Finance and Capital Committee

Information Item III-A

September 28, 2023

Metro Financial Planning

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	Document Number: 205602	Resolution: ○ Yes ◉ No

Presentation Name:

Metro Financial Update

Project Manager:

Yetunde Olumide

Project Department:

Finance

Purpose/Key Highlights:

Future financial planning for FY2025 advances our Strategic Transformation Plan goals of **service excellence**, **talented teams**, **regional opportunity and partnership**, and **sustainability**.

In this presentation, staff will provide the Board of Directors information regarding the FY2025 fiscal and budget outlook including:

- Initial forecast and potential service impacts
- Budget planning considerations
- Budget scenarios, timeline and challenges

Interested Parties:

No interested parties identified.

Background:

Metro plays a pivotal role in the economic vitality of the National Capital Region, supporting revitalization and connecting customers to new activity centers. As the region grows, public transportation will be critical to its local businesses, residents and visitors as indicated by recent ridership growth and increased customer satisfaction. Dedicated capital funding in 2018 enabled Metro to address long neglected work, returning the system to state of good repair. However, the pandemic destabilized the existing operating model, both reducing ridership and triggering historic inflation.

Currently, operations are funded by fares and other revenues, state and local subsidies, and temporary Covid-related federal relief funding. Beginning FY2020, along with other transit agencies, Metro sustained its operations through federal relief to offset lost revenue and increased costs resulting from the Covid-19 pandemic. In June 2023, Metro provided an initial FY2025 forecast of exhausting its American Rescue Plan Act of 2021 (ARPA) funding in FY2024 resulting in an operating deficit of $750 million beginning in FY2025. To singlehandedly close this deficit, Metro would require a scenario cutting service by 67 percent, which would halt the ridership recovery, reduce or eliminate most service, and necessitate steep reductions in maintenance, police, and customer service functions. Customers would experience severe crowding, longer police response times, and more frequent elevator and escalator outages. These service cuts are below current capacity needs and would likely trigger a death spiral of a loss of ridership, detrimentally impacting the region through worse traffic, reduced access to jobs and opportunity, and more pollution.

Discussion:

Metro faces key decisions regarding fares and service levels for the FY2025 budget. FY2024 service optimization initiatives strengthened the regional network, provided access to more destinations, and optimized use of Metro's assets. Future service optimization concepts focus on enhancing Metrorail's agility and advancing the Better Bus Network Redesign. To maximize the value of the Metrorail network, FY2025 options will emphasize delivering service through the most efficient use of available resources and adjusting service to adapt to how and when customers travel. Additionally, Metro's Better Bus Network Redesign is the transformative bus service initiative focused on equitable service that reallocates available resources to achieve bus service goals and serves as a catalyst to implement Metro's visionary network. Service and fare concepts will be covered in more depth in October with specific scenarios for Board discussion.

Additional budget planning considerations for FY2025 include:

Aggressive Financial Management and Internal Efficiencies

Metro's aggressive financial management continues to identify internal efficiencies to generate fiscal savings. Improved contract service management, office consolidation efficiencies, and personnel expense management have yielded an additional $95 million in one-time savings above the amount originally forecasted in the FY2024 approved budget. Metro continues to closely manage its operating expenses to maximize potential carryover that can be used to reduce the FY2025 deficit.

Metro is also seeking to identify additional efficiencies and has activated an internal taskforce to realize further cost savings for FY2025 and beyond. The task force has identified an additional $50 million in recurring savings to reduce the deficit through administrative efficiencies, reduction in consulting services and overtime, digital transformation, and improved asset management. These additional savings build on current savings, explore productivity gains, and identify budget cuts without safety-sensitive or direct service implications.

In the longer term, regional governments can help reduce Metro's cost or grow its revenues through a number of initiatives, and thus reduce Metro's subsidy need in the long term.

These include:

- Align regional energy policy, efficiency, and electrification efforts
- Regional implementation of bus priority lanes
- Reciprocity in police certification across District of Columbia, Maryland, and Virginia
- Elevator/escalator regulatory requirements and fee waivers
- Regulatory approvals/permits for outdoor advertising at Metro properties & stations
- Local zoning and portfolio funding to accelerate joint development

Although historic inflation caused by the pandemic and related supply chain issues continue to impact costs and impose uncertainty, Metro is actively monitoring changes to inflation recognizing the significant impact of inflationary pressures on Metro's finances, from the cost of fuel, materials and supplies, and staffing costs. As is typical for transit industry, most of Metro's operating costs are personnel-related and the vast majority of the employees participate in collective bargaining agreement indexed to inflation. Each one percent decrease in inflation saves approximately an additional $23 million.

Federal Revenue Recovery

Currently, federal ridership recovery lags other customers in returning to Metro with 95,000 fewer weekday bus and rail trips compared to FY2019. Metro forecasts approximately $20 million in additional annual revenue for each additional day per week that federal employees ride Metro.

Staff has developed three scenarios to address the FY2025 deficit using varying preventive maintenance transfer strategies. Each scenario incorporates potential inflation reductions and federal ridership recovery, as well as realized savings.
In response to pandemic fiscal constraints, Metro applied a $135 million credit to its jurisdictional partners. The cumulative impact of the forgone subsidy is now $690 million.

Preventive Maintenance

Another significant lever that the Board has used in recent years to help balance the operating budget is the preventive maintenance transfer. Preventive maintenance (PM) includes costs for operating maintenance eligible for reimbursement from the capital budget, subject to FTA approval. The annual budget establishes the maximum amount of preventive maintenance costs to be transferred from the operating budget to the capital budget. While short-term maintenance activities do not change, the budget allocation between operating and capital can be adjusted. However, increased use of preventive maintenance transfers reduces capacity for other capital investments in the long-term, putting at risk priority investments such as the Heavy Repair and Overhaul Facility, the 8000-Series Fleet of the Future, Zero-Emission Buses and Garages, Next-Gen Automation and Signaling, and the Blue/Orange/Silver Corridor. Further, Metro's use of additional preventive maintenance transfers reduces critical capital investments and accelerates the beginning of Metro's capital deficit from FY2029 to FY2028.

FY2025 Potential Scenarios

Metro has developed three potential FY2025 budget scenarios that include the considerations described above and could reduce the initial FY2025 deficit from $750M to potentially between $365 million and $650 million depending on Board decisions primarily around the level of the PM transfer. These scenarios will be further developed during the budget process. All three scenarios would allow Metro and the region to avoid the devastating service cuts described in June, but they would require significant increases in investment and legislative action including adjusting the three percent subsidy growth cap in Maryland and Virginia with a one-time adjustment of the FY2025 baseline subsidy. Additional challenges include Metro's budget calendar, service plan and collective bargaining agreement requirements do not readily align with jurisdictional legislative calendars. This alignment challenge poses significant risk to staffing, hiring, and training issues. Delays in addressing FY2025 fiscal constraints could impose staffing reductions with significant impacts to service scheduling, system performance, reliability, and customer experience.

Funding Impact:

Metro's FY2025 funding deficit is a major challenge that must be addressed.

Previous Actions:

No prior actions

Next Steps:

FY2025 budget development sessions and stakeholder and community engagement.

Recommendation:

Information Only

Metro Financial Update

Finance and Capital Committee
September 28, 2023

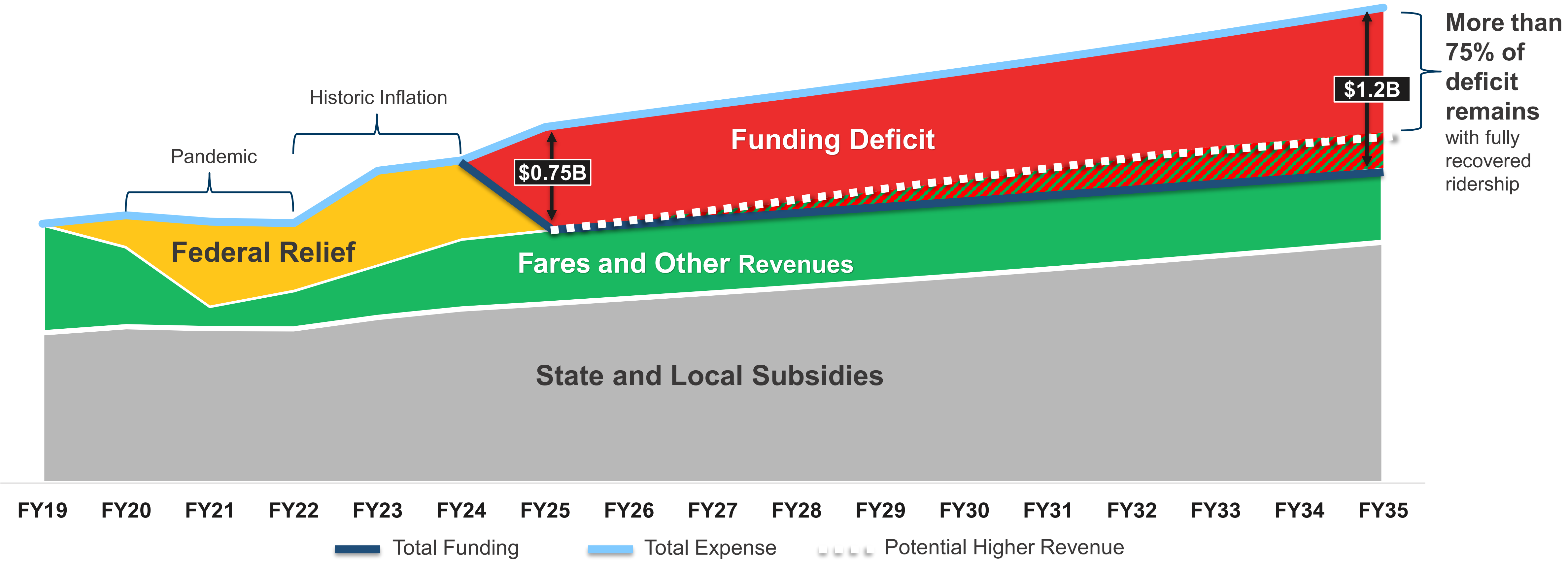
Agenda

FY2025 Initial Forecast and Potential Service Impact

FY2025 Budget Planning Considerations

FY2025 Budget Scenarios, Timeline and Challenges

FY2025: Initial Operating Deficits Forecast



* Projection as of June 2023

FY2025 $750M Deficit Drivers in Detail

Jurisdiction Subsidy Credit

$196M

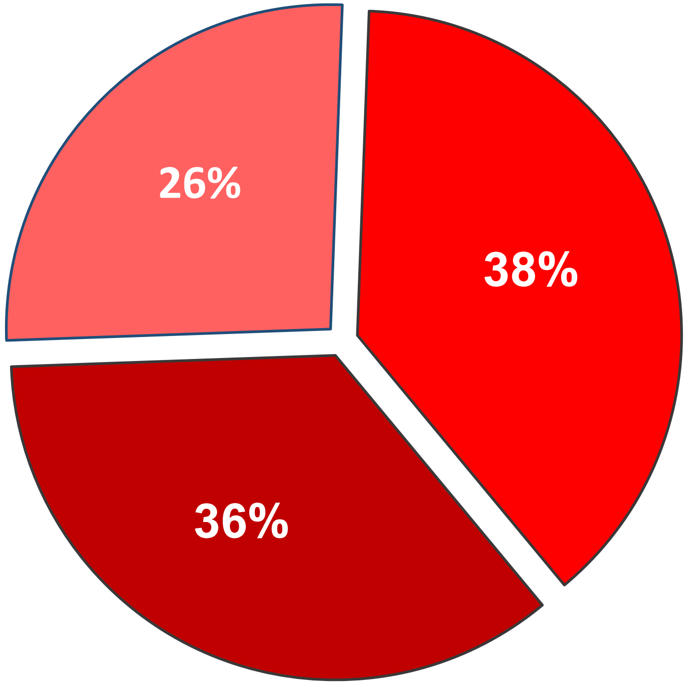
At the onset of the pandemic, Metro provided support to jurisdictions in the form of a subsidy reduction and forgone 3% increases.

Inflation & Collective Bargaining Agreements

$266M

Metro's contractual commitments and inflation soared by 10% in one year during the pandemic and FY2025 outlook assumes continued inflation of approximately 5%. Inflation from FY2024 to FY2025 grew on average about 5%.

FY2025 Operating Gap



Decreased Revenue Since Pandemic

$288M

Overall ridership forecast to be approximately 25% below pre-pandemic levels along with greater prevalence of shorter distance trips outside of weekdays. Parking and advertising revenues also impacted.

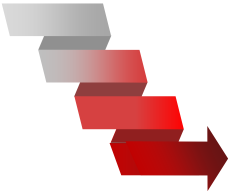
Balancing Budget with Service Cuts Would Devastate Region

Impacts of a 67% cut to Metro

- **Decreased service, quality, security, and accessibility**
- **Stops ridership recovery; below current capacity needs**

  Could serve only **300,000** rail and **200,000** bus trips a day

- **Triggers transit death spiral**



Ridership Impact	**-95M** (-40%)
FTE Impact	**-5,300** (-41%)
Operating Budget Impact	
Expense	**-$947M** (-37%)
Revenue	**-$197M** (-37%)
Net	**-$750M**
Deficit	**$0**

Assumes Full Jurisdictional Subsidy

Note: amounts may not sum due to independent rounding

FY2025 Budget Planning Considerations

FY2025: Key Decisions

Fares and Service…

Fares

Service Levels

Concepts in development for October discussion

Ways Metro Can Reduce Deficit...

FY2023-2024 Financial Management:

Closely manage operating expenses to maximize potential carryover

Internal Efficiencies:

Opportunities to further reduce operating costs and increase productivity in FY2025 and beyond

Preventive Maintenance:

Costs for operating maintenance that can be reimbursed by the capital budget subject to FTA approval

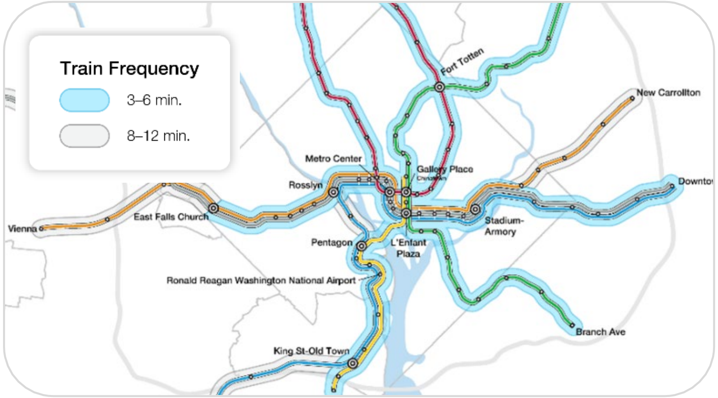
Federal Revenue Recovery:

Potential replacement for Federal SmartBenefits revenue

FY2024 Service Optimization

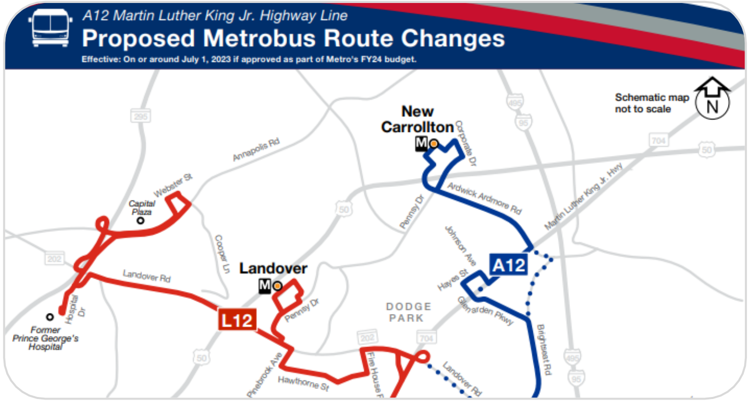
Strengthen Metro's Regional Network

- Adapted rail and bus service frequency
- More midday, weekend, and late night service
- Efficient & predictable transfers



Provide Access to More Destinations

- Increase customer access to jobs and opportunity
- Reduce customer travel and wait times
- Grow system ridership



Optimize Use of Metro's Assets

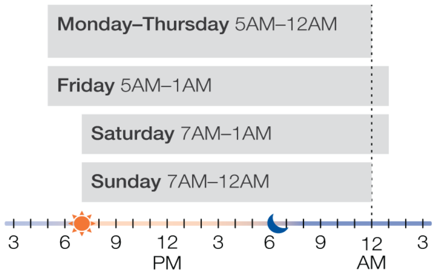
- Best use of available railcars and buses for revenue service
- Maximize infrastructure
- Provide good service at low marginal cost

Service Optimization Concepts for FY2025

Agile Metrorail Service

Maximize the value of the network and service delivered by most efficiently using available resources:

- Analyze duration of peak periods to adapt to how and when customers travel
- Analyze 4-, 6-, 8-car train service
- Analyze hours of operation and multi-station entrance needs



Better Bus Network Redesign

as called for in the 2017 LaHood Study

The Year One Network is transformative bus service

- Reallocates resources and meets regional goals for bus service by adapting the network to how customers travel now
- Constrained to FY2024 service levels and is the first step to implement the visionary network
- Is equitable

One-time Cost Savings Available to Contribute to FY2025 Deficit Reduction

Metro has $95M more available in one-time savings than originally forecasted when the FY2024 budget was approved

Cost Efficiency Task Force identified fiscal savings:

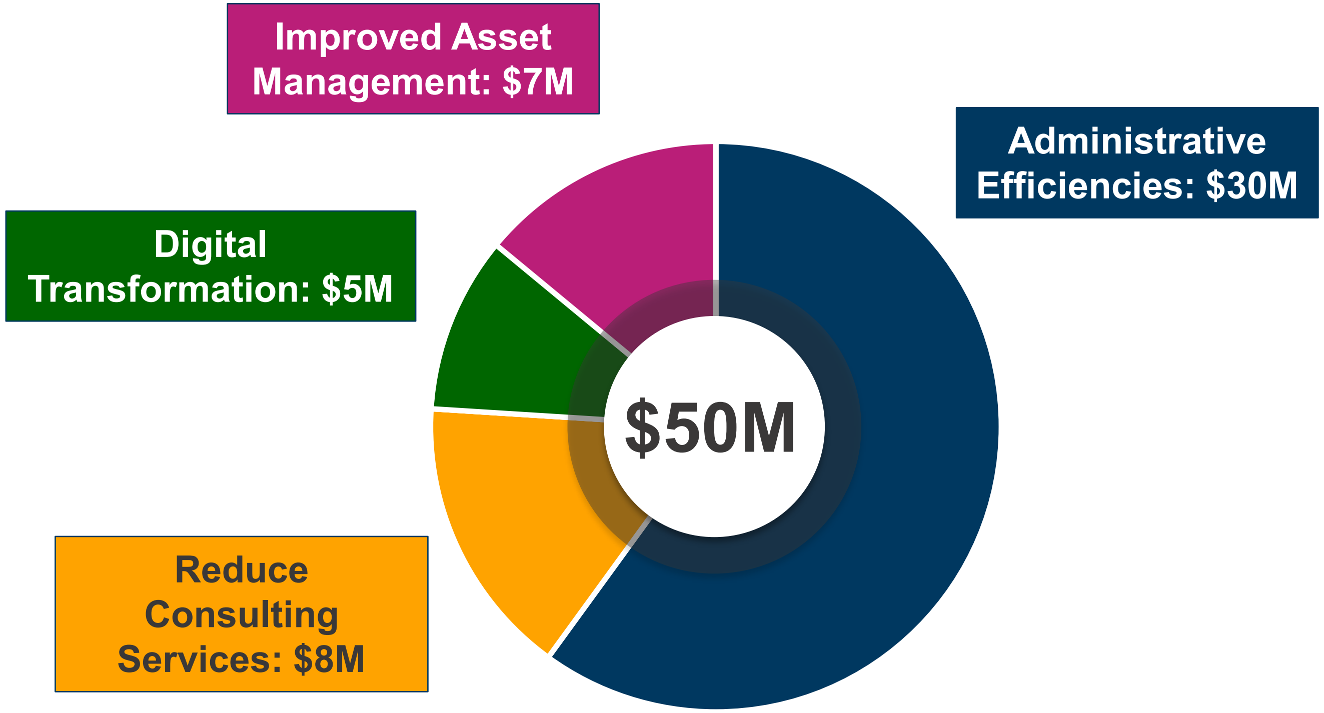
- Improved contract service management
- Office consolidation efficiencies (e.g., early termination of leases)
- Vacancy and personnel expense management

Cost Efficiency Taskforce Savings of $50M and about $608M over subsequent ten years

Internal taskforce activated to realize additional cost savings across the Authority for FY2025

Builds on savings to date

Budget cuts that do not have safety-sensitive or direct service implications



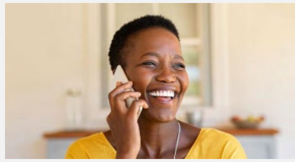
Administrative Efficiencies Examples

FY2025 Impact	FY26-35 Impact
$30.4M	$365.9M

Service Excellence | Talented Teams | Regional Opportunity and Partnership | Sustainability

Mobile Drug Testing and Badging
Pilot mobile office supporting frontline employees to staffing disruptions and associated overtime

Call Center Consolidation
Consolidating disparate Metro call centers for SmartBenefits, general information, customer relations, lost and found into a unified customer experience supported by modern industry-standard technology



Paratransit Alternative Service Delivery
Accelerate customer adoption of paratransit alternatives in lieu of traditional ADA service with streamlined process and new technology

Building Consolidation and Streamlining of Facility Related Services
Warehouse consolidation and vacancy reductions; realigning security and building maintenance needs based on smaller footprint following Office Consolidation Project; termination of leases

Non-Revenue Vehicle Fleet Reduction
Fleet size reduced by 5% in FY2023 and will be reduced by another 5% by December 2024

FY2025 Savings Include

- Paratransit Contract - $9.6M
- Services - $17.9M
- Materials and Supplies - $0.1M
- Leases - $0.6M
- Personnel - $1.1M
- Insurance - $1.3M

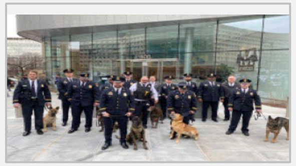
Reduce Consulting Services Examples

FY2025 Impact	FY26-35 Impact
$7.9M	$95.1M

Service Excellence · Talented Teams · Regional Opportunity and Partnership · Sustainability

Metro Transit Police Academy

Accreditation allows consolidation and eliminates need to contract out commissioning training



Reduction of Staff Augmentation

Improvements to in-house capabilities will allow reductions in staff augmentation of mission support including in legal, audit, and accounting

Alignment of consulting services with Strategic Transformation Plan

Review contracting needs based on Your Metro Strategic Transformation Plan and eliminate those that no longer align with updated core mission

Right-size cleaning contracts

Recalibrate cleaning protocols levels and align with new vehicle materials

FY2025 Savings Categories

- Professional services $1.2M
- Other services $6.7M

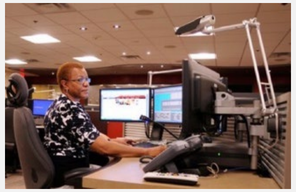
Digital Transformation Examples

FY2025 Impact	FY26-35 Impact
$5.5M	**$65.0M**

Service Excellence · Talented Teams · Regional Opportunity and Partnership · Sustainability

Eliminate Duplicative Application Licenses

Authority-wide review of application usage, eliminate licenses for products no longer being used, consolidate on single platform where functionality is being provided by multiple applications



Right-size IT-related contracts

Reduce usage of IT-related contractors where functions can be provided by existing in-house capabilities

Laptop and mobile phones efficiencies

Savings on data, maintenance and other usage related costs

Savings Include

- Professional and Technical Services - $3.0M
- Contract Maintenance Services - $2.3M
- Services Other - $0.2M

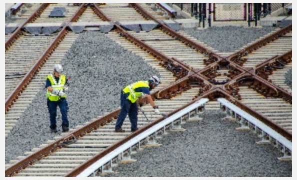
Improved Asset Management Examples

FY2025 Impact	FY26-35 Impact
$6.8M	**$81.9M**

Service Excellence · Talented Teams · Regional Opportunity and Partnership · Sustainability

Preventive track rehabilitation resulting in parts and materials savings

Reducing track repair parts contract amount due to enhanced/continual preventive maintenance leading to fewer repairs and improved asset availability.



Elevator/Escalator improved life-cycle management resulting in reduced repair costs

Reducing elevator and escalator repair parts contract amount due to less need for major overhaul resulting in reduced need for assets, repairs and parts.

Expansion of automated inspection technologies:

Analyzing expansion of drone and other automated inspection technologies to detect potential issues earlier, optimize deployment of inspection staff, and reduce repair/maintenance costs

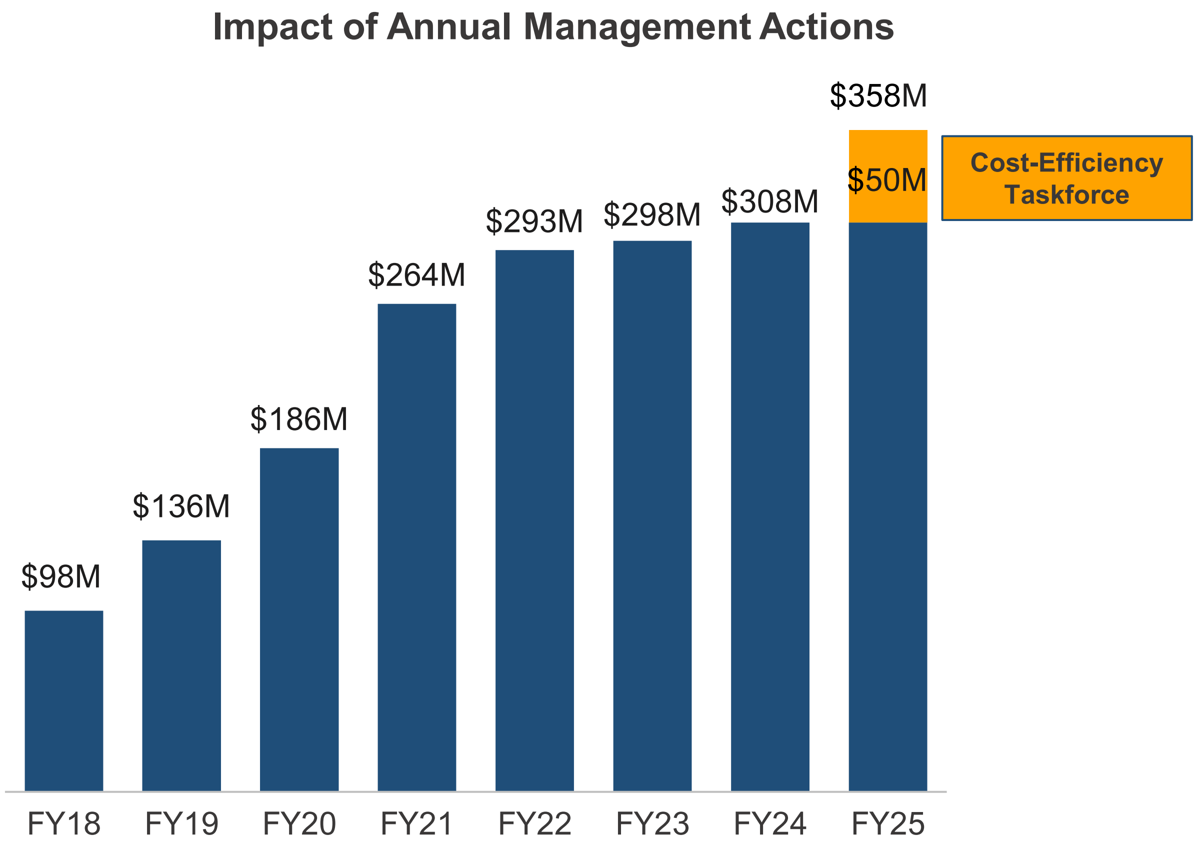
FY2025 Savings Include

- Contract Maintenance Services - $4.1M
- Materials and Supplies - $2.3M
- Fuel (Diesel/Gas/CNG) - $0.4M

Aggressive Management Actions Focused on Savings

Cost-Efficiency Examples

- Healthcare cost-sharing
- Maximizing real estate assets
- Office consolidation
- Recovery plan, hiring/vacancy freeze, defer material supply purchase
- Elimination of positions through efficiencies and planned reductions
- Non-revenue fleet reduction, enhanced contractor management, call center consolidation (FY2025)
- Eliminate duplicative software applications



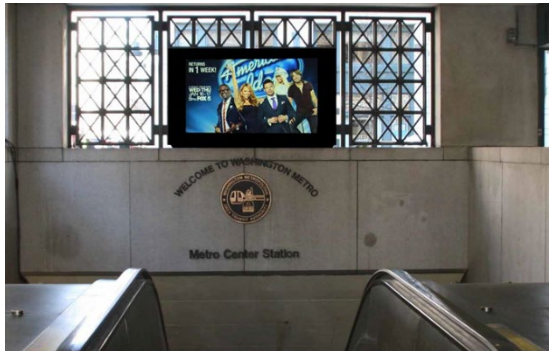
Regional Topics that could Impact Metro Finances

Expense

- Align regional energy rate policies and electrification efforts
- Regional implementation of bus priority lanes
- Reciprocity in police certification across District of Columbia, Maryland, and Virginia
- Elevator/escalator regulatory requirements and fee waivers

Revenue

- Regulatory approvals/permits for outdoor advertising at Metro properties & stations
- Local zoning and portfolio funding to accelerate joint development

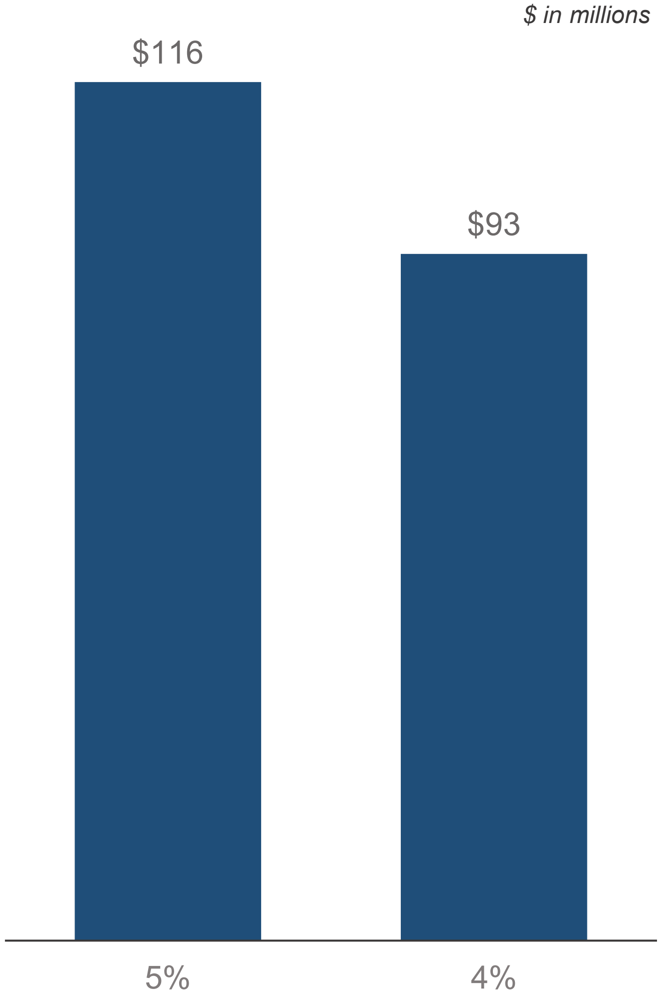


*for non-represented employees

Inflation's Impact on Metro Finances

- Metro adjusts for inflation using indices from U.S. Bureau of Labor Statistics and Bureau of Economic Analysis to plan for goods/services and contractual requirements
- Each one percent decrease in inflation saves Metro an additional ~$23M
- Metro is monitoring changes to inflation
- Partner with regional governments for alignment on cost indexing

FY2024 to FY2025 inflation scenarios

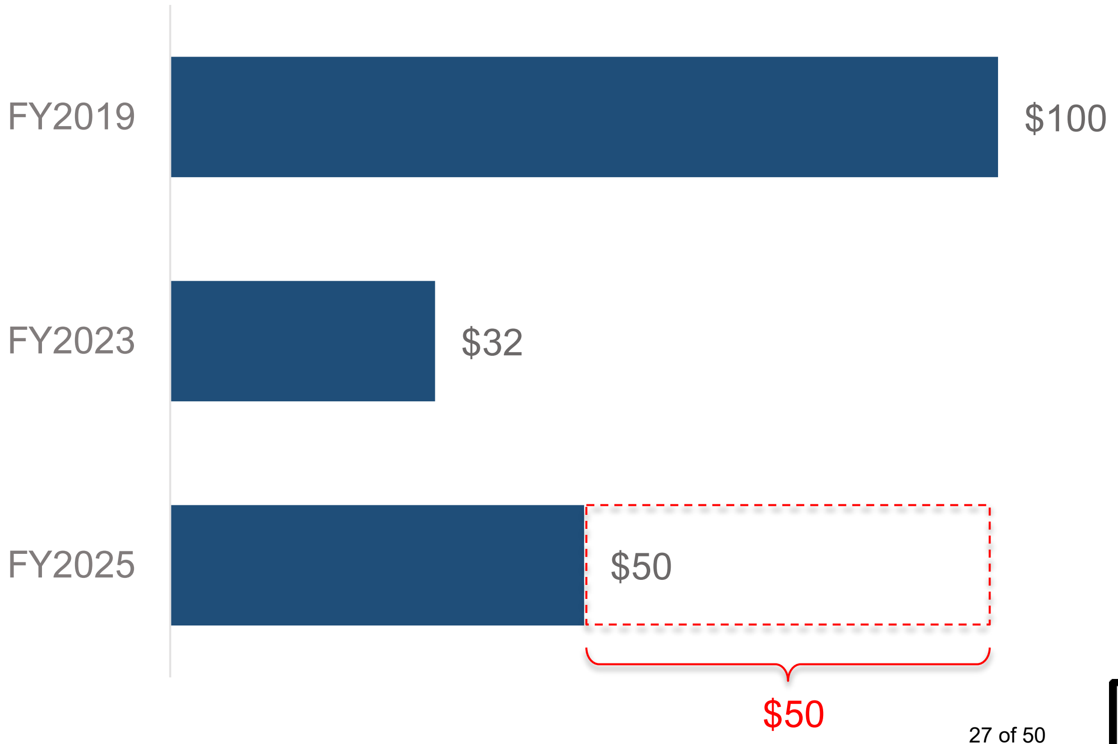


Federal Fare Revenue Recovery

If federal employee ridership returned to prior levels, Metro would receive approximately $50 million in additional fare revenue in FY2025

- Federal ridership recovery lags **behind other customers** in returning to Metro
- **95,000 fewer** weekday bus and rail trips by federal employees now compared to FY2019
- For **each additional day per week** that federal employees ride Metro, Metro could expect **approximately $20 million** in additional annual revenue

Estimated Annual Fare Revenue from Federal Employees $M



Preventive Maintenance Definition and Considerations

Federal Definition

Federal Transit Administration (FTA) defines Preventive Maintenance (PM) 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 the current state of the art for maintaining such asset (FTA C 9030.1E).

PM costs are eligible for 80/20 federal/local match and subject to FTA approval.

Policy Considerations

The maximum amount of preventive maintenance costs to be transferred from the operating budget to the capital budget is set in the annual budget.

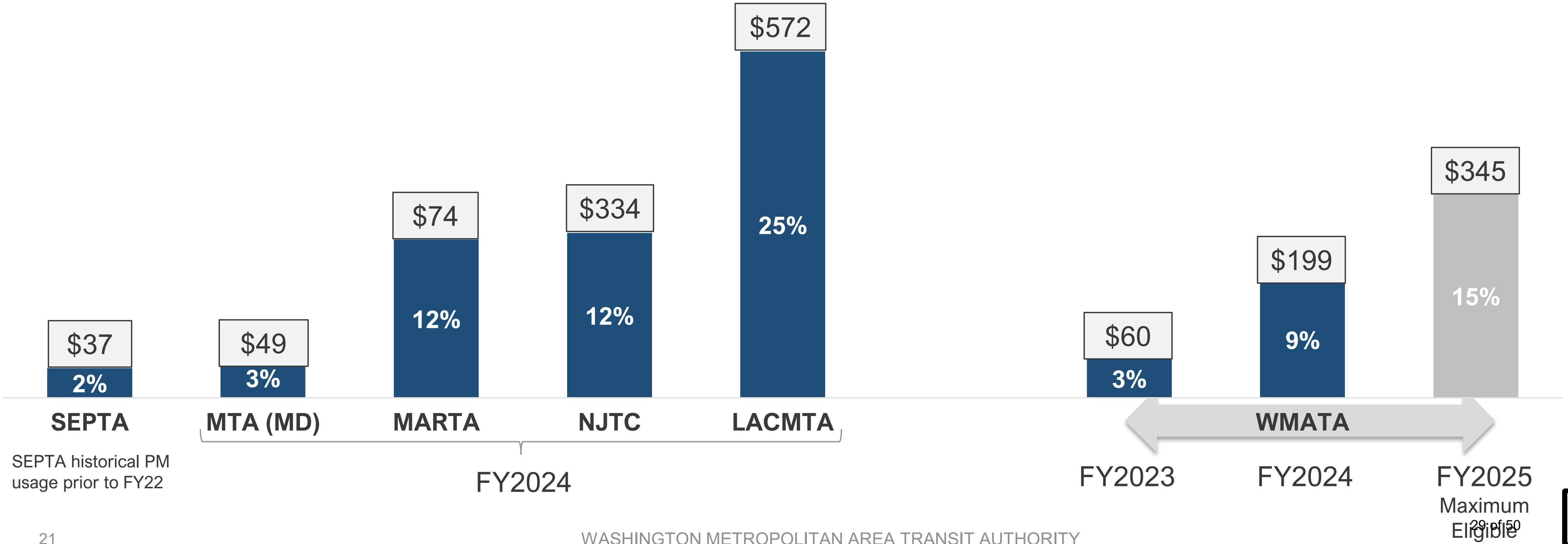
Short-term maintenance activities do not change, but the budget allocation between operating and capital can be adjusted.

Increased use of PM transfers reduces capacity for other capital investments in the long-term.

The maximum eligible PM transfer is approximately $345M in FY2025.

Metro and Industry Preventive Maintenance Benchmarking

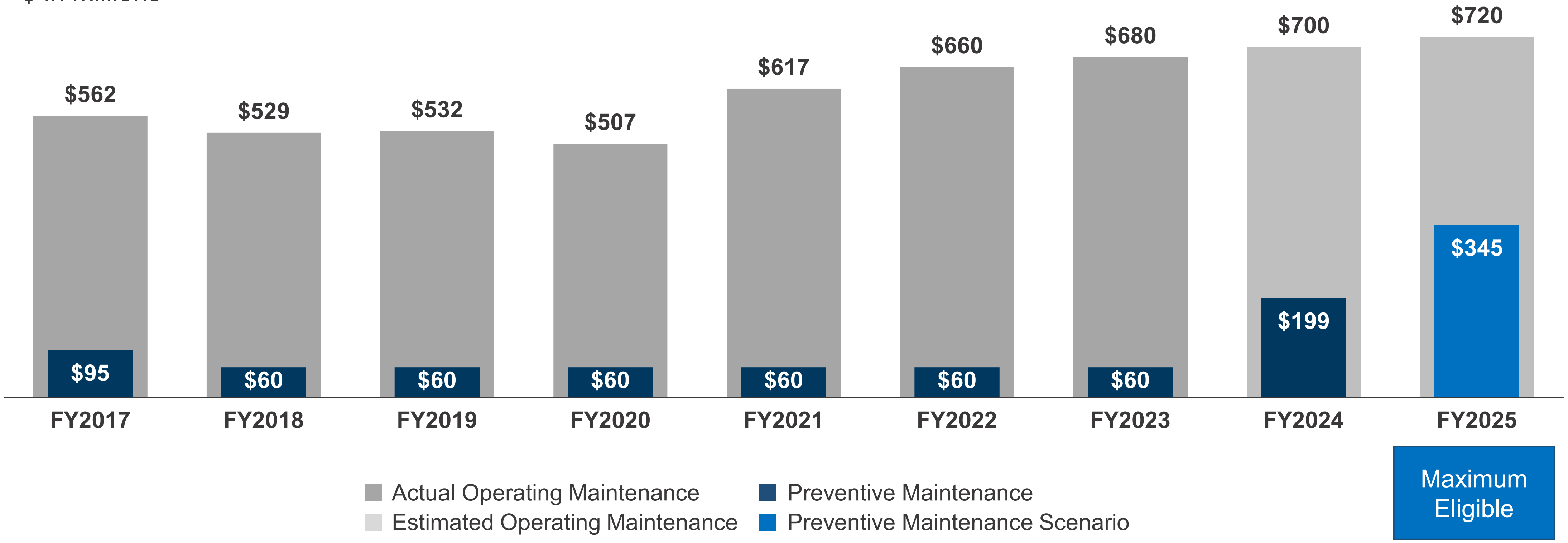
PM as a Percentage of Operating Budget ($M)



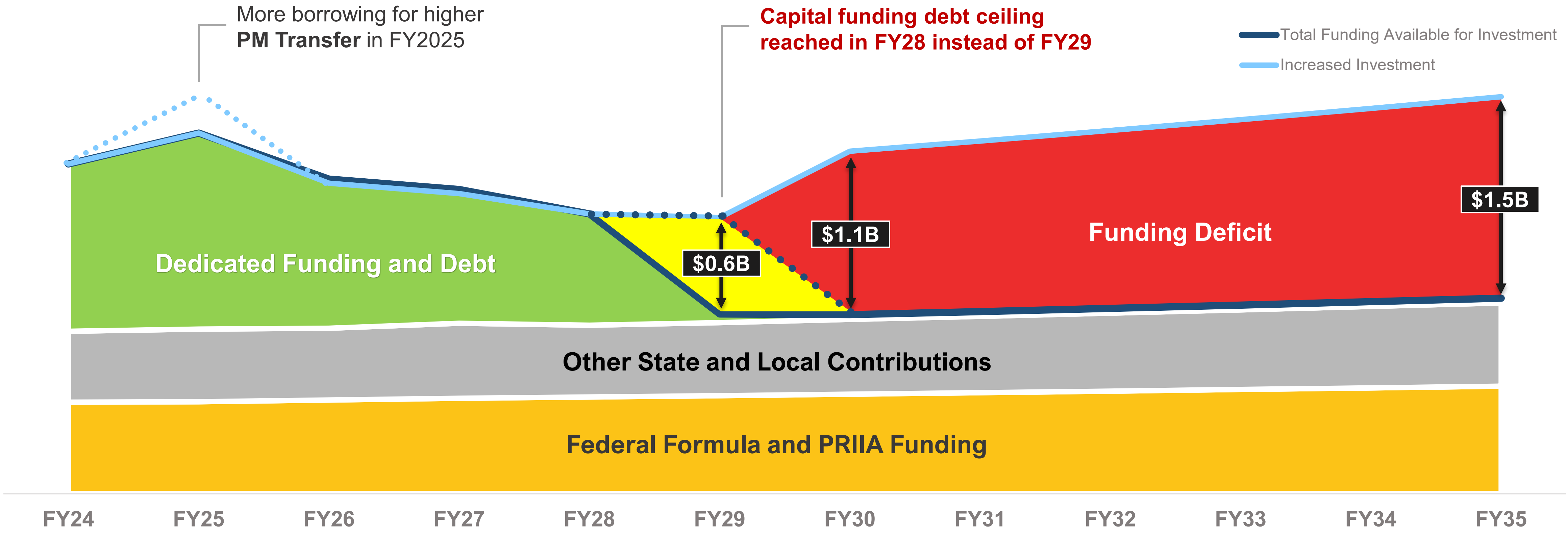
Historic and Potential Use of Preventive Maintenance Transfers at Metro

Preventive Maintenance (PM) vs. Operating Maintenance

$ in millions

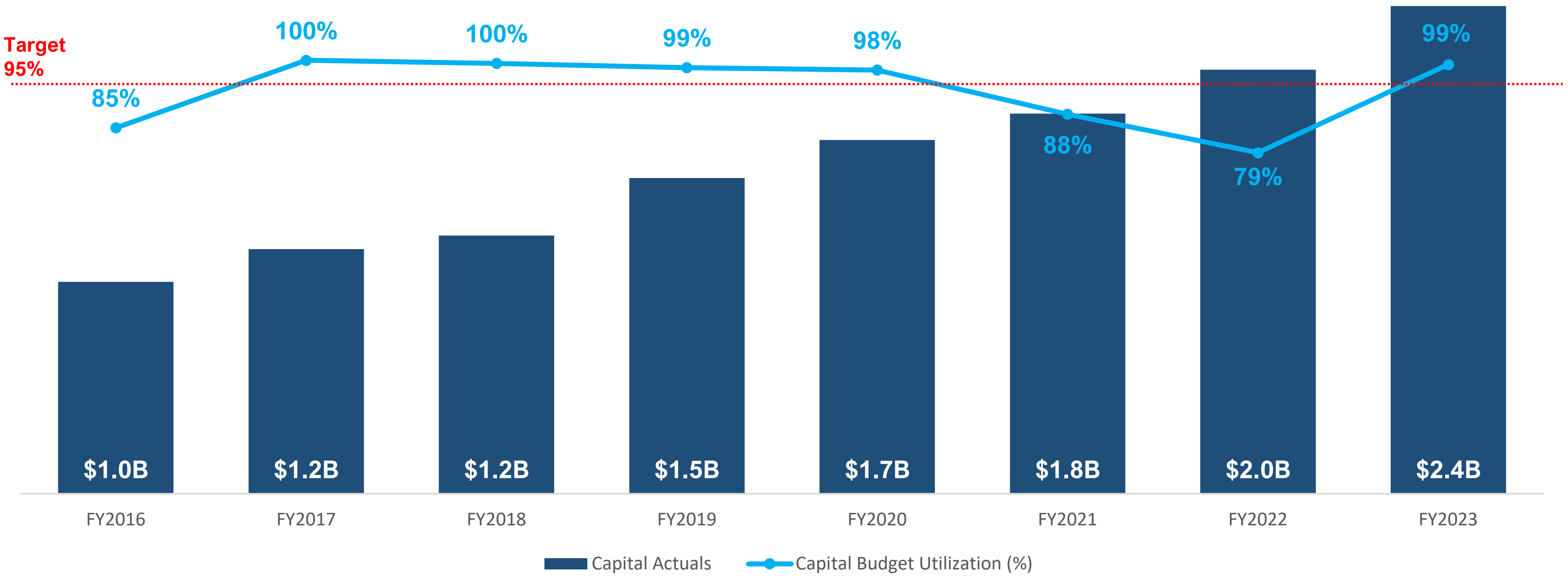


Capital Deficit begins in FY2028 or earlier instead of FY2029



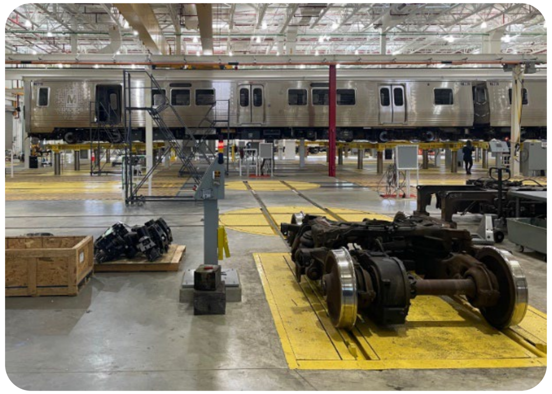
Continued Capital Investment Progress

- Doubled capital investment on safety, state of good repair, and modernization projects
- Utilization of FY2023 capital expenditures was 99.5% of the capital budget



Capital Transfers Put Priority Investments at Risk

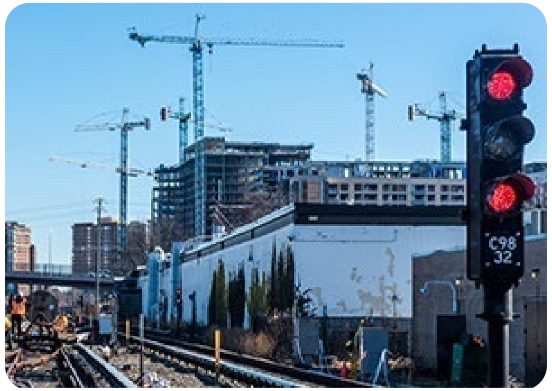
Reduced capacity for state of good repair and modernization projects



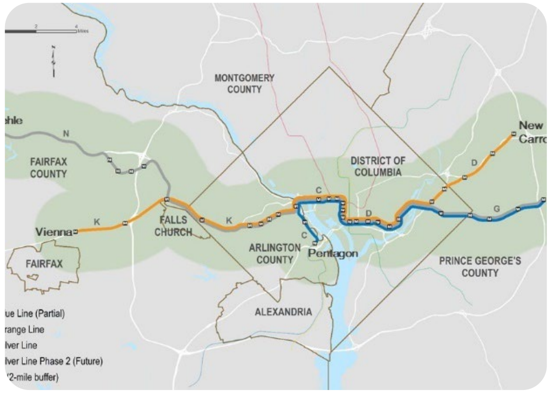
Heavy Repair & Overhaul Facility

8000-Series Fleet of the Future

Zero-Emission Buses and Garages



Next-Gen Automation and Signaling



Blue/Orange/Silver Corridor

FY2025 Budget Scenarios, Timelines, and Challenges

FY2025 Potential Scenarios

PRELIMINARY

	$ in Millions	Scenario A Historic PM	Scenario B FY2024 PM	Scenario C Max PM
	FY2025 Deficit	**$750**	**$750**	**$750**
FY2024 Forecast	Operational Efficiency FY23 – FY24 (one-time)	- $95	- $95	- $95
	FY2024 Revenue Forecast Adjustment*	+ $45	+ $45	+ $45
FY2025 Initiatives	Cost Efficiency Task Force (recurring)**	- $50	- $50	- $50
	Preventive Maintenance Transfer Options	- $0	- $139	- $285
	Total Preventive Maintenance	[$60]	[$199]	[$345]
	Revised FY2025 Deficit Forecast*	**$650**	**$510**	**$365**
	Potential Inflation Reduction	- $23	- $23	- $23
	Potential Federal SmartBenefits Replacement	- $50	- $50	- $50
	Potential Deficit w/ Federal Replacement	**$577**	**$437**	**$292**

* $45M Revenue Forecast Adjustment - includes $65M average fare and trip adjustment (rev. decrease) offset by $20M fare evasion recovery (rev. increase)
** Amount above annual 3 percent growth cap from FY2024-2025
Note: Totals may not sum due to independent rounding

FY2025 Subsidy Preliminary Estimates with PM at $60M (Scenario A)

Total Operating Subsidy Detail *($M)*

	FY2024 Jurisdictional Subsidy	FY2025 Base with 3% Annual Growth	Estimated Share of FY2025 Deficit	FY2025 Total Subsidy	Reduce Inflation & Potential Federal SmartBenefits Recovery Impact	Total Subsidy w/ Reduced Inflation & SmartBenefits Recovery
District of Columbia	$448	$462	$254	$716	-$27	$689
Maryland	$474	$488	$214	$701	-$26	$675
Virginia	$330	$340	$182	$522	-$20	$503
Total	$1,252	$1,289	$650	$1,940	-$73	$1,867

1. 3% statutory cap would have to be adjusted
2. Subject to change based on allocation inputs including ridership and revenue estimates, service adjustments, and other factors
3. Within VA, the localities and the Commonwealth coordinate to fund WMATA operating and capital; Commonwealth share cannot exceed 50% of the operating and capital.
4. Totals may not sum due to independent rounding; excludes debt service

FY2025 Subsidy Preliminary Estimates with PM at $199M (Scenario B)

Total Operating Subsidy Detail *($M)*

	FY2024 Jurisdictional Subsidy	FY2025 Base with 3% Annual Growth	Estimated Share of FY2025 Deficit	FY2025 Total Subsidy	Reduce Inflation & Potential Federal SmartBenefits Recovery Impact	Total Subsidy w/ Reduced Inflation & SmartBenefits Recovery
District of Columbia	$448	$462	$203	$665	-$27	$638
Maryland	$474	$488	$164	$652	-$26	$626
Virginia	$330	$340	$142	$482	-$20	$462
Total	$1,252	$1,289	$510	$1,799	-$73	$1,726

1. 3% statutory cap would have to be adjusted
2. Subject to change based on allocation inputs including ridership and revenue estimates, service adjustments, and other factors
3. Within VA, the localities and the Commonwealth coordinate to fund WMATA operating and capital; Commonwealth share cannot exceed 50% of the operating and capital.
4. Totals may not sum due to independent rounding; excludes debt service

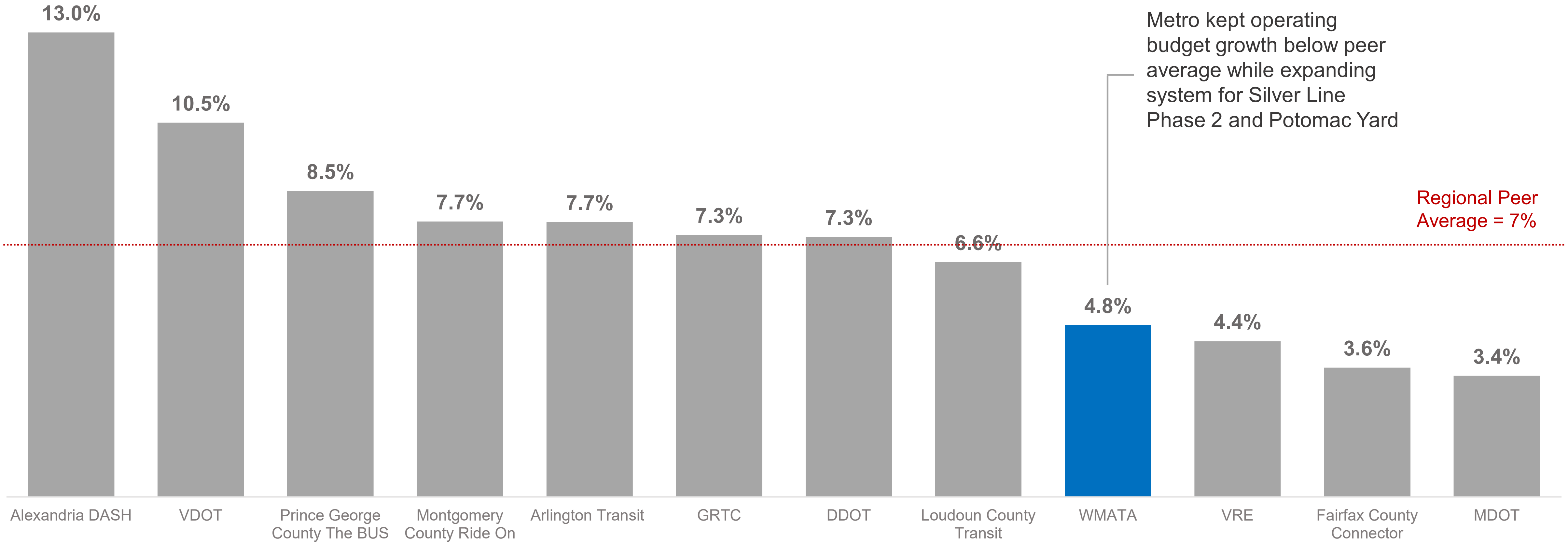
FY2025 Subsidy Preliminary Estimates with PM at $345M (Scenario C)

Total Operating Subsidy Detail *($M)*

	FY2024 Jurisdictional Subsidy	FY2025 Base with 3% Annual Growth	Estimated Share of FY2025 Deficit	FY2025 Total Subsidy	Reduce Inflation & Potential Federal SmartBenefits Recovery Impact	Total Subsidy w/ Reduced Inflation & SmartBenefits Recovery
District of Columbia	$448	$462	$150	$612	-$27	$585
Maryland	$474	$488	$113	$601	-$26	$575
Virginia	$330	$340	$101	$441	-$20	$421
Total	$1,252	$1,289	$365	$1,654	-$73	$1,581

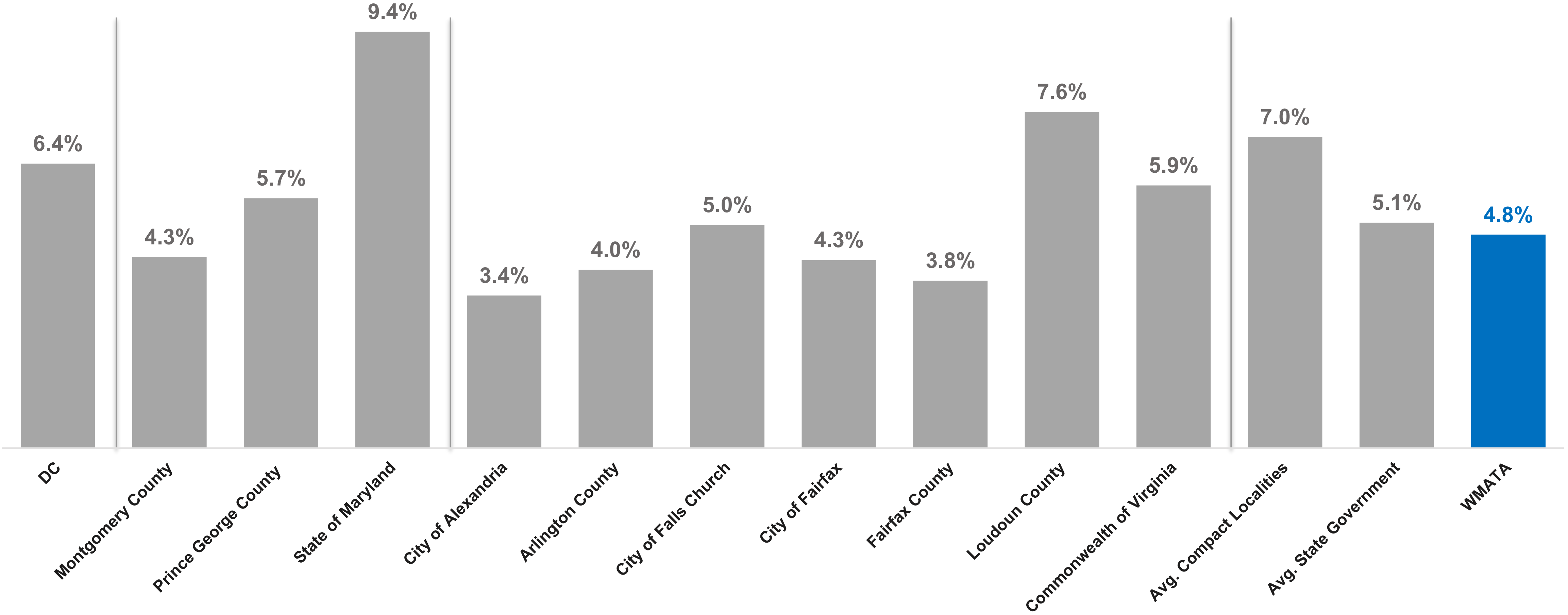
1. 3% statutory cap would have to be adjusted
2. Subject to change based on allocation inputs including ridership and revenue estimates, service adjustments, and other factors
3. Within VA, the localities and the Commonwealth coordinate to fund WMATA operating and capital; Commonwealth share cannot exceed 50% of the operating and capital.
4. Totals may not sum due to independent rounding; excludes debt service

Regional Transportation Agency Operating Budget Average Annual Growth Trend (2019-2024)



Source: Published budget books

Regional and State Operating Budget Average Annual Growth Trend (2019-2024)



Total State Government includes: District of Columbia, Maryland, and Virginia state government general fund operating
Total Compact Localities includes: District of Columbia, Montgomery County, Prince George's, Alexandria, Arlington, Falls Church, City of Fairfax, Fairfax County, and Loudoun government general fund operating
Source: Published budget books

3 Percent Cap on Increases to Annual Operating Subsidy

- In 2017, as part of WMATA's strategic plan, management recommended and the WMATA Board approved, an annual jurisdictional operating contribution growth at 3%
- In 2018, Maryland, Virginia, and the District of Columbia approved their share of $500 million in historic dedicated capital funding to support WMATA's State of Good Repair backlog
- Maryland and Virginia conditioned the dedicated capital funding to a 3% cap on annual operating budget subsidy increases with limited exceptions
- The District of Columbia legislation does not include the 3% cap

Subsidy Contributions Declined During Pandemic and Never Recovered; $690M in Foregone Subsidy

($ millions)	Approved Subsidy with Credit				
	FY2020	FY2021	FY2022	FY2023	FY2024
Base Subsidy	$1,113	$1,159	$1,104	$1,143	$1,228
Legislatively Allowable Exclusions	$12	$87	$6	$49	$25
Total Subsidy	**$1,125**	**$1,246**	**$1,110**	**$1,192**	**$1,252**
Subsidy Credit	$0	($135)	$0	$0	$0
Total Amended Subsidy	**$1,125**	**$1,111**	**$1,110**	**$1,192**	**$1,252**

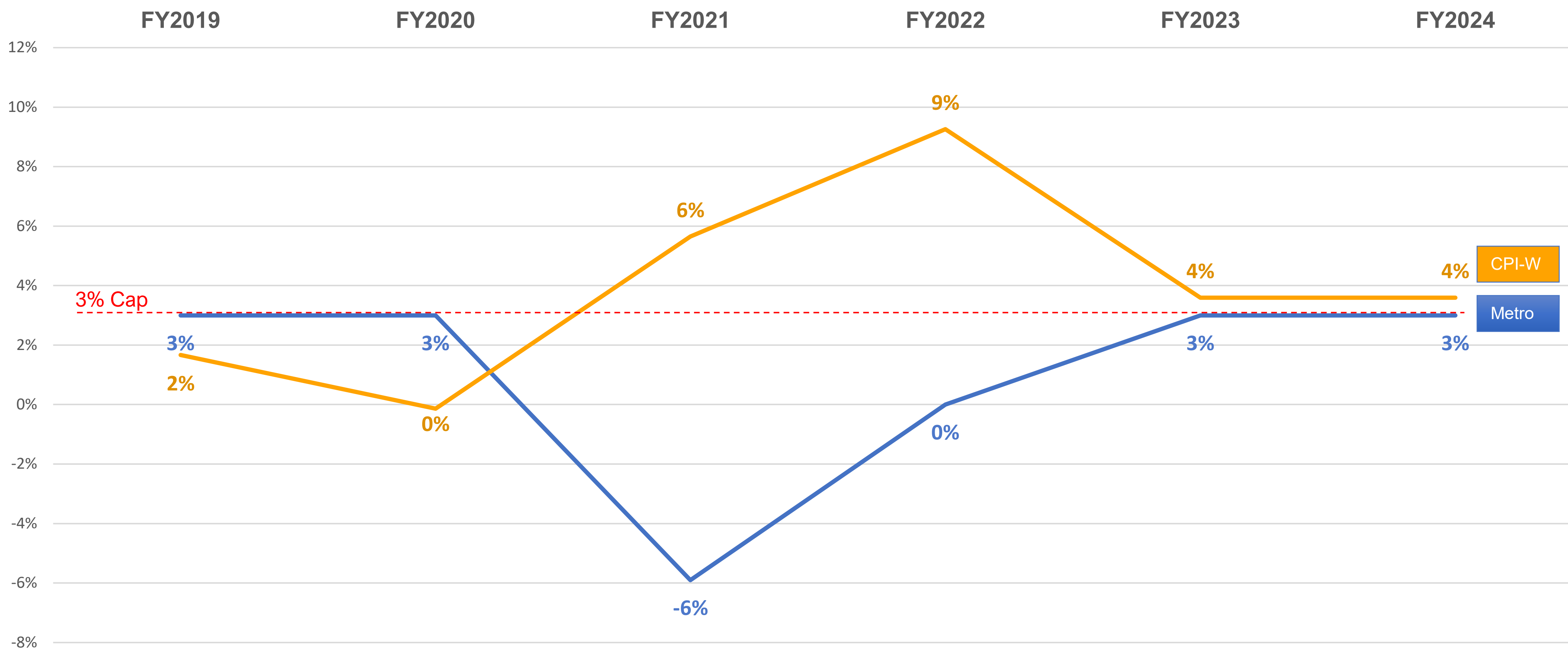
	Projected Subsidy without Credit				
	FY2020	FY2021	FY2022	FY2023	FY2024
Base Subsidy	$1,113	$1,159	$1,284	$1,328	$1,418
Legislative Exclusions	$12	$87	$6	$49	$25
Total Subsidy	**$1,125**	**$1,246**	**$1,290**	**$1,377**	**$1,443**
Foregone Subsidy	**$0**	**($135)**	**($180)**	**($185)**	**($190)**

($690M)

YoY Change from Subsidy Prior to Credit	**3%**	**-9%**	**-11%**	**-11%**	**-11%**

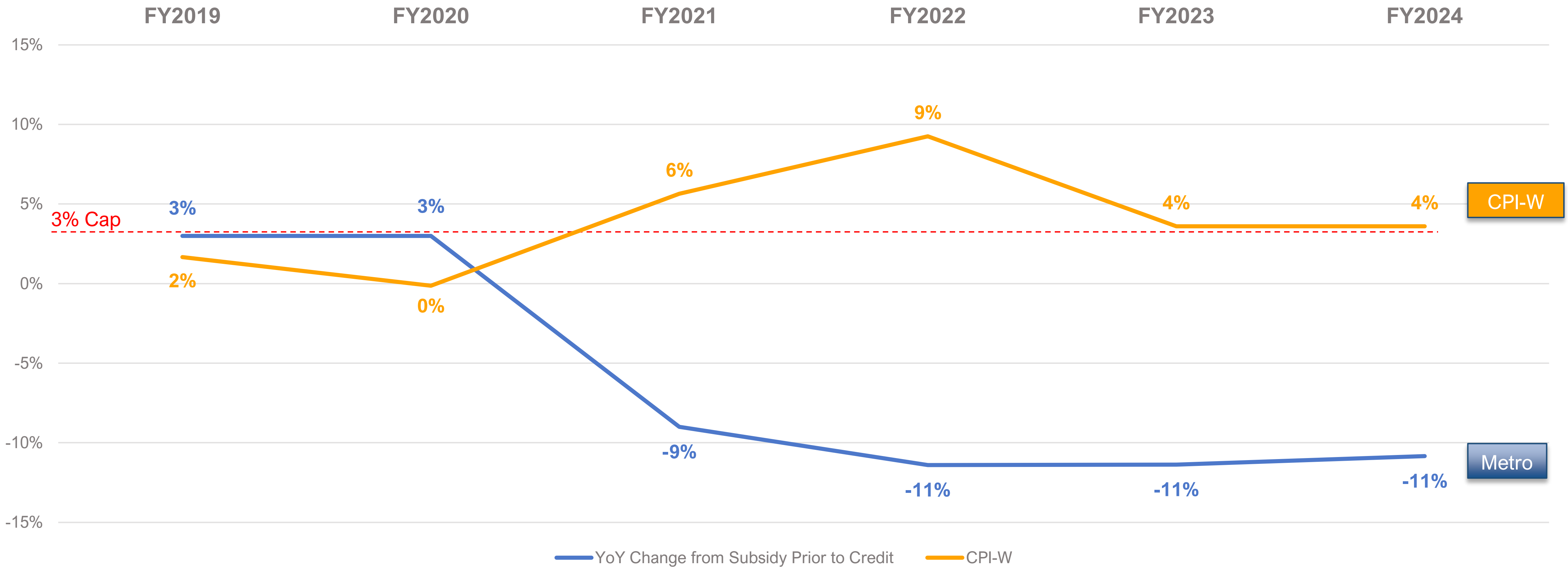
Note: Totals may not sum due to independent rounding; excludes debt service

Annual YoY Base Subsidy Change



FY2024: reflects May 2023 CPI-W

Cumulative Impact of Credit on YoY Base Subsidy Change



FY2024: reflects May 2023 CPI-W

FY2025 Budget Timeline

Dec '23
- **GM/CEO Proposed Budget Scenarios**

Jan '24
- **Potential Layoff Notices to Staff**
  Six-month advance notice required to complete layoffs before FY2025
- **Potential Hiring Freeze**
  Need to slow/stop hiring to prepare for service cuts

Mar '24
- **Title VI Analysis & Public Process**
  All service changes require public hearings and a Title VI analysis

Apr '24
- **Finalize Service Plan Schedules**
- **Typical Board Budget Adoption**

May '24
- **Federal Grants**
  Applications submitted to FTA

Jun '24
- **Operator Pick**
  June train and bus operator work pick

Jul '24
- **FY2025 Budget and Service Plan Starts**

Budget Schedule Challenges

- Metro Compact requires a balanced FY2025 budget effective July 1, 2024
- To avoid service cuts, the 3% subsidy growth cap in Maryland and Virginia will require a one-time adjustment of baseline subsidy in FY2025
- Budget calendar, service plan, and collective bargaining agreement (CBA) requirements don't align well with jurisdictional legislative calendars
- Alignment challenges will cause significant layoffs, hiring and training issues
- Staffing reductions will cause significant impacts to service scheduling, system performance, and reliability, with major customer impacts – reductions to safe, frequent, reliable service

Appendix

Methodology

YOY Base Subsidy Changes:
Takes Year over year change of Approved Base Subsidy for current year subtracted by the previous years Approved subsidy divided by the previous year's projected subsidy without credit

$$\frac{\boxed{\text{Approved Base Subsidy}} - \boxed{\text{Previous Yr. Approved Subsidy}}}{\boxed{\text{Previous Yr. Approved Subsidy}}}$$

YOY Change from Subsidy Prior to Credit:
Takes Year over year change of Approved Base Subsidy for current year subtracted by the previous years projected subsidy without credit divided by the previous year's projected subsidy without credit

$$\frac{\boxed{\text{Approved Base Subsidy}} - \boxed{\text{Previous Yr. Projected Subsidy w/o Credit}}}{\boxed{\text{Previous Yr. Projected Subsidy w/o Credit}}}$$