Finance Committee

Information Item III-A

January 12, 2017

FY2018 Operating Budget Work Session – Personnel Expenses

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number: 201834	Resolution: ○ Yes ◉ No

TITLE:

FY2018 Operating Budget Work Session

PRESENTATION SUMMARY:

In the second of three work sessions on the proposed FY2018 operating budget, staff will provide additional information on personnel costs.

PURPOSE:

In response to Board member requests for additional information on the FY2018 operating budget, staff will conduct the second of three budget work sessions. The topic of this session is personnel costs.

DESCRIPTION:

Key Highlights:

Following the General Manager/Chief Executive Officer's (GM/CEO) proposal of the FY2018 operating budget in November, the Finance Committee is convening three work sessions to review the budget in greater detail. The first session held in December covered revenue and ridership, and the two January work sessions will cover personnel expenses and non-personnel expenses.

Background and History:

In order to bridge a projected budget gap of $290 million, the GM/CEO has proposed an FY2018 operating budget that includes WMATA employee headcount reductions, fare increases, bus and rail service cuts, limited use of Federal Transit Administration (FTA) grant funds for eligible preventive maintenance activities, and increased jurisdictional contributions.

Following the presentation of the proposed budget, Metro Board members submitted follow-up questions to staff covering a range of topics. These questions are serving as the basis for three public work sessions in December and January covering revenue and ridership, personnel expenses, and non-personnel expenses.

Discussion:

Complete answers to the Board member questions regarding personnel expenses are included as an attachment. The presentation to the Finance Committee summarizes these questions into related topic areas.

FUNDING IMPACT:

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

TIMELINE:

Previous Actions	November 2016 - GM/CEO proposal of FY2018 operating budget December 2016 - Request for budget public hearing and work session #1 (ridership/revenue)
Anticipated actions after presentation	January 26, 2017 - Work session #3 (non-personnel expenses) January - February 2017 - Public participation activities and budget public hearing March 2017 - Planned adoption of FY2018 budget

RECOMMENDATION:

No action required - information item only.

Washington Metropolitan Area Transit Authority

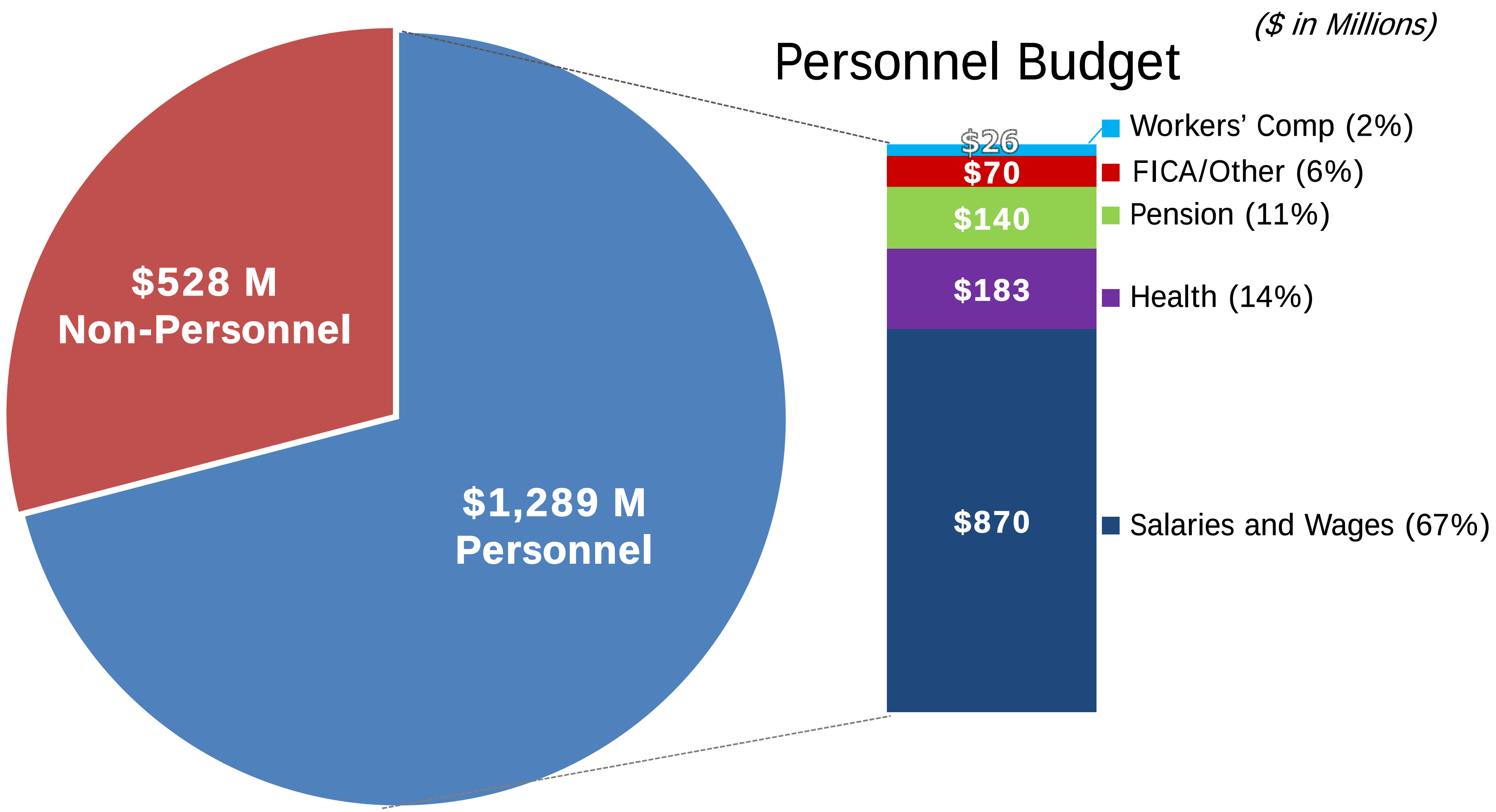
FY2018 Budget Work Session: Personnel

Finance Committee
January 12, 2017

Review Board Questions

- December's work session: Ridership and Revenue
- Today's work session: Personnel Expenses
  - ✓ Personnel Expense Trends
  - ✓ Position Reductions
  - ✓ Pension and OPEB
- Next work session: Non-Personnel Expenses

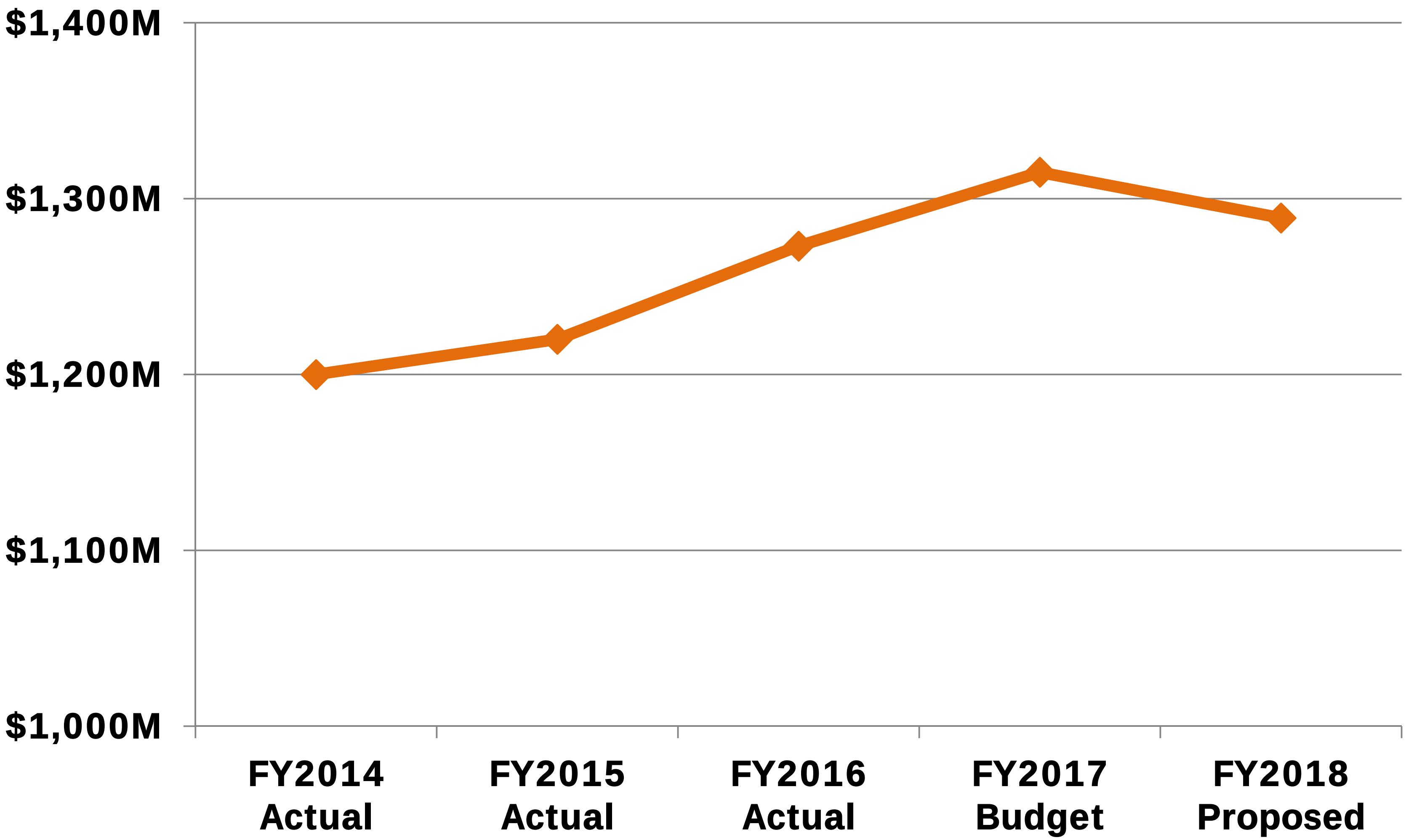
FY2018 Operating Budget



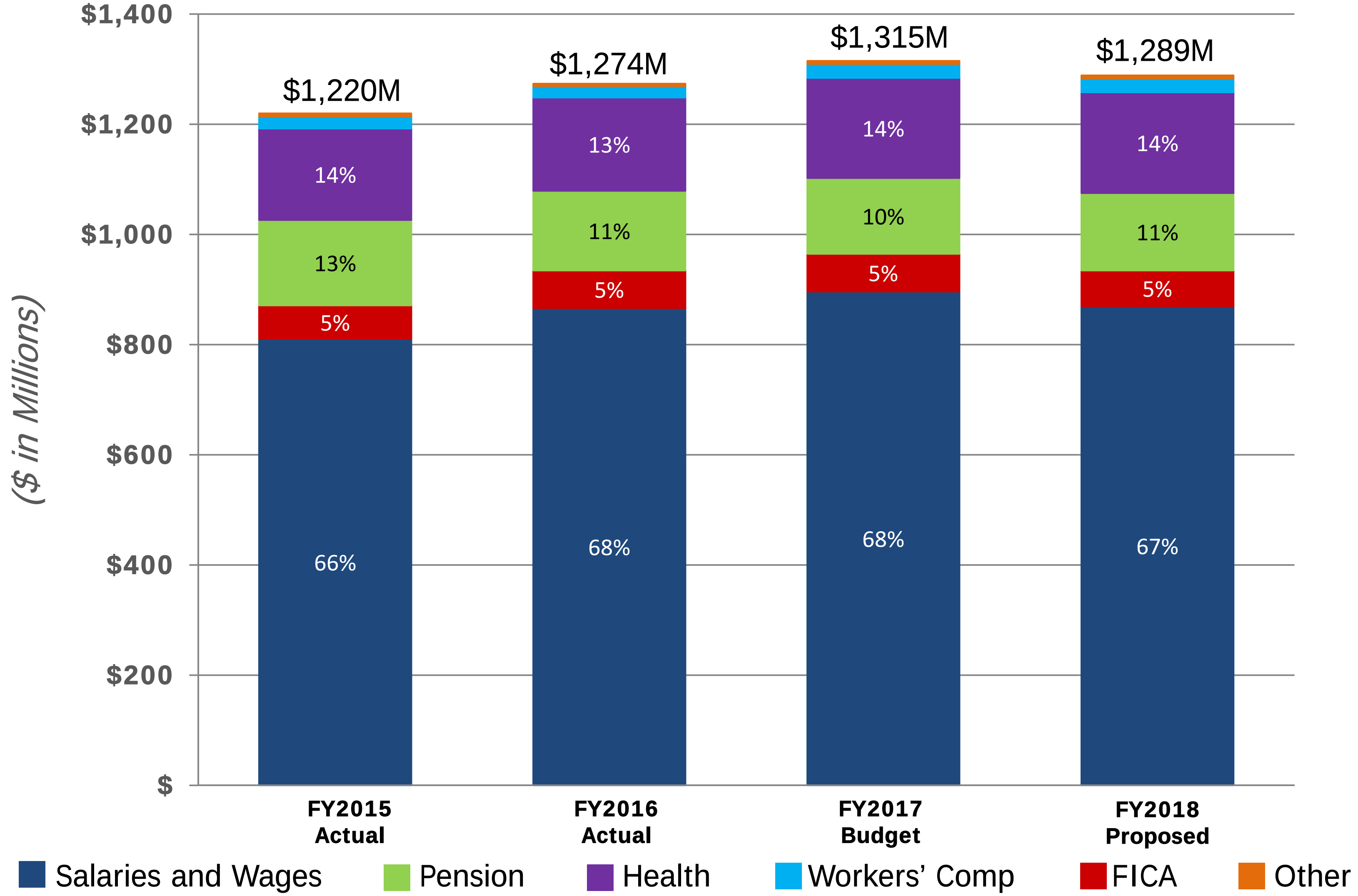
Operating Expense Budget

($ in Millions)	Actual 2016	Budget 2017	Proposed 2018	$ Var	% Var
EXPENSES					
Salaries and Wages	**$785**	**$819**	**$789**	**($30)**	**-4%**
Overtime	**$81**	**$77**	**$81**	**$4**	**5%**
Benefits	**$408**	**$419**	**$419**	**$0**	**0%**
Health	$169	$181	$183	$2	1%
Pension	$145	$138	$140	$2	1%
FICA/Other	$73	$74	$70	($4)	-5%
Workers' Comp	$21	$26	$26	$0	0%
Total Personnel	**$1,274**	**$1,315**	**$1,289**	**($27)**	**-2%**
Total Non-Personnel	$471	$464	$529	$64	14%
TOTAL EXPENSES	$1,745	$1,780	$1,817	$37	2%

Personnel Expense



Personnel Budget

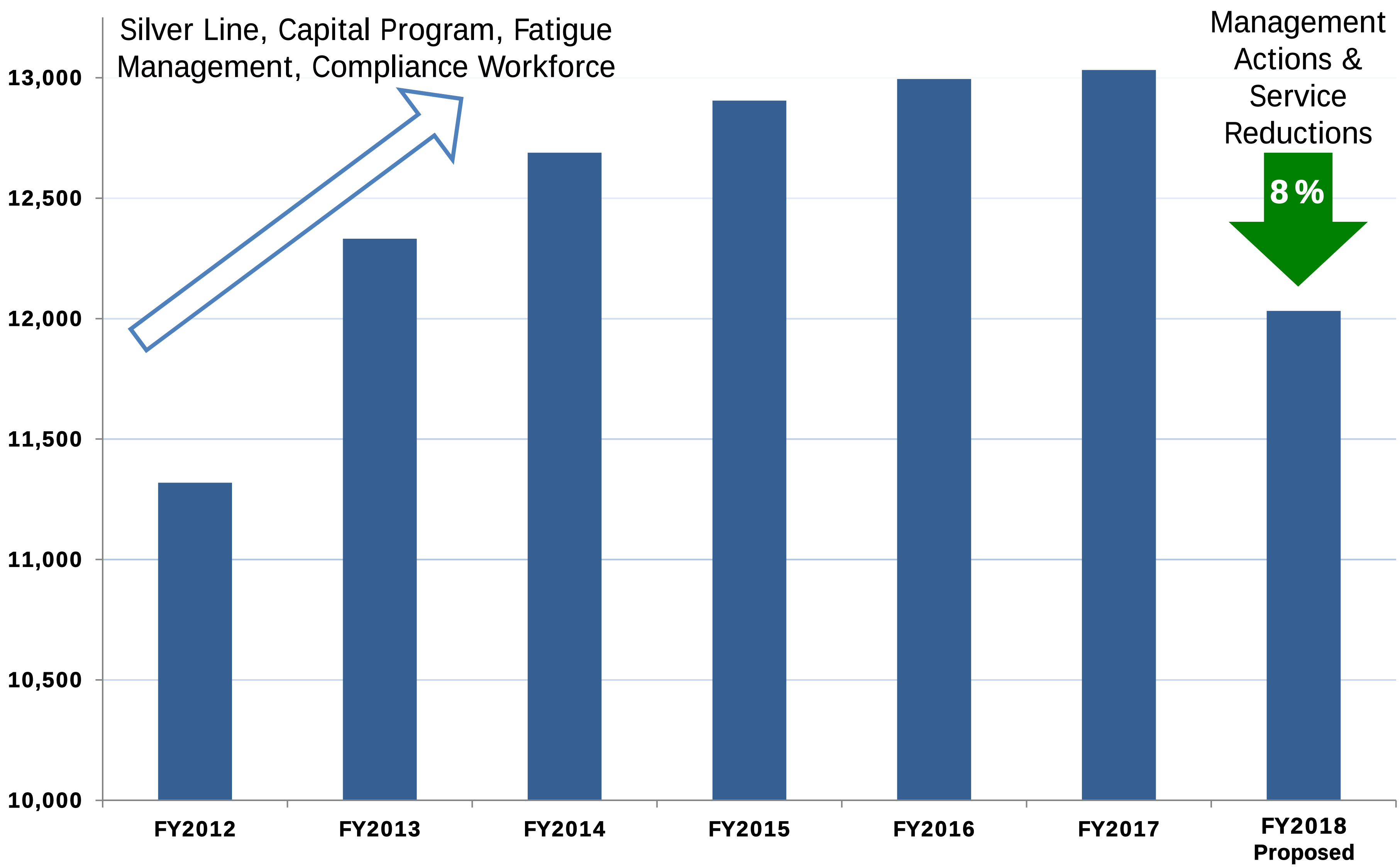


$26.5 M Savings in Personnel

($ in Millions)	Budget	Positions Total	Operating	Capital
FY2017 Approved Budget	**$1,315.1**	**13,032**	**11,612**	**1,420**
Management/Labor Savings	($42.0)	(700)	(608)	(92)
Proposed Service Reductions	($24.5)	(300)	(300)	0
Preventive Maintenance Adjustment	$40.0			
FY2018 Proposed Budget	**$1,288.6**	**12,032**	**10,704**	**1,328**
Variance	($26.5)	(1,000)	(908)	(92)

Distribution of positions may change as the FY2018 staffing strategy and service reductions are finalized.

Budgeted Headcount Trend



Rightsizing Service: Personnel Impact

($ in Millions)	Bus	Rail	Total
Salary & Wage	$10.0	$6.5	$16.5
Fringe	$5.0	$3.0	$8.0
Personnel Savings	**$15.0**	**$9.5**	**$24.5**
Headcount Reduction*	**(184)**	**(116)**	**(300)**

*Operators, mechanics, supervisors and administration
Distribution and count of positions may change as the FY2018 service reductions are finalized.

Defined Benefit Pensions

- Five defined benefit pension plans
  - ✓ 78% funded, $1.0 billion unfunded liability*
  - ✓ Funding ratio of Metro's pensions are within normal range for similarly sized public agencies
  - ✓ Local 2/Non-Rep plans closed to new employees
  - ✓ 689/922 employees contribute 3% as of FY2016; Transit Police contribute 7%
  - ✓ Metro's estimated contributions for FY2018 are $151 million**

* Reflects total pension obligations for Operating and Capital activities

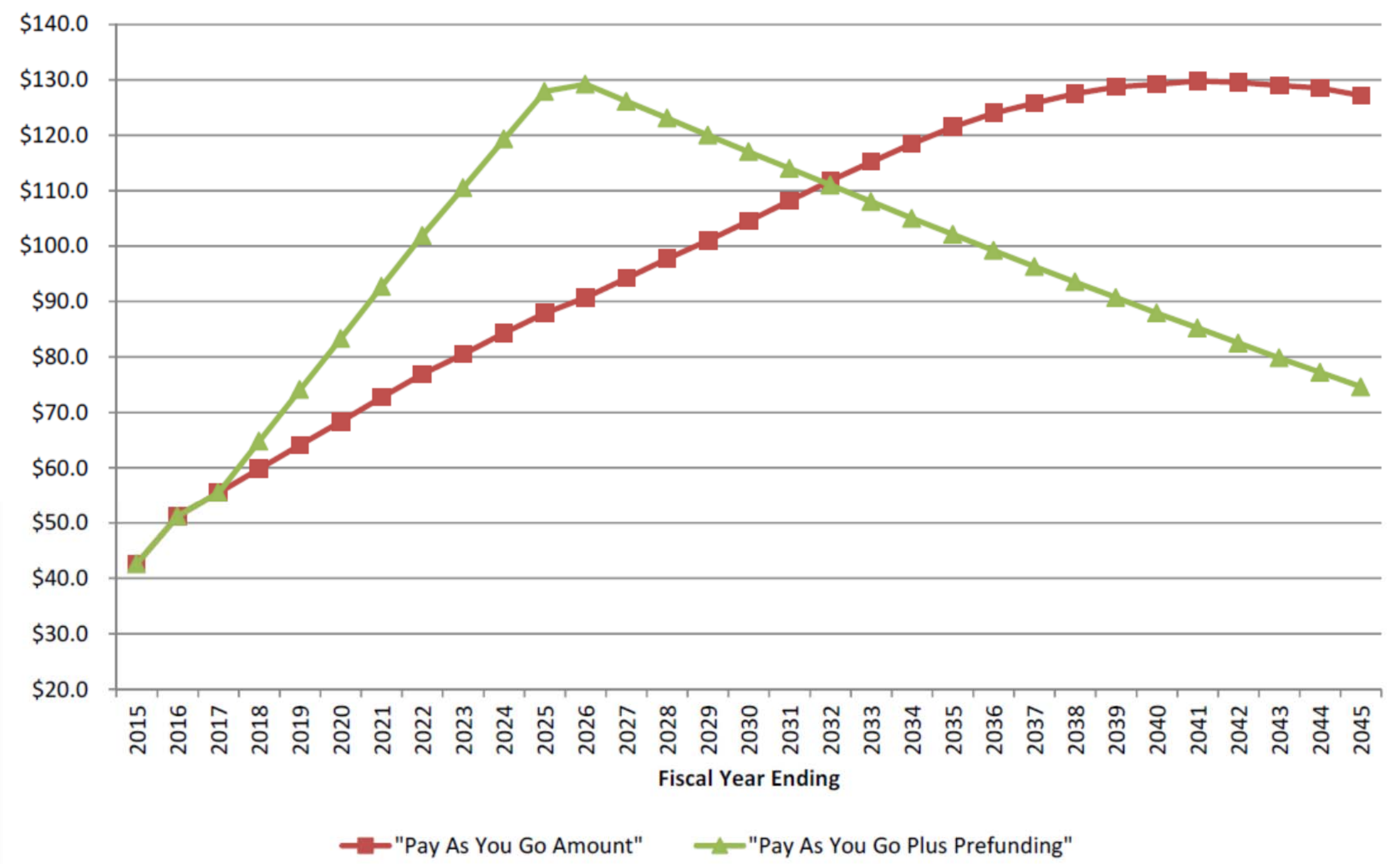
** Budgeted pension contributions for operating ($129 M) and Capital ($22 M) activities

Other Post-Employment Benefits

- Other Post-Employment Benefits (OPEB)
  - ✓ Includes medical, pharmacy, and life insurance
  - ✓ $1.8 billion unfunded liability*
  - ✓ Current costs paid annually; FY2018 estimated contribution is $60 million**
  - ✓ As of Jan 2017, closed to all new employees except Transit Police
  - ✓ FY2018 budget proposal does not include contributions to a pre-funding OPEB trust

* Reflects total OPEB obligations for Operating and Capital activities
** OPEB costs are included in the Operating Budget

OPEB - Expected Annual Contributions With and Without Prefunding



Based on preliminary July 1, 2015 valuation results. Please see Aon memo to WMATA dated April 2016 for details regarding assumptions, methods, and data.

Washington Metropolitan Area Transit Authority
FY2018 Proposed Operating Budget
Board Member Questions and Answers

Personnel

1. **The GM budget posits a budget gap of $290M. You say you are "closing" this with $130M in higher subsidy payments; $21M in fare increases; $29M in service cuts; $60M in PM with FTA grants; and $50M in Management Actions. As this now adds up to $290M, could you breakdown the Management Actions? How much of the $50M in savings is in the 500 employee workforce reduction? How much from other actions and what are they?**

The management and labor savings are as follows:

($ in millions)	**Operating Budget Savings**
$30	Impact of 500 position reduction
$12	Impact of 200 position reduction
$3	Savings from Non-Rep Healthcare plan changes
$5	Savings in services and supplies associated with workforce reductions, closing sales offices, and management efficiencies
$50	**Total**

2. **Where is the $50M of Management/Labor savings reflected in the Operating Budget? Provide an explanation and methodology showing how it is included in Personnel going from $1.3B to FY2017 to $1.288B in FY2018.**

Of the $50 million savings resulting from management actions, $42 million is reduced from the personnel budget through elimination of positions and $8 million is reduced from fringe benefits and the non-personnel budget.

The decrease in operating budget personnel expenses from FY2017 to FY2018 is provided in the following table:

($ in millions)	
FY2017 Approved Personnel Budget	$1,315.1
Management/Labor Savings	(42.0)
Proposed Service Reductions	(24.5)
Preventive Maintenance adjustment	40.0
FY2018 Proposed Personnel Budget	$1,288.6

3. **Of the approximately 13,000 WMATA employees, how many are paid 100 percent from capital funds? Why does WMATA not separate out capitally-funded employees from operating budget employees? What has been the growth in operating budget employees over the last 3 years?**

The following table reflects the distribution of positions between the operating and capital budgets and changes in positions since FY2015:

Position type	FY2015	FY2016	FY2017	FY2018
Operating positions	11,601	11,674	11,612	10,704
% change		0.6%	(0.5%)	(7.8%)
Capital positions	1,304	1,321	1,420	1,328
% change		1.3%	7.5%	(6.5%)
Total Positions	**12,905**	**12,995**	**13,032**	**12,032**
% change		0.7%	0.3%	(7.7%)

The distribution of authorized positions are subject to change as the staffing strategy for the FY2018 budget year and pending position reductions are finalized.

4. **The budget reflects 500 fewer positions in FY2018. How much is saved by reducing the workforce by 500 positions and how is this calculated?**

Earlier this year the GM/CEO directed that 500 positions be eliminated. The fiscal impact of this reduction will be fully realized in FY2018. The FY2018 proposed budget includes a reduction of an additional 500 positions, including 200 from various management, administrative, and back-office operations throughout Metro (some of which will be achieved through consolidation of existing functions), and 300 positions in operations (operators, mechanics, supervisors, and administration) as a result of right-sizing bus and rail services. Taken together, these 1,000 positions represent an eight percent reduction in total Metro headcount.

The proposed budget projects that the elimination of the 1,000 positions will reduce the FY2018 operating budget for salaries, wages, and fringe benefits by $67 million. The calculation of the operating budget reduction has been adjusted for positions charged to the capital budget and for vacant positions. Metro's annual personnel budget includes adjustments for projected vacancy rates. As a result, the reduction of vacant positions generates less budgetary savings than the elimination of filled positions.

5. **When the GM announced earlier this year the reduction of 500 positions, I believe I understood that not all of the positions were encumbered. What is the case with the additional 500 position he is proposing reducing? How many actual bodies would be involved in this reduction?**

The FY2018 proposed budget includes a reduction of an additional 500 positions – 200 for various management, administrative, and back-office operations throughout the Authority (some of which will be achieved through consolidation of existing functions), and 300 in operations personnel (operators, mechanics, supervisors, and administration) as a result of right-sizing bus and rail services. Management anticipates that a majority of the additional 500 positions to be eliminated are currently filled. Distributions of authorized positions are subject to change as the staffing strategy for the FY2018 budget year and pending position reductions are finalized. The distribution between vacant and filled positions will be determined during the spring, prior to the start of FY2018.

6. **The budget proposal includes FTE cuts. I'd like to understand how we're deciding which FTEs are redundant. Do we have a basic human capital strategy in place that's helping to drive these proposals? Do we have basic workload models in place?**

Metro's human capital strategy is designed to support Metro's focus on safety, service reliability and financial accountability. To ensure safety compliance, Metro has preserved those positions determined to be safety-sensitive and critical to operations. The reduction strategy consists of two facets. First, individual department management analyze staffing needs utilizing scheduling tools and workload objectives. Second, positions are identified for elimination by department management who determine redundant functions or inefficiencies within the work structure. Metro is reducing positions in all departments.

7. **The background material cites a 2000 plus up in headcount from 2010 to 2017. Reasons include hiring for initiatives. Did we hire permanent employees for what might be temporary needs (e.g., expanded capital program)? What is our approach today?**

From less than 11,000 in FY2010, budgeted headcount grew to just over 13,000 in FY2017. These additional positions supported the expanded capital program to rehabilitate and maintain the system; Silver Line Phase 1; adoption of industry-leading fatigue management policies; and expansion of safety assurance, quality control, and compliance activities in response to FTA and NTSB recommendations.

The Silver Line represents a substantial ongoing service requirement; the Board mandated fatigue management policy is critical to system safety; and the assurance and compliance functions will not be eliminated even after all FTA and

NTSB recommendations are completed. Accordingly, the additional headcount were permanent rather than temporary. However, management continues to assess all initiatives for opportunities to improve operating efficiency or whether temporary or third-party support rather than permanent staffing would be more appropriate in the future.

Metro's labor strategy is designed to promote effective service delivery and meet all safety and security requirements as efficiently as possible. In evaluating staffing adjustments, Metro's focus is to ensure labor capacity for safety sensitive functions. Position eliminations focus on administrative functions, while operating positions are reduced only when determined redundant or if service is reduced.

8. What has been the trend in the use of contractor labor and to what extent if any are employee savings offset by contractors?

$ in Thousands	Actual FY2015	Actual FY2016	Approved FY2017	Proposed FY2018
Contract Services	$ 24,831	$ 33,288	$ 47,412	$ 64,648
% Change		33%	43%	37%

While the contract services expense budget increases in FY2018, the increase is not for the replacement of eliminated positions. The budget changes from FY2017 to FY2018 are in support of Back2Good activities, NTSB/FTA requirements, inflation growth and service costs for new facilities including Cinder Bed Road Bus Facility, Silver Spring Transit Center and the new facility at Good Luck Road. Increases from FY2016 actuals to FY2017 budget are related to the operating budget impact of capital investments, as well as a change in the method to allocate overhead costs to capital projects. Additional information on contract services will be provided during the FY2018 Operating Budget: Non-Personnel Work Session.

9. What is the represented and non-represented headcount distribution for Metrorail, Metrobus and MetroAccess?

	FY2017 Approved Budget				FY2018 Proposed Budget			
DEPARTMENT	Non-Rep	Union	Total		Non-Rep	Union	TBD*	Total
Rail Dept	673	4,007	4,680		685	3,817	(179)	4,323
Bus Dept	345	3,828	4,173		329	3,748	(249)	3,828
Access Dept	26	27	53		24	27	(1)	50
Other	1,296	2,830	4,126		1,222	2,680	(71)	3,831
TOTAL	2,340	10,692	13,032		2,260	10,272	(500)	12,032

* Non-represented/Union status to be determined. Distributions of authorized positions are subject to change as the staffing strategy for the FY2018 budget year and pending position reductions are finalized.

10. Do the FY2019 and FY2020 budget projections include any assumptions about costs arising from implementing a new collective bargaining agreement with represented employees?

There is no provision for an increase associated with a new collective bargaining agreement in FY2019 and FY2020 operating budget projections. FY2019 and FY2020 estimates assume baseline operating costs will increase by approximately four percent and include initial operating and maintenance costs associated with Silver Line Phase 2 to Dulles Airport and Loudoun County. The Silver Line estimates will be revised as operating costs and timing are fully delineated.

11. What would be the approximate cost of a 3 percent salary increase for represented employees?

A three percent increase in represented employee salary, inclusive of FICA and pension increases, would cost approximately $30 million ($25 million in the operating budget and $5 million in the capital budget) and would compound annually.

12. What savings in Management and Labor would be pursued if given a target 20% more reductions?

An additional 20 percent reduction target would equate to an additional $10 million reduction to the FY2018 Operating Budget. This would require the elimination of an additional 150 positions in FY2018. This can be accomplished with service reductions and/or elimination of other business functions.

13. Preventative Maintenance (PM) funded by FTA grants in the capital budget is going from $100M in FY2017 to $60M in FY2018. Where does this $40M increase in operating budget spending show up in the FY18 operating budget. Which particular accounts?

The $40 million increase in operating budget expenses is in personnel, specifically Bus maintenance wages and fringe benefits including healthcare, pension, and FICA.

14. Will there be cost savings from “tighter controls” on absenteeism and workers’ compensation, or will these measure merely improve efficiency?

These measures are intended to improve efficiency and result in cost savings over the long term. No immediate savings are assumed in the FY2018 proposed budget.

15. Could we have an explanation of pension liability? Does the proposed budget contain any measures or amounts to address this?

Metro has outstanding pension and OPEB liabilities with respect to its retirees.

<u>Pension</u>

As reported to the Pension Subcommittee in November, Metro's five defined benefit pension plans have total accrued liabilities of $4.6 billion and total plan assets of $3.6 billion, resulting in a funded ratio of 78 percent and an unfunded long-term liability of $1.0 billion. The actuarial projections for Metro's contribution to the five pension plans next fiscal year total $158 million. After reducing the projection for the elimination of 1,000 positions, the FY2018 proposed budget includes $151 million for defined benefit pension plan contributions. While the funded ratio can vary depending on certain assumptions (particularly investment returns and mortality rates), Metro's pension plans are in the aggregate within the normal range for similarly-sized public agencies.

<u>Other Post-Employment Benefits</u>

Other post-employment benefits (OPEB) include medical, pharmacy, and life insurance for retired employees. In the absence of an OPEB trust, Metro funds all OPEB expenses on a pay-as-you-go (PAYGO) basis, with an annual actuarially estimated expense of $60 million, and an aggregate unfunded OPEB long-term liability estimated at $1.8 billion. As of January 1, 2017, the Metro eliminated OPEB for new non-represented employees excluding transit police (OPEB for new Local 689, Local 2, Local 922 and Local 639 employees was eliminated in prior years).

A trust starting with $5 million and increasing by $5 million annually ($10 million in FY2019, $15 million in FY2020, etc., up to $40 million annually) could generate sufficient asset returns to reduce required future contributions. Pending the creation of an OPEB trust, Metro will continue to pay OPEB expenses on a PAYGO basis and report on the unfunded liability.

In FY2015, the Board authorized creation of an OPEB Trust with a $4 million initial contribution, but the Board did not establish the trust as planned. The Pensions Subcommittee recently recommended that the proposed FY2018 budget include a pre-funding OPEB trust contribution; however, no funding is included in the FY2018 proposed budget.

16. How large is our worker's comp program today? What's the 10-year trend? Who is responsible for managing the program and do we have an adequate program?

The Workers' Compensation program for the FY2017 Approved Operating budget is $26 million, while the FY2018 proposed budget is $27 million, 1.5 percent of the total operating budget. This will fund the actuarial estimate of expected workers' compensation payments and federal and state assessments.

The Office of Risk Management is responsible for the overall coordination of the program, however several key aspects are administered by other Metro departments. A number of statistical measurements specific to the Worker's Compensation program are tracked to ensure program adequacy. Proposed initiatives and tighter controls are expected to result in efficiencies that will result in long term cost savings.

The following table provides the 10-year trend of the worker's compensation program.

Qu. 16 TABLE

10-year trend of the worker's compensation program

($ in millions)

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exposure	# Employees	10,748	10,734	10,759	10,973	11,395	12,122	12,654	12,893	13,003	12,836
	Labor Hours	28,007,000	28,432,000	28,460,000	29,020,000	29,431,000	30,906,000	32,552,000	32,944,000	30,267,000	30,690,000
WC Claim Data	"Total Incurred" Loss [a.] (Total Incurred Loss each Fiscal Year)	$23,400,000	$22,100,000	$22,700,000	$25,800,000	$17,600,000	$23,800,000	$18,400,000	$14,100,000	$18,900,000	$12,200,000
	# WC Claims: (New Claims each Fiscal Year)	1,184	1,093	924	870	763	726	696	676	793	720
Trend Analysis	WC Claim Severity (Cost per Claim: Incurred / # Claims)	$19,764	$20,220	$24,567	$29,655	$23,067	$32,782	$26,437	$20,858	$23,834	$16,944
	WC Cost per Labor Hour (Total Incurred / Labor Hours)	$0.84	$0.78	$0.80	$0.89	$0.60	$0.77	$0.57	$0.43	$0.62	$0.40
WC Fiscal Year Payments (Cumulative payments made that FY)		$17,100,000	$19,600,000	$21,400,000	$22,300,000	$22,600,000	$21,000,000	$23,900,000	$24,700,000	$26,300,000	$27,200,000

[a.] Total "Incurred" Loss equals Total Paid + Total Reserve – Total Recovery