



Finance and Capital Committee

Information Item III-A

October 27, 2022

FY2024 Operating Budget Update

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

Action Information

MEAD Number:
203401

Resolution:
 Yes No

TITLE:

FY2024 Operating Budget Update

PRESENTATION SUMMARY:

Staff will provide the Board with an update on the FY2024 budget outlook, including concepts for reducing the projected FY2024 operating budget funding shortfall.

PURPOSE:

Staff will review the operating budget calendar for the coming fiscal year's budget and recap FY2024 operating gap closing options.

DESCRIPTION:

Key Highlights:

- The FY2024 budget gap has been reduced to \$184.7 million. Staff has presented options by which the gap can be further reduced to \$146 million. Staff will discuss concepts for closing the remaining shortfall.
- Increasing fares by five percent could increase revenue by \$9 million but potentially reduce ridership by three million trips. Increasing fares by 25 percent could increase revenue by \$44 million and reduce ridership by 19 million trips.
- Federal grant funds could close FY2024 funding gap and support system preventive maintenance.

Background and History:

Key Budget Milestones

To accommodate additional public input from customers and stakeholders, Metro's FY2024 budget proposal will be presented on December 8, 2022. This timeline will allow for budget adoption in April 2023 and implementation by the start of FY2024.

Discussion:

Options for Closing FY2024 Operating Budget Gap

Metro has options for closing the projected \$184.7 million gap in FY2024, with more operating revenue, operating efficiencies and use of Metro's assets.

Revenue Growth

As more and more people return to work, the passenger revenue recovery is predicted to increase by an additional \$11.4 million from organically improving ridership, plus recovered revenue from Metro's proposed fare evasion prevention initiatives.

Non-Passenger Revenue will increase by an additional \$17.1 million, including \$6.6 million from advertising, \$2.4 million from parking/infrastructure, \$14.1 million from joint development, and an offsetting \$6 million decline in other revenue due to lower revenue loss from the capital construction activities.

Expense Reduction

Proposed Non-Personnel expense reductions total \$10.0 million, including \$7.0 million of operating efficiencies and \$3.0 million of vacancy reductions.

Service Level Reductions to Close \$146 Million Budget Gap

If service reductions were considered, approximately 20 to 25 percent of total revenue hours would be required to close the budget gap. This concept will save \$73 million each from Metrobus and Metrorail, and would reduce the number of full-time employees (FTE) by 750 in Metrobus and 440 in Metrorail. These service reductions do not include revenue loss impact from service reductions outlined in this scenario.

Fare Increase Concepts

If fare increases were considered, a five percent increase in fares for Metrorail and Metrobus would yield \$9 million in revenue but lead to a ridership loss of three million trips.

Similarly, a 25 percent increase in fares for Metrorail and Metrobus would yield \$44 million in revenue but lead to a ridership loss of 19 million trips.

Federal Grants Support for Operating Budget

Metro’s current preventive maintenance (PM) allocation to capital is \$60 million. Metro spends approximately \$700 million annually for maintenance activities. There is no best practice for use of federal grant funds to support preventive maintenance activities.

As a percentage of their operating budget, Metro’s peers use a much higher PM percentage. The FTA outlines the operating activities, supplies, material and labor costs eligible for preventative maintenance.

FUNDING IMPACT:

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

TIMELINE:

| | |
|---|---|
| Previous Actions | September and October 2022 – Committee and Executive Session discussions on FY2024 Budget Outlook |
| Anticipated actions after presentation | December 2022 – GM/CEO Proposed FY2024 Budget |

RECOMMENDATION:

No recommendation: information item only.

FY2024 Operating Budget Update

Finance and Capital Committee

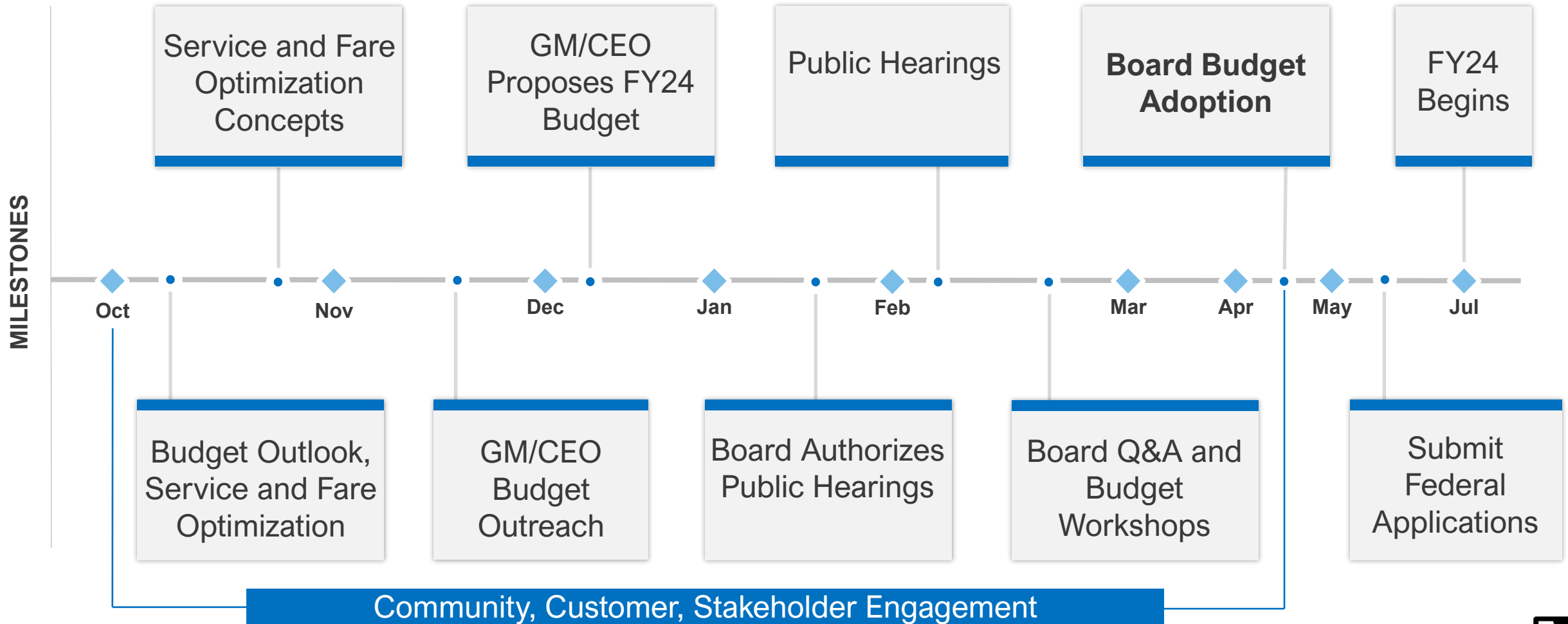
October 27, 2022



Purpose

- Review Budget Adoption Calendar
- Recap FY2024 Gap Closing Options

Key Budget Milestones



Options For Closing FY2024 Operating Budget Gap

Passenger Revenue Increases

\$11.4M

Improving Ridership *(65% to 70% Recovery, improve fare recovery)*

\$11.4M

Non-Passenger Revenue Increases

\$3.0M

Revenue Growth
(Parking, Advertising, etc.)

\$14.1M

Joint Development
(Lease Revenue, etc.)

\$17.1M

Expense Reductions

\$7.0M

Operating Efficiencies

\$3.0M

Vacancy Reduction

\$10.0M

Board Policy Decisions

TBD

Fare and Service Optimization

TBD

Increase Preventive Maintenance Transfer

TBD

Leverage OPEB Trust Fund

TBD

Increase Current Subsidy

\$146.2M

Approximate level of service reductions required to close \$146 million budget gap

- Approximately 20 to 25 percent service reductions would be required to close budget gap
- Major cuts risk a cycle of service reductions resulting in fewer customers and lower revenue, leading to additional service cuts

| | Bus | Rail | Total |
|-----------------------------------|-------|-------|------------------|
| Budget Reduction | \$73M | \$73M | \$146M |
| Reduction in Revenue Hours | 0.7M | 1.2M | 1.9M |
| % of Total Revenue Hours | 20% | 25% | 20 to 25% |
| Reduction in FTEs | 750 | 440 | 1,190 |

Example – 5% Fare Increase Concept

Increase rail and bus fares by 5 percent

| Fare Type | Regular/Peak | Discount/Off-Peak |
|----------------------|-------------------------|-------------------------|
| Rail base | \$2.25 → \$2.35 +\$0.10 | \$2.00 → \$2.10 +\$0.10 |
| Rail maximum* | \$6.00 → \$6.50 +\$0.50 | \$3.85 → \$4.00 +\$0.15 |
| Rail nights/weekends | | \$2.00 → \$2.10 +\$0.10 |
| Bus | \$2.00 → \$2.10 +\$0.10 | |
| Express/commuter bus | \$4.25 → \$4.50 +\$0.25 | |

Pricing scenarios could be paired with fare structure changes such as:

- Simplified mileage rates
- Rounding fares to nearest \$0.25
- Straight-line distance basis
- No discount/off-peak fare

*Includes 5% increase in mileage rates on all rail fares

Customer Focused

Simple and Convenient

Equitable

Seamless

Drives Ridership

Generates Revenue

\$2.00-6.00

Current

Base, Maximum Rail Fares

\$2.10-6.50

Concept

-3M

Potential Ridership Impact (Trips)

\$9M

Potential Revenue Impact

Example – 25% Fare Increase Concept

Increase rail and bus fares by 25 percent

| Fare Type | Regular/Peak | Discount/Off-Peak |
|----------------------|-------------------------|-------------------------|
| Rail base | \$2.25 → \$2.75 +\$0.50 | \$2.00 → \$2.50 +\$0.50 |
| Rail maximum* | \$6.00 → \$7.50 +\$1.50 | \$3.85 → \$4.75 +\$0.90 |
| Rail nights/weekends | | \$2.00 → \$2.50 +\$0.50 |
| Bus | \$2.00 → \$2.50 +\$0.50 | |
| Express/commuter bus | \$4.25 → \$5.25 +\$1.00 | |

*Includes 25% increase in mileages rate on all rail fares

Pricing scenarios could be paired with fare structure changes such as:

- Simplified mileage rates
- Rounding fares to nearest \$0.25
- Straight-line distance basis
- No discount/off-peak fare

Customer Focused

Simple and Convenient

Equitable

Seamless

Drives Ridership

Generates Revenue

\$2.00-6.00

Current

Base, Maximum Rail Fares

\$2.50-7.50

Concept

-19M

Potential Ridership Impact (Trips)

\$44M

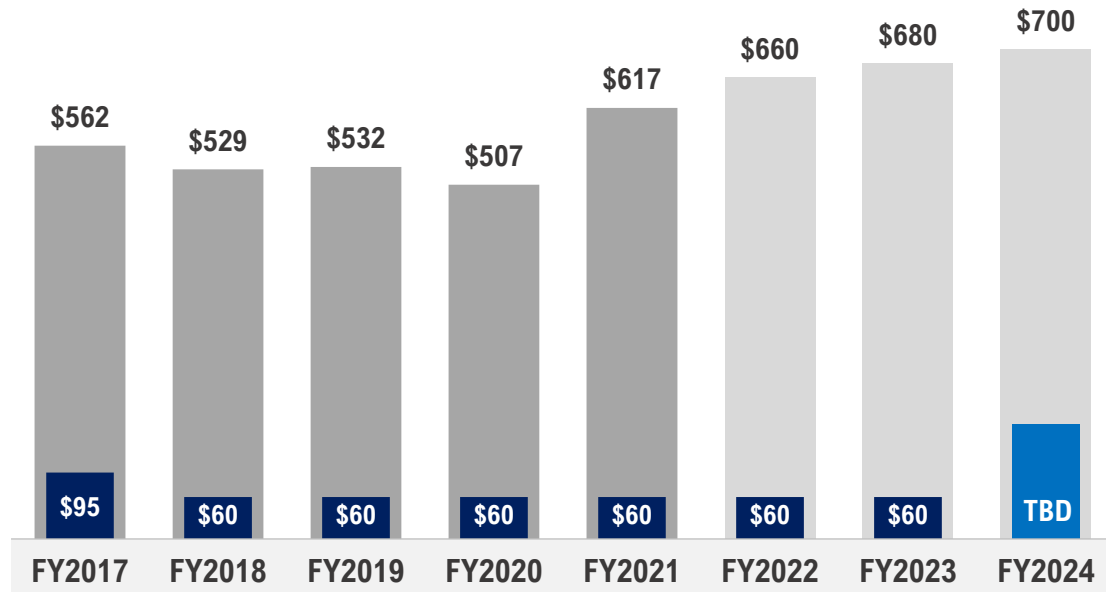
Potential Revenue Impact

Increased Federal Funds will Close FY2024 Funding Gap and Support System Preventive Maintenance

Preventive Maintenance (PM) vs. Operating Maintenance

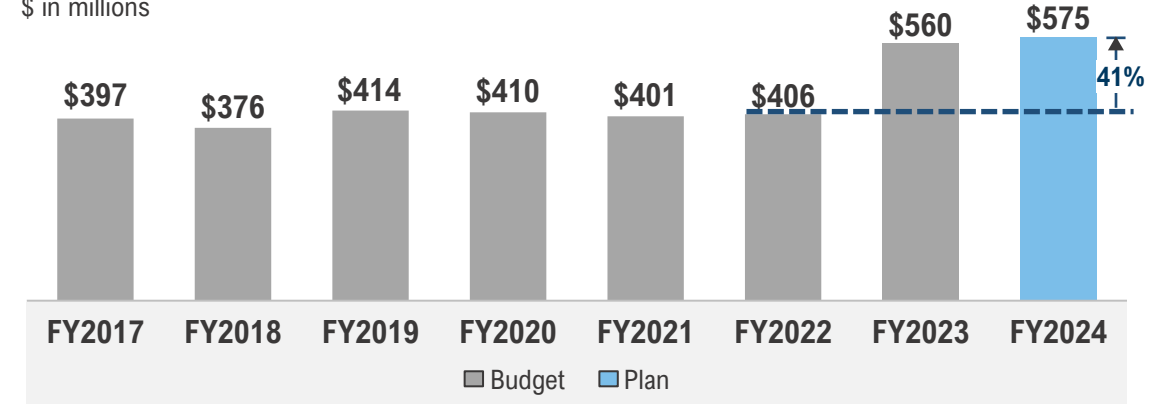
\$ in millions

- Actual Operating Maintenance
- Estimated Operating Maintenance
- PM
- Proposed PM



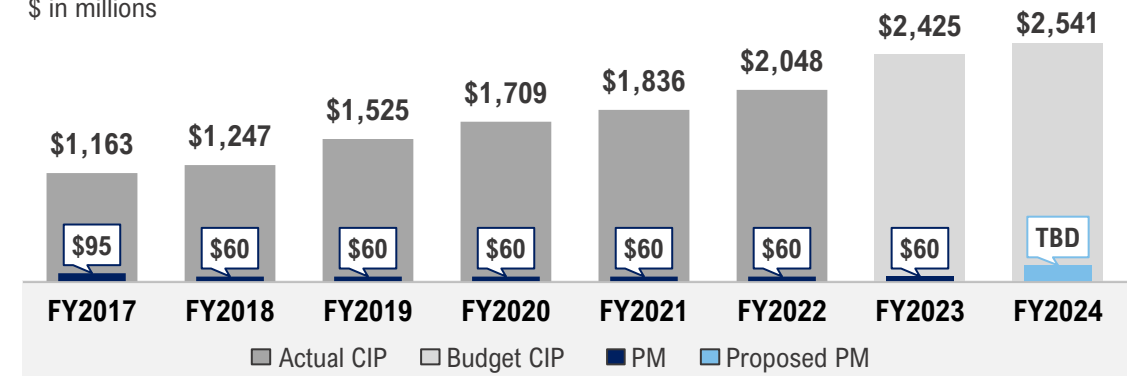
Federal Formula Funding Increased by IIJA (≈ \$125M Annually)

\$ in millions



Preventive Maintenance in Capital Improvement Program

\$ in millions



Federal Guidance and Industry Utilization

Definition

Federal Transit Administration defines Preventive Maintenance (PM) as operating activities, supplies, material and labor cost required to preserve or extend asset functionality in a cost-effective manner (FTA C 9030.1E). PM cost is eligible for 80/20 federal/local match, same as capital maintenance expenses under most FTA funding guidelines.

WMATA PM

Vehicle Maintenance

Service and Fueling

Inspection, Maintenance, and Repair of Vehicles

Administration of Vehicle Maintenance

Facility Maintenance

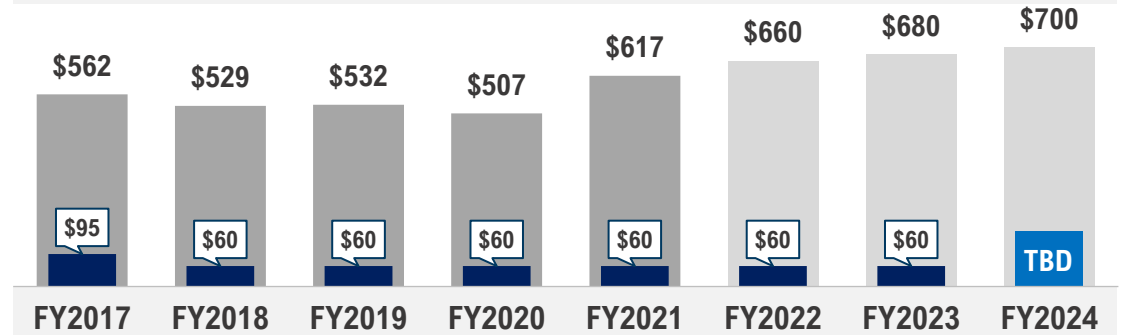
Vehicle Operations Equipment

Roadway and Track

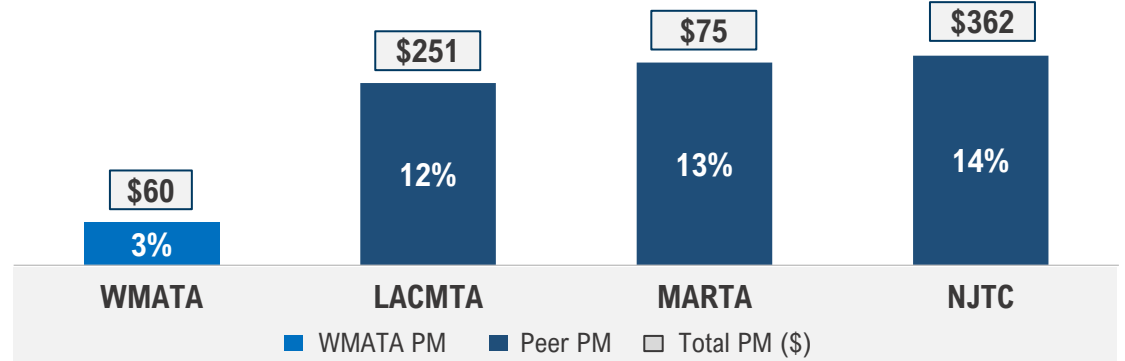
Tunnels, Bridges, and Subways

Passenger Stations and Stops

Annual Operating Maintenance Expenses (\$M)



PM as a Percentage of Operating Budget (\$M)



Next Steps

- Seek guidance on FY2024 Operating Budget balancing options
- Develop Metro's FY2024 Operating Budget proposal