



Finance and Capital Committee

Information Item III-A

October 8, 2020

FY2022 Operating Budget Outlook

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
202213

Resolution:
☐ Yes ☒ No

TITLE:

FY22 Outlook: Ridership and Revenue Scenarios

PRESENTATION SUMMARY:

Leadership will present several possible ridership scenarios for FY2022 and the resulting revenue/subsidy impacts.

PURPOSE:

- Review ridership scenarios, revenue and expense projections for the FY2022 operating budget
- Seek Board guidance on service and funding options for the FY2022 operating budget

DESCRIPTION:

Identification of Parties with an interest in Metro's budget:

The following list includes Metro's top non-personnel multi-year contractors through FY2021 and to date (\$500 million) as well as the Metropolitan Washington Airports Authority (MWAA). Some vendors have contracts spanning through FY2022 as well.

- Kiewit Infrastructure Company
- Kawasaki Rail Car Inc.
- PNC Bank National Association
- SunTrust Bank
- C3M Power Systems, LLC
- Transdev Services, Inc.
- Gannett Fleming-Parsons Joint Venture II
- Mott MacDonald I&E, LLC
- New Flyer of America, Inc.
- Bank of America NA
- Wells Fargo Commercial Services
- Clerk, U.S. Court
- Motorola Solutions Inc.
- M.C. Dean, Inc.
- Mythics, Inc.
- Potomac Yard Constructors
- First Transit, Inc.
- Diamond Transportation Service, Inc.
- Dell Marketing LP

- HNTB Corporation
- Metropolitan Washington Airports Authority (MWAA)

A full list of Procurement Awards is available at:

<https://www.wmata.com/business/procurement/solicitations/index.cfm#main-content>

Metro has labor agreements with the following collective bargaining units:

- Fraternal Order of Police/Metro Transit Police Labor Committee, Inc. (FOP)
- The Office and Professional Employees International Union Local No.2, AFL- CIO (Local 2)
- Local 639, International Brotherhood of Teamsters Law Enforcement Division (Local 639)
- Local Union 689 of the Amalgamated Transit Union, AFL-CIO (Local 689)
- Local 922, International Brotherhood of Teamsters (Local 922)

Key Highlights:

- FY2022 ridership scenarios estimate that total ridership will recover 25 to 50 percent of pre-Covid-19 levels.
- Covid-19 has heavily impacted Metro's revenue, and will continue to into FY2022
- Revenues are estimated to be as much as \$569 million below pre-Covid-19 levels
- Expenses are continuing to grow due to contractual obligations and cost increases
- Metro faces a funding gap that may reach \$345 million in FY2022

Background and History:

In September, staff previewed an early outlook for the FY2022 operating budget as part of the Board's deliberation on additional reductions needed in FY2021 to address Covid-19 impacts and balance Metro's budget.

The effects of the pandemic are expected to continue to impact the region through FY2022 as Metro, like other transit operators, expects a lengthy recovery before ridership and revenue return to pre-Covid levels.

This presentation provides updated revenue and expense estimates to provide the Board, and funding jurisdictions, an updated sense of the pandemic's impacts on Metro's FY2022 budget and the potential scale of the funding gap should the federal government not provide a replacement for CARES Act funding, which Metro forecasts will run out in FY2021.

Discussion:

Current ridership scenarios estimate that the system will recover 25 to 50 percent of pre-Covid-19 ridership levels. Despite the mild improvement in ridership outlook from FY2021, the FY2022 funding gap is expected to be significantly larger due to several factors.

In addition to the diminished ridership across the system, Metrobus continues to carry more trips than Metrorail. A survey of Metrorail customers shows that 53% of former

riders that are teleworking full-time would ride Metrorail again only when an effective vaccine becomes available. The slower ridership recovery on Metrorail, particularly during peak hours, which typically are the greatest contributor to fare revenue, dampens Metro's revenue outlook.

Additional impacts and risks to the FY2022 Budget include increased Covid-19 cleaning and PPE expense and uncertainty around federal CARES Act funding, as well as other cost drivers such as employee benefit, insurance costs, contractually obligated increases from collective bargaining agreements, and ADA paratransit cost growth.

While the proposed reductions to the FY2021 budget will result in savings in FY2022, the current service and management actions do not fully address Metro's funding gap based on the FY2022 ridership scenarios. The start of Silver Line Phase 2 revenue service in FY2022 will also add to Metro's expenses.

Further actions will be needed to balance the budget, in light of a potential funding gap of \$167 to \$345 million. Additionally, should the funding jurisdictions not fully fund the FY2022 operating subsidy at its pre FY2021 one-time credit level, the gap would further increase by \$135 million.

FUNDING IMPACT:

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

TIMELINE:

Previous Actions	September 2020 – FY2021 Budget Update, FY2022 Budget Outlook and Authorization for Public Hearing on FY2021 Budget Amendment and Q3 Restoration of Metrobus Fare Collection
Anticipated actions after presentation	November 2020 – Presentation of the GM/CEO's proposed FY2022 budget

RECOMMENDATION:

This is an information item. Budget adoption is scheduled for March 2021, which is necessary to ensure uninterrupted regional funding of the capital program and to allow for the timely application and award of Federal Transit Administration grants.

FY2022 Operating Budget Outlook

Ridership and Revenue Scenarios

Finance and Capital Committee

October 8, 2020



Purpose

- Review ridership scenarios, revenue and expense growth projections for FY2022 Operating Budget
- Seek initial Board guidance on service and funding options for FY2022 Operating Budget

FY2021 Budget Recap

	FY21 Budget ¹ Pre-Covid-19	FY21 Budget ² May 28, 2020	FY21 Plan ³ Likely Scenario
<i>\$ and Trips in Millions</i>			
Ridership	313.9	150.6	61.0
Revenue	\$823.7	\$385.9	\$178.7
Expense	\$2,070.0	\$2,043.8	\$1,836.6
Operating Deficit	\$1,246.3	\$1,657.9	\$1,657.9
CARES Act		\$546.3	\$546.3
Subsidy	\$1,246.3	\$1,111.6	\$1,111.6

1. FY2021 Budget Approved April 2, 2020

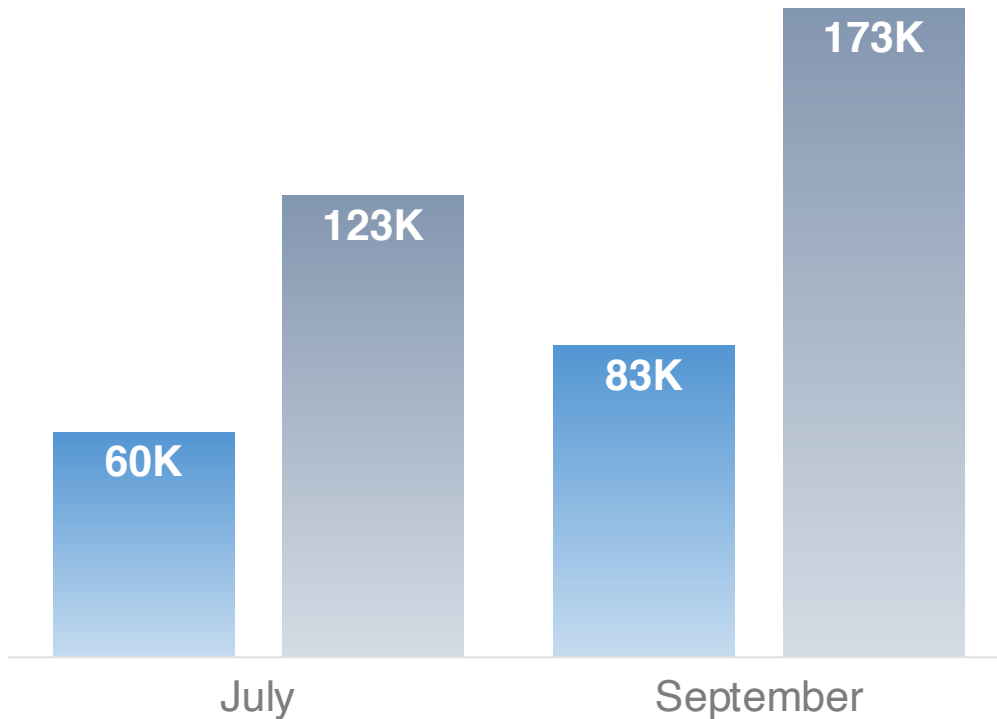
2. FY2021 Approved Budget, includes \$546.3 million of CARES Act Funds

3. Preliminary and is subject to Board approval of service changes and other factors

Bus Continues to Carry More Riders than Rail

Average Weekday Ridership¹

■ Metrorail ■ Metrobus



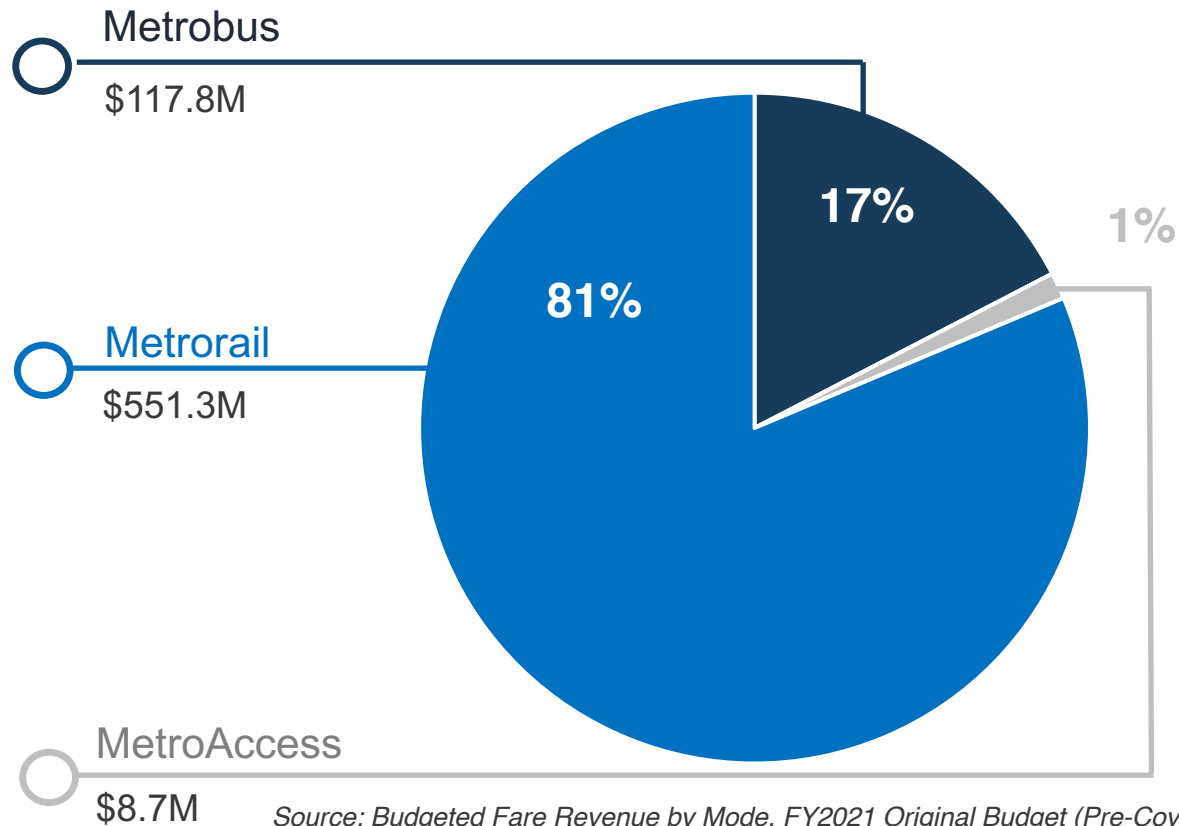
1. Ridership is preliminary, rounded for presentation purposes, and subject to revision

Bus Service Improvements

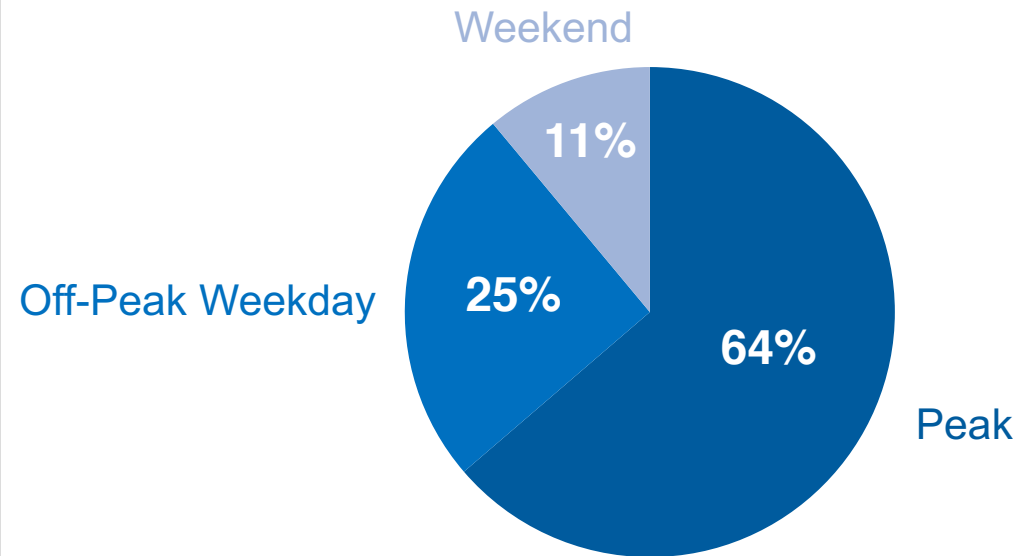
- Service restored from 36% to 75% of pre-Covid levels
- Weekday service improved on 174 routes with most routes operating close to normal
- Scheduled to resume front-door boarding in January which will provide more capacity

Rail Peak Hours is the Greatest Contributor to Fare Revenue but Is Recovering More Slowly

Fare Revenue by Mode



Metrorail Revenue by Time Period



Source: Budgeted Fare Revenue by Mode, FY2021 Original Budget (Pre-Covid-19); Metrorail Revenue by Time of Entry (FY2018-FY2019 Actuals)

Metrorail Customer Retention and Ridership Recovery

Trends Through September

- Work trips down **74%** from pre-pandemic levels
- **62%** of former riders are teleworking full-time and **12%** are unemployed
- Only **26%** are now traveling to the workplace at least one day a week

Results from survey conducted Sept 8-15th of 1,100 customers who rode Metrorail to work before the pandemic

Outlook Through the End of 2020

- **Only 6%** of pre-pandemic commuters expect to ride Metrorail to work more often
- **Only 2%** of full-time teleworkers are certain to return their workplaces via Metrorail before next year
- Of those now traveling to work some days of the week, **only 4%** are certain to travel more often to their workplaces via Metrorail before next year

Effective Vaccine Key to Regain Ridership

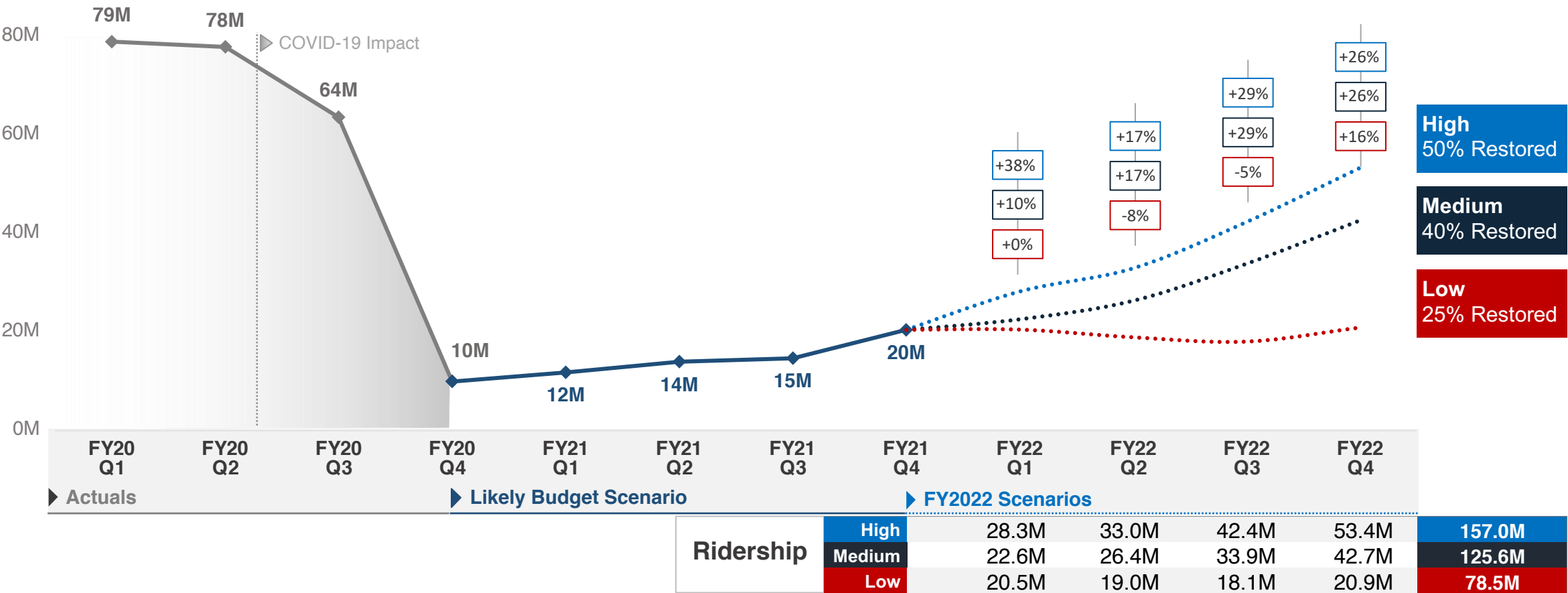
- **53%** of former riders that are teleworking full-time would ride Metrorail again **only** when effective vaccine available
- Of those commuting to work some days but not riding Metrorail, **48%** would ride Metrorail again only when effective vaccine available

Ridership Scenario Assumptions

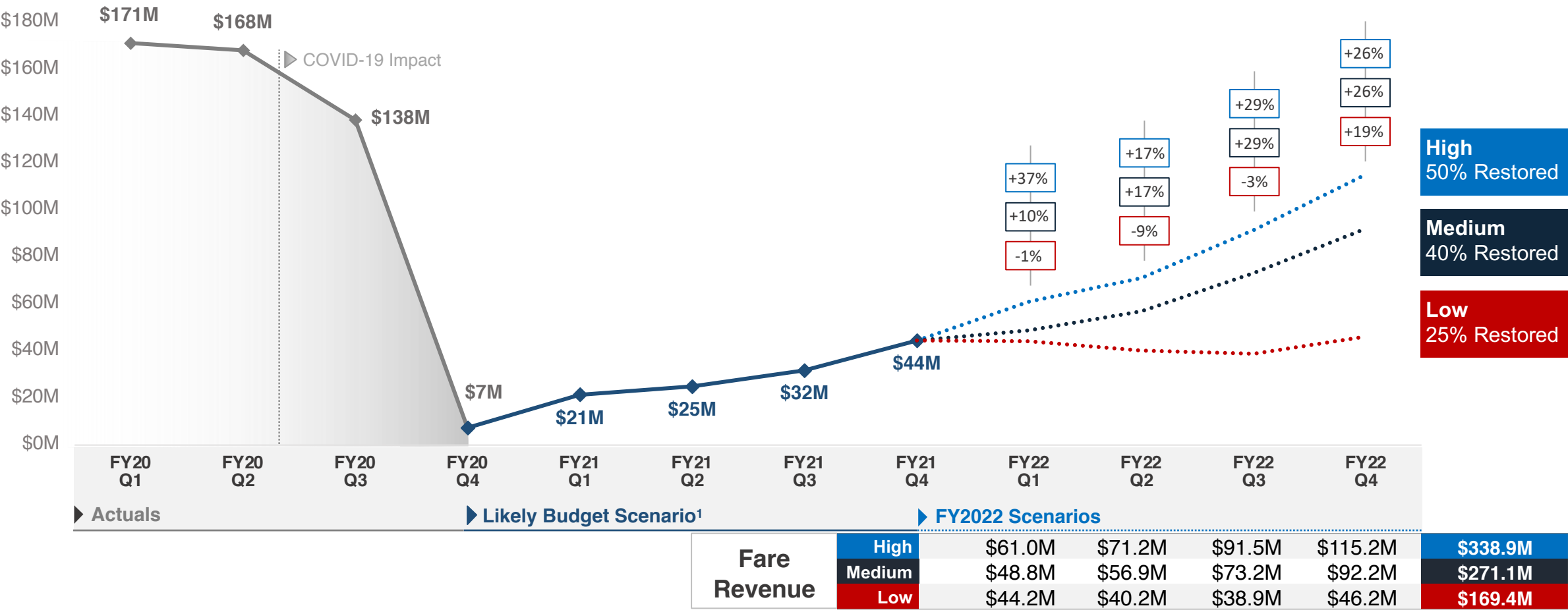
Archetype	High	Medium	Low
Virus	Contained resurgence in FY22	Pockets of spread in early FY22	Wide-spread resurgence in FY22
Vaccine	Vaccine Available FY21	Vaccine Available early in FY22	Vaccine Not Available Until late FY22
Rider Sentiment	Wary/High Vaccine Acceptance	Scared/Some Vaccine Acceptance	Fear/Low Vaccine Acceptance
Trips			
- Work	Low Return in late FY21	Low Return in Late FY21	Low Q1-Q4 Slow reopening in FY22
- Leisure	Low to Medium in FY22	Low to Medium in FY22	Low until FY23
- Telework	High telework for FY22	Higher telework for FY22	Persistent telework beyond FY22
Regional Economy			
- School	In-person reopening throughout FY22	Gradual In-person reopening in FY22 with Emphasis on Virtual Learning	Primarily Virtual Education throughout FY22
- Federal Government	Steady increase in FY22	Steady increase in FY22	Work from home beyond FY22
- Employment ¹	Low impact to DMV	Moderate impact to DMV	Heavy impact to DMV
- Special events	Reduced capacity in FY22	Reduced capacity in FY FY22	Limited capacity beyond FY22

1. Source: Based on the Bureau of Labor Statistics trend

Ridership Recap and FY2022 Scenarios



Fare Revenue Recap and FY2022 Scenarios



1. Likely Budget Scenario updated to reflect Board approval of bus fare collection restoration beginning in January 2021



Ridership and Revenue Scenarios

			FY22 Ridership Scenarios		
			High	Medium	Low
<i>\$ and Trips in Millions</i>					
	FY21 Budget Pre Covid-19	FY21 Proposed Plan			
Ridership					
Trips	314	61	157	126	78
Revenue					
Fares	\$678	\$117	\$339	\$271	\$169
Parking	\$45	\$9	\$22	\$18	\$11
Advertising	\$36	\$6	\$18	\$14	\$9
Total¹	\$758	\$131	\$379	\$303	\$189

1. Excluding joint development, fiber optics and other revenues

Additional Financial Impacts

Covid-19

- Uncertainty around CARES Act funding
- Additional PPE + Cleaning Costs
- Personnel Testing
- Additional Health Programs



Operational Increases

- Contracted Services
- Employee Benefits
- Operationalizing Capital Projects
- Insurance Costs



Collective Bargaining Agreement

- Contractually obligated increases



ADA Paratransit

- Growing demand from aging population
- Continued contractor cost growth



Subsidy Growth

- FY2021 Subsidy Credit Add-back
- In-source Cinder Bed Road Garage
- Silver Line Phase 2 Credit Add-back



FY2022 Service and Fare Assumptions

	FY2021 November Board Consideration	FY2022 Assumption
Metrorail		
Weekday rail service frequency of 12 minutes on each line	✓	✓
Reduced number of trains/operators by shortening trips where possible (i.e. “turnbacks”) <ul style="list-style-type: none"> • Red Line: Every other trip Grosvenor-Silver Spring • Yellow Line: All trips begin/end at Mt. Vernon Square 	✓	✓
Shortened span of service by 10 hours/week Close at 9 pm Sun-Thu (retain 11 pm Fri/Sat)	✓	✓
Silver Line Phase 2 Opening July 1	✓	Operational
Metrobus		
Bus - Retention of August Service Plan	✓	✓
Restore Bus Fares in FY2021 Q3	Approved	Full Year

Projected funding Gap could reach \$345 Million

	FY22 Ridership Scenarios		
	High	Medium	Low
<i>\$ in millions</i>			
Restore One-time Subsidy Credit	\$135	\$135	\$135
3% Annual Subsidy Growth Cap	\$37	\$37	\$37
Revenue Growth	\$250	\$174	\$60
CARES Act Loss	(\$546)	(\$546)	(\$546)
Subtotal	(\$124)	(\$200)	(\$314)
Expense Growth ¹	(\$81)	(\$81)	(\$81)
Silver Line Phase 2 Revenue Service ²	(\$45)	(\$47)	(\$50)
Total Funding Gap	(\$251)	(\$329)	(\$445)
FY2021 Continued Service Changes ³	\$84	\$91	\$100
Final Gap	(\$167)	(\$238)	(\$345)

1. Includes One-Time Management Credit for Silver Line Phase 2 totaling \$36.5M , 2. Assumes \$10M, \$8M and \$5M of revenue respectively

3. Does not include additional Silver Line Phase 2 reduction

Preliminary Base Subsidy by Jurisdiction

<i>\$ in Millions</i>	FY2021 Effective Subsidy	One-Time Credit Add Back	FY2021 Approved Subsidy	3% Subsidy Growth Cap	FY2022 Base Subsidy	Change
District of Columbia	\$399	\$49	\$448	\$13	\$461	\$62
Montgomery County	\$184	\$22	\$206	\$6	\$212	\$28
Prince George's County	\$241	\$30	\$270	\$8	\$278	\$38
Maryland Subtotal	\$424	\$52	\$476	\$14	\$490	\$66
City of Alexandria	\$46	\$6	\$52	\$2	\$53	\$7
Arlington County	\$77	\$9	\$86	\$3	\$89	\$12
City of Fairfax	\$3	\$0	\$3	\$0	\$3	\$0
Fairfax County	\$154	\$18	\$172	\$5	\$177	\$24
City of Falls Church	\$3	\$0	\$4	\$0	\$4	\$0
Loudoun County	\$5	\$0	\$6	\$0	\$6	\$1
Virginia Subtotal	\$288	\$34	\$322	\$10	\$332	\$44
Total Contribution	\$1,112	\$135	\$1,246	\$37	\$1,284	\$172

Note: Illustrative purposes only based on FY2021 allocation; FY2022 jurisdictional allocation subject to final Board approval of bus and rail service changes

Public Outreach for FY2022 Budget

- Title VI analysis and public outreach begins January with notice of hearing and docket
- Public outreach consistent with coronavirus health protocols, supplemented with virtual and online public comment
- Calendar to include time for additional equity analysis as needed to evaluate options and mitigations
- Subject to Board consideration and approval, docket may include:
 - Service and Fare proposals
 - Proposed operating budget
 - Proposed capital investments and grant applications

Key Dates and Milestones

