



Finance Committee

Information Item III-A

September 14, 2017

FY2017 Year-End Financial Update

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
201905

Resolution:
☐ Yes ☒ No

TITLE:

FY2017 Fourth Quarter Financial Update

PRESENTATION SUMMARY:

Present FY2017 year-end operating and capital budget results.

PURPOSE:

Management will update the Finance Committee on the FY2017 operating and capital budget results and highlight key challenges and major accomplishments in FY2017.

DESCRIPTION:

Key Highlights:

- Management actions to reduce expenses, other cost savings and use of prior year budget surplus allowed Metro to finish FY2017 better than previously projected and without requiring additional subsidy from its funding partners, despite a substantial operating revenue shortfall compared to budget.
- Operating revenues totaled \$784 million and were \$116 million below budget or \$87 million less than FY2016. However, management actions and other cost savings worth \$101 million reduced the shortfall to \$15 million, with the remaining to be covered by prior year budget surpluses to balance the budget.
- The largest capital investment since the completion of the Metrorail system was achieved, totaling \$1.163 billion, 99% of the amended \$1.175 billion capital budget and 122% of the original \$950 million budget. This compares to a 65% investment rate in FY2015, and an 85% investment rate in FY2016. Key drivers of the increased FY2017 expenditures were new railcar deliveries, SafeTrack and bus facility construction.
- In December 2016, the Federal Transit Administration (FTA) restored Metro's ECHO privileges for grants awarded after July 1, 2015, following FTA's determination that Metro has made substantial progress in addressing financial and procurement weaknesses identified in FTA's 2014 Financial Management Oversight review.
- FY2017 operating budget result was slightly better than, and capital investment result was in line with, management's year-end forecasts presented to the Finance Committee on May 11, 2017.

Background and History:

Operating Budget

The \$1.745 billion operating budget included \$900 million of passenger fares and non-fare revenue (i.e. advertising, etc.) and \$845 million of operating subsidy from Metro's funding jurisdictions. There was no increase in jurisdictional subsidy contributions from FY2016 to FY2017 (operating subsidy remained at \$845 million).

Capital Budget

Metro's original FY2017 capital budget of \$950 million included funding to repair, rehabilitate, and replace Metro's capital assets, including vehicles, stations, track and structures, power, yards and garages and business support. Due to the accelerated investment rate, two increases to the capital budget were authorized by the Board - \$150 million in November 2016 and another \$75 million in April 2017- bringing the final budget to \$1.175 billion to support enhanced efforts to address deferred maintenance – primarily through SafeTrack – as well as increased delivery and acceptance of new 7000 series railcars.

The FY2017 budget also included debt service payments totaling \$21 million funded by contributions from the jurisdictions that participated in the 2009 bond issuances.

Discussion:

Operating Revenue

Metro's FY2017 operating revenue was \$784 million, which is below budget by \$116 million or 13 percent. Metrorail passenger revenue of \$522 million was \$91 million (15 percent) below budget, driven by SafeTrack, reliability concerns and other market factors (competition, gas prices, telework, etc.). MetroBus passenger revenue of \$129 million was \$23 million or 15 percent below budget for the year. MetroAccess revenue was up 6 percent compared to prior year and was 3 percent below budget through June, 2017. Parking revenue declined 8 percent from prior year and was below budget by 12 percent.

Metro's SafeTrack initiative was completed in June 2017. In total, SafeTrack impacted revenue by over \$42 million. Additional revenue loss versus last year, attributed to other causes, exceeded \$14 million (of which \$11 million occurred in FY2017). Rail revenue losses from all sources during the whole of the SafeTrack program exceeded \$56 million, of which \$49 million occurred in FY2017.

Ridership

Total transit ridership on all modes through June 30, 2017 was 301 million trips, a reduction of 20 million trips or 6 percent compared to prior year. Total rail ridership was 177 million trips, down 8 percent or 14 million trips compared to FY2016. Bus ridership was 122 million trips, a decline of 6 million trips or 4 percent compared to same period last year. Bus ridership was down in each month of the quarter compared to prior year, across all jurisdictions. MetroAccess ridership was 2.4 million trips, reflecting growth of 4 percent over FY2016.

Operating Expenses

FY2017 year-end operating expenses were favorable to budget by \$101.0 million or 6

percent, including \$71.5 million of management cost reduction compared to FY2016. The operating favorability included reduced personnel expenses and the elimination of 700 positions.

Personnel Expenses

Personnel expenses (including salaries/wages, overtime, and fringe) were favorable to budget by \$88.5 million or 6.8 percent. This favorability is mostly due to the GM/CEO's actions to reduce positions and freeze hiring for non-critical positions. As a result, Salary and Wage under budget by \$64.0 million or 7.9 percent. As of June 2017, Metro had eliminated 700 positions. Overtime expenses of \$82.2 million were over budget by \$5.2 million or 6.7 percent. This unfavorable variance was due to track inspection, repair and maintenance activities including third rail heat tape installation, signal testing of the public safety radio system and comprehensive radio communications system. Fringe benefit expenses including FICA, pension, healthcare and other costs (uniform, workers compensation, etc.) were \$29.6 million below budget in FY2017, driven primarily by workforce reductions.

Non-Personnel Expenses

Non-personnel expenses were \$424.1 million; which is \$12.5 million or 2.9 percent below budget. Lower service levels due to SafeTrack reduced FY2017 energy costs (Gas, Diesel & CNG, Propulsion, Utilities and Electricity). Some of these savings were offset by increased expenses in Services, Supplies and Leases. Services were \$6.7 million over budget in FY2017, due largely to the delayed implementation of Abilities Ride program. This delay resulted in a \$10.0 million unfavorable variance for MetroAccess service expenses. Materials & Supplies expenses exceeded budget by \$21.6 million in FY2017 due to parts purchases to support ongoing rehabilitation activities, while energy expenses including Fuel, Propulsion, Electricity and Utilities were lower than budget by \$24.1 million or 18.9 percent due to favorable prices and lower consumption from service reductions associated with track rehabilitation and maintenance activities.

Capital Overhead Allocation

The capital overhead allocation represents reimbursement of indirect costs applied to capital projects. In FY2017, the capital indirect allocation credit to the operating budget totaled \$48.4 million, \$5.4 million favorable to the operating budget.

Capital Improvement Program

Metro invested \$1.163 billion in capital projects in FY2017, 99% of the amended budget of \$1.175 billion. Capital program performance is summarized by Category below.

Railcar

Metro invested \$487.8 million in the Railcar category in FY2017. Highlights include:

- \$335 million for new railcars. A total of 364 new 7000 series vehicles were delivered as of June 30th and all of the 1000-series and 4000-series railcars have been removed from service.
- \$114 million for Railcar Maintenance and Overhaul activities.

Rail Systems

Metro invested \$73 million in Rail Systems in FY2017. Highlights include:

- \$30 million for four traction power substations and upgrades to nine equipment rooms and seventeen switch machines.

- \$43 million in Signals & Communications, which implements National Transportation Safety Board (NTSB) recommended safety improvements, supports the repair and improvement of the Automatic Train Control system; and replaces the radio and wireless communications systems.

Track & Structures Rehabilitation

The most significant accomplishment in FY2017 Track & Structures was the completion of the SafeTrack program. Metro invested \$165 million in this category.

Stations & Passenger Facilities

Metro invested \$149 million in Stations & Passenger Facilities. Highlights include:

- \$81 million in Platforms & Structures primarily focused on the rehabilitation of segments of the Orange/Blue Line.
- \$47 million for improvements to vertical transportation.

Bus & Paratransit

Metro invested \$236 million in the Bus & Paratransit in FY2017. Highlights include:

- \$57 million to acquire 106 replacement buses.
- \$84 million in the Bus Maintenance & Overhaul program which completed the rehabilitation of 100 buses.
- \$77 million in Bus Maintenance Facilities. This includes \$36 million expended on construction of the new Andrews Federal Center Bus Facility and \$30 million expended on the construction of the new Cinder Bed Road Bus Facility.
- \$14 million for 207 new paratransit vehicles.

Business Support

Metro invested \$53 million in FY2017 in the Business Support Investment program.

Highlights include:

- \$15 million for the development and deployment of Metro's new standardized time management solution.
- \$10 million in Support Equipment & Services

Status of Grant Applications and Reimbursements

In December 2016, the Federal Transit Administration (FTA) restored Metro's ECHO privileges for grants awarded after July 1, 2015.

As of March 2017, Metro had \$281 million of unreimbursed costs on FTA Formula and PRIIA grants. Under this plan, Metro revised the Formula and PRIIA grants, applying the old grants to new projects such as new railcar acquisition, SafeTrack, and safety-focused maintenance costs. These grants were awarded on May 12, 2017; enabling Metro to recover \$189 million of the old grant reimbursements as of June 2017. The remaining unreimbursed costs will be recovered during FY2018. During FY2017 Metro also closed 19 prior year FTA grants.

Metro's Federal Fiscal Year 2017 grants were transmitted to FTA for review in March 2017, in accordance with Metro's Grants Management Policy (within four weeks of the adoption of the capital budget). The PRIIA, State of Good Repair, and Bus partial apportionment grants were awarded in April and May 2017. The Urbanized Area Formula Grant and amendments to increase the value of the previously awarded grants to the full year apportionment values are expected to be awarded in September

2017.

FUNDING IMPACT:

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

TIMELINE:

Previous Actions	May 2017 - FY2017 Third Quarter Financial Update
Anticipated actions after presentation	<p>October 2017 –</p> <ul style="list-style-type: none">• Acceptance of FY2017 Financial Statement Audit Deliverables (Audit and Investigations Committee) <p>November 2017 –</p> <ul style="list-style-type: none">• FY2018 First Quarter Financial Update• Board consideration of action item to authorize application of prior year budget surpluses to balance FY2017 operating budget

RECOMMENDATION:

Information item only - no action required.



Washington Metropolitan Area Transit Authority

FY2017 Year-End Financial Update

Finance Committee
September 14, 2017



Purpose

- Provide FY2017 operating and capital budget results
- Highlight key challenges and major accomplishments in FY2017



Financial Update

- Management actions improved operating efficiency:
 - ✓ Over \$100 million of cost savings offset revenue losses
- Significant capital budget delivery:
 - ✓ \$1.163 billion invested in system
 - ✓ 99% of amended budget invested
 - ✓ \$189 million of legacy grant funds reimbursed
 - ✓ \$1.7 billion total reimbursements since March, 2014 ECHO restriction



FY2017-Q4 Operating Results

- Total revenue was \$116.3 million below budget due to:
 - ✓ SafeTrack
 - ✓ Reliability challenges
 - ✓ Market factors (gas prices, telework, etc.)
- Management actions reduced expenses; \$101.0 million below budget
- Metro will utilize prior year budget surplus to balance budget



Management Actions to Balance Budget

- Management actions taken to reduce expenses:
 - ✓ 700 position reduction and hiring freeze
 - ✓ Supplies – staff reductions, sales office closings
 - ✓ Non-Rep employee healthcare plan changes
 - ✓ Workman's comp & casualty contributions
 - ✓ Real estate sales/overhaul material transfer
- Additional Board action required to balance budget:
 - ✓ Authorize use of prior budget surplus



Net Operating Position

<i>(millions)</i> Year to Date	FY2017-Q4		Variance	
	Budget	Actual	\$	Percent
Revenue	\$ 900	\$ 784	\$ (116)	-13%
Expense	\$ 1,745	\$ 1,644	\$ 101	6%
Net Subsidy	\$ 845	\$ 860	\$ (15)	-2%
Cost Recovery	52%	48%		



FY2017 Operating Budget Results

<i>(\$ in millions)</i>	FY2017 Actual	FY2017 Budget	Variance
Revenues	\$783.8	\$900.0	\$(116.3)
Salary/Wages	750.7	814.8	64.0
Benefits	387.4	417.0	29.6
Overtime	82.2	77.0	(5.2)
Total Personnel Expense	\$1,220.3	\$1,308.8	\$88.5
Services	227.6	220.9	(6.7)
Materials & Supplies	106.2	84.6	(21.6)
Fuel (Gas/Diesel/CNG)	20.2	36.7	16.5
Utilities & Propulsion	83.3	90.9	7.5
Insurance/Other	35.2	46.5	11.3
Capital Allocation	(48.4)	(43.0)	5.4
Total Non-Personnel Expense	\$424.1	\$436.6	12.5
TOTAL EXPENSES	\$1,644.4	\$1,745.3	\$101.0
NET SUBSIDY	\$860.6	\$845.3	\$(15.3)

Note: Variance in budget/actual subsidy to be funded by use of prior year surplus.

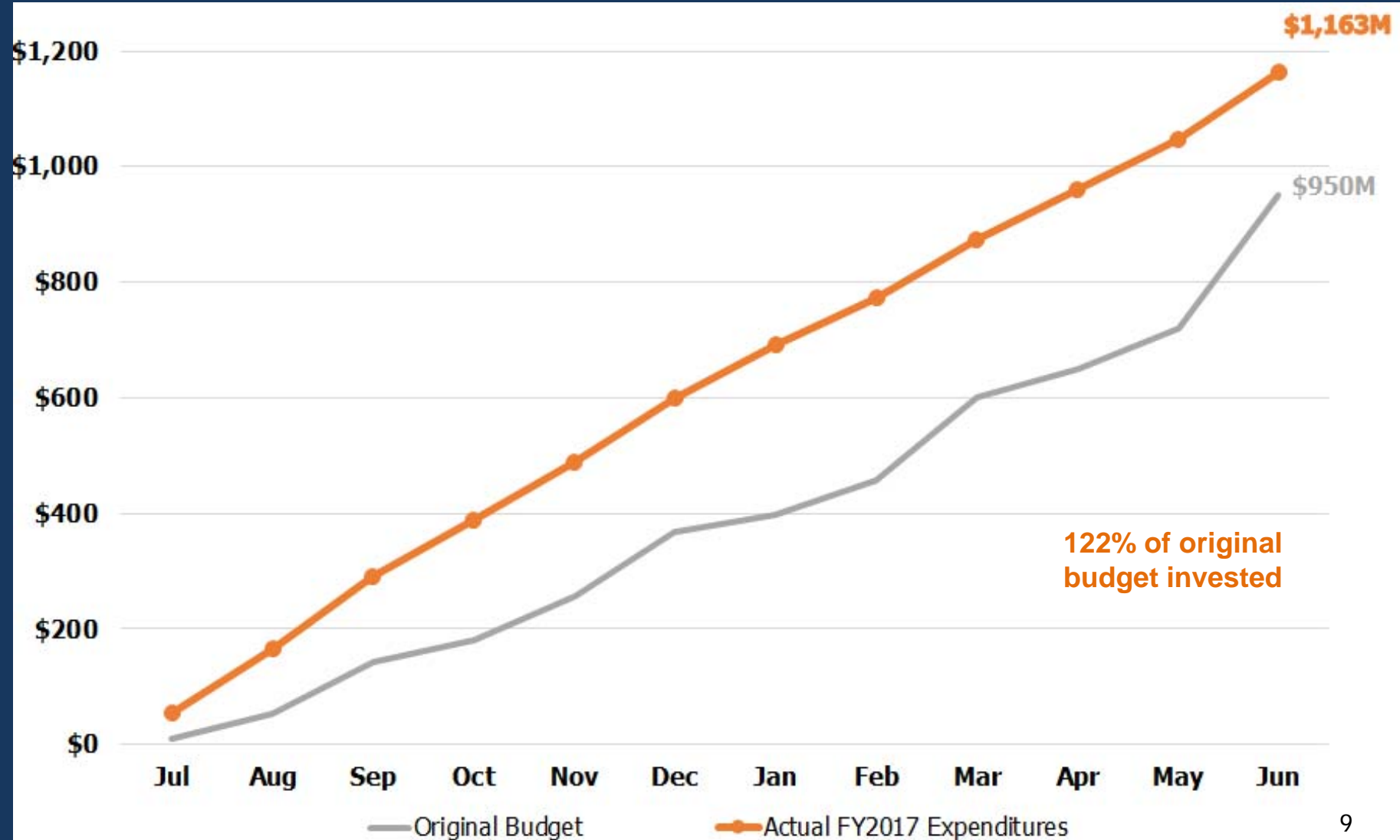


FY2017 Capital Budget Results

- Original FY2017 capital budget of \$950 million based on pre-FY2016 experience
- Board authorized increase to \$1.175 billion during the year as delivery rate improved
- Metro invested \$1.163 Billion, and accomplished major milestones; including completion of SafeTrack and accelerated railcar delivery



FY2017 Capital Investment





FY2017 Capital Budget Performance

Investment Category	FY2017 Actual	Original Budget	Favorable/Unfavorable vs. Budget	Amended Budget	Favorable/Unfavorable vs. Amended
Railcar	\$487.8	\$353.6	\$(134.2)	\$489.9	\$2.1
Rail Systems	72.9	104.3	31.4	74.3	1.4
Track & Structures Rehabilitation	164.8	89.3	(75.5)	165.9	1.1
Stations & Pass. Facilities	149.5	133.0	(16.5)	153.4	3.9
Bus & Paratransit	236.0	218.1	(17.9)	239.5	3.5
Business Support	52.5	51.6	(0.9)	52.9	0.4
TOTAL	\$1,163.4	\$950.0	\$(213.4)	\$1,175.9	\$12.5



Railcar

Investment by Program	FY2017 Actual	Original Budget	Favorable/ Unfavorable vs. Budget	Amended Budget	Favorable/ Unfavorable vs. Amended
Acquisition	\$335.3	\$203.8	\$(131.5)	\$335.9	\$0.6
Maintenance/ Overhaul	114.3	115.0	0.7	114.3	0.0
Maintenance Facilities	38.3	34.8	(3.5)	39.6	1.3
Total	\$487.8	\$353.6	\$(134.2)	\$489.9	\$2.1

FY2017 Accomplishments

- 212 new 7000 series railcars accepted (364 total as of June 30)
- Retired all 1000 and 4000 series railcars
- Mean Distance Between Delays has improved by 39% year-over-year; passenger offloads reduced 40%
- Began the rehabilitation of 11 railcar lift systems
- Maintenance facility improvements complete at New Carrollton and 80% complete at Alexandria





Rail Systems

Investment by Program	FY2017 Actual	Original Budget	Favorable/ Unfavorable vs. Budget	Amended Budget	Favorable/ Unfavorable vs. Amended
Propulsion	\$30.3	\$39.8	\$9.5	\$30.6	\$0.3
Signals & Communications	42.6	64.5	21.9	43.7	1.1
Total	\$72.9	\$104.3	\$31.4	\$74.3	\$1.4

FY2017 Accomplishments

- Major contract awarded for above ground radio infrastructure upgrade
- Cell service between Potomac Avenue and Stadium-Armory live, with segment to Metro Center to be complete in FY2018, Q1
- 4 traction power substations delivered and 9 TPSS equipment rooms rehabilitated
- 17 switch machines rehabilitated





Track & Structures Rehabilitation

Investment by Program	FY2017 Actual	Original Budget	Favorable/Unfavorable vs. Budget	Amended Budget	Favorable/Unfavorable vs. Amended
Fixed Rail	\$157.8	\$78.9	\$(78.9)	\$158.5	\$0.7
Structures	6.9	10.4	3.5	7.2	0.3
Track Maintenance Equipment	0.1	0.0	(0.1)	0.1	0.0
Total	\$164.8	\$89.3	\$(75.5)	\$165.9	\$1.1

FY2017 Accomplishments

- SafeTrack completed, milestones include:
 - More than 50,000 defective cross-ties replaced
 - More than 42,000 linear feet of grout pads renewed
 - More than 61,000 linear feet of rail renewed
 - More than 22,000 insulators replaced
- Total SafeTrack capital expenses – \$162 million (including expenses from FY2016)
- Completed structural beam reinforcement at Farragut North





Stations & Passenger Facilities

Investment by Program	FY2017 Actual	Original Budget	Favorable/Unfavorable vs. Budget	Amended Budget	Favorable/Unfavorable vs. Amended
Platforms & Structures	\$80.8	\$46.4	\$(34.4)	\$83.3	\$2.5
Vertical Transp.	46.7	47.5	0.8	47.0	0.3
Fare Collection	3.2	10.2	7.0	3.6	0.4
Station Systems	14.8	24.4	9.6	15.6	0.8
Parking Facilities	3.9	4.4	0.5	3.9	0.0
Total	\$149.5	\$133.0	\$(16.5)	\$153.4	\$3.9

FY2017 Accomplishments

- 17 elevators rehabilitated, and 33 escalators replaced
- Escalator canopy work continued at 4 stations – Metro Center, Shady Grove, Deanwood, and Brookland
- Orange/Blue: replacement of 13 exhaust fans and 14 Emergency trip stations replaced
- Franconia Springfield East garage to be complete in FY2018





Bus & Paratransit

Investment by Program	FY2017 Actual	Original Budget	Favorable/Unfavorable vs. Budget	Amended Budget	Favorable/Unfavorable vs. Amended
Bus Acquisition	\$56.9	\$66.6	\$9.7	\$56.9	\$0.0
Bus Maint./Overhaul	84.4	81.0	(3.4)	85.2	0.8
Bus Maint. Facilities	76.7	55.0	(21.7)	77.8	1.1
Bus Passenger Facilities	3.5	6.7	3.2	4.7	1.2
Paratransit	14.4	8.8	(5.6)	14.8	0.4
Total	\$236.0	\$218.1	\$(17.9)	\$239.5	\$3.5

FY2017 Accomplishments

- 106 Buses delivered; 100 rehabilitations complete
- 207 MetroAccess vehicles delivered
- Cinder Bed Road construction to be completed in 2018; Andrews Fed. Center construction completion anticipated 2019



Cinder Bed Road bus facility



Business Support

Investment by Program	FY2017 Actual	Original Budget	Favorable/Unfavorable vs. Budget	Amended Budget	Favorable/Unfavorable vs. Amended
IT	\$38.8	\$40.8	\$(2.0)	\$39.2	\$0.4
MTPD	3.8	1.0	(4.7)	3.8	0.0
Support Equip./Services	10.0	10.0	0.0	10.0	0.0
Total	\$52.5	\$51.6	\$(0.9)	\$52.9	\$0.4

FY2017 Accomplishments

- Timekeeping system roll-out underway
- 58 MTPD vehicles delivered
- Procurement initiated for installation of public WIFI at Metro Stations





Appendix: Ridership

RIDERSHIP (trips in Thousands)

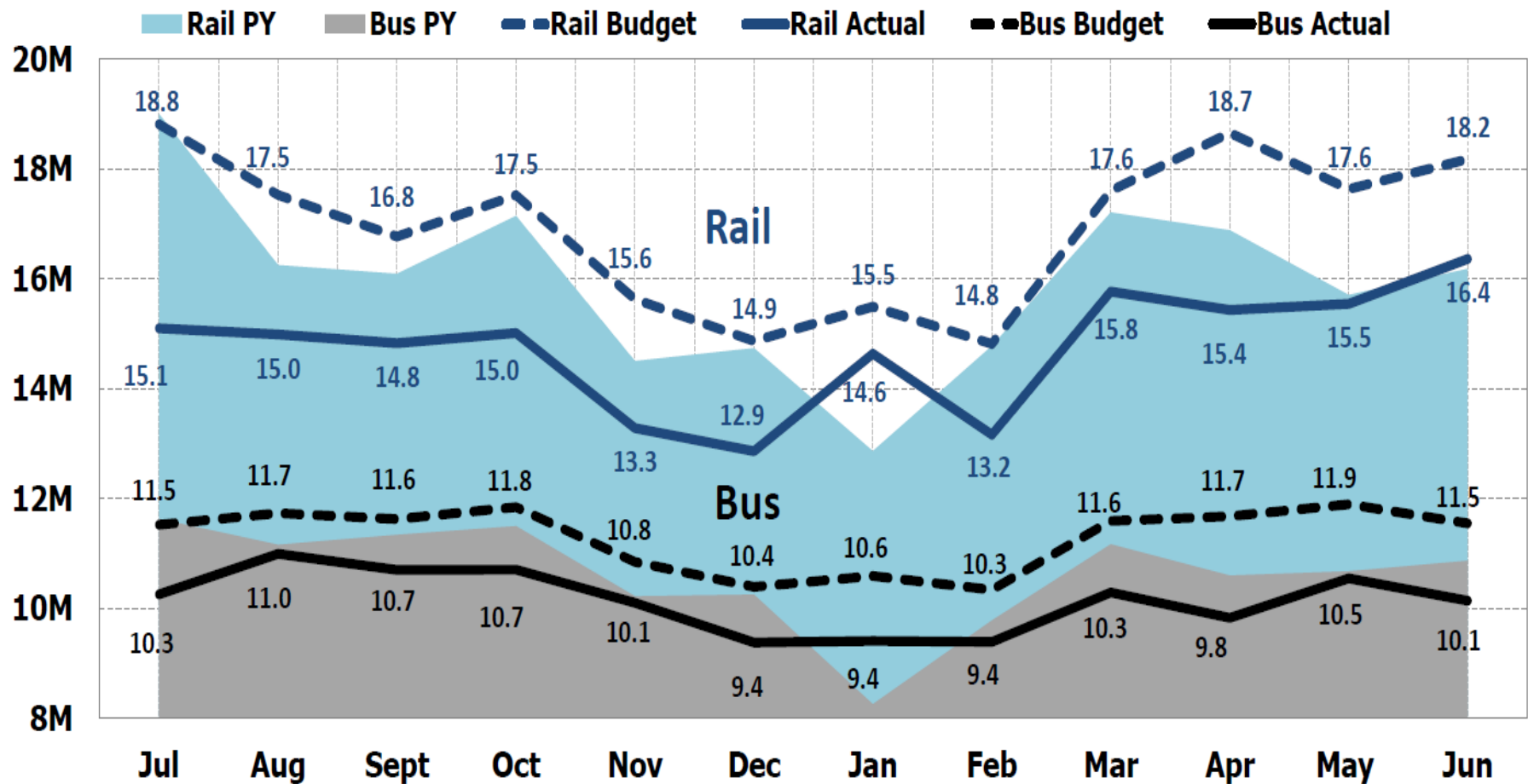
Q4	Q4-FY2016	Q4-FY2017		Variance FY17	
	Actual	Actual	Budget	Prior Year	Budget
Metrorail	48,768	47,336	54,466	-3%	-13%
Metrobus	32,142	30,514	35,118	-5%	-13%
MetroAccess	595	607	618	2%	-2%
System Total	81,504	78,457	90,202	-4%	-13%

YTD	FY2016	FY2017		Variance FY17	
	Actual	Actual	Budget	Prior Year	Budget
Metrorail	191,348	176,972	203,500	-8%	-13%
Metrobus	127,432	121,732	135,598	-4%	-10%
MetroAccess	2,281	2,368	2,420	4%	-2%
System Total	321,060	301,072	341,518	-6%	-12%



Appendix: Ridership










MONTHLY RIDERSHIP FOR RAIL AND BUS (in Millions)





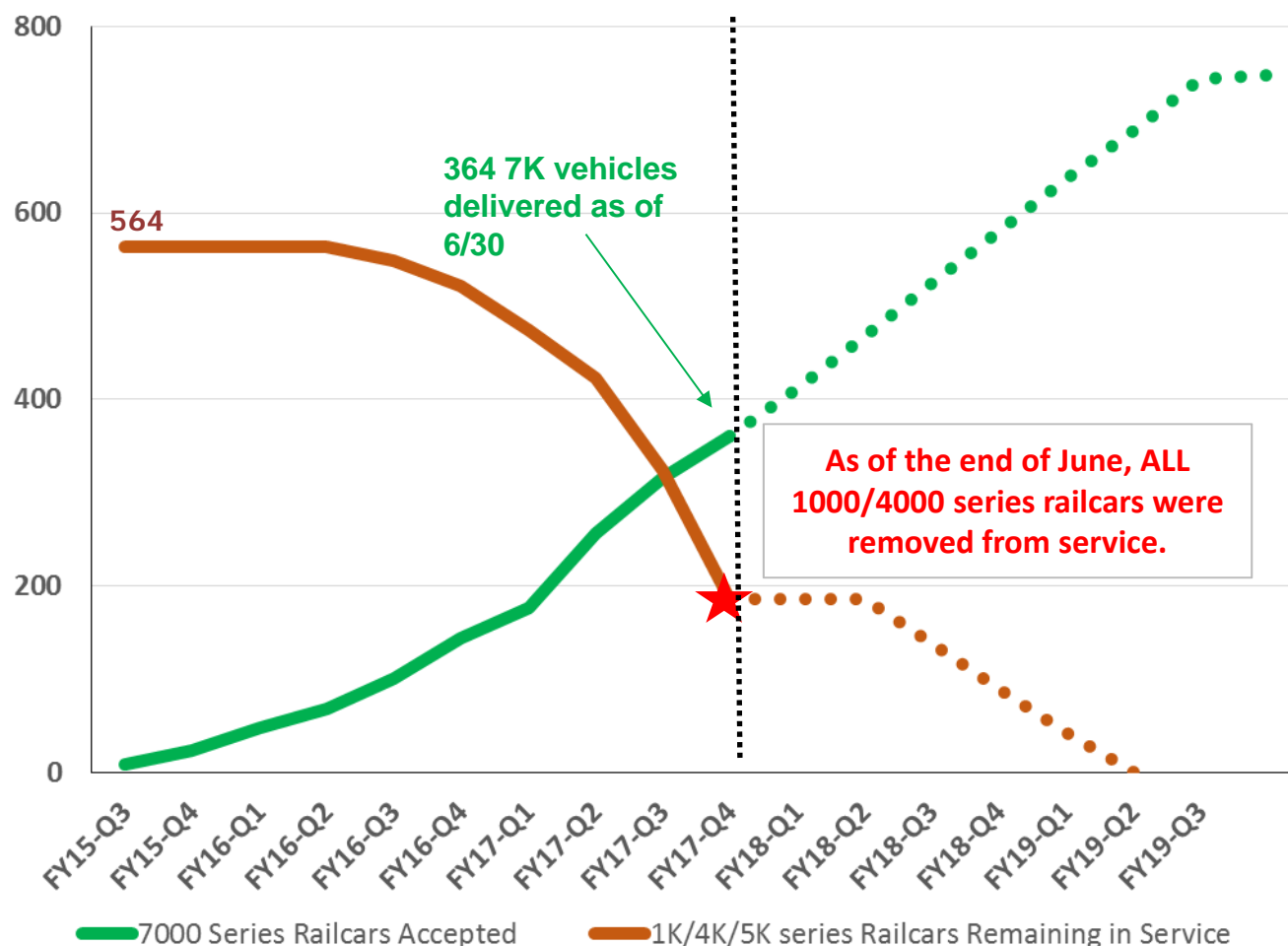
Appendix: Operating Revenue

FY2017 Ridership and Revenue Through Q4

Mode	Measure	Budget	Actual	Variance
Rail	Ridership	204 million	177 million	
	Revenue	\$613 million	\$522 million	
Bus	Ridership	136 million	122 million	
	Revenue	\$152 million	\$129 million	
Access	Ridership	2.4 million	2.4 million	
	Revenue	\$10.0 million	\$9.7 million	
Parking	Revenue	\$47 million	\$41 million	
Non-Passenger	Revenue	\$61 million	\$64 million	
Total Ridership		342 million	301 Million	
Total Revenue		\$900 million	\$784 Million	



Appendix: 7000 Series Railcar Acquisition Program



Total Estimated Project Cost

\$1,709

Life to Date Expenses

\$796

Remaining Cost to Complete

\$913

\$ in millions