Finance and Capital Committee

Information Item III-A

October 8, 2020

FY2022 Operating Budget Outlook
Washington Metropolitan Area Transit Authority
Board Action/Information Summary

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
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:

<table>
<thead>
<tr>
<th>Information item only - no funding impact.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Manager:</strong></td>
</tr>
<tr>
<td><strong>Project Department/Office:</strong></td>
</tr>
</tbody>
</table>

TIMELINE:

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

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.
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

<table>
<thead>
<tr>
<th></th>
<th>FY21 Budget(^1)</th>
<th>FY21 Budget(^2)</th>
<th>FY21 Plan(^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-Covid-19</td>
<td>May 28, 2020</td>
<td>Likely Scenario</td>
</tr>
<tr>
<td><strong>Ridership</strong></td>
<td>313.9</td>
<td>150.6</td>
<td>61.0</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>$823.7</td>
<td>$385.9</td>
<td>$178.7</td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td>$2,070.0</td>
<td>$2,043.8</td>
<td>$1,836.6</td>
</tr>
<tr>
<td><strong>Operating Deficit</strong></td>
<td>$1,246.3</td>
<td>$1,657.9</td>
<td>$1,657.9</td>
</tr>
<tr>
<td><strong>CARES Act</strong></td>
<td></td>
<td>$546.3</td>
<td>$546.3</td>
</tr>
<tr>
<td><strong>Subsidy</strong></td>
<td>$1,246.3</td>
<td>$1,111.6</td>
<td>$1,111.6</td>
</tr>
</tbody>
</table>

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 Ridership

<table>
<thead>
<tr>
<th>Month</th>
<th>Metrorail</th>
<th>Metrobus</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>60K</td>
<td>123K</td>
</tr>
<tr>
<td>September</td>
<td>83K</td>
<td>173K</td>
</tr>
</tbody>
</table>

### 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

1. Ridership is preliminary, rounded for presentation purposes, and subject to revision
Rail Peak Hours is the Greatest Contributor to Fare Revenue but Is Recovering More Slowly

Fare Revenue by Mode

- Metrobus: $117.8M (81%)
- Metrorail: $551.3M (17%)
- MetroAccess: $8.7M (1%)

Metrorail Revenue by Time Period

- Peak: 64%
- Weekend: 11%
- Off-Peak Weekday: 25%

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

**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

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

<table>
<thead>
<tr>
<th>Archetype</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virus</td>
<td>Contained resurgence in FY22</td>
<td>Pockets of spread in early FY22</td>
<td>Wide-spread resurgence in FY22</td>
</tr>
<tr>
<td>Vaccine</td>
<td>Vaccine Available FY21</td>
<td>Vaccine Available early in FY22</td>
<td>Vaccine Not Available Until late FY22</td>
</tr>
<tr>
<td>Rider Sentiment</td>
<td>Wary/High Vaccine Acceptance</td>
<td>Scared/Some Vaccine Acceptance</td>
<td>Fear/Low Vaccine Acceptance</td>
</tr>
<tr>
<td>Trips</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Work</td>
<td>Low</td>
<td>Low</td>
<td>Low Q1-Q4</td>
</tr>
<tr>
<td></td>
<td>Return in late FY21</td>
<td>Return in Late FY21</td>
<td>Slow reopening in FY22</td>
</tr>
<tr>
<td>- Leisure</td>
<td>Low to Medium in FY22</td>
<td>Low to Medium in FY22</td>
<td>Low until FY23</td>
</tr>
<tr>
<td>- Telework</td>
<td>High telework for FY22</td>
<td>Higher telework for FY22</td>
<td>Persistent telework beyond FY22</td>
</tr>
<tr>
<td>Regional Economy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- School</td>
<td>In-person reopening throughout FY22</td>
<td>Gradual In-person reopening in FY22 with Emphasis on Virtual Learning</td>
<td>Primarily Virtual Education throughout FY22</td>
</tr>
<tr>
<td>- Federal Government</td>
<td>Steady increase in FY22</td>
<td>Steady increase in FY22</td>
<td>Work from home beyond FY22</td>
</tr>
<tr>
<td>- Employment¹</td>
<td>Low impact to DMV</td>
<td>Moderate impact to DMV</td>
<td>Heavy impact to DMV</td>
</tr>
<tr>
<td>- Special events</td>
<td>Reduced capacity in FY22</td>
<td>Reduced capacity in FY22</td>
<td>Limited capacity beyond FY22</td>
</tr>
</tbody>
</table>

¹ Source: Based on the Bureau of Labor Statistics trend
Ridership Recap and FY2022 Scenarios

FY2022 Operating Budget Outlook

COVID-19 Impact

Ridership

Actuals

Likely Budget Scenario

FY2022 Scenarios

High
50% Restored

Medium
40% Restored

Low
25% Restored

<table>
<thead>
<tr>
<th>FY2022 Scenarios</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20 Q1</td>
<td>28.3M</td>
<td>22.6M</td>
<td>20.5M</td>
</tr>
<tr>
<td>FY20 Q2</td>
<td>33.0M</td>
<td>26.4M</td>
<td>19.0M</td>
</tr>
<tr>
<td>FY20 Q3</td>
<td>42.4M</td>
<td>33.9M</td>
<td>18.1M</td>
</tr>
<tr>
<td>FY20 Q4</td>
<td>53.4M</td>
<td>42.7M</td>
<td>20.9M</td>
</tr>
</tbody>
</table>

FY20 Q1: 79M
FY20 Q2: 78M
FY20 Q3: 64M
FY20 Q4: 10M
FY21 Q1: 12M
FY21 Q2: 14M
FY21 Q3: 15M
FY21 Q4: 20M
FY22 Q1: 28.3M
FY22 Q2: 33.0M
FY22 Q3: 42.4M
FY22 Q4: 53.4M

High: +38%
Medium: +17%
Low: -5%
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

<table>
<thead>
<tr>
<th>FY21 Budget Pre Covid-19</th>
<th>FY21 Proposed Plan</th>
<th>FY22 Ridership Scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ and Trips in Millions</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Ridership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trips</td>
<td>314</td>
<td>61</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fares</td>
<td>$678</td>
<td>$117</td>
</tr>
<tr>
<td>Parking</td>
<td>$45</td>
<td>$9</td>
</tr>
<tr>
<td>Advertising</td>
<td>$36</td>
<td>$6</td>
</tr>
<tr>
<td>Total$\textsuperscript{1}</td>
<td>$758</td>
<td>$131</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Metrorail</th>
<th>FY2021 November Board Consideration</th>
<th>FY2022 Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekday rail service frequency of 12 minutes on each line</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Reduced number of trains/operators by shortening trips where possible (i.e. “turnbacks”)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• Red Line: Every other trip Grosvenor-Silver Spring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Yellow Line: All trips begin/end at Mt. Vernon Square</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shortened span of service by 10 hours/week</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Close at 9 pm Sun-Thu (retain 11 pm Fri/Sat)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Silver Line Phase 2 Opening July 1</td>
<td>✓</td>
<td>Operational</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metrobus</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus - Retention of August Service Plan</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Restore Bus Fares in FY2021 Q3</td>
<td>Approved</td>
<td>Full Year</td>
</tr>
</tbody>
</table>
## FY2022 Operating Budget Outlook

### Projected funding Gap could reach $345 Million

<table>
<thead>
<tr>
<th>FY22 Ridership Scenarios</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restore One-time Subsidy Credit</td>
<td>$135</td>
<td>$135</td>
<td>$135</td>
</tr>
<tr>
<td>3% Annual Subsidy Growth Cap</td>
<td>$37</td>
<td>$37</td>
<td>$37</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>$250</td>
<td>$174</td>
<td>$60</td>
</tr>
<tr>
<td>CARES Act Loss</td>
<td>($546)</td>
<td>($546)</td>
<td>($546)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>($124)</td>
<td>($200)</td>
<td>($314)</td>
</tr>
<tr>
<td>Expense Growth¹</td>
<td>($81)</td>
<td>($81)</td>
<td>($81)</td>
</tr>
<tr>
<td>Silver Line Phase 2 Revenue Service²</td>
<td>($45)</td>
<td>($47)</td>
<td>($50)</td>
</tr>
<tr>
<td><strong>Total Funding Gap</strong></td>
<td>($251)</td>
<td>($329)</td>
<td>($445)</td>
</tr>
<tr>
<td>FY2021 Continued Service Changes³</td>
<td>$84</td>
<td>$91</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Final Gap</strong></td>
<td>($167)</td>
<td>($238)</td>
<td>($345)</td>
</tr>
</tbody>
</table>

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

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

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

- FY22 Ridership and Revenue Outlook
  - Oct
- Public Hearings Authorization
  - Dec
- Public Hearings & Outreach
  - Jan
- Board Budget Adoption
  - Mar
- FY2022 Begins
  - Jul
- GM/CEO FY22 Proposed Budget
  - Nov
- Board Discussions
  - Apr
- Committee Budget Adoption
- Submit Federal Applications