



Finance and Capital Committee

Information Item III-A

November 15, 2018

Budget Work Session

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
202044

Resolution:
☐ Yes ☒ No

TITLE:

FY2020 Budget Work Session - Operating Budget

PRESENTATION SUMMARY:

Address questions on the FY2020 Proposed Operating Budget

PURPOSE:

The General Manager/Chief Executive Officer (GM/CEO) presented the FY2020 Recommended Budget and FY2020-2025 Capital Improvement Program (CIP) to the Finance and Capital Committee of the Board of Directors on November 1, 2018. Following that presentation, Principal Board Members submitted questions on the FY2020 Recommended Budget to be reviewed during a work session.

DESCRIPTION:

Key Highlights:

Staff received a total of 27 questions, grouped into five categories:

- Fare Policy
- Service and New Customer Initiatives
- Subsidy
- Budget Outlook
- Capital Improvement Program and Maintenance (to be addressed in a separate work session)

Background and History:

The GM/CEO's budget sets a series of goals for FY2020, with initiatives to increase ridership and improve the customer experience, as well as management actions to maximize operating efficiency, enhance employee engagement and development and comply with Dedicated Funding restrictions.

Discussion:

The GM/CEO's recommended operating budget totals \$2.0 billion of operating spending in FY2020. In the interest of demonstrating compliance with the recent Dedicated Funding legislation, the FY2020 Operating Budget is broken down as follows: the base budget which reflects the new 3 percent subsidy growth cap, items legislatively

excluded from the subsidy cap, and new customer/ridership initiatives which require additional support beyond the cap. The total operating subsidy, including capped subsidy, exclusions, and new initiatives is \$1.2 billion.

Responses to the Board member questions regarding the FY2020 recommended operating budget are included as an attachment. The presentation to the Finance and Budget Committee summarizes these questions into related topic areas.

FUNDING IMPACT:

Information item only - no funding impact.	
Project Manager:	Dennis Anosike
Project Department/Office:	CFO/OMBS

TIMELINE:

Previous Actions	November 1, 2018 - GM/CEO presented FY2020 Recommended Budget and FY2020-2025 Capital Improvement Program
Anticipated actions after presentation	December 2018 - Board authorization of Compact Public Hearings and related public participation activities on the FY2020 Operating Budget and FY2020-2025 Capital Improvement Program January 2019 - Budget Work Session on the Capital Budget February 2019 - Budget deliberations and Public Outreach and Public Comment Period March 2019 - Board adoption of FY2020 Budget

RECOMMENDATION:

No action recommended - information item only.

FY2020 Budget Work Session

Operating Budget

Finance & Capital Committee

November 15, 2018



Address questions on the FY2020 Proposed Operating Budget

- FY2020 Operating Budget Overview
- Today's Work Session Topics
 - ✓ Fare policy
 - ✓ Service and New Customer Initiatives
 - ✓ Operating Subsidy
 - ✓ Budget Outlook

Key Operating Budget Goals

- Increase ridership
- Improve customer experience
- Maximize operating efficiency
- Increase non-fare revenues
- Enhance employee engagement and development
- Comply with Dedicated Revenue subsidy growth cap

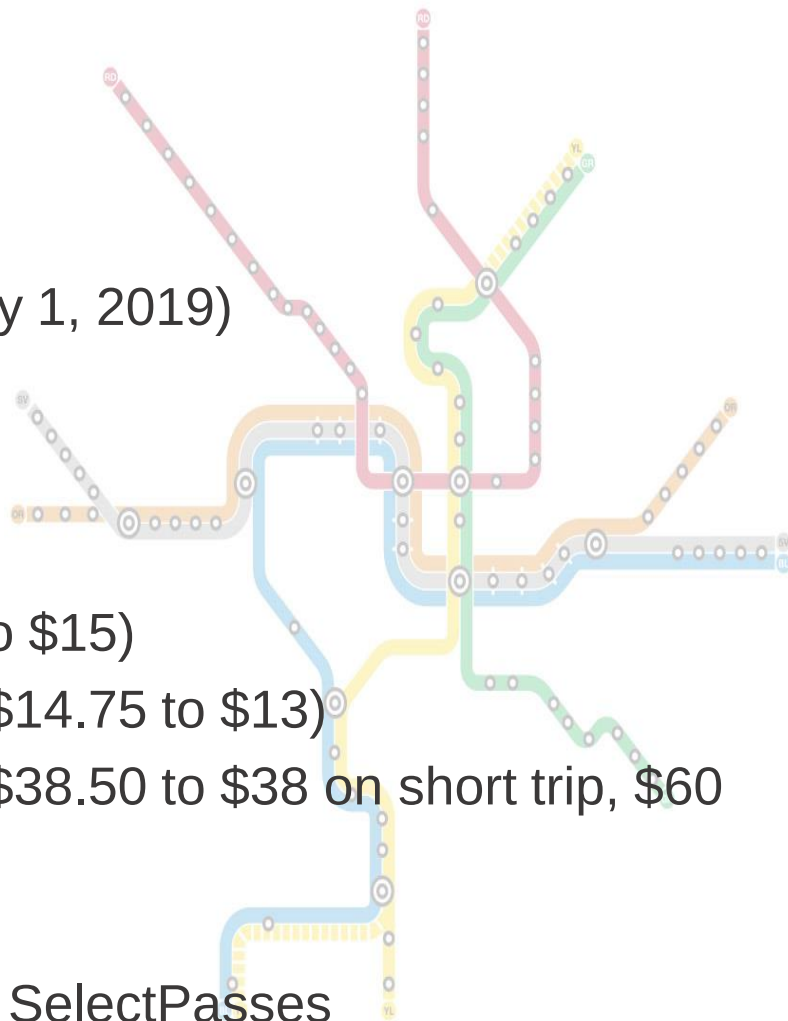
FY2020 Proposed Operating Budget Initiatives

■ Service and Fares

- ✓ No Fare Increase
- ✓ No Service Cut
- ✓ Automatic Train Operations
- ✓ Better Rush Hour Promise (January 1, 2019)
- ✓ Late Night Service Partnerships

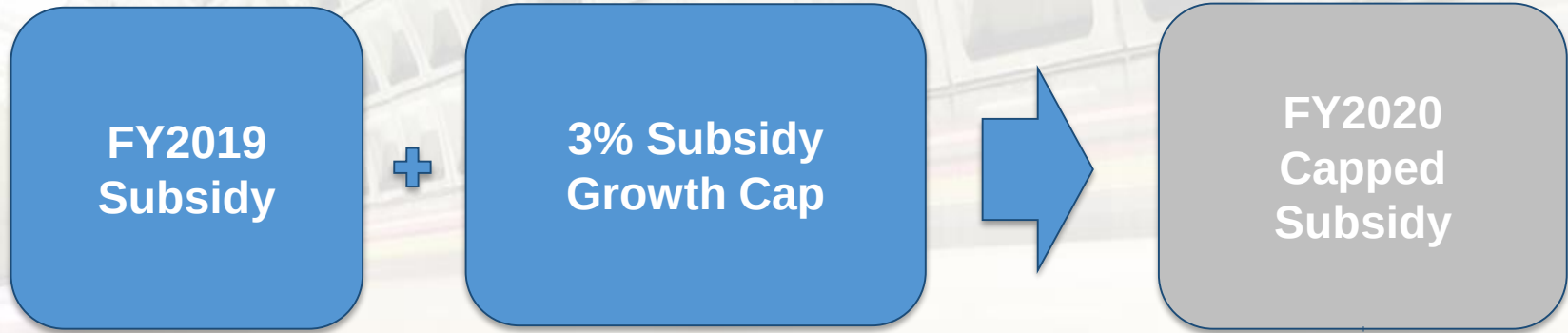
■ Pass Enhancements

- ✓ Weekend Flat Fare (\$2)
- ✓ Reduce 7-Day Bus Pass (\$17.50 to \$15)
- ✓ Reduce 1-Day Visitor Pass Price (\$14.75 to \$13)
- ✓ Reduce 7-Day Visitor Pass Price (\$38.50 to \$38 on short trip, \$60 to \$58 on full system pass)
- ✓ Add a 3-Day Weekday Pass (\$28)
- ✓ Add unlimited bus in all Visitor and SelectPasses



FY2020 Proposed Operating Budget Structure

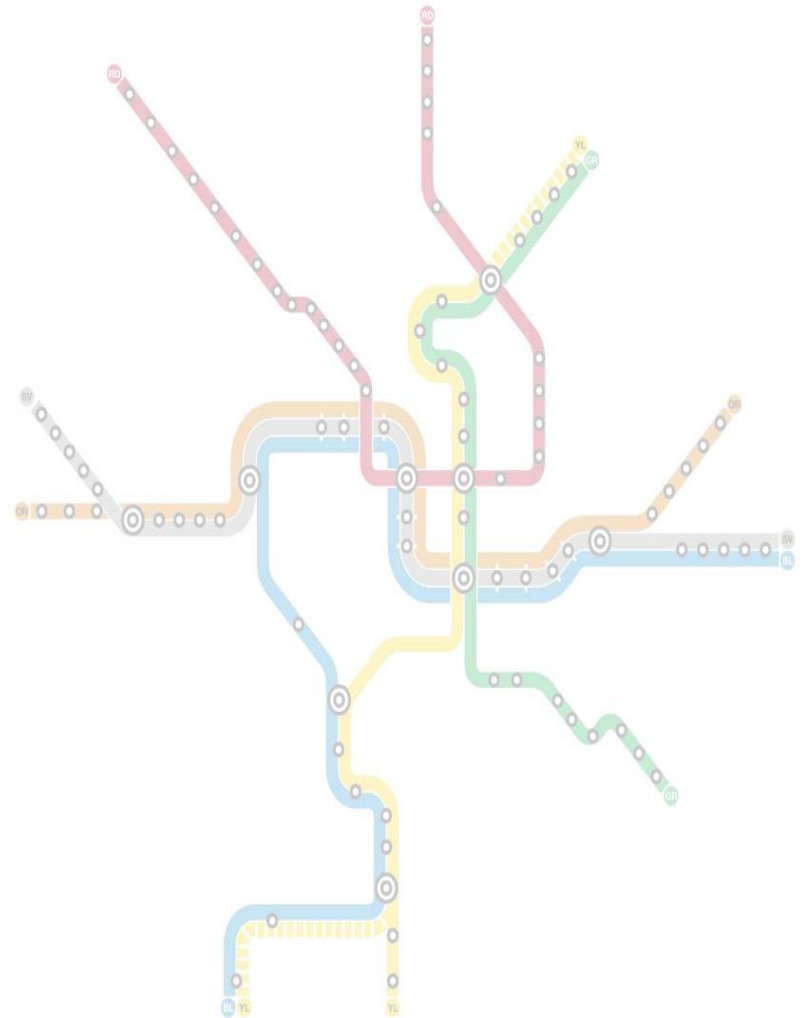
Base Operating Subsidy



Allowable Above Base Operating Subsidy



Fare Policy



A mission to Improve Ridership



Service

Increases to frequency can boost ridership

*For every 10 percent increase in the number of trains that stop at a specific platform/station, ridership could be expected to increase by 0.3 to 0.9 percent**



Pricing

Pricing relief will result in ridership gains in an increasingly competitive field*

*For every 10 percent increase in fares, ridership should decline by 3.4 to 5.5 percent**



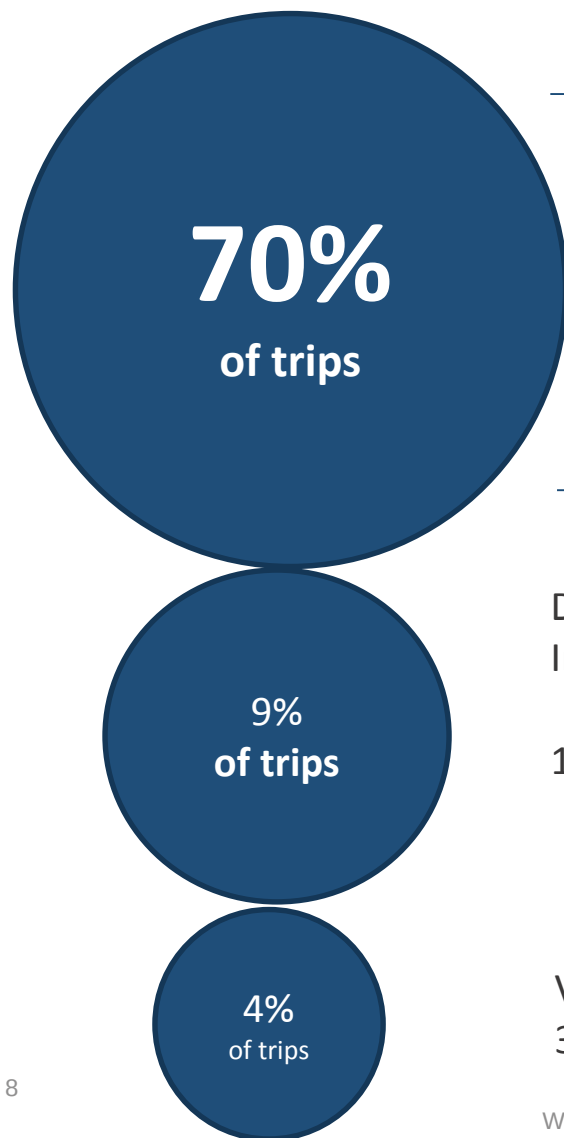
Customer Care

Service guarantees can help retain current riders**

*The percentage of riders delayed by 10 or more minutes also was found to impact ridership across all time periods**

*Source: VHB Longitudinal Analysis of Metro Ridership from 2010-2016, 2018, **Source: WMATA Department of Customer Service, Sales, and Marketing

Passes for Whom?



Customer Profile	Challenge to address	Market Opportunity
Core customers 20-31 days every month	• Telework, AWS, revenue variability • Value proposition • Pricing	• Easy wins with existing base • “Lock in loyalty” with value-prices monthly pass
Daytrippers Infrequent users 1-2 days/month	• Undercutting core market • Price positioning • Marketing • Branding	• All the action in one transaction • No more math • Make it “easy to do the right thing”
Visitors 3-4 days/month	• Undercutting core market • Product offering	• Value pricing • Easy purchase

Fare Policy

With reliability improving, independent analysis confirms that growing ridership is directly tied to increased frequency and price

A more convenient Metro that offers tremendous value for customers starts with pricing

Passes that unlock unlimited rail and bus use and easy-to-understand visitors media gives customers a frictionless purchasing experience and seamless utility

Meanwhile, combining bus and rail into one pass unlocks the full ecosystem of Metro's vast transportation reach



Pricing and Fare Product Strategies can Make it Easier and Affordable to Choose Metro

Fare Initiative Offering	Target Market Profile	Future Trajectory
Include Metrobus in SelectPass	Frequent commuters (70% to 80% of trips)	Make webstore experience frictionless, simplify messaging
Reduce Weekly Bus Pass to \$15	Value-oriented bus-only customers	Counter the impacts of FY18 fare increase
Simplified Multimodal Passes	Occasional riders (8% to 13% of trips)	Compete more readily with ride-hailing services
Offer a \$2 Flat Fare on Weekends	Episodic Riders, Tourists	Tourists will never have to calculate their fares.

Rush Hour Promise leverages improved service to support customer retention and new ridership

15 Min - Rush Hour Promise (February-October 2018)

Number of Trips	265,850
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Credits Provided	\$1,000,950
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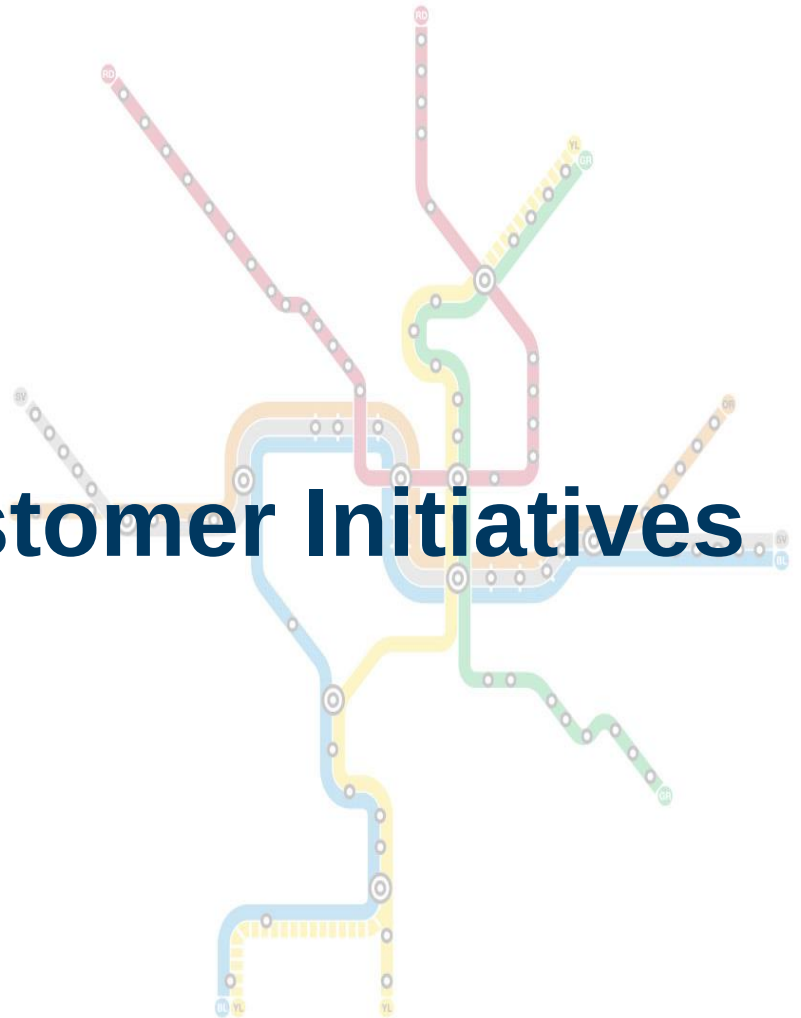
Averages

Number of Trips per Weekday	1,323
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Credits Provided per Weekday	\$4,980
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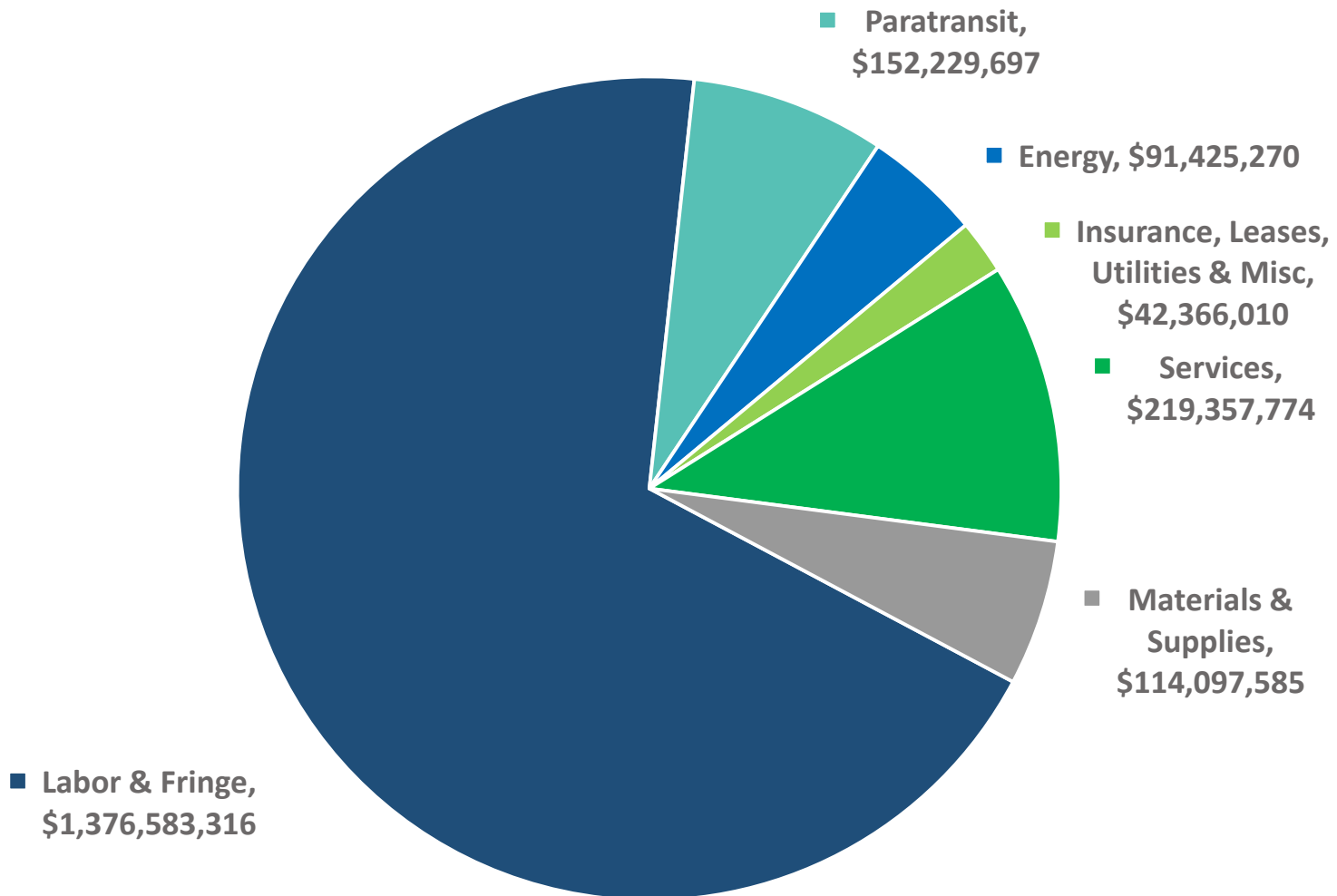
Credit per Trip	\$3.77
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Service and New Customer Initiatives



Service and New Customer Initiatives

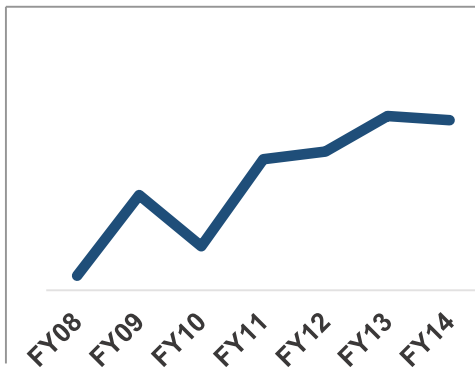
- Key cost drives include labor, access and energy



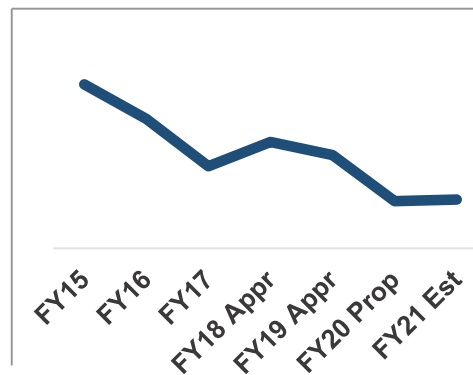
Service and New Customer Initiatives

Metro is controlling cost growth, but Passenger Revenue has declined significantly and is forecasted to stay low

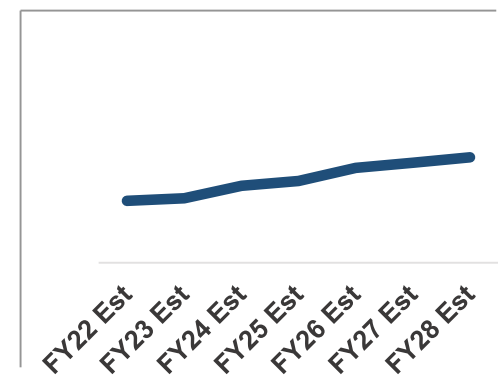
6% Average Growth



-2% Average Growth



1% Average Growth



Service and New Customer Initiatives

- Phased transition to all 8 car trains with RL in FY20; BL, OR and SV in FY21 will reduce subsidy by \$3M

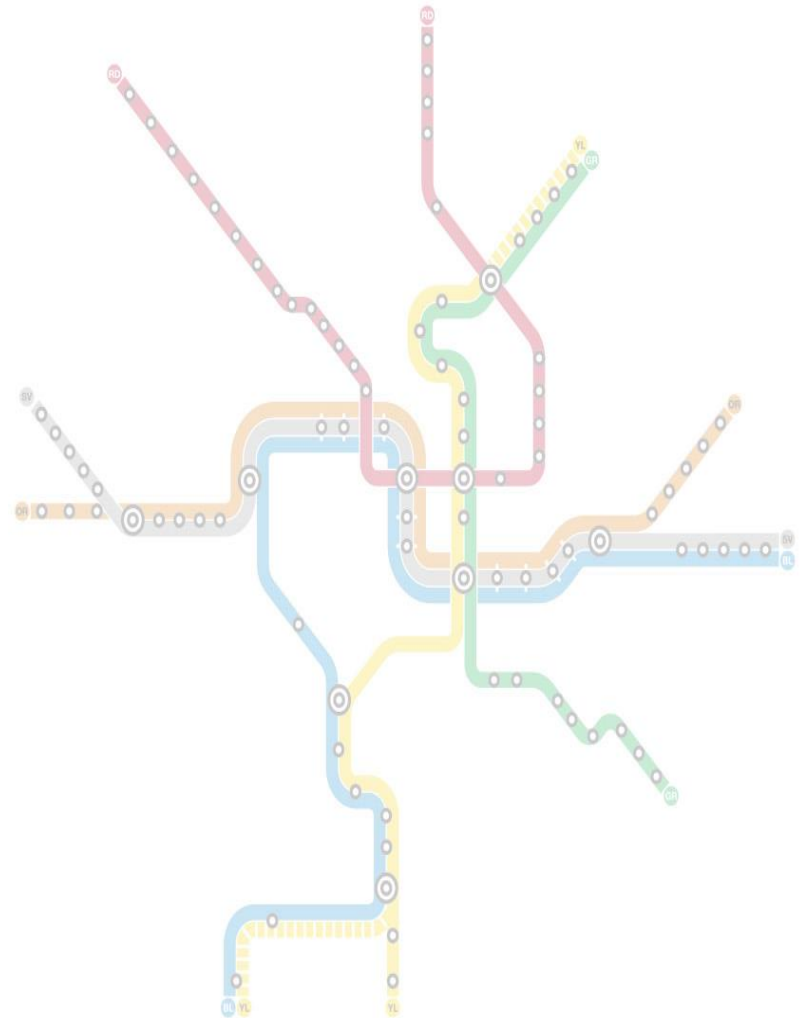
New Initiative (\$ in Mil)	Operating Cost	Riders Benefiting	New Trips	Revenue	Subsidy
Expand Rush Hour Service Periods	\$8.2	11.7	1.2	\$2.8	\$5.4
Extend Yellow Line Service to Greenbelt	\$8.1	12.4	1.7	\$5.1	\$3.0
Run all Red Line Trains to Glenmont	\$3.2	3.4	0.6	\$2.0	\$1.2
Expand all Trains to Maximum 8-Cars	\$10.3	1.5	0.1	\$0.2	\$10.1
Required Subsidy	\$29.8	29	3.6	\$10.1	\$19.7
Defer Blue Line 8-Car Trains	\$2.6	0.1	0	\$0.0	\$2.6
Defer Orange/Silver Line 8-Car Trains	\$0.4	0.1	0	\$0.0	\$0.4
Revised Subsidy Requirement	\$26.8	28.8	3.6	\$10.1	\$16.7

Note: Figures are subject to revision as revenue and ridership estimates are refined.

Historical scheduled and actual Metrorail revenue miles

REVENUE MILES				
Year	FY15	FY16	FY17	FY18
Actual	88.6	81.5	81.7	89.1
Budget	97.5	97.7	96.9	86.8
Variance (\$)	-8.9	-16.3	-15.2	2.3
Variance (%)	-9.2%	-16.6%	-15.7%	2.7%

Operating Subsidy



FY2020 Proposed Operating Budget

FY2020 Capped Subsidy, Legislative Exclusions and New Initiatives

(\$ in Millions)	Expense	Revenue	Subsidy
FY2019 Subsidy	\$1,877	\$798	\$1,079
+ 3% Subsidy Growth Cap	\$39	\$7	\$32
+ Legislative Excluded Subsidy	\$51	\$0	\$51
FY2020 Capped Subsidy and Legislative Exclusions			\$1,162
+ New Customer/Ridership Initiatives	\$30	\$10	\$20
Total FY2020 Capped, Exclusions & Initiatives Subsidy			\$1,182

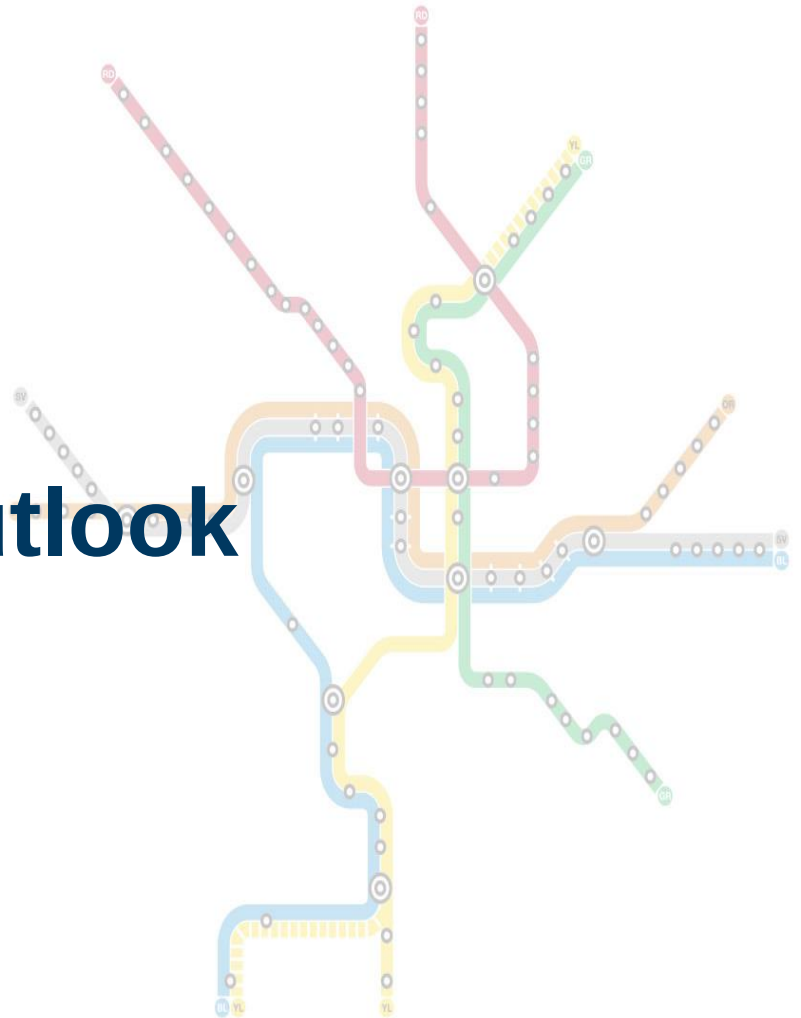
Operating Subsidy

Proposed Operating Subsidy distribution change existing formula

(\$ in Millions)	FY2019 Base	FY2020 Capped	Chng %	FY2020 Legislative Exclusions	Chng %	FY2020 New Initiatives	Chng %	Total Subsidy	Total Chng %
District of Columbia	\$392	\$403	3.0%	\$13	3.2%	\$5	1.3%	\$421	7.5%
Montgomery County	\$182	\$188	3.3%	\$12	6.7%	\$5	2.9%	\$205	13.0%
Prince George's County	\$231	\$238	2.6%	\$10	4.1%	\$3	1.5%	\$250	8.3%
Maryland Subtotal	\$413	\$426	3.0%	\$22	5.3%	\$9	2.1%	\$456	10.3%
City of Alexandria	\$45	\$46	2.9%	\$2	4.6%	\$1	2.0%	\$49	9.5%
Arlington County	\$75	\$78	3.3%	\$3	4.2%	\$1	1.9%	\$82	9.3%
City of Fairfax	\$3	\$3	2.5%	\$0	9.0%	\$0	4.0%	\$3	15.5%
Fairfax County	\$149	\$153	2.8%	\$9	6.1%	\$4	2.6%	\$166	11.5%
City of Falls Church	\$3	\$3	3.5%	\$0	4.9%	\$0	3.4%	\$3	11.8%
Loudoun County	\$0	\$0	0.0%	\$1	100.0%	\$0	0.0%	\$1	100.0%
Virginia Subtotal	\$275	\$283	3.0%	\$16	5.8%	\$6	2.3%	\$305	11.0%
Total	\$1,079	\$1,111	3.0%	\$51	4.7%	\$20	1.9%	\$1,182	9.5%

Note: Figures are subject to revision as revenue and ridership estimates of New Initiatives are refined.

Operating Budget Outlook



Operating Budget Outlook

Current projections for FY2021-FY2023 operating expenses, revenue and subsidy

(\$ in Millions)	FY2020	FY2021	FY2022	FY2023
Revenue	\$814	\$834	\$834	\$834
Expenses	\$1,997	\$2,122	\$2,161	\$2,201
Total Subsidy	\$1,182	\$1,288	\$1,327	\$1,366
- 3% Capped Subsidy	\$1,111	\$1,217	\$1,327	\$1,366
- Legislatively Excluded	\$51	\$70	\$0	\$0
- New Customer Initiatives	\$20	\$0	\$0	\$0

Timeline and next steps for the FY2020 Operating Budget include:

- **December 2018:** Board Approval of Public Hearing Docket
- **January 2019:** Budget Work Session – Capital Budget
- **February 2019:** Budget Deliberations and Public Outreach and Public Comment Period
- **March 2019:** Board Adoption of FY2020 Budget
- **July 1, 2019:** FY2020 Fiscal Year Begins

M E M O R A N D U M



SUBJECT: FY2020 Budget Questions

DATE: November 14, 2018

FROM: OMBS – Yetunde Olumide

CFO – Dennis Anosike

TO: GM/CEO – Paul J. Wiedefeld

Overview

Following the meeting of the Finance and Capital Committee of the Board of Directors on November 1, 2018, the Committee Chair invited Principal Board Members to submit questions on the FY2020 Proposed Budget. Responses to the 27 questions are grouped below into five categories: Fare Policy, Service and New Customer Initiatives, Subsidy, Budget Outlook, and Capital Improvement Program and Maintenance.

Fare Policy

1. Would you please construct a budget with a 3-4% fare increase to cover inflation for review? (Goldman)

An increase in either bus or rail fares was not recommended because any increase will decrease ridership. A 4 percent across the board fare increase for Bus and Rail base fare, composite mileage increments and max fare, would result in an estimated 2.1 percent or \$14.2 million increase in revenue in FY2020. The fare increase would also result in a 1.6 percent or 4.6 million decrease in ridership.

A 4 percent fare increase would produce only half of the \$28 million cost of inflation and contractual steps. To nearly cover these costs, Rail and Bus fares would need to increase by \$0.25 each, an 11 percent and 13 percent increase in base fare, respectively. This would generate an estimated \$25 million in revenue and a loss of 10 million trips annually.

2. If we have a budget with no reduction in bus pass prices as proposed, what would be the revenue increase and is there a loss of bus riders? (Goldman)

The decrease in the 7-day Regional Bus Pass price from \$17.50 to \$15.00 is estimated to reduce revenue by \$1.8 million in FY2020, with an expected increase in ridership of about 0.7 million trips. Ridership on Metrobus has declined year-over-year as a result of both road congestion and a changing

market. To attract more riders, Metro must become more price competitive. Furthermore, increasing the number of Metrobus riders on pass products reduces cash-handling costs, as well as bus delays associated with cash transactions on Metrobus; making Metrobus service both affordable and more reliable.

Finally, making the Metrobus pass more affordable is responsive to a price-sensitive demographic, as well as the ridership losses Metro experienced with the last fare increase.

3. What is the cost/benefit analysis on the \$2 weekend flat fare proposal? What is the revenue loss if this is adopted and what increase in riders if any has been forecast? (Goldman)

Metro's customer research indicates riders want more value for their fare, especially on Metrorail. Generally, riders perceive Metro's fares as high (especially as compared to ride sharing as well as other systems) with service that is less frequent than desired. Riders who are not using SmartBenefits are more price sensitive. These customers are interested in pass products that are very simple (Weekend Flat Fare), fares that are substantially discounted (SelectPass, UPass), and are easy to calculate and purchase. Expanding select pass and offering visitor passes responds to customers looking for value.

Beyond the Metrobus-specific pass price reduction above, the FY2020 Budget includes several new passes and extension of Metrorail passes to Metrobus designed to promote ridership by targeting visitors or keeping riders during Metro's continued weekend track work. Collectively, these initiatives are estimated to be essentially revenue neutral in FY2020.

Individually, the \$2.00 weekend fare is structured as a non-pass product specifically because it is simpler to use – does not require complex fare calculations, advancing money to Metro, or downloading the pass to a SmarTrip card once purchased. It is easy to understand for Metro's non-commuters and less frequent riders. The weekend flat fare could result in \$3 million revenue loss with 1.4 million increase in ridership. Given changing market dynamics and system maintenance activities, however it is uncertain whether traditional economic analyses can fully predict the behavior of riders or revenue on this segment as Metro seeks to leverage excess capacity with weekend flat fare on Metrorail.

4. What is the cost of the \$2.00 flat weekend rail fare and what change in ridership is forecasted? (Evans). See response to Question 3 above.

5. **What efforts are underway or what has been proposed to simplify and overhaul WMATA's pass products? Are there any unmet customer needs? (Corcoran).** See response to Question 3 above.
6. **What is the current market penetration, utilization, and ridership and revenue impacts of WMATA's existing and proposed pass products and fare changes (including the weekend flat fare)? (Corcoran)**

Analysis of SmarTrip card use shows three primary profiles of riders, Core Customers (70 percent of trips), Daytrippers (9 percent) and Visitors (4 percent). Currently, pass trips represent less than 10 percent of all trips for each of these profiles. The FY2020 recommended budget includes pass product enhancements for each profile. Core Customers using Metrobus benefit from a price reduction in the 7-Day Regional Bus Pass from \$17.50 to \$15, while Metrorail SelectPass users would have unlimited Metrobus service added to their pass. Daytrippers would benefit from the \$2 weekend flat fare while Visitors get pricing that is more affordable and easier to understand. Specifics on these products are discussed above. As a whole, the pass product strategy in the FY2020 Proposed Budget takes advantage of a market opportunity to make Metro pricing more competitive and easier for customers to use, while increasing both ridership and revenue.

7. **WMATA proposes adding unlimited bus in all Visitor and SelectPasses. Does this include local transit systems like in the regional bus pass? What are the ridership, revenue, revenue-sharing, and policy implications of adding local transit along with Metrobus to these pass proposals? (Background: While there are many details to work through, jurisdictional staff do not want to forget about local transit when WMATA refers to bus. The December 2016 presentation to the WMATA Finance committee lists including local bus operators in the Rail+bus version of the pass as an anticipated action in July 2017 [page 4 under timeline]) (Corcoran)**

The proposed unlimited Metrobus and Metrorail pass products assumes eventual extension to local transit agencies to increase the value of the passes, and makes the region's transit system more integrated for customers. That said, discussions with the Regional SmarTrip Partners would determine whether other bus providers in the region would accept these passes with equitable distribution of pass revenues.

8. **Can WMATA provide an accounting record for the Rush Hour promise program to date? How many customers receive credits on an average weekday to date? How much money has been refunded? How does this \$ amount compare to the staff costs to administer the program? Has**

the Rush Hour Promise Program retained riders? Is there a way to be certain that those customers who received credits have continued to ride regularly? Does WMATA have data on customer ride frequency before and after Rush-hour Promise credit issuance. What are the projections for refunds expected due to the expansion of the Rush Hour Promise based on the data to date? (Crawford)

Rush Hour Promise (RHP) data shows that Metro has credited back \$1.0M for 263,000 trips with delays greater than 15 minutes over the past nine months. This amount represents less than one half of one percent of the 57 million rush hour trips during this period and is 50 percent lower than original projections. The credits are applied automatically, with minimal staff time or cost. Based on year-to-date results, the cost of the proposed RHP expansion is expected to be within Metro's original cost projection, subject to the number of registered SmarTrip riders.

Customer survey results suggests that RHP has retained riders in two ways. First, it has restored confidence in reliability; which attracts new and return trip making. In contrast to past trends showing customers dropping off after poor service experiences, most of the customers who received delay credits continue to ride Metro. Over the last nine months, 150,948 of the 161,745, or 93 percent, of the unique riders who received delay credits are back using the system (some riders have received more than one credit).

15-Min Rush Hour Promise (February-October 2018)	
Number of Trips	265,850
Credits Provided	\$1,000,950
Averages	
Number of Trips per Weekday	1,323
Credits Provided per Weekday	\$4,980
Credit per Trip	\$3.77

Service and New Customer Initiatives**1. Can you work up a budget option with a phase-in for going to all 8 car trains with RL in 20; BL in 21; and OR/SV phased-in in 21? (Goldman)**

A phased implementation of 100 percent 8-Car Trains on the Blue, Orange, and Silver Lines in FY2021 would reduce required FY2020 subsidy by \$3.0 million. The table below provides additional details. The figures are subject to change as estimates are refined.

New Initiative	Operating Cost	Riders Benefiting	New Trips	Revenue	Subsidy
Expand Rush Hour Service Periods	\$8.2	11.7	1.2	\$2.8	\$5.4
Extend Yellow Line Service to Greenbelt	\$8.1	12.4	1.7	\$5.1	\$3.0
Run all Red Line Trains to Glenmont	\$3.2	3.4	0.6	\$2.0	\$1.2
Expand all Trains to Maximum 8-Cars	\$10.3	1.5	0.1	\$0.2	\$10.1
Required Subsidy	\$29.8	29.0	3.6	\$10.1	\$19.7
Defer Blue Line 8-Car Trains	\$2.6	0.1	0.0	\$0.0	\$2.6
Defer Orange/Silver Line 8-Car Trains	\$0.4	0.1	0.0	\$0.0	\$0.4
Revised Subsidy Requirement	\$26.8	28.8	3.6	\$10.1	\$16.7

2. Based on ridership, revenue, demand and other operation considerations, can WMATA provide a phased or partial approach over several years to extending rush hour service while operating within budgetary fiscal constraints? (Corcoran).

The projected operating subsidy for extending rush hour service by 30 minutes in the morning and 90 minutes in the evening is \$5.4 million. With annual operating cost growth due to inflation and wage adjustments

exceeding \$55 million, Metro has no capacity to absorb the cost of this new initiative; even on a phased or partial approach within current budget and subsidy constraints.

- 3. Based on data analysis, crowding, and other metrics, what are the needs by line for running all 8-car trains? Can WMATA provide a phased approach over several years to meet demand and reduce crowding while operating within budgetary fiscal constraints? (Corcoran)**

Running all Metrorail trains with 8-Car consists would reduce overcrowding on some trains. Staff estimates about 7 percent of customers currently experience crowded (over 120 Passengers per Car) trains for at least one portion of their journey, and that several thousand trips per day are on crowded 6-car trains where an 8-Car train would help. This is mostly at max load points at the peak, but also for special events.

Additional benefits of all 8-Car trains are less dwell time for riders; reducing pedestrian congestion problems at stations like Farragut north and Gallery Place; and encouraging customers to use cars 7 and 8 more for load distribution. All 8-Car trains ensure more consistent service and reduce yard activities – coupling and uncoupling rail cars.

- 4. What does the FY2020 budget assume about the bus and rail service added in FY2019? How will these new services be evaluated in terms of their performance? (Evans)**

The FY2020 budget assumes annualized impacts of bus and rail services added by the amendment on June 14, 2018 as shown below:

<i>(\$ in millions)</i>	Total	Bus	Rail
Revenue	\$1.0	\$1.0	\$0.0
Expense	\$7.4	\$4.8	\$2.6
Net Subsidy	\$6.4	\$3.8	\$2.6

The additional Bus services will be evaluated based on Service Guidelines set forth in Board Resolution 2000-10, which includes minimum levels of productivity, reducing overcrowding and improving on time performance. The Metrorail change will go into effect on December 17, 2018 and will be evaluated based on ridership, impact on crowding, new/increment revenue, and cost recovery ratio.

5. What is the change in scheduled rail revenue miles as a result of all of the shutdowns in FY2020? Can staff provide 4 years of scheduled and actual rail revenue miles? (Evans)

The scheduled base Metrorail revenue miles for FY2020 is 94,164,783; unadjusted for the service disruptions or New Initiatives in FY2020. Actual versus budgeted Metrorail revenue miles for the last four years is detailed in the table below:

ACTUAL vs. BUDGET METRORAIL MILES				
	FY2015	FY2016	FY2017	FY2018
Actual	88,593,984	81,483,986	81,717,802	89,088,198
Budget	99,123,883	99,365,583	98,488,983	88,380,483
Variance (\$)	(10,529,899)	(17,881,597)	(16,771,181)	707,715
Variance (%)	-10.6%	-18.0%	-17.0%	0.8%

7. What efforts are underway or can be achieved in the FY20 budget to improve off peak and weekend service while still maintaining necessary maintenance efforts? (Corcoran)

The FY2020 Proposed Budget includes new customer initiatives to improve off-peak and weekend ridership, such as the extension of peak-level service frequencies by two hours each weekday, extending service to Greenbelt on the Yellow Line, running all eight-car trains daily, and the \$2 flat fare on weekends.

With respect to the impact of required system maintenance activities on customers, staff will discuss FY2020 Planned Outages and Customer Retention strategies on December 13, 2018.

Jurisdictional Subsidy

1. Why can't we effectively move \$37M for SV ramp up from operating to capital budget by increasing FTA PM by \$37M in the capital budget (one time), thus freeing up \$37M in operating budget for SV ramp-up expenses? (Goldman)

The Silver Line 2 ramp up activities consist of training for police, operations and

maintenance employees, not preventive maintenance costs. Furthermore, the Board of Directors capped the amount of federal funds for preventive maintenance (PM) in the FY2019 Budget resolution. The FY2020 proposed budget assumes continuation of FY2019 eligible PM expenditures level of \$60 million - related to railcar maintenance. Increasing the Federally funded PM activities by \$37 million would require additional capital contributions from the jurisdictions. It would also require a combination of rail and bus PM activities, resulting in a different subsidy distribution among the jurisdictions.

2. How is WMATA complying with Virginia's three percent operating cap guidance? What revenue offsets are available within the cap to fund new initiatives or services? (Corcoran)

The 3 percent mandated base subsidy growth cap applies to WMATA's total subsidy growth, as well as total contributions from the District of Columbia, the State of Maryland and the Commonwealth of Virginia. The FY2020 Capped Subsidy is barely sufficient to maintain the same levels of service operated in FY2019. WMATA's Keeping Metro Safe, Reliable and Affordable (KMSRA) plan committed to capping annual regional subsidy contribution growth at 3%; although the region retained its right to increase services above current levels as long as the region is willing pay for such services. Accordingly, there are no offsets available within the cap to fund new customer initiatives or services without additional subsidy.

3. Applying a strict 3% cap (with and without the pay increase) I want to understand impact on safety and service. (Crawford)

Safety remains WMATA's highest priority. The proposed FY2020 Operating Budget funds required safety initiatives and maintains current service levels and hours. The base operating subsidy of \$1,111 million, reflects the 3 percent cap authorized by law.

If labor cost increases of \$27 million resulting from Collective Bargaining Agreements were excluded from the capped subsidy, this amount would be available for other initiatives. A strict 3 percent cap essentially means that legislatively excluded and new customer initiatives would not be funded in FY2020. This leaves WMATA without sufficient resources or preparation to begin Silver Line Phase 2 service after July 2020 as called for by MWAA's schedule.

4. Please provide detailed information on the items referenced as "legislatively excluded operating subsidy growth above the 3% cap", including: (a) Silver Line Phase 2 (\$37M), (b) Litigation costs (\$5M), (c) OSHA requirements (\$4M) and (d) ADA paratransit cost increase (\$5M)

Detail the legislative exclusion category under which each item is included, justification for why it should be permitted as an exclusion, and a detailed description of costs (\$ amounts, service or goods procured, etc.) associated. (Crawford)

Mandated and legislatively excluded subsidy requirements were established by the Commonwealth of Virginia and the State of Maryland as part of their Dedicated Funding legislation. As requested, the table below details the specific cost exclusions, the exclusion category, the justification or basis for the exclusion and the cost elements:

Cost Category	Exclusion Category	Justification	Cost Detail
Silver Line Phase 2	Capital Project	In HB1539ER2, Sec 33.2-214.3 - Statewide prioritization for the Commonwealth Mass Transit Fund, subsection J, ... "Any capital project approved by WMATA Board before or after effective date of this provision" shall be excluded from the 3% cap. WMATA's Board approved the Silver Line Phase II project on January 28, 2010	The FY2020 Proposed Operating Budget includes start-up training costs for police officers, rail operations and maintenance employees in preparation for operating service and rail yard maintenance mobilization
Litigation	Legal Disputes	Expenses that arise from or are related to legal disputes between WMATA and any other person or entity.	Internal and external counsel services; as well as cost of litigation such as: court reporters, court filing fees, experts' fees, independent medical evaluation, medical records, and private investigators
Occupational Safety & Health	Federal Mandate	FTA and DOT statutes and regulations requiring medical exams, random drug and alcohol testing, and other exams. FTA recently increased the percent of WMATA employees subject to random drug testing which will double current costs	Personnel and contracted services for providing and managing medical exams, random drug and alcohol screening, and other exams to comply with various FTA and DOT statutes and regulations to ensure fitness for duty and safe operation of the system.
ADA Paratransit	Federal Mandate	Sec 12143 of the Americans with Disabilities Act (ADA) mandates that public entities operating fixed route systems must have paratransit services as a complement to fixed route service.	Reflects annual cost escalations for Service Delivery Providers, Operations Control Assurance and the Quality Assurance Provider

5. How does the proposed even distribution of WMATA's 3 percent operating subsidy growth as shared in the "Subsidy Scenarios V6" table work with the existing subsidy allocation formulas? Will WMATA need to revisit the Board approved formulas? (Price)

As directed by the WMATA Board of Directors, staff provided an alternate subsidy scenario to the Board on November 7, 2018. The alternate operating subsidy modifies the current subsidy formula by incorporating the mandated operating subsidy cap, and regionally allocating the ramp up cost for Silver Line Phase 2 operations.

As required by law, WMATA's total proposed FY2020 base operating subsidy meets the mandated 3 percent cap. In addition, the total growth in operating subsidy contributions from the District of Columbia, the State of Maryland and the Commonwealth of Virginia are also capped at 3 percent. For the State of Maryland and the Commonwealth of Virginia, the intrastate subsidy allocations are weighted averages of the state totals based on the standard subsidy allocation formula.

Should the Board of Directors adopt this subsidy allocation formula as part of the FY2020 Board resolution, this new methodology will guide future subsidy allocations until subsequent modification by the Board of Directors.

Budget Outlook

1. What are the details and assumptions behind the FY2020 Cost Drivers, FY2020 Actions to manage costs, and legislative exclusions? (slides 21 and 22 of the FY2020 GM Proposed Budget presentation) (Corcoran)

The major cost drivers for WMATA's FY2020 proposed operating budget include inflation assumptions of 1.0 percent for contractual step increases, 1.2 percent for non-personnel accounts and 4 percent for healthcare cost. Additionally, labor cost increased reflecting settled agreements and estimate for unsettled CBA agreements and non-represented employee pay for performance (the latter was offset by management actions). These increases total \$55 million. The final component is overhead and inventory management calculated at \$23 million.

To reduce operating cost and meet the 3 percent base subsidy cap, management has set a target of \$46 million in cost savings and additional revenues to offset inflation and labor cost increases in the budget. Management actions to achieve these savings include reducing headcount, contracted services and energy use while increasing non-fare revenue. Additional details for the legislative exclusions are included in question 3 in

the Jurisdictional Subsidy section.

2. Can staff share data or projections for FY2021-FY2023 planned operating costs, revenue forecasts, and subsidy requirements with annual breakdowns for each? (Price)

The following estimates for FY2021 through FY2023 are in line with the 3 percent capped subsidy increase. FY2021 above the base includes the annualization of Silver Line Phase II.

(\$ in Millions)	FY2020	FY2021	FY2022	FY2023
Revenue	\$814	\$834	\$834	\$834
Expenses	\$1,997	\$2,122	\$2,161	\$2,201
Total Subsidy	\$1,182	\$1,288	\$1,327	\$1,366
3% Capped Subsidy	\$1,111	\$1,217	\$1,327	\$1,366
Legislatively Excluded	\$51	\$70	\$0	\$0
New Customer Initiatives	\$20	\$0	\$0	\$0

3. What is the cost of non-represented salary increases promised for the next 4 years? (Evans)

The projected cost of non-represented performance-based salary adjustments is 2.4 percent each year (similar to historical averages) or approximately \$5 million annually depending on several factors, including staffing levels, which will be offset each year by management efficiencies.

Consistent with the Proposed FY2020 Operating Budget Recommendation, the cost of non-represented performance-based adjustment as well as the cost of union CBA settlement are part of the base budget and funded within the base 3 percent subsidy cap.

Capital Improvement Program and Maintenance

- 1. WMATA is planning on charging the capital budget for lost revenue from capital projects that impact ridership. How much of this is from WMATA projects and how much is from non-WMATA projects? (Evans)**

The estimated revenue loss in FY2020 from WMATA's major capital project activities is \$23 million. Additional revenue losses due to reimbursable projects paid for by other entities is approximately \$6M in FY2020. This amount is specifically related to the Purple Line project. Per agreement with MTA, WMATA will be reimbursed for revenue losses related to service disruptions caused by the project.

- 2. What are the assumptions and jurisdictional obligations behind the bonding against the dedicated capital funding as shown in the FY20-FY25 CIP appendix slides? (background: there is a total of \$326 million in bonding shown on the appendix slides, and in FY20 WMATA is banking \$116 million in revenue). Can the jurisdictions pay the exact need for FY20 rather than the \$116 overpayment, thereby saving them capital contributions in FY20? (Corcoran)**

- 3. Dedicated Funding: Why isn't the \$500M annual dedicated capital funding being programmed/reported at \$500M annually? Slide 6 currently details the dedicated funding starting at \$384M (FY19) and increasing to \$692M (FY25)? What is WMATA doing with the excess funding in the years during which less than \$500M is programmed for the dedicated funding? Why claim the need for the funds if they can/will not be expended? (Crawford)**

Consistent with "Keeping Metro Safe, Reliable and Affordable" (KMSRA), Dedicated Funding revenues are designed to generate \$500 million annually or \$5 billion over 10 years from the District of Columbia, the State of Maryland and the Commonwealth of Virginia to support a \$15.5 billion system safety and reliability maintenance investment plan. This amounts to an average annual capital improvement plan of \$1.5 billion.

As WMATA ramps up its capacity to manage a \$1.5 billion average annual capital investment, there will be early accumulation of funds that will support higher investment requirements in the later years of the program. The projected \$116 million excess funding in FY20 is part of this early accumulation that will support future capital investments. Furthermore, the annual capital and operating budget subsidy growth are capped at 3 percent; meaning that funds accumulated to pay debt service or make pay as you go

investments cannot be substituted for regional contribution or diverted to other use.

This structure is also what makes it possible to use the Dedicated Funding as a pledge for future bond issuances. Using these funds to supplant other contributions undermines the Dedicated Funding structure and jeopardizes future bond issuances backed by the pledge of Dedicated revenues.

4. If PRIIA is not reauthorized, there is a revenue gap in the capital budget. Where and how much can WMATA reduce the capital budget and CIP to mitigate this added obligation to the jurisdictions? (Corcoran)

The \$300 million that WMATA currently receives from federal and regional funding partners through PRIIA is part of the WMATA's annual capital investment assumptions. The expiration of PRIIA could reduce annual capital funding to WMATA by \$300; thereby jeopardizing WMATA's ability to maintain a safe and reliable system.

The proposed FY2020-2025 Capital Improvement Program (CIP) consists of prioritized needs to keep Metro safe, reliable and affordable. Deferring or removing capital projects from the CIP due to non-appropriation and jurisdictional match for federal PRIIA funding, would degrade Metro's ability to operate a safe and reliable transit system. To ensure a safe and reliable system, WMATA must continue to maintain the system in a state of good repairs by investing an average \$1.5 billion over the next 10-years and the region would have to identify replacement funding for PRIIA.

WMATA may also be able to issue significantly more debt than planned, beginning in FY2022 to fund the Capital Program. In that case, the region will be faced with additional debt service cost.

5. PRIIA Re-authorization: Is it safe for WMATA to assume that local jurisdictions will simply cover the subsidy shortfall in the event that the PRIIA grant is not re-authorized? Does WMATA have a plan/budget in the event that the jurisdictions can/will not cover the difference. What would a budget without the federal government's share of PRIIA look like? (Crawford). See response to Question 3 above.

6. Bus Purchasing: What is the pressing need to purchase 122 new buses in FY2020? In light of Bus Transformation Project currently underway, shouldn't the bus replacement and bus expansion programs should be deferred until FY2021 when the recommendations from the project are available? At that time, review and update the bus and rail car fleet management plans to reflect no growth, slow growth, and modest

growth in ridership. That would also be the right time to review the current bus technologies and decide whether or not to replace the current CNG bus fleet with more CNG buses. Look at cost per mile of operations of clean diesel vs. CNG and electric in the future. (Crawford)

The Metrobus fleet plan on average replaces 100 buses each year to keep life cycle even and uniform and maintain FTA's average fleet age standard. This makes the best use of the capacity available for acceptance and testing as well as mid-life overhauls. With current facilities, approximately 100 mid-life overhauls can be completed each year, and the capacity for vehicle acceptance and testing is also sized for approximately 100 buses per year. If no buses were purchased in FY2020, Metrobus would be unable to provide the current level of service in FY2021.

Any service reductions resulting from the Bus Transformation project, even changes considered prior to completion of the project, would need to go through the compact public hearing process, likely pushing implementation to a future year. Without clarity on the outcomes of that project, at this point, the budget proposes to continue the planned level of bus purchases.

With respect to maintenance cost per mile, according to research from the Federal Transit Administration, maintenance cost per mile for battery-electric buses is lower than that of hybrid or diesel, so Metro is exploring additional propulsion types for future bus procurements.

- 7. I would like some detail on maintenance spending in the budget, along with comparisons to recent actuals. Specifically, a breakdown of spending by the standard categories used for different types of maintenance (routine preventive, major scheduled overhauls, whatever classifications are commonly used), and by funding source (operations, local capital, the various FTA grant streams, PRIIA if applicable).**

Along with tables that lay out these numbers, please be prepared to discuss or demonstrate through appropriate visuals recent trends or proposed shifts in: (1) the total amount of maintenance spending; (2) spending subtotals among the various categories of maintenance; and (3) funding sources (ops, cap, fed, etc.) used to finance the various categories of maintenance.

Also, even where no shifts are proposed, whether there are legal or other limitations on funding certain types or amounts of maintenance from different funding sources. (For example, board resolutions, grant guidance, etc.).

(My questions are motivated by the comment a month ago suggesting we'd move some preventive maintenance costs to the federal/capital side. I have also seen numbers from FTA suggesting that the share of federal grant dollars we use for maintenance is already comparable to our peers around the country.) (McMillin)

WMATA spends on average \$550 million in maintenance expenses annually. These expenses are classified into (1) Corrective Maintenance, performed after a failure is detected and is aimed at restoring the asset to a performing condition, (2) Preventive Maintenance, performed to maintain assets in satisfactory operating condition, includes systematic inspection, detection, and correction of incipient failures and (3) Other, small unscheduled maintenance, as shown below:

Category	Funding	FY18 Actual	FY19 Budget	FY20 Budget
Corrective Maintenance	Local	\$163	\$166	\$173
Preventive Maintenance	Local	\$285	\$290	\$301
Preventive Maintenance	SOGR	\$60	\$60	\$60
Other Maintenance	Local	\$26	\$26	\$27
Total		\$534	\$543	\$561

There are no legal limitations with regards to the use of Federal funding for Maintenance expenses. Maintenance expenses are allowable expenses under Section 5337 State of Good Repair and Section 5307/5340 Formula programs as well as under PRIIA legislation. Through the budget process, WMATA's Board of Directors by resolution imposes a limit on the amount of Federal funding allowable for Maintenance activities. This amount has varied between \$30 million and \$95 million per year.

The Federal Transit Administration (FTA) through its National Transit Database (NTD) categorizes transit agencies PM activities into Vehicle and Non-Vehicle maintenance. FTA grantees are required to maintain assets purchases with federal funds in a State of Good Repair (SGR); with periodic inspections and preventive maintenance (PM) to be performed at defined

intervals. PM is defined by FTA as all the activities, supplies, materials, labor, services and associated costs required to preserve or extend the functionality and serviceability of the asset in a cost-effective manner, up to and including current SGR maintenance of the asset.

FTA acknowledges that PM is traditionally classified as an operating activity, classifying it as "Funds Expended on Operations," however, FTA allows the use of capital funds for this activity in order to ensure the SGR of federally funded assets. FTA has also established a streamlined grant management and compliance process to enable recipients to use FTA funds for PM. That process is most simple when PM is performed by force account (directly employed) labor.

As a result of the simplified grant and compliance process, 22 percent of all FTA funds are used for PM nationally. The table below shows the five largest transit agencies in the US in FY2016. Of the top five, WMATA has one of the lowest rates of utilization of federal funds for PM.

**FTA Funds Earned and Expended on Operations
FY 2016 - Excludes Capital Investment Grants - \$ in millions**

(\$ in Millions)	FTA Funds Expended on Operations (Including Maintenance)	Maintenance Expense (Vehicle & Non-Vehicle)	FTA Capital Assistance as a % of Maintenance Expense
MTA New York City Transit	\$0.00	\$3,454.30	0%
New Jersey Transit Corporation	\$545.20	\$650.10	84%
Washington Metropolitan Area Transit Authority	\$27.30	\$612.70	4%
Los Angeles County Metropolitan Transportation Authority	\$194.30	\$419.50	46%
Southeastern Pennsylvania Transportation Authority	\$69.50	\$411.00	17%