



**Finance & Administration Committee**

**Information Item III-B**

**December 6, 2012**

**FY2014 Capital and Operating Budget  
Discussion**

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

<input type="checkbox"/> Action <input checked="" type="checkbox"/> Information	MEAD Number: 103086	Resolution: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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**TITLE** FY2014 Budget Discussion and FY 2013 First Quarter Operating Financial Review

**PRESENTATION SUMMARY**

This presentation will update the Committee on the FY2014 pro-forma budget, provide an update on the Silver Line budget and schedule status, brief the Committee on Capital Improvement Program development and provide the FY2013 first quarter financial report for the Operating program.

**PURPOSE**

The Finance and Administration Committee will be updated on the development of FY2014 operating and capital budget, as well as the first quarter FY2013 ridership and revenue results.

**DESCRIPTION**

**Key Highlights:**

- The draft FY2014 operating supports the agency's recently endorsed Strategic Plan and goals by funding key business plan actions including:
  - Implementation of the Fatigue Management Risk System
  - Continued implementation of the Bus Priority Corridor Network
  - Continued aggressive rehabilitation of the Red, Orange and Blue line segments
  - Introduction of a new business model to maintain quality Access services
  - Preparation for Silver Line revenue service
  - Replacement of the oldest buses and rail cars
  - Implementation of succession planning

- Management has also incorporated new initiatives that further support the strategic plan within a proposed budget that will require a total of \$27 million in added jurisdictional support. The new initiatives include:
  - Fatigue management phase II – addressing track workers and rail operators
  - Security Operations Control Center staffing – staff SOCC to monitor integrated security system including an array of cameras, fire and intrusion alarms, chemical detection devices, and video analytics
  - Regulatory compliance related to station cooling – new federal requirements
  - Silver Line – additional staff and propulsion costs associated with new service standards and extension to Largo
  - Bus Priority Corridor Network phase II – adds additional service in high volume corridors
  - Customer service training
  - Employee wellness program – implementing a proactive approach to health care management – long term operational cost savings
  - Improve time collection – implement integrated time collection system to all maintenance personnel in FY2014 – long term operational cost savings
  
- The Silver Line implementation plan is on schedule. The presentation will outline Metro’s budget and schedule performance in readying the system for revenue service scheduled for December, 2013.
  
- The capital program for FY2014 will continue to focus on rebuilding the system infrastructure to achieve a steady state of maintenance and state of good repair. Emerging unfunded mandates, competing priorities for limited resources, and the need to begin planning for future major investments in capacity enhancements are challenges and opportunities for Metro.
  
- FY2013 Q1 ridership and revenues are lower than anticipated and as a result, Metro will be revisiting the revenue forecast developed for this budget. This revised forecast will influence and inform the final budget development and guide Metro in developing resource allocation plans for the budget submission to the board in January.

## Background

At the May FA Committee presentation, Metro presented a pro-forma multi-year plan depicting the three year financial outlook based on the proposed FY2013 budget and supporting FY13-15 multi-year plan. At that time, Metro projected the need for an additional \$76 million jurisdictional investment to deliver the baseline program in FY2014. Over 60 percent of the growth was due to rapidly escalating benefit costs totaling \$46 million. FY2014 represents the peak of the benefit growth cost curve related to the impacts of the Great Recession on Metro's pension investments subsidy. Based on Metro projections, the growth in pension subsidy will flatten in FY2015 and beyond to near standard inflationary rates.

Metro committed to developing strategies to bridge the gap in funding for FY2014 with management efficiencies, budget surpluses from FY2011 and FY2012, deferred revenues realized from SmartTrip cards, and savings from other sources. At that time, and in subsequent presentations to the FA Committee, Metro set a goal of reducing the growth in jurisdictional contribution by \$50-55 million. The goal was to reduce the year-over-year growth in jurisdictional investment from \$76 million to \$25-30 million, thereby providing a more manageable three year horizon to lower the cost curve and move toward financial sustainability for Metro's Operating program.

Assumptions which frame the budget development process follow.

### Base Costs

First, baseline operating costs are developed using the adopted FY2013 budget as a starting point. Inflation, benefit cost increases, fuel and propulsion price changes, insurance and other fee changes, and factors impacting the FY2013 budget are incorporated. The approved Bus service changes, introduced in stages in FY2013, have been annualized to reflect the full year operating cost.

### Adjustments to the Base

Concurrently, new multi-year initiatives that support the Strategic Plan goals were submitted, reviewed, prioritized and recommended for inclusion in the budget submittal. Metro's Executive Leadership Team is recommending funding in the General Manager's FY2014 budget proposal the following eight initiatives advancement of the fatigue management program, expansion of the bus Priority Corridor Network, and safety, security, and regulatory initiatives, along with efficiency initiatives. The initiatives are noted in the table on the next page.

	<b>Initiative</b>		FY14 Cost	FY15 Cost	FY16 Cost
	Fatigue Management Program	Safety	5,524,191	5,745,159	5,974,965
	Security Camera Operations Center Staff	Safety	1,104,165	1,348,630	1,368,860
	Station Cooling - Regulatory	Safety	575,941	607,620	640,162
	Silver Line	Regional Mobility	4,567,387	8,762,080	9,430,972
1	BUS Priority Corridor Phase II	Regional Mobility	4,400,000	4,500,000	5,000,000
	Customer Service Training	Customer Service	316,000	323,584	331,350
1	Clear Coat Railcars	Financial Stability	-	-	-
	Employee Wellness Program	Financial Stability	117,600	117,600	117,600
1	Improve Time Collection	Financial Stability	128,000	271,000	403,000
	<b>Total Request</b>		<b>16,733,284</b>	<b>21,675,673</b>	<b>23,266,909</b>
<b>Offsets - Savings - Revenue</b>					
	Bus Priority Corridors		(900,000)	(1,000,000)	(1,000,000)
	Employee Wellness Program		-	(600,000)	(2,000,000)
	Improve Time Collection		-	(909,000)	(2,329,000)
	Clear Coat Railcars		-	-	(500,000)
	<b>Total Offset</b>		<b>(900,000)</b>	<b>(2,509,000)</b>	<b>(5,829,000)</b>
<b>Total Multi-Year Impact</b>			<b>15,833,284</b>	<b>19,166,673</b>	<b>17,437,909</b>

Notes:

1 - Initiative includes capital investment in FY2014-2019 CIP

The total cost of the new initiatives in FY2014 is \$16.7 million. There are revenue offsets associated with fares related to the new Bus Priority Corridor Network that reduce the net jurisdictional increase to \$15.8 million in FY2014. Other future offsets identified are operational savings (clear coating railcars), slowing the growth in health insurance premium rate (employee wellness), and cost avoidance (time collection).

Finally, further changes were identified and applied to the budget which align cost allocations to more accurately reflect growth of the capital budget. As a result, the revised pro-forma budget combining the baseline budget with the selected new initiatives totals \$1.64 billion. With these key initiatives and the Silver Line, the net increase to the jurisdictional subsidy remains at \$27 million, or a 3.8 percent increase in the jurisdictional investment.

Risks

Based on actual performance for the first four months of FY2013, lower than anticipated rail ridership and revenue requires Metro to update its revenue forecast for the FY2014 budget. The impacts of the fare increase, changes to the federal benefit transit program, Sequestration and its impact on the economy, the recently completed ridership survey, and other factors will be analyzed and incorporated into the revised forecast. The existing FY2014 forecast took a

conservative view, projecting a two percent increase in revenues year-over-year from FY2013 to FY2014.

The revised revenue forecast will also incorporate weather-related events and reflect associated strategies to mitigate expense risk.

The proposed budget does not include any assumption for COLA increases in FY2014 or beyond outside of mandated step increases or known awards or settlements. Labor costs constitute over 70 percent of Metro's operating costs and each one percent in salary and wage increase for Metro's represented employees could have an estimated \$14 million annual impact on Metro.

Metro is currently evaluating proposals from interested paratransit service providers that have responded to our solicitation. The solicitation introduced a new business model that leverages competition by allowing multiple contractors to participate; separates functions to leverage best-of-breed skill sets; and establishes a stand-alone quality assurance function. This performance-based model is designed to improve efficiency but also service quality. While demand management efforts have been successful in containing cost over the last two fiscal years, demographic trends point to an inevitable increase in ridership in future years, and the new pricing that will result from the solicitation introduces some uncertainty as to the total cost of paratransit service. The selection of the paratransit contractors will be on a best-value basis.

Metro bases its propulsion, diesel, and CNG needs based on service plans, schedules and associated consumption. Projections on commodity costs are informed by industry indices, knowledge of the local markets and internal expertise. Metro uses its authority to enter into hedge contracts to secure price and budget certainty. Propulsion costs have been at very favorable levels for the last two years. In FY2014, the existing agreement with Dominion Power in Virginia will expire, this presents an upside risk to price, which is reflected in the baseline budget. Metro will seek to lock in prices for FY2014 over the spring, prior to the beginning of the new fiscal year.

#### Silver Line

A detailed presentation and discussion related to Silver Line service changes will occur on December 6, 2012 at the Customer Service Committee. The incremental cost of this service change has been included in this draft FY2014 budget proposal.

## CAPITAL PROGRAM UPDATE

### Development of the FY2014 Capital Budget and FY2014-2019 Capital Improvement Program (CIP)

The FY2014 Proposed Annual Work Plan and FY2014-2019 Proposed CIP, to be distributed in mid-December, will continue the extensive efforts underway to rebuild the Metro system – the majority of Metro’s capital resources will be invested in projects that improve safety, state of good repair, and rehabilitate Metro’s capital assets.

Metro’s six-year CIP for FY2014-2019 will be developed based on an update of the ongoing projects in Metro’s current CIP and Metro’s \$13 billion FY2011-2020 Capital Needs Inventory (CNI), which is a prioritized list of Metro’s investment needs for the ten year period from FY2011 through FY2020. The CNI is prioritized based on Metro’s strategic goals and with an emphasis on safety and rebuilding the Metro system. A comprehensive CNI update is scheduled for summer 2013. For the development of the FY2014-2019 CIP, Metro is continuing to enhance project evaluation and the selection process to better inform investment decision-making.

Significant planned investments in FY2014 will include: continued progress in addressing the National Transportation Safety Board recommendations, replacement and rehabilitation of buses, replacement of MetroAccess vehicles, aggressive track and structure rehabilitation work across the system and continued rebuilding efforts on the Red and Orange/Blue lines, replacement and rehabilitation of elevators and escalators, construction of new bus maintenance facilities, and planning and preparation for future Metrobus and Metrorail system capacity improvements.

### Federal Funding Uncertainty

MAP-21, the new federal law authorizing surface transportation funding, could result in the additional federal transit formula funding to the region and to Metro. In the event that increased federal formula funding is appropriated by Congress and made available to Metro, Metro is well prepared to program additional capital investments into the six-year CIP.

While there is a potential opportunity for additional investment under MAP-21, there is also substantial risk as Metro’s capital program is heavily dependent upon annual appropriation of federal formula and Passenger Rail Improvement and Investment

Act (PRIIA) funding. Metro faces significant risk in the FY2014 capital program due to the substantial uncertainty associated with Sequestration. If capital funding is reduced, safety projects will be given priority and all other capital projects will be vulnerable to reduction or deferral. Metro's customers would experience more frequent train delays, worsening reliability, deteriorating station conditions, longer lines and less customer information.

### FY2013 Q1 FINANCIAL PERFORMANCE

As noted above, FY2013 forms the base starting point for FY2014 budget development and multi-year planning. For the first three months of the current fiscal year, rail ridership and revenues have been significantly lower than forecasted. Rail revenues are \$4.1 million lower than projected, and total revenues are lower by \$5.0 million.

The two primary reasons for the reduction in rail ridership appear to be (a) the January 2012 changes to the federal transit benefit program and (b) the July 2012 fare increase. The changes to the benefit program included a reduction in the monthly transit benefit cap from \$230 to \$125 (while the federal parking benefit cap was increased to \$240), as well as the elimination of "rollover" of unused benefits at month-end for federal employees. Given the Authority's reliance on riders who receive transit benefits (the latest rail passenger survey indicates that two-thirds of rail passengers in the AM peak receive a transit benefit), these changes taken together have had a substantial negative impact on rail ridership.

Based on this experience, and subsequent significant impacts of Hurricane Sandy, Metro is revisiting its financial forecasts and will include the updated projections in the GM's proposed budget submittal in January. The first quarter operating budget financial report transmitted to the Board on November 16, 2012 contained detailed first quarter ridership/revenue performance and analysis.

Fortunately, YTD expenditures are also below budget and offset all of the revenue losses, leaving Metro with a net positive position of \$5.8 million through the end of the first quarter.

Overtime overruns incurred in TIES, Rail, and Bus were offset by lower than anticipated regular salary and wages in Rail, DGMO, and MTPD related to vacancies. Overtime expenses through the first quarter are over budget by \$9.2 million or 62 percent.

Metro has put in place a process improvement team led by the DGMA/CFO and the DGMO to put controls in place to reduce overtime. Some actions recommended by the team include better reporting and monitoring, planning maintenance work during regularly-scheduled shifts whenever possible, and increasing accountability throughout

the management structure. The team continues to meet and assess additional actions and tools to further reduce overtime. Overtime has declined each month after exceeding budget by 87 percent in July (primarily due to heat related incidents, special events, and extensive rail car work to address HVAC, gearbox systems, friction rings and brakes and railcar doors). Overtime in September exceeded budget by 28 percent.

Materials and supplies are over budget by \$2.9 million due to parts and material costs associated with summer rail car maintenance (\$1.6 million) and a lag in bus capitalization (\$0.8 million). The rail car maintenance activity supports improved service availability by deploying additional railcars into revenue service which had a positive impact on on-time performance.

### **FUNDING IMPACT**

This presentation outlines budget projections and other financial information that will impact the FY2014 budget. However the purpose is to provide the Board with context to inform budget deliberations and outreach efforts.

### **TIMELINE**

<b>Board action</b>	None required at this time
<b>Anticipated actions after presentation</b>	Staff to return to Board F&A committee in January with the FY2014 Operating and Capital Budget Proposals.

### **ELECTRONIC ATTACHMENTS**

See attached power point presentation.



# Washington Metropolitan Area Transit Authority

## Budget Discussions

Finance and Administration Committee

December 6, 2012



## Purpose

- Budget development background and assumptions
- Pro-forma budget presentation
- Silver Line update
- FY2014 CIP presentation
- FY2013 First Quarter financial update



# Implementing Momentum





# Multi-year Financial Plan

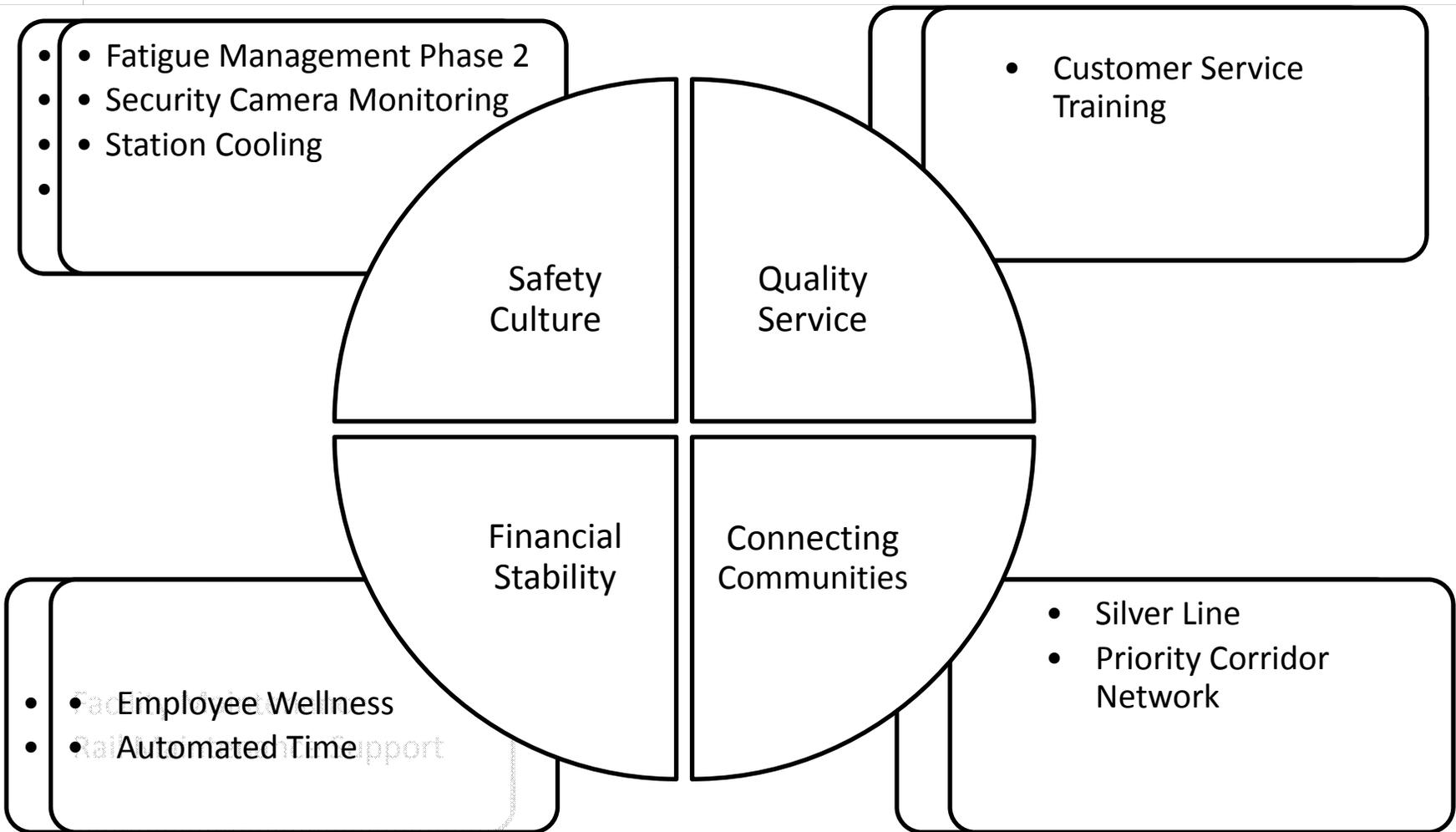
## Three Year Pro Forma

### Multi-Year Proforma

<i>\$ in Millions</i>		<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
		<b>Budget</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
<b>Revenues</b>	<b>Passenger &amp; Parking Fares</b>	\$ 828	\$ 842	\$ 857	\$ 872
	<b>Silver Line Phase I - Fares</b>		17	33	35
	<b>Other Revenue</b>	30	46	30	31
<b>Total Revenue</b>		<b>874</b>	<b>905</b>	<b>937</b>	<b>954</b>
<b>Expenses</b>	<b>Payroll</b>	755	780	792	804
	<b>Pension</b>	122	151	159	162
	<b>Health &amp; Other Benefits</b>	233	250	263	276
	<b>Non-Personnel Costs</b>	217	458	230	236
	<b>Silver Line Phase I - Operating</b>	20	45	44	46
<b>Total Expenses</b>		<b>1576</b>	<b>1685</b>	<b>1730</b>	<b>1769</b>
<b><i>Preventive Maintenance &amp; Surplus</i></b>		<b>(33)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>
<b>Gross Subsidy</b>		<b>669</b>	<b>749</b>	<b>762</b>	<b>784</b>
<b><i>Debt Service &amp; Other</i></b>		<b>37</b>	<b>33</b>	<b>25</b>	<b>28</b>
<b>Net Operating Subsidy</b>		<b>\$ 707</b>	<b>\$ 782</b>	<b>\$ 787</b>	<b>\$ 812</b>



# Strategic Plan/Business Plan Initiatives





# New Initiatives – Net Increase \$15.8M

Initiative	FY14 Cost	Revenue or Savings
• Fatigue Management Phase II	\$5.5M	
• Station Cooling	\$0.6M	
• Security Camera Monitoring	<u>\$1.1M</u>	
Total Safety	\$7.2M	
• Customer service training	\$0.3M	
• Silver Line	\$4.6M	
• Priority Corridor Network Phase II	<u>\$4.4M</u>	<u>\$0.9M</u>
Total Regional Mobility	\$9.0M	\$0.9M
• Employee Wellness	\$0.1M	
• Automated Time Collection	<u>\$0.1M</u>	
Subtotal Financial Stability	\$0.2M	
<b>Total New Initiatives</b>	<b>\$16.7M</b>	<b>\$0.9M</b>



# FY2014 Adjustments to Pro-Forma

Funding Need \$76M

Adjustments and  
Management Actions - \$ 66M

New Initiatives + \$ 17M

Adjusted Need \$ 27M



# FY2014 Expense Budget - \$1.67 Billion

Proposed Budget \$ In Millions	FY2013	FY2014	FY13 vs FY14	
	Budget	Budget	\$	%
Passenger Fares	780	811	31	4%
Parking	49	49	-	0%
Other Revenue	45	47	2	3%
<b>Revenue</b>	<b>874</b>	<b>907</b>	<b>33</b>	<b>4%</b>
Baseline Operating Expenses	1,576	1,650	74	5%
New Initiatives - Service		9	9	
New Initiatives - Other		8	8	
<b>Expenses</b>	<b>1,576</b>	<b>1,667</b>	<b>91</b>	<b>6%</b>
Preventive Maintenance	(31)	(31)	-	
Operating Reserve	(2)	(30)	(28)	
<b>Net Operating Budget</b>	<b>1,543</b>	<b>1,606</b>	<b>63</b>	<b>4%</b>
<b>Gross Subsidy</b>	669	700	30	5%
Debt Service and Other	37	33	(4)	-10%
<b>Net Subsidy</b>	<b>707</b>	<b>733</b>	<b>27</b>	<b>4%</b>

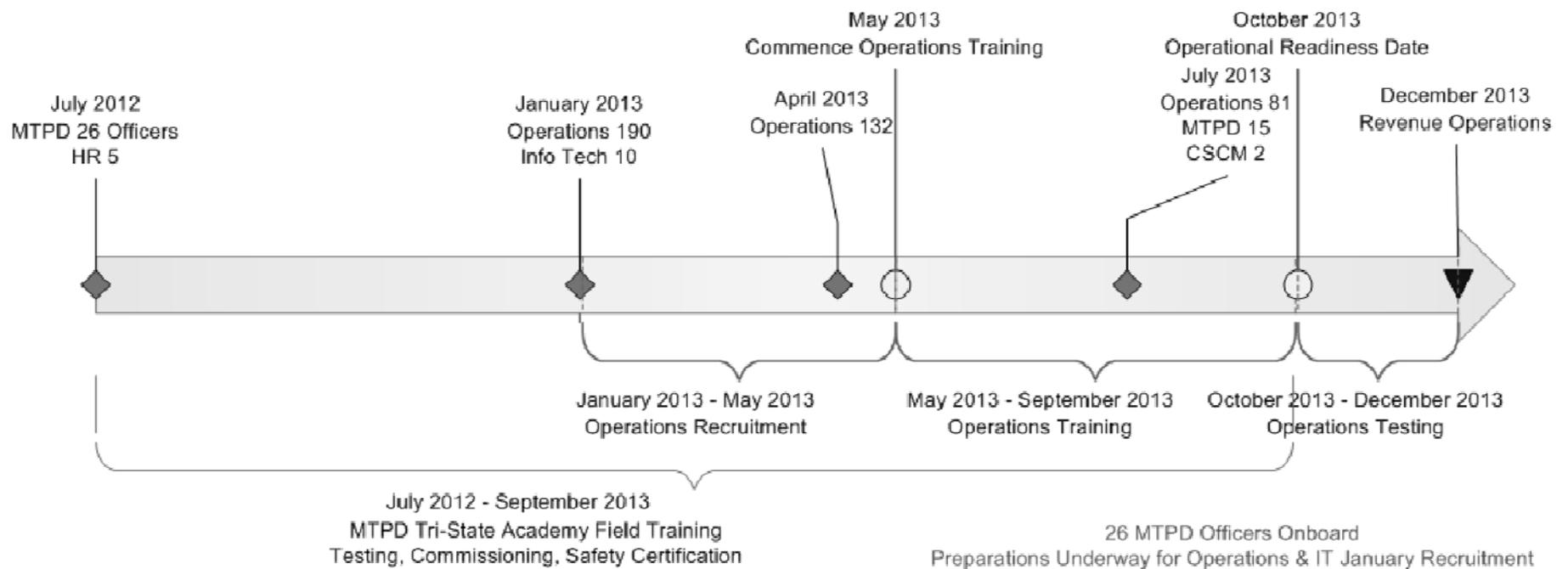


## FY2014 Risks

- Revenues
  - Sequestration
  - Federal Transit Benefit
- Labor
- Paratransit Contract
- Weather – Federal Closures



# Silver Line Staffing Plan



Reflects revised Silver Line service plan between the new Wiehle-Reston East Station and Largo Town Center Station



# Silver Line Cost Summary

	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Safety &amp; Security</b>	\$ 3M	\$ 3M	\$ 4M
<b>Maintenance</b>	\$ 11M	\$25M	\$26M
<b>Operations <sup>1</sup></b>	\$ 6M	\$20M	\$23M
<b>Engineering</b>	\$ 0M	\$ 2M	\$ 2M
<b>Total</b>	\$20M	\$50M	\$ 55M

Notes:

- <sup>1</sup> Reflects updated costs associated with Silver Line service plan between the new Wiehle-Reston East Station and Largo Town Center Station



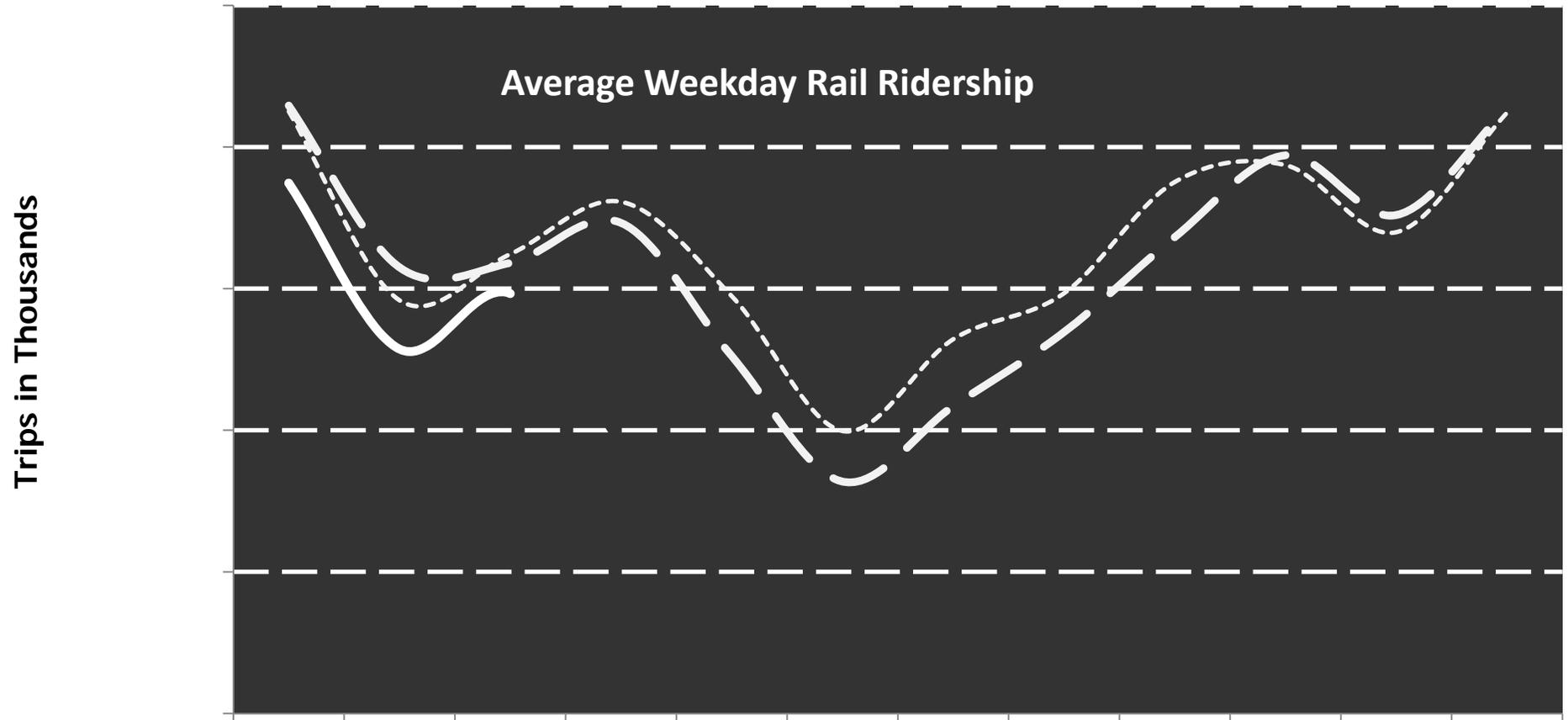
# FY2013 Q1 Operating Budget

	FY12 Q1	FY13 Q1		Variance FY12	
	Actual	Budget	Actual		
<b>Revenue</b>	\$ 206	\$ 222	<b>\$ 217</b>	<b>\$ (5)</b>	<b>(2.0%)</b>
<b>Expense</b>	\$ 365	\$ 388	<b>\$ 377</b>	<b>\$ 11</b>	<b>3.0%</b>
<b>Subsidy</b>	\$ 158	\$ 166	<b>\$ 160</b>	<b>\$ 6</b>	<b>3.0%</b>
<b>Cost Recovery</b>	57%	57%	<b>58%</b>		

Managed Budget to Achieve Positive Performance

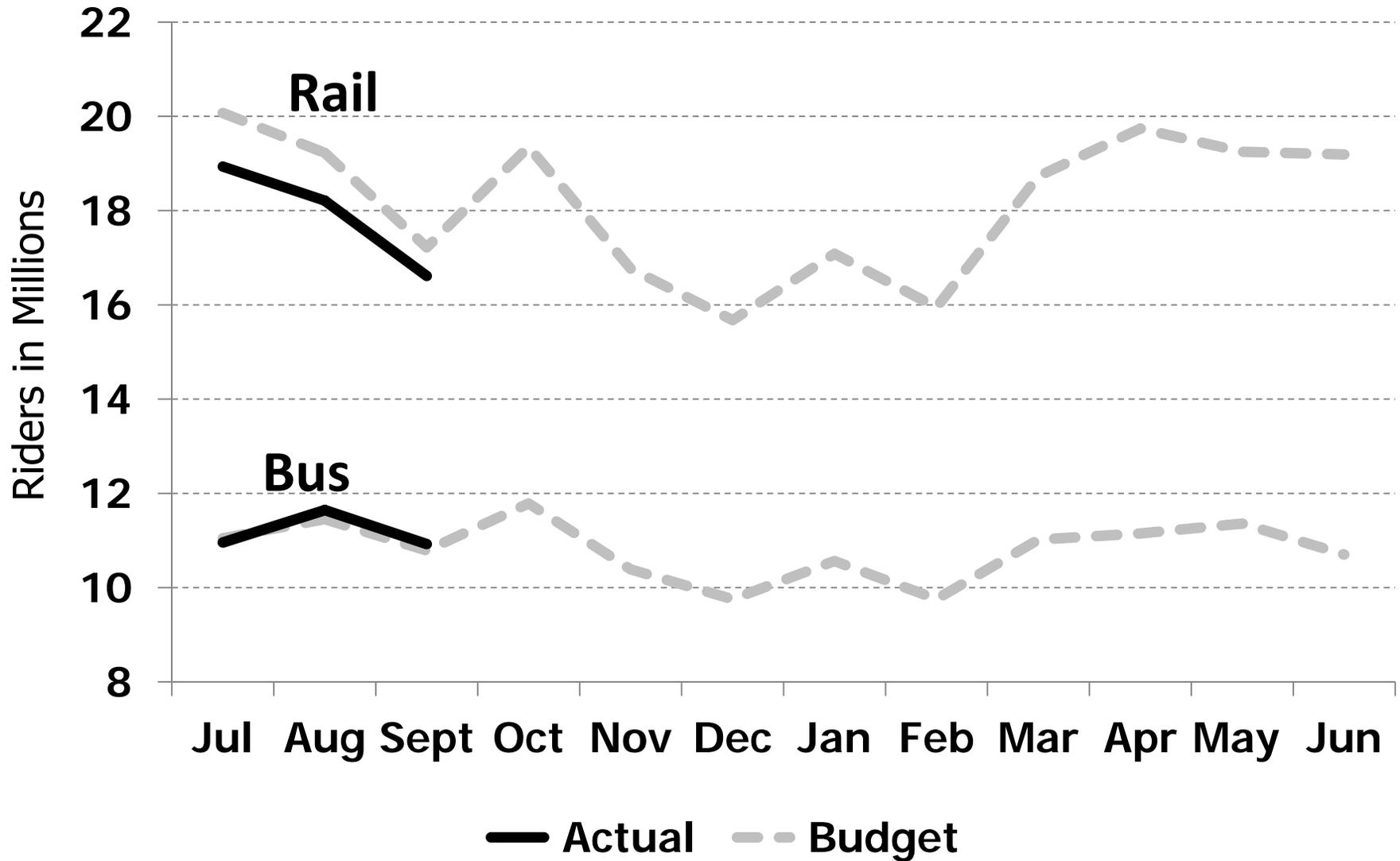


# FY2013 Q1 Rail Ridership Comparison





# FY2013 Q1 Ridership



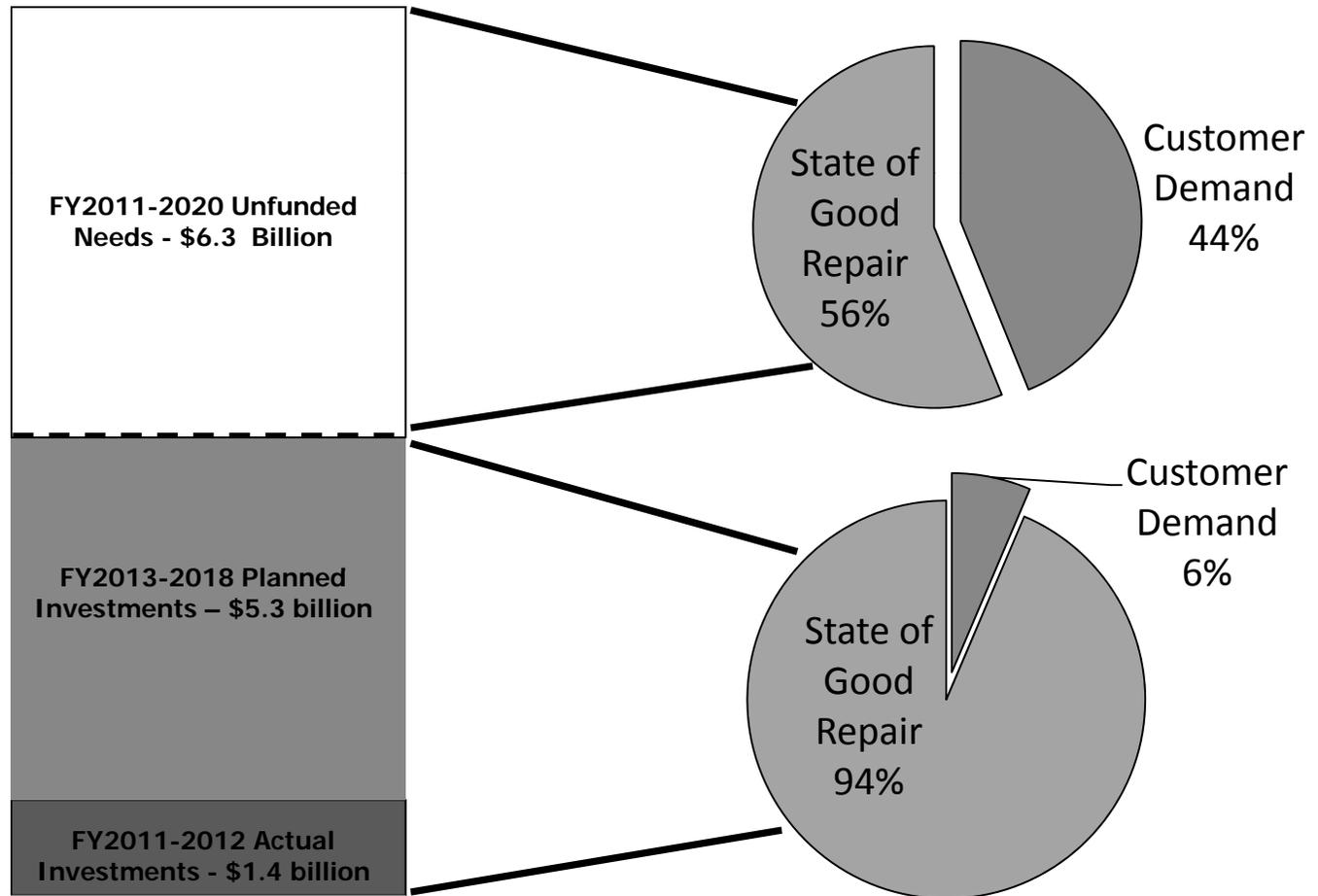


# Capital Apportionment

## FY2011-2020 Capital Needs - \$13 Billion

Capital Needs  
In Excess of  
FY2011-2018  
Funding -  
\$6.3 billion

Projected  
FY2011-2018  
Investments  
with Sustained  
Funding -  
\$6.7 Billion





## Next Steps

- **January 2013**
  - FY2014 Operating and Capital Budget proposal
- **February - May 2013**
  - Deliberation – Outreach
- **July 1, 2013**
  - Start of FY2014