Finance Committee

Information Item III-A

January 26, 2017

FY2018 Operating Budget Work Session – Non-Personnel Expenses

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number: 201835	Resolution: ○ Yes ◉ No

TITLE:

FY2018 Operating Budget Work Session

PRESENTATION SUMMARY:

In the last of three work sessions on the proposed FY2018 operating budget, staff will provide additional information on non-personnel costs.

PURPOSE:

In response to Board member requests for additional information on the FY2018 operating budget, staff will conduct the third of three budget work sessions. The topic of this session is non-personnel costs.

DESCRIPTION:

Key Highlights:

Following the General Manager/Chief Executive Officer's (GM/CEO) proposal of the FY2018 operating budget in November, the Finance Committee is convening three work sessions to review the budget in greater detail. The first two sessions covered revenue and ridership and personnel expenses, and this final session covers non-personnel expenses.

Background and History:

In order to bridge a projected budget gap of $290 million, the GM/CEO has proposed an FY2018 operating budget that includes WMATA employee headcount reductions, fare increases, bus and rail service cuts, limited use of Federal Transit Administration (FTA) grant funds for eligible preventive maintenance activities, and increased jurisdictional contributions.

Following the presentation of the proposed budget, Metro Board members submitted follow-up questions to staff covering a range of topics. These questions are serving as the basis for three public work sessions in December and January covering revenue and ridership, personnel expenses, and non-personnel expenses.

Discussion:

Complete answers to the Board member questions regarding non-personnel expenses are included as an attachment. The presentation to the Finance Committee summarizes these questions into related topic areas.

FUNDING IMPACT:

Information item only - no funding impact.	
Project Manager:	Thomas J. Webster
Project Department/Office:	CFO/OMBS

TIMELINE:

Previous Actions	November 2016 - GM/CEO proposal of FY2018 operating budget December 2016 - Request for budget public hearing and work session #1 (ridership/revenue) January 12, 2017 - Work session #2 (personnel expenses)
Anticipated actions after presentation	January - February 2017 - Public participation activities and budget public hearing March 2017 - Planned adoption of FY2018 budget

RECOMMENDATION:

No action required - information item only.

Washington Metropolitan Area Transit Authority

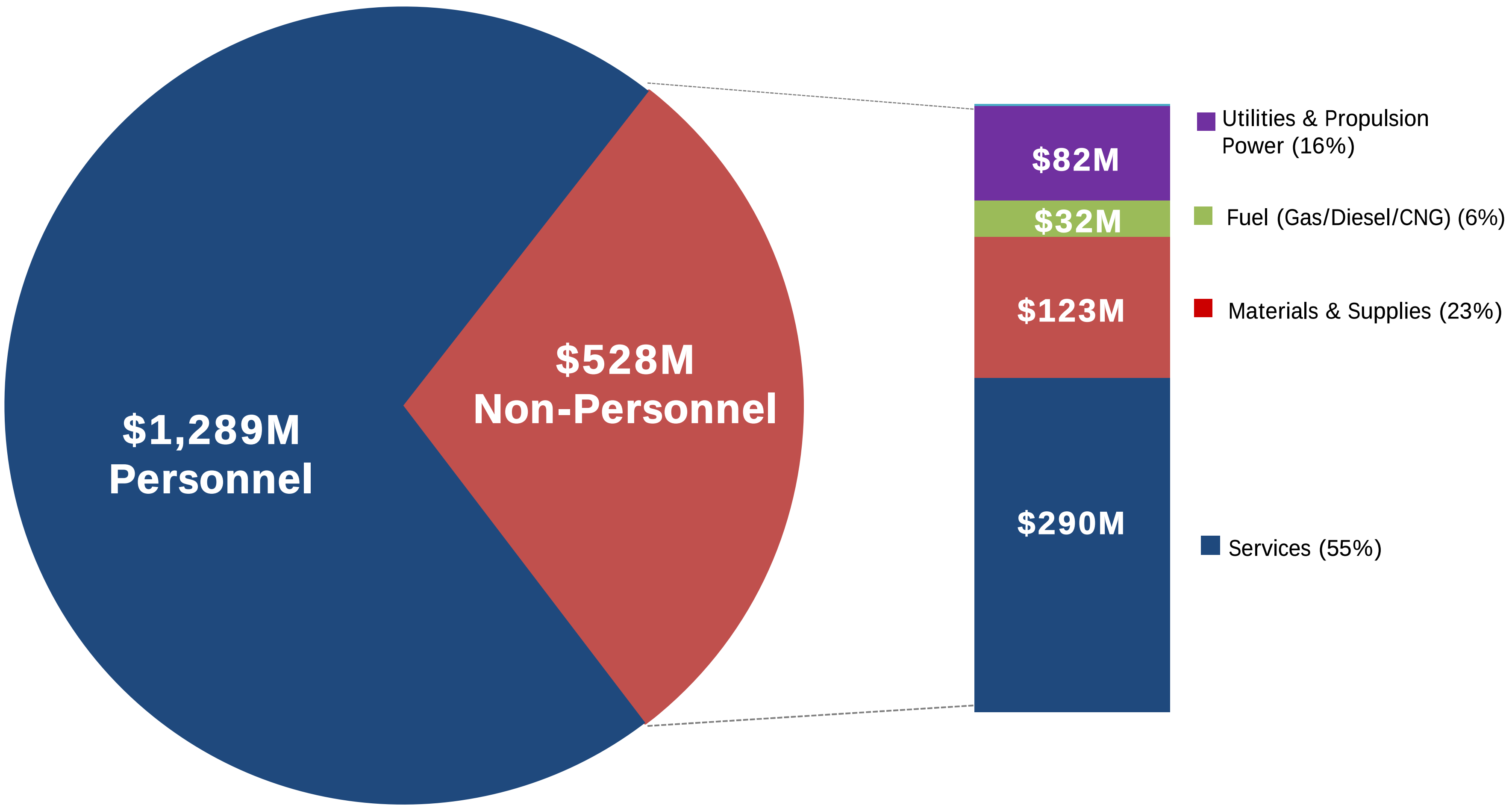
FY2018 Budget Work Session: Non-Personnel Expenses

Finance Committee
January 26, 2017

Review Board Questions

- ➢ Prior two work sessions focused on Ridership and Revenue and Personnel Expenses
- ➢ Today's work session:
  - ✓ Non-Personnel Expense Trends
    - Services Expense
    - Materials & Supplies
    - Energy
    - Non-Personnel Expense Savings

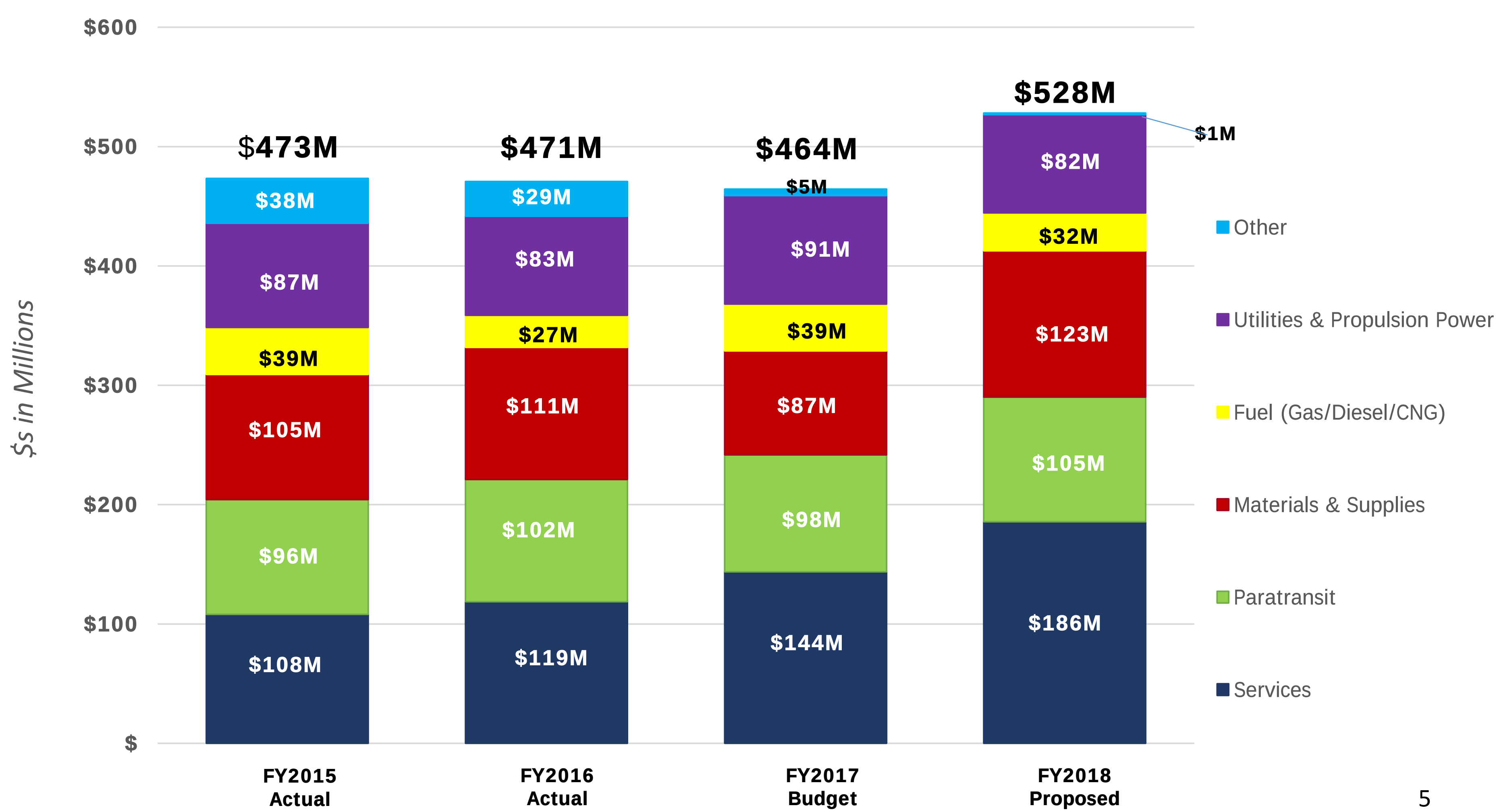
FY2018 Operating Budget - $1.8B



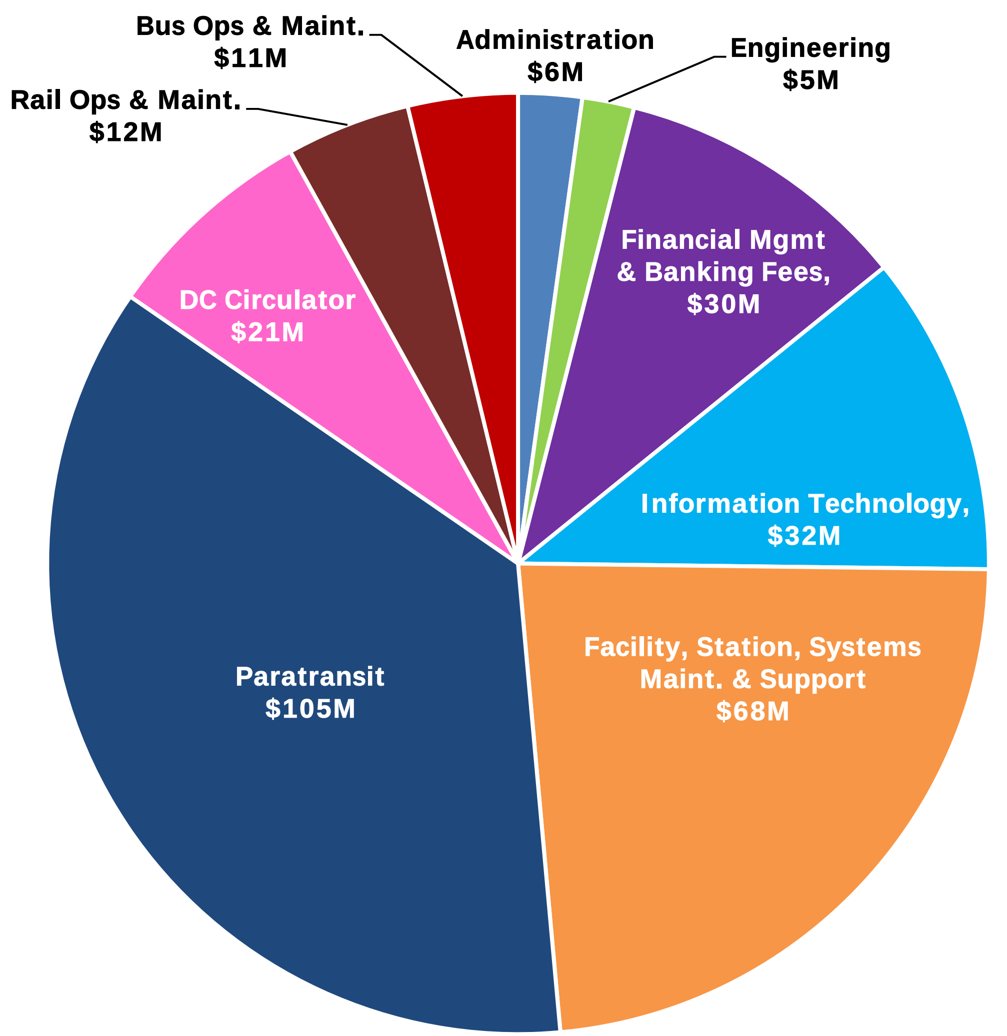
Operating Expense Budget

($ in Millions)	Actual 2016	Budget 2017	Forecast 2017	Proposed 2018	FY18 v FY17 Budget $	%
EXPENSES						
Total Personnel	$1,274	$1,315	$1,277	$1,289	($27)	-2%
Non-Personnel						
Services	$221	$242	$252	$290	$48	20%
Materials & Supplies	$111	$87	$130	$123	$36	41%
Fuel (Gas/Diesel/CNG)	$27	$39	$30	$32	($7)	-19%
Utilities & Propulsion	$83	$91	$82	$82	($9)	-9%
Insurance/Other	$29	$48	$37	$42	($6)	-18%
Capital Allocation	$0	($43)	($54)	($41)	$3	-6%
Total Non-Personnel	**$471**	**$464**	**$478**	**$528**	**$64**	**14%**
TOTAL EXPENSES	$1,745	$1,780	$1,755	$1,817	$37	2%

Non-Personnel Expense Trends



FY2018 Services Budget by Category



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Services Expenses - Growth Drivers

($ in Millions)	FY2017 v FY2018 Change	Primary Drivers
Paratransit	$6	Contract rate escalation, modification for additional contractor operated facility, reduction in projected savings from Abilities Ride program
NTSB / FTA	$7	Address FTA safety compliance mandates and corrective actions, including Rail Transformation training for Rail Controllers/Train Operators/Station Managers/Supervisors; Develop track inspection and maintenance training
Audit / Financial	$5	Financial management support and audit readiness to meet WMATA's goal of financial responsibility
Rail Reliability	$11	Maintenance of radio systems and cell phone cabling, station/platform/tunnel lighting maintenance, elevator/escalator reliability, train prediction software and railcar facility lifts
Operation & Support Maintenance	$15	Network security improvements; maintenance of financial system; expansion of drug/alcohol testing for FTA compliance; underground rail stations chiller & cooling tower monitoring and maintenance; fueling system maintenance; and roof inspection program
New Facilities / Other	$4	Including Cinder Bed Road bus facility and Good Luck Road facility
TOTAL	**$48**	

Materials & Supplies Expenses - Growth Drivers

($ in Millions)	FY2017 v FY2018 Change	Primary Drivers
Railcar Parts*	$23	Parts for the repair and replacement of various railcar systems to improve and sustain the safety and reliability of the railcar fleet. Parts and systems include but are not limited to brakes, doors, electronic/power distribution, and HVAC.
Rail Reliability	$13	Materials/supplies for track maintenance to repair and replace running rails, switch point rails, and tunnel lighting fixtures; Elevator and escalator parts and supplies
TOTAL	**$36**	

* These railcar parts will be charged to the capital budget if additional local capital funding is provided in FY2018.

Vehicle Energy Expenses

	FY2016 Actuals	FY2017 Budget	FY2018 Proposed	Variance
Diesel				
Volume – Gallons	9.5M	11.1M	9.9M	(1.2M)
Rate per Gallon	$1.90	$2.17	$2.17	$0.00
Total Cost	$18.4M	$24.0M	$21.5M	($2.5M)
Gasoline				
Volume - Gallons	4.5M	4.8M	4.6M	(0.2M)
Rate per Gallon	$1.53	$2.52	$1.58	($0.94)
Total Cost	$6.9M	$12.1M	$7.3M	($4.8M)
CNG				
Volume - Therms	7.9M	8.2M	8.6M	0.4M
Rate per Therm	$0.681	$0.676	$0.616	$0.060
Total Cost*	$1.6M	$3.1M	$2.6M	$0.05M
Propulsion				
Volume-KwH	562.7M	579.7M	457.8M	(121.9M)
Rate per KwH	$0.088	$0.088	$0.093	$0.005
Total Cost	$49.4M	$50.9M	$42.6M	($ 8.3M)

*Net of CNG Tax Credit

Non-Personnel Expense Savings

Incorporated in Proposed Budget:

- $15M from rightsizing Bus and Rail Service
- $6M in diesel fuel and gasoline due to volume and rate reductions
- $6M in reduced premiums for Casualty and Liability
- $5M from management actions
  - ✓ Non-personnel savings for workforce reductions, closing sales offices, and management efficiencies

Rightsizing Service: Budget Impact

($ in Millions)	Bus	Rail	Total
Revenue Loss	($3)	($8)	($10)
Personnel	$15	$10	$25
Services / Materials & Supplies	**$3**	**$0**	**$3**
Diesel Fuel / Propulsion	**$2**	**$10**	**$12**
Expense Savings	$19	$20	$39
Subsidy Decrease	$17	$12	$29
Headcount Reduction	(184)	(116)	(300)

Distribution of positions may change as the proposed FY2018 service reductions are finalized.

Non Personnel

1. Services are up $48M and Materials & Supplies up $35M. Provide a breakdown of what services and supplies account for these large spending increases in FY18.

The largest increase in the FY2018 non-personnel budget was $23 million for rail vehicle parts under Materials and Supplies. The tables below summarize the major drivers of the budget increase for Services and Materials & Supplies.

($ in millions)	**FY17 v FY18 Change**	**Primary Drivers**
Services		
Paratransit	$6	Reduction in projected savings from Abilities Ride program, modification for additional contractor operated facility, and contract rate escalation
NTSB/FTA	$7	Address FTA safety compliance mandates and corrective actions, including Rail Transformation training for Rail Controllers/Train Operators/Station Managers/Supervisors; Develop track inspection and maintenance training
Audit/Financial	$5	Financial management support and audit readiness to meet WMATA's goal of financial responsibility
Rail Reliability	$11	Maintenance of radio systems and cell phone cabling, station/platform/tunnel lighting maintenance, elevator/escalator reliability, train prediction software and railcar facility lifts
Operations & Support Maintenance	$15	Network security improvements; maintenance of financial system; expansion of drug/alcohol testing for FTA compliance; underground rail stations chiller & cooling tower monitoring and maintenance; fueling system maintenance; and roof inspection program
New Facilities/Other	$4	Including Cinder Bed Road bus facility and Good Luck Road facility
TOTAL	**$48**	

($ in millions)	**FY17 v FY18 Change**	**Primary Drivers**
Materials & Supplies		
Railcar Parts	$23	Parts for the repair and replacement of various railcar systems to improve and sustain the safety and reliability of the railcar fleet. Parts and systems include but are not limited to brakes, doors, electronic/power distribution, and HVAC.
Rail System Reliability	$13	Materials/supplies for track maintenance to repair and replace running rails, switch point rails, and tunnel lighting fixtures; Elevator and escalator parts and supplies
TOTAL	**$36**	

2. Non-personnel costs. Can't tell what's driving what's in the budget, especially increases. Would like to understand whether we're consuming more (materials) and/or our underlying assumptions regarding costs (energy). Obviously, our proposed budget might include both elements but would like a high level understand of those drivers not just the final proposed number in each major spend category.

The growth in the non-personnel expense budget is associated with Services and Materials & Supplies expense increases as a result of railcar parts, new initiatives and inflation.

The increase in the Materials & Supplies budget is primarily driven by additional railcar parts that are required to advance the GM/CEO's Railcar Get Well Plan and maintain enough reliable railcars to meet the service demand. Due to federal procurement requirements, these parts are currently purchased with non-federal sources of funds.

The Services and Materials & Supplies expense growth is partially offset by a decrease in energy costs for propulsion power and fuel. The decrease in propulsion costs is a result of the proposed rail service reductions. Fuel cost reductions are due primarily to proposed bus service reductions as well as a decline in gasoline rates in comparison to FY2017 budget.

(in Millions) **Diesel**	**FY2016 Actuals**	**FY2017 Budget**	**FY2018 Budget**	**Variance**
Volume - Gal	9.5	11.1	9.9	(1.2)
Rate per Gal	$ 1.9	$ 2.17	$ 2.17	$ 0.00
Total Cost	$ 18.4	$ 24.0	$ 21.5	($ 2.5)
Gasoline				
Volume - Gal	4.5	4.8	4.6	(0.2)
Rate per Gal	$ 1.53	$ 2.52	$ 1.58	($ 0.94)
Total Cost	$ 6.9	$ 12.1	$ 7.3	($ 4.8)
CNG				
Volume - Therms	7.9	8.2	8.6	0.4
Rate per Therm	$0.681	$0.676	$ 0.616	$ 0.060
Total Cost	$ 1.6	$ 3.1	$ 2.6	$ 0.05
Propulsion				
Volume - KwH	562.7	579.7	457.8	(121.9)
Rate per KwH	$0.088	$0.088	$ 0.093	$ 0.005
Total Cost	$ 49.4	$ 50.9	$42.6	($8.3)

3. **A portion of the $36M increase in Materials and Supplies in the operating budget is for rail and bus parts that WMATA is purchasing without FTA funds. What is the dollar value of these purchases and what percent would be eligible for locally-provided capital funding rather than using operating funds?**

   Of the $36 million increase in material and supplies, $23 million funds railcar parts. These railcar parts purchases would be eligible for local capital funding.

4. **Does the FY2018 budget assume any savings in expenditures for unplanned railcar repair as 7000 series cars replace 1000 series cars?**

   The FY2018 proposed budget assumes continued maintenance investment in railcars; no immediate reduction is planned. The goal is to increase reliability and reduce unplanned maintenance through regular scheduled maintenance of the rail cars. Any maintenance savings resulting from the replacement of older railcars with 7000 series cars are expected to be offset by increased investment for the maintenance of the remaining fleet.

5. What are the criteria for privatizing lines of business? Are any included among the $50M in savings under Management Actions?

In general, management will consider privatization or outsourcing as one of several options for efficient service delivery, with a goal of maintaining or improving current services, subject to legal requirements. The proposed FY2018 Operating Budget includes outsourced services for Paratransit, Metrobus cleaning and sanitation, janitorial services, and chiller/cooling tower treatments. The proposed budget also includes support for the Abilities-Ride program and new facility maintenance.

6. What area/functions will be under consideration for contracting out?
See question 5 for response.

7. In the summary section of the budget proposal, there's a bullet suggesting privatization of certain functions. What budget assumptions are based on this? What functions are we considering now or propose to look at for privatization in FY2018? There are a couple of basically – P3 proposals being discussed (e.g., parking, off-board fare payment pilot). Any others – either for full implementation or pilot proposals?
See question 5 for response.

<u>Other</u>

8. What are the major drivers behind the acceleration in the projected growth of operating expenses in the three-year outlook (2018-2020) provided to the Board on page 42 of the Board Memo (MEAD 201808)?

The key cost drivers of the FY2019 and FY2020 projections are an estimated four percent increase in baseline costs annually and the addition of operating and maintenance costs associated with Silver Line Phase 2 to Dulles Airport and Loudoun County. Silver Line ramp-up costs will begin in FY2019 ahead of full implementation and revenue service in FY2020; estimates will be revised as operating elements are fully delineated.

9. Board memo mentions FY 17 - 20 jurisdictional contributions increasing by 15% in '18, 7 % in '19 and 10% in '20. Amounts stated in memo and deck are different for FY18, $976M to $997 respectively. What are the correct amounts?

The difference in the jurisdictional contribution amounts presented in the BAIS and in the presentation slides is due to debt service payments associated with the 2009 Metro Matters debt issuance. The figures in the BAIS ($845 million in FY2017 and $975 million in FY2018) represent what is typically referred to as the net subsidy for operating Metrobus, Metrorail, and MetroAccess services. The figures in the presentation slides ($866 million in FY2017 and $997 million in FY2018) represent what is typically referred to as the total jurisdictional contribution, which includes the net subsidy plus $21 million of Metro Matters debt service payments.

10. What assumptions are made about when Loudoun County begins paying a share of the operating costs of WMATA in the FY2019 and FY2020 budget projections?

The FY2019 Budget will include Loudoun's contribution to the operating budget for the opening of Silver Line Phase 2. Metro and the jurisdictions have not finalized an agreement regarding operating subsidy contributions for Silver Line Phase 2. The assumed revenue service date for Silver Line Phase 2 is currently January 1, 2020 (halfway through Metro's FY2020) with an expected "ramp-up" period of approximately 18 months prior to that opening date where expenses would be incurred for hiring and training rail operators, station managers, transit police, and other employees necessary to operate the additional service.

In the ramp-up period prior to the opening of Silver Line Phase 1, Metro and the jurisdictions agreed that the five new stations in Fairfax County would be reflected in the rail operating subsidy allocation formula, which increased Fairfax County's subsidy contribution to Metro despite revenue service not having started yet.

11. FTA grants and maintenance. As a reminder, we should look at House language to understand willingness to move money to the operating budget to accomplish safety items (rather than just filling an operating budget gap).

Railcar and bus preventive maintenance is required to keep transit vehicles in safe and reliable condition and must continue, regardless of the funding source. FTA regulations allow grant funds to be used for this purpose. Metro Board policy historically limited the use of FTA grant funding of preventive maintenance (PM) to approximately $31 million annually prior to FY2017, although Metro spends substantially more on PM activities each year. For FY2017, the Board increased the FTA grant funding of eligible PM to $95 million. For FY2018, the budget proposal includes the use of $60 million of FTA grant funds for eligible PM expenses.

12. Many transit properties schedule service based on demand on a line by line or route by route basis using a set of Service Guidelines. WMATA nearly always uses a one size fits all lines rail scheduling approach. Why? What would a demand-based service schedule that complies with the Board-adopted Service Guidelines look like? Are ridership patterns on all of our lines and line segments nearly identical?

Metrorail's integrated design limits applying service alternatives by line. With limited tracks, crossovers, tail-tracks, and junctions, Metro is not able to match service with the ridership demand as defined in the question. Since 5 out of 6 lines in the system share tracks, a highly synchronized service pattern is required.

Furthermore, safety rules restrict the scheduling of any two trains closer than two minutes to each other, greatly limiting the amount of demand based headways that Metro is able to schedule. In addition, turn-back operations on live track, such as the Yellow Line at Fort Totten, often requires that the lines sharing the segments operate at identical headways. Metro adjusts capacity to meet the demand by varying the amount of 8-car trains in service on each line.

13. How many rail stations entrances have more than one Station Manager employee scheduled to work that entrance per shift? Are these extra staff individuals working regular assigned shifts or via overtime?

There are 13 rail stations that currently have "Scheduled Assist" during peak hours. These station locations are: Bethesda, Shady Grove, Union Station South, Union Station North, Farragut North - 18th St., Foggy Bottom, Rosslyn – Main Entrance, Pentagon, New Carrollton, Columbia Heights, Vienna, Tysons Corner (from 10:00am – 7:00 pm), and Wiehle Reston East. The hours worked by the extra station manager are regular assigned hours.

14. Rather than closing low-performing stations as initially "floated," why not a pilot program where staff is thinned-out at these stations during non-peak hours? Say you did a pilot with 10 to 15 such stations, like White Flint, Glenmont, Greensboro, etc, how much could be saved?

The FY2018 budget does not propose any station closures. Stations with low ridership during non-peak hours currently operate with minimal staff consisting of one station manager per mezzanine. The cost savings from decreased staffing would be small and would likely be more than offset by increases in security costs and potential revenue loss. Management does not recommend a further reduction in staff at these stations due to safety and security concerns, customer assistance issues and revenue control risks.

Customer Service

15. WMATA provides very little marketing support for new and improved bus routes. What is WMATA doing to inform customers about discretionary travel options, airport services and new bus routes like the NH2?

About 20 percent of Metro's marketing budget in FY2018 will be allocated for outreach to current and potential bus customers in all jurisdictional service areas. Consistent with Metro's development and launch of new Metroway and NH2 buses services, marketing efforts include branding, rolling stock wraps, system signage, onboard information, grassroots outreach, local promotions, and paid media. As the largest growing population, one key demographic targeted is millennial riders, using a mix of marketing tactics to include:

- Social media messaging
- Video

- Street team outreach
- Stakeholder assets (websites, newsletters, etc.)
- Community events and promotional opportunities
- Ads on Metrobus and in rail stations
- Radio ads
- Print ads in Express newspaper
- Direct mail

16. Does the FY2018 budget include funds to market the end of SafeTrack and encourage riders to come back to rail?

Metro will promote rail ridership using three marketing and communications campaign phases. The first phase, which has already begun as part of Back2Good, conveys progress underway to restore safe rail service. The second phase will market improvements to service reliability. The final phase encourages new and returning riders to try the better rail service. The campaign will use a mix of media to communicate throughout the region including traditional and social media, video placements, print, system signage, digital media, and new partnerships. About 25 percent of the FY2018 marketing budget is allocated for the rail ridership/return campaign.