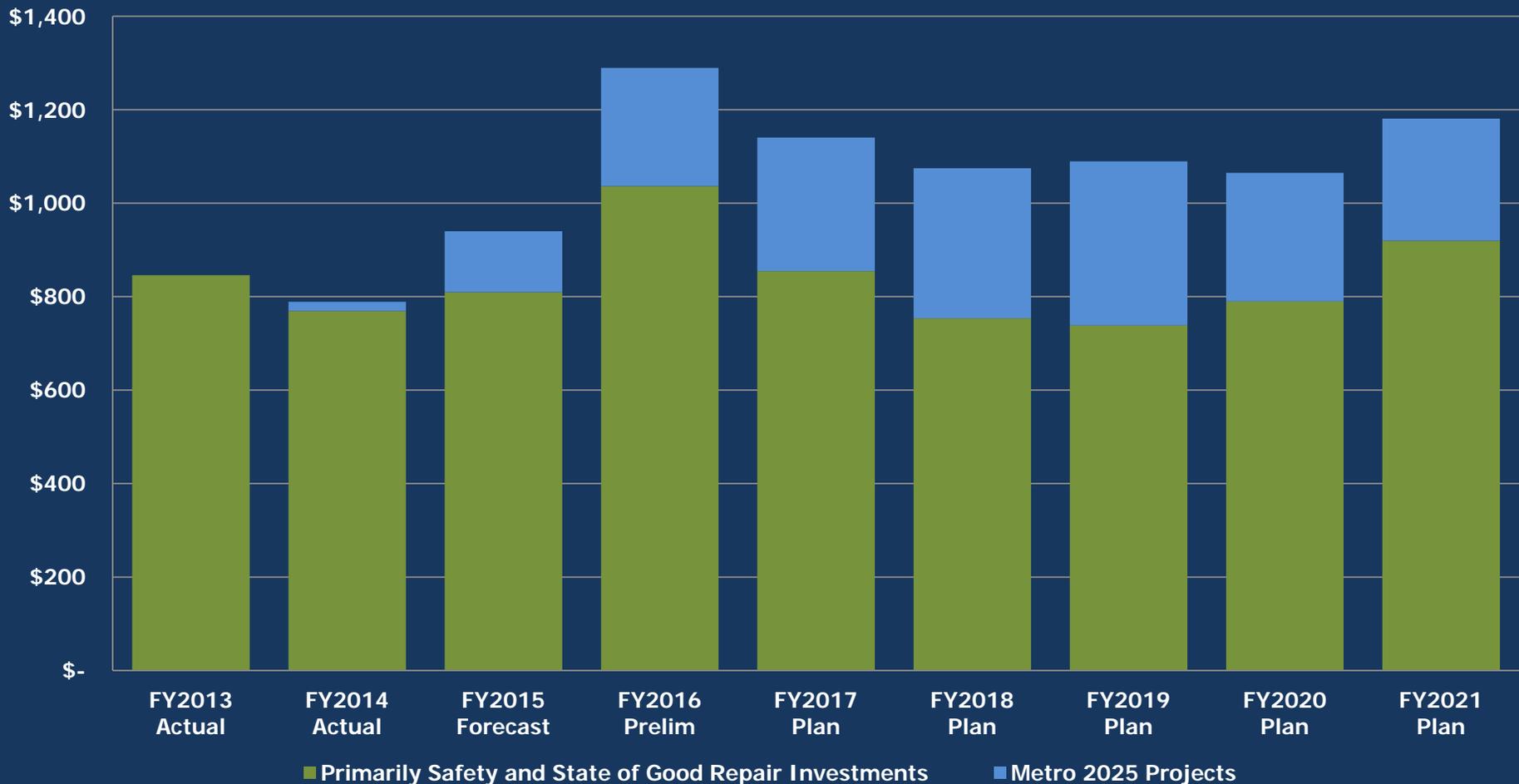
# FY2016-2021 Capital Investment Metro 2025 Capital Initiatives

| Metro 2025 Initiative<br><i>(dollars in millions)</i>     | FY2015<br>Planned<br>Investment | FY2016-2021<br>Planned<br>Investment | Future<br>Investment | Total<br>Metro 2025<br>Initiative |
|---|---------------------------------|--------------------------------------|----------------------|-----------------------------------|
| Eight-Car Trains and Core Station Improvements            | \$102                           | \$1,580                              | \$1,628              | \$3,310                           |
| Metrobus Priority Corridor Network<br>Bus Fleet Expansion | \$26                            | \$90                                 | \$684                | \$800                             |
| Next Generation Communications                            | \$2                             | \$30                                 | \$368                | \$400                             |
| New Blue Line Connections                                 | -                               | \$5                                  | \$1,325              | \$1,330                           |
| Pocket Tracks and Crossovers                              | -                               | \$5                                  | \$655                | \$660                             |
| <b>Total All Metro 2025 Projects</b>                      | <b>\$130</b>                    | <b>\$1,710</b>                       | <b>\$4,660</b>       | <b>\$6,500</b>                    |



# Capital Investments: Preliminary FY2016-2021 Proposed CIP

*(dollars in millions)*





## Next Steps

### **December 2014**

- Presentation of GM/CEO's Proposed FY2016 Budget

### **January/February 2015**

- FY2016 Budget Discussions

### **March 2015**

- Adoption of the FY2016 Budget and Six-Year Capital Improvement Program