Finance & Administration Committee

Information Item IV-B

December 3, 2015

FY2017 Proposed
Operating and Capital Budgets

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ⦿ Information	MEAD Number: 201687	Resolution: ○ Yes ⦿ No

TITLE:

FY2017 Proposed Budget and CIP

PRESENTATION SUMMARY:

Staff will present the proposed FY2017 budget and FY2017-2022 Capital Improvement Program (CIP) for Board consideration. The proposed operating budget maintains current fares and service levels while requiring no increase in overall jurisdictional operating subsidy. The proposed CIP continues required safety and security projects as well as state of good repair and reliability investments. The proposed CIP maintains current levels of planned capital funding at about $6 billion over six years.

PURPOSE:

The purpose of this presentation is to review Metro's proposed FY2017 budget and six-year CIP. Additional Board discussions and public outreach will occur during the winter and early spring of 2016, with budget adoption and execution of a renewal of the Capital Funding Agreement (CFA) currently planned for April 2016.

DESCRIPTION:

Key Highlights:

- The FY2017 proposed operating budget keeps fares at their current levels; maintains existing Metrobus, Metrorail, and MetroAccess service levels system-wide; and requires a total jurisdictional operating subsidy of $845 million, the same contribution level as FY2016.
- The FY2017-2022 proposed CIP includes a total of approximately $6 billion in planned capital expenditures over the six-year period in required safety and state of good repair investments. The planned funding for the CIP will come from federal formula and PRIIA grants; required state/local matching funds for those federal grants; and additional system performance and/or debt funding from the jurisdictions.

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.

In November, four high-level options were presented for the FY2017 operating budget. These included a zero-subsidy growth scenario, which required a change in WMATA's policy on funding of preventive maintenance activities; a 'business as usual' scenario which required a 10 percent increase in jurisdictional contribution, but kept fares and service at their current levels; and two scenarios with subsidy growth of 3 percent which required fare increases and/or service cuts.

Three high-level options were also presented in November for capital investment. The base option maintained current levels of funding of approximately $6 billion over six years and continued 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.

Discussion:

The proposed FY2017 budget and FY2017-2022 CIP support five key goals for WMATA:

- Fund critical safety and security investments for customers and employees
- Support service initiatives to regain customers' trust and boost ridership
- Reduce costs and improve efficiency
- Maintain current fares, service levels, and total jurisdictional subsidy
- Commit to continued CIP investment as part of a renewed Capital Funding Agreement (CFA)

FY2017 Proposed Operating Budget

Based on feedback following the November presentation of budget options, the proposed FY2017 operating budget includes no fare increases and no service reductions, and the FY2016 level of jurisdictional operating subsidy (not including contributions for debt service) of $845 million per year is maintained in FY2017 by increasing the amount of eligible preventive

maintenance activities (PM) funded through FTA grants. The budget assumes savings of $20 million from the Board efficiency workplan that is now underway; lower baseline ridership and revenue performance on bus and rail, continuing the trends of the first five months of FY2016; and no budgeted departmental wage increases.

The major revenue and expense categories in the proposed budget are summarized below, along with the proposed total WMATA headcount:

Revenue	FY2016 Approved*	FY2017 Proposed	$ Change	% Change
Passenger Fares & Parking	$859.0	$829.5	($29.5)	-3%
Non-Passenger Revenue	$79.0	$60.5	($18.5)	-23%
Total Revenue	**$938.0**	**$890.0**	**($48.0)**	**-5%**
Expenses	**FY2016 Approved***	**FY2017 Proposed**	**$ Change**	**% Change**
Personnel	$1,299.7	$1,299.7	($0.0)	0%
Services	$213.3	$213.7	$0.4	0%
Materials & Supplies	$111.0	$98.0	($13.1)	-12%
Fuel & Propulsion	$81.6	$80.3	($1.3)	-2%
Utilities	$42.4	$39.9	($2.5)	-6%
Other**	$35.4	$3.9	($31.5)	-89%
Total Expenses	**$1,783.3**	**$1,735.3**	**($48.0)**	**-3%**
Net Local Subsidy	**$845.3**	**$845.3**	**$0.0**	**0.0%**

Total WMATA Headcount	**12,995**	**13,054**	**59**	**0.5%**

* FY2016 Personnel figure is reduced from the Approved level to account for planned transfer of $30.7 million of eligible PM labor expenses.
** FY2017 change to FTA-compliant cost allocation methodology is captured in the Other category -- see additional information below.

Total headcount is proposed to increase slightly (by 0.5 percent or 59 positions) as a result of additional resources needed to address FTA Safety Management Inspection (SMI) requirements, as described below.

Implementation of FTA Safety Management Inspection (SMI) Requirements

WMATA will expend approximately $2.7 million in the current year operating budget to begin addressing FTA's SMI requirements. This amount will increase to approximately $12 million in FY2017, with 62 new positions required across three major areas:

- Rail training and recertification (17 positions): The tasks in this area include recertification, refresher training, emergency response formal

review, and emergency response training.

- Rail system-wide maintenance (35 positions): The investments in this area include preventive maintenance and inspection testing, as well as increased staffing for automatic train control (ATC).
- Bus operational testing and compliance (10 positions): Additional resources in this area will go towards pre-trip inspections and the bus operator performance program.

Summary of Key Initiatives

In addition to the critical safety activities outlined above, WMATA has identified the following key initiatives:

- **Reduce Fare Evasion:** A dedicated team of six Transit Police on a 60-day assignment will work throughout the system to curtail incidents of bus and rail evasion. Rail tours will be subject to review every 30 days for productivity. Transit Police on bus tours will report their activity to include bus number and bus route following each shift. Reports will be delivered to bus for tracking against ridership and revenue recovery. The 12 targeted stations include:

Naylor Road	Anacostia	Navy Yard	Gallery Place
Pentagon	Brookland	Congress Heights	Minnesota Ave
Deanwood	Tenleytown	Takoma Station	Judiciary Square

- **Faster Metrobus Service:** Transit Signal Priority (TSP) investments focusing on six primary corridors (Leesburg Pike, Georgia Ave., 14th Street, 16th Street, Pennsylvania Ave., and Wisconsin Ave.), with 126 buses activated for signal priority (8 percent of the bus fleet) and covering 193 intersections in DC and 25 in VA, for a total of 218.
- **University Pass (U-Pass) and Bus/Rail Combo Pass:** In order to increase ridership, both by attracting new riders and by encouraging existing riders to take more trips, Metro is evaluating the introduction of new pass products. The most notable is the University Pass, which would offer unlimited riding privileges on both Metrobus and Metrorail at substantially discounted rates to full-time students at accredited colleges. University students represent an untapped partnership, with 20 colleges and approximately 225,000 students in the region who can drive additional ridership and revenue for the Authority while reducing the need for parking facilities on the university campuses. The strongest initial interest has come from American University, with almost 12,000 students at multiple campuses, and Metro staff and AU staff are working cooperatively on implementation issues ahead of a planned pilot. The University Pass program requires 100 percent student participation, and each student will receive a semester or annual UPass that offers unlimited rides on Metro (not MetroAccess).

  Metro is also considering the introduction of new bus/rail combo passes. While the 7-day bus pass is currently a popular product,

Metro's existing rail passes are not well utilized due to their relatively high prices. Metro is evaluating the potential for combination bus/rail passes – particularly a 7-day product combining the existing short-trip rail pass with a bus pass – that would offer bus travel at a very low additional cost to the existing rail pass. The combo pass product would encourage passengers to take additional off-peak trips and also encourage customers to view Metrobus and Metrorail as a single, integrated transit system.

- **Same Station Entry / Exit Grace Period:** Customers who enter and exit at the same station are currently charged the base rail fare of $2.15 in the peak and $1.75 in the off-peak when using SmarTrip®. Metro staff concurs with the Riders' Advisory Council (RAC's) recommendation to credit this fare paid back to customers who make a same-station entry/exit within a short period of time. Based on recent usage data, same-station entry/exit transactions represent about 0.5 percent of all rail transactions in a given month. On most weekdays, there are a few thousand such transactions, while on a day with severely impacted service the figure may rise to 10,000 or more. Based on current rider behavior, the revenue loss associated with this change would be close to $200,000 per month or about $2 million annually if all same-station entry/exit transactions that occurred within 15 minutes were credited back to riders' accounts.
- **Administrative expense reduction:** Staff will identify approximately 20 positions totaling $2 million for reduction. These will include only non-safety sensitive positions or vacancies over 12 months.

Proposed Change to Budgeting of Preventive Maintenance (PM) Activities

The proposed budget includes an increase in the amount of preventive maintenance activity that is funded by FTA grants rather than the operating budget.

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 includes $30.7 million of eligible preventative maintenance expenses on FTA grants annually. However, WMATA's railcar and bus preventative maintenance labor costs alone are 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.

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.

Change to Cost Allocation Methodology

Beginning with the FY2017 budget, WMATA will allocate indirect capital costs based on a new cost allocation plan. The plan is currently being reviewed by FTA and is expected to be approved before budget adoption in the spring. WMATA's previous methodology for allocating indirect capital costs to the capital program was based on departmental expenses, while the new methodology allocates indirect costs to capital based on direct capital labor costs. In FY2017, the operating budget credit for indirect capital costs will therefore be applied at the Authority level and appear in the "Other" cost expense category, which is the reason for the substantial reduction in this particular category compared to FY2016.

Proposed FY2017-2022 CIP

Total proposed FY2017-2022 CIP funding is approximately $6 billion over six years, which is consistent with current funding levels. This level of funding will support ongoing required investment in safety and state of good repair, including:

- Safety projects (NTSB, SMI, and other)
- Radio infrastructure and wireless
- Replacement of railcars, buses, & Access vehicles
- Track and structures rehabilitation
- Power system and train control SOGR
- Replacement of two bus maintenance facilities
- Rehab and replacement of elevators & escalators
- Increased Preventive Maintenance funding
- Traffic signal priority for bus

However, six-year CIP funding of $6 billion leaves many worthwhile projects currently deferred or unfunded. If the total funding level were increased to $7 billion, this would allow for increased investment in projects including:

Contingency for future safety requirements
- New Electronic Payments Program (NEPP)
- Additional power and signal system SOGR
- Bus fleet expansion
- MetroAccess fleet expansion
- Maintenance facilities
- Bus stop improvements

Increasing CIP funding to $8 billion 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

Outlook for Federal Funding
The recently passed federal budget agreement, which lifted sequestration caps, provided a small increase in Federal Fiscal Year (FFY) 2016 transportation funding. The final funding vehicle (the Omnibus Appropriations Act) will keep formula dollars at current level funding. Metro's Congressional delegation, led by Senator Mikulski, has been working hard to ensure the full $150 million in PRIIA funding will also be included in the final bill.

The Surface Transportation Reauthorization bills passed by both houses of Congress continue the State of Good Repair formula changes from MAP-21 and should continue formula funding at or near current levels of funding. The PRIIA authorization which runs through 2018 will need to be reauthorized and will be the top priority for WMATA beginning in CY2016.

Key Funding Assumptions
The key financial plan assumptions for the proposed six-year CIP include:

- Federal formula funding of approximately $285 million/year
- PRIIA annual appropriation and reauthorization of $150 million/year
- Required state/local match of $220 million/year for the formula and PRIIA grants

Over the six year period of the CIP, this grant funding (including match) totals almost $4 billion. Any additional investment beyond this minimum level will need to come from jurisdictional sources and/or the issuance of long-term debt to be repaid by future-year jurisdictional contributions.

In order to meet the goal of budget adoption and CFA renewal by April, the Board will review capital funding options during a budget work session, and staff will schedule additional meetings to discuss the capital program and funding options in detail with the Chief Financial Officers and key representatives from the jurisdictions.

Public Hearings/Outreach and JCC Budget Workshop
In January, staff will present the Board with a request to authorize a public

hearing to review the proposed CIP, which is required by FTA for projects supported by FTA grant funds. Currently, no fare policy changes are being proposed that require a public hearing. However, if fare policy proposals are developed as part of Board discussions or arise out of the ongoing Board efficiency workplan, a public hearing and public outreach might also be necessary.

Staff will conduct a budget workshop with the Jurisdictional Coordinating Committee (JCC) in early 2016. This workshop will include a review of the operating subsidy and capital funding allocations, the changes in treatment of preventive maintenance (PM) and indirect cost allocation, and the individual projects within the CIP. Staff will also present additional information to the Board as the budget deliberations continue in the winter and spring, including an overview of capital program delivery in January and an in-depth review of the operating budget in February.

FUNDING IMPACT:

Information item only - no immediate impact on funding.	
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 November 2015 – FY2017 Budget Options
Anticipated actions after presentation	January 2016 - Review of capital program delivery; authorization of public hearing for CIP February 2016 – Budget and Capital Funding Agreement discussion January-March 2016 – Budget discussions and public/ stakeholder outreach April 2016 – Budget adoption and execution of renewed CFA

RECOMMENDATION:

Information item only - no Board action required.

Washington Metropolitan Area Transit Authority

FY2017 Proposed Budget: Focusing on the Customer

Finance & Administration Committee
December 3, 2015

Purpose

Present proposed FY2017 operating budget and FY2017-2022 CIP that will:

- ✓ Fund critical safety and security investments for customers and employees
- ✓ Support service initiatives to regain customers' trust and boost ridership
- ✓ Reduce costs and improve efficiency
- ✓ Maintain current fares, service levels, and total jurisdictional subsidy
- ✓ Commit to continued CIP investment as part of a renewed Capital Funding Agreement (CFA)

Recap of November Options

Operating budget options

- **Zero subsidy growth**: No fare or service changes, change in policy for funding eligible preventive maintenance (PM) expenses
- **Business as usual**: Ten percent subsidy growth
- **Fare increases and/or service reductions**: Subsidy growth of three percent

Capital investment options (six-year total)

- **$6 billion**: Continue safety and SGR, including 7K cars
- **$7 billion**: More for power, signals, safety contingency, bus fleet expansion and NEPP
- **$8 billion**: New facilities, technology improvements, future planning

FY2017 Proposed Operating Budget

(millions)	FY2016 Approved	FY2017 Proposed	Change
Revenues	$938	$890	-5%
Expenses	$1,783	$1,735	-3%
Net Subsidy	$845	$845	0%

- No fare increase
- No service reductions
- $20 million expense reduction from Board efficiency workplan
- Total expenses are net of eligible Preventive Maintenance (PM) expenses

Operating Revenues

- Lower baseline ridership/revenue forecast, reflecting first five months of FY2016
- Growth in MetroAccess
- Increase in advertising revenue
- No TIIF funds available
- Total revenue of $890 million, down from $938 million budget for FY2016

Human Capital

- More than 70 percent of annual cost supports personnel to plan, operate, maintain and manage service

- Provides funding for required step increases, healthcare cost growth, and forecasted pension contributions
- In FY2017, total operating labor expenses will be flat due to increased PM transfers

Non-Personnel Expenses

- Decreases versus FY2016 in key cost categories: materials and supplies, fuel and propulsion, utilities
- Increases in services and casualty/liability
- Change to FTA-required allocation methodology, credit for indirect capital costs now in “Other”
- Total decrease versus FY2016 of $48 million

Funding Additional Eligible Preventive Maintenance Expenses

FTA Guidelines

- Preventive Maintenance expenses are eligible for FTA funding (Activity Line Item 7A)

WMATA Policy

- Eligible railcar and bus PM labor costs are **$95 million** annually
- Current Board policy limits capital funding of PM to **$31 million** – remaining **$64 million** defaults to operating expense
- Masks full CIP costs, results in lower CIP budget performance

Practicality / Impact

- Labor costs are easily supportable and can be drawn from FTA
- Timekeeping improvements will ensure full compliance with FTA and FMO requirements
- Additional non-Federal funding will ultimately be required to fund non-PM investments

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

- Transit Signal Priority and other on-street investments
- Changes to speed passenger loading

Better pass products

- University Pass
- Rail/bus combo passes

Fare policy changes

- Credit for same station entry/exit within short period
- Begin AM Peak fares at 6:00 a.m.

New 7K cars replace oldest 1K cars

Efficiency Enhancements

Administrative expense reduction

- $2 million on top of FY2016 reductions

Board efficiency workplan

- $20 million in assumed cost reductions in FY2017 (more in future years)

Maximize non-fare revenues

- Additional advertising revenue of $5 million from recent Board actions

FY2017 Proposed Operating Budget – Major Categories

Revenue	FY2016 Approved*	FY2017 Proposed	$ Change	% Change
Passenger Fares & Parking	$859.0	$829.5	($29.5)	-3%
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figures in millions

FY2017 Preliminary Jurisdictional Operating Investment

($ millions)	FY 2016 Subsidy	FY 2017 Subsidy	Metrorail	Metrobus	*Regional*	*Non-Regional*	Metro Access	Debt Service
District of Columbia	**$322.9**	**$326.0**	**$75.2**	**$212.6**	***$178.1***	***$34.5***	**$27.5**	**$10.7**
Montgomery County	$144.1	$142.2	$43.6	$70.5	*$60.3*	*$10.2*	$23.1	$4.9
Prince George's County	$185.2	$189.9	$37.2	$97.3	*$72.1*	*$25.2*	$49.9	$5.5
Maryland Subtotal	**$329.2**	**$332.1**	**$80.8**	**$167.8**	***$132.4***	***$35.4***	**$73.0**	**$10.5**
City of Alexandria	$33.8	$33.4	$10.6	$21.9	*$19.7*	*$2.1*	$0.9	$0.0
Arlington County	$58.2	$55.8	$21.6	$33.3	*$31.1*	*$2.2*	$0.9	$0.0
City of Fairfax	$1.8	$1.8	$0.8	$0.7	*$0.7*	*$0.0*	$0.3	$0.0
Fairfax County	$118.1	$115.2	$36.4	$64.7	*$56.6*	*$8.1*	$14.1	$0.0
City of Falls Church	$2.3	$2.3	$0.7	$1.4	*$1.4*	*$0.0*	$0.1	$0.1
Virginia Subtotal	**$214.4**	**$208.4**	**$70.0**	**$122.0**	***$109.6***	***$12.4***	**$16.4**	**$0.1**
Total Subsidy	**$866.5**	**$866.5**	**$226.0**	**$502.4**	***$420.1***	***$82.3***	**$116.9**	**$21.2**

Note: Metrorail column includes both Base and Maximum Fare subsidies. Total Maximum Fare subsidy is $7.2 million.

Allocation analysis is preliminary and uses certain simplifying assumptions (particularly for Metrobus). Final allocation analysis will be reviewed in detail with jurisdictional staff prior to budget adoption.

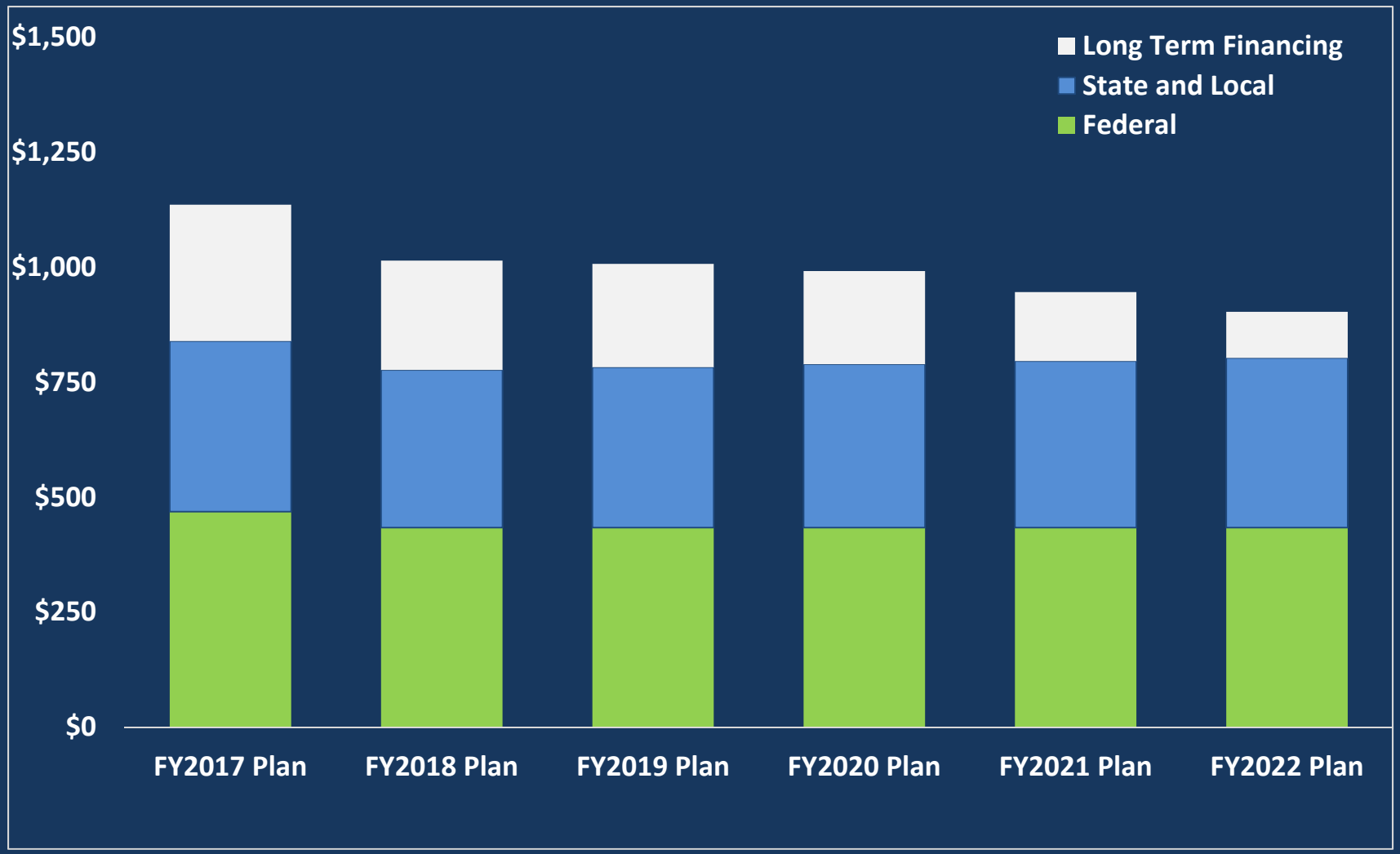
FY2017-2022 Proposed CIP: Key Financial Plan Assumptions

Federal funding and required match:

- Federal formula funding ($285 million/year)
- PRIIA annual appropriation and reauthorization ($150 million/year)
- State/local match of $220 million/year
- Totals almost $4.0 billion over six-year period

To achieve a $6 billion CIP, $2 billion of jurisdictional and/or debt funding is required

FY2017-2022 Proposed CIP: Investment Level



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

FY2017-2022 CIP: What Is Not Included in $6 Billion?

Increase Six-Year Funding to <u>$7 Billion</u>

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

Increase Six-Year Funding to <u>$8 Billion</u>

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

Next Steps

- **January**: Review of capital program delivery; authorization of public hearing for CIP
- **February**: Budget and CFA discussion
- **January-March**: Additional Board discussions and public/stakeholder outreach
- **April**: Budget adoption and execution of renewed CFA