



Finance Committee

Information Item III-B

September 14, 2017

Keeping Metro Safe, Reliable and Affordable



Washington Metropolitan Area Transit Authority

Keeping Metro Safe,
Reliable and Affordable





Purpose

- Discuss plan to Keep Metro Safe, Reliable and Affordable (KMSRA)
- Update the Board of Directors on capital and operating funding requirements to keep system safe and reliable
- Highlight potential KMSRA benefits and consequences for the region and riders



Metro faces structural challenges

Chronic Capital Underinvestment

- Reliant on unpredictable year-to-year annual local, state and federal investments, with only one year of committed capital funding
- Substantial deferred capital needs backlog
- Historic focus on system expansion, rather than asset rehabilitation and replacement
- Large maintenance costs associated with an aging transit system
- Limited maintenance and rehabilitation opportunity due to “2-track” design and constrained work hours
- Key Metrobus garages are obsolete and in need of replacement
- One of the only major U.S. transit systems without dedicated funding

Unsustainable Operating Model

- Structural operating funding deficit (\$290 million in FY2018)
- Labor-intensive operation – over 70% of operating budget funds personnel (wages & benefits)
- Substantial legacy commitments on wages, pension and health benefits
- MetroAccess demand and subsidy have grown rapidly as Metro has limited ability to control costs of the mandated service
- Operating costs rising as non-subsidy revenues stagnate or decline
- No “Rainy Day” or contingency fund

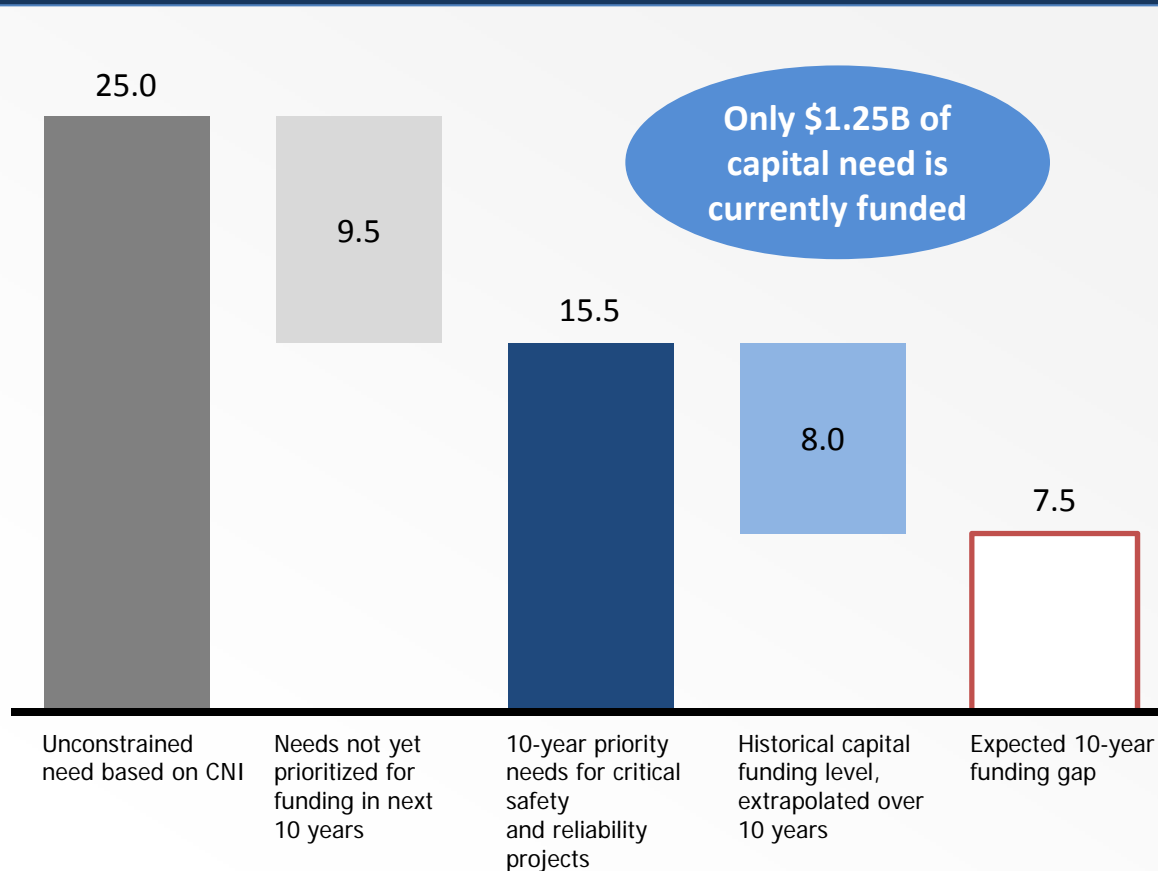


Capital Program Discussion



Metro needs \$15.5B of capital investment over 10 years for safety and reliability

10-year capital needs, by funding and priority status, \$B



- Key federal and regional funding are at risk
- Maintaining historic capital funding levels would:
 - Impact safety, reliability, and compliance efforts
 - Continue service disruptions and delays in the system



Keeping Metro Safe, Reliable and Affordable

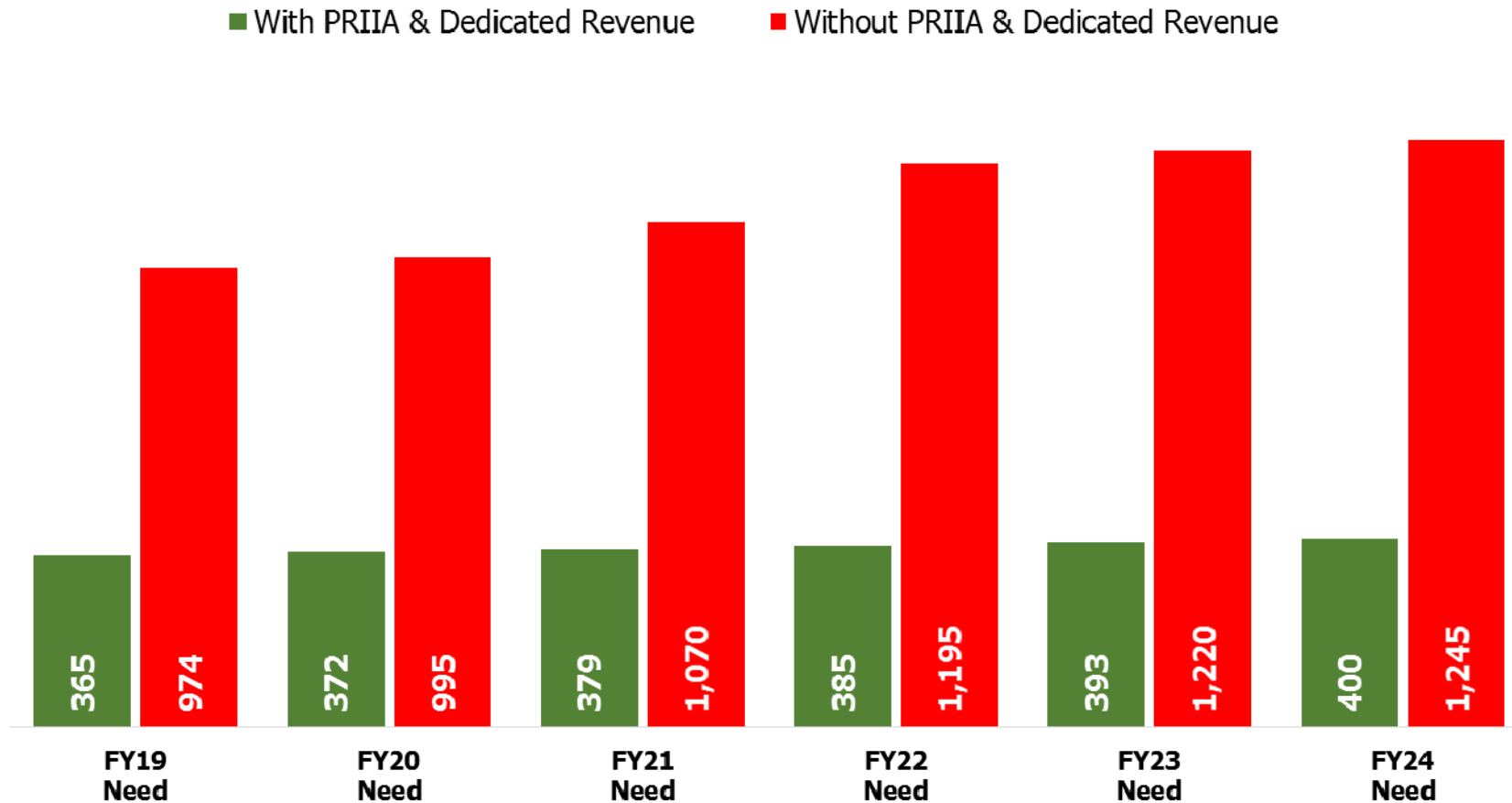
To restore system to a State of Good Repair:

- ✓ Cap **annual jurisdictional capital contribution growth at 3%**
- ✓ Invest **\$15.5 billion over next 10 years** for critical capital projects, increasing **average annual investment** to \$1.5 billion
- ✓ **Establish a multi-year, inflation-adjusted stable revenue source generating \$500 million per year to a Capital Trust Fund**
- ✓ Dedicate the Capital Trust Fund **exclusively** to capital investment, not day-to-day operations
- ✓ Secure Congressional **reauthorization for federal capital investment (PRIIA)** at least at current level of **\$1.5 billion over 10 years**

Stable, dedicated funding provides flexibility and long term financial sustainability



Without PRIIA and dedicated revenue, jurisdictional capital funding required for safety and reliability will triple

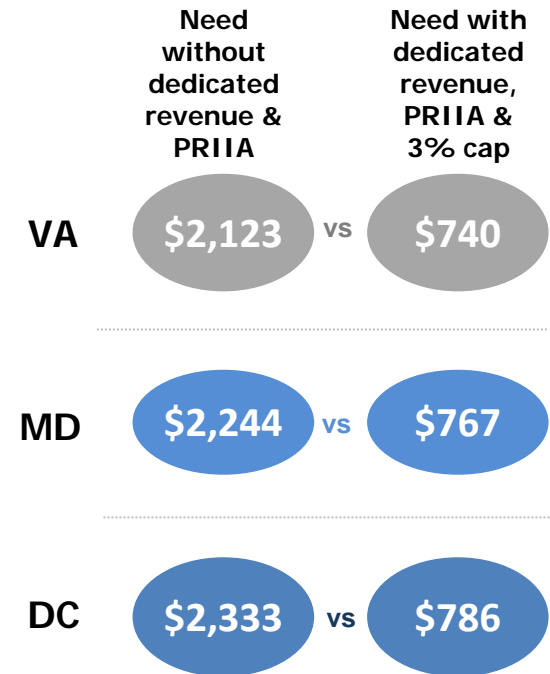
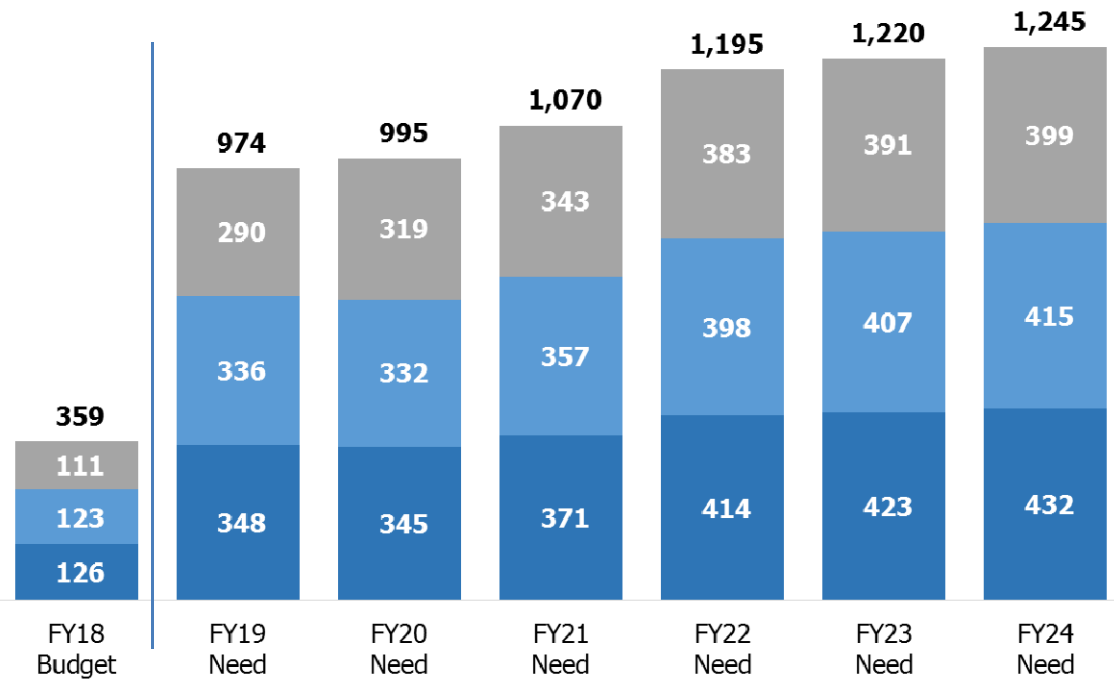




Growing capital needs will consume limited local resources

Annual capital contribution need by jurisdiction – estimate, \$M

Total 6-year contribution, \$M

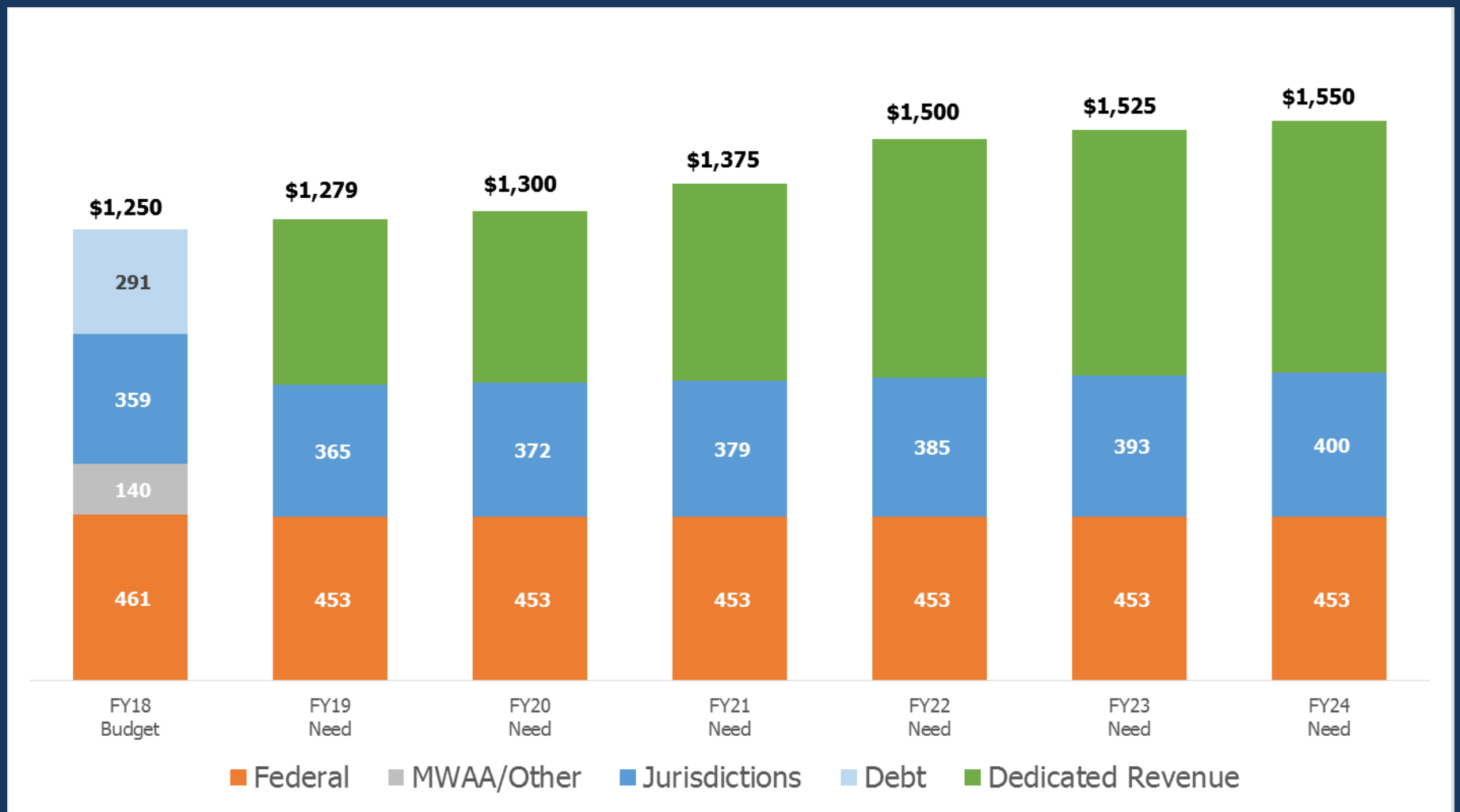


Without dedicated revenue, Metro's growing capital needs will compete annually with jurisdictions' other funding priorities

Does not include long-term debt or contributions for debt service payments; amounts do not sum to total due to rounding



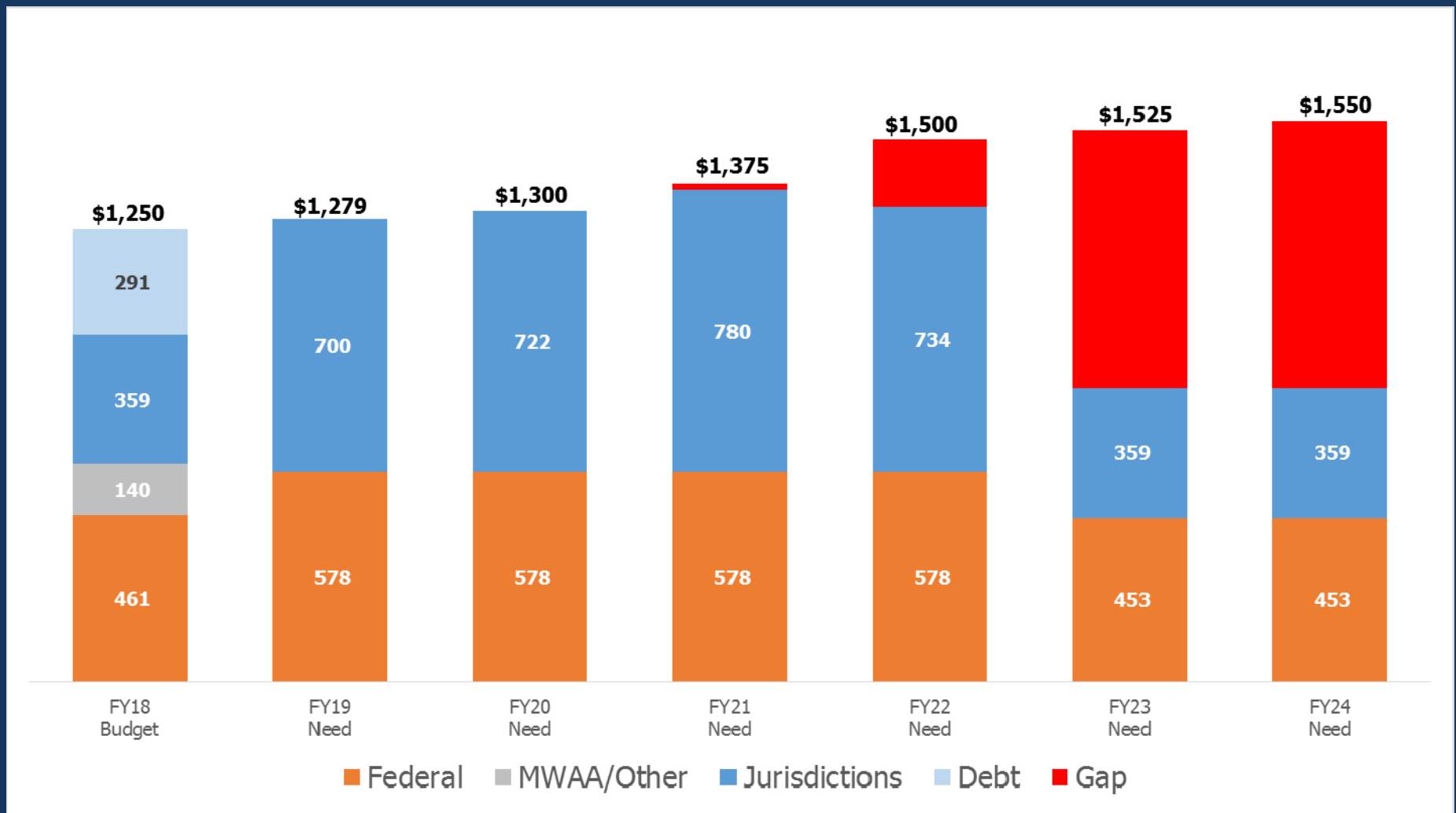
With PRIIA reauthorization and dedicated revenue, region would meet safety and reliability capital needs



Assumes PRIIA reauthorization and appropriation, federal formula grants continue at current levels, dedicated revenue of \$500 million per year to support debt and paygo for capital projects, and jurisdictional capital contributions growth capped at 3% per year.



Governor Hogan's Proposal: \$2 billion of additional capital funding and four years to formulate a long-term solution



Assumes PRIIA reauthorization and appropriation, federal formula grants continue at current levels, additional \$2 billion over four years from MD, DC, VA and Federal (equal shares), and with no dedicated revenue.



Investing \$15.5 billion over next ten years for a safe and reliable Metro system

Asset class Impact of investments, \$B

Vehicles

- 748 new **7000 series railcars** in service
- 2000-3000 series railcars replaced with 8000 Series
- 85% of railcar fleet will be new vehicles
- Replace and Rehabilitate 200 **Metrobus** & 180 **MetroAccess** vehicles/year

\$3-4



Systems

- New radio and wireless system for customers, first responders & operations
- Wayside-worker protection, fire life safety, and train control signal systems
- Power system upgrades for safety, reliability and more 8-car trains
- Modernized fare collection and information technology infrastructure and applications

\$2-3



Facilities/ Structures

- Complete **Cinder Bed** and **Andrews Federal** bus garages
- Replace **Bladensburg** and **Northern** bus garages with modern facilities
- Rehabilitate railcar maintenance facilities
- Rehabilitate rail bridges and structures

\$3-4



Track

- Rehabilitate remaining track not yet replaced in SafeTrack to ensure safety and reliability
- Install new track as necessary system wide

\$2-3



Stations

- Replace or rehabilitate 276 **Escalators** and 97 **Elevators**
- Rehabilitate station platforms and improve lighting
- New stations at Potomac Yard and Silver Line Phase 2
- Begin to address passenger circulation challenges in core stations including **Gallery Place**, **Metro Center**, **Union Station** & **L'Enfant Plaza**

\$1-2



D&E

- Develop the next generation of capital projects to improve safety, reliability, and capacity, such as **Red Line water remediation**, **Tunnel ventilation**, **replacement bus garages**, **railcar overhaul facility** and **Rosslyn Tunnel**

\$0-5



Metro will follow best practice in delivering the capital program

- Prioritize safety and reliability projects
- Deliver projects on time and on budget
- Deploy 95% of annual capital budget



Operating Budget Discussion



Creating a sustainable operating model

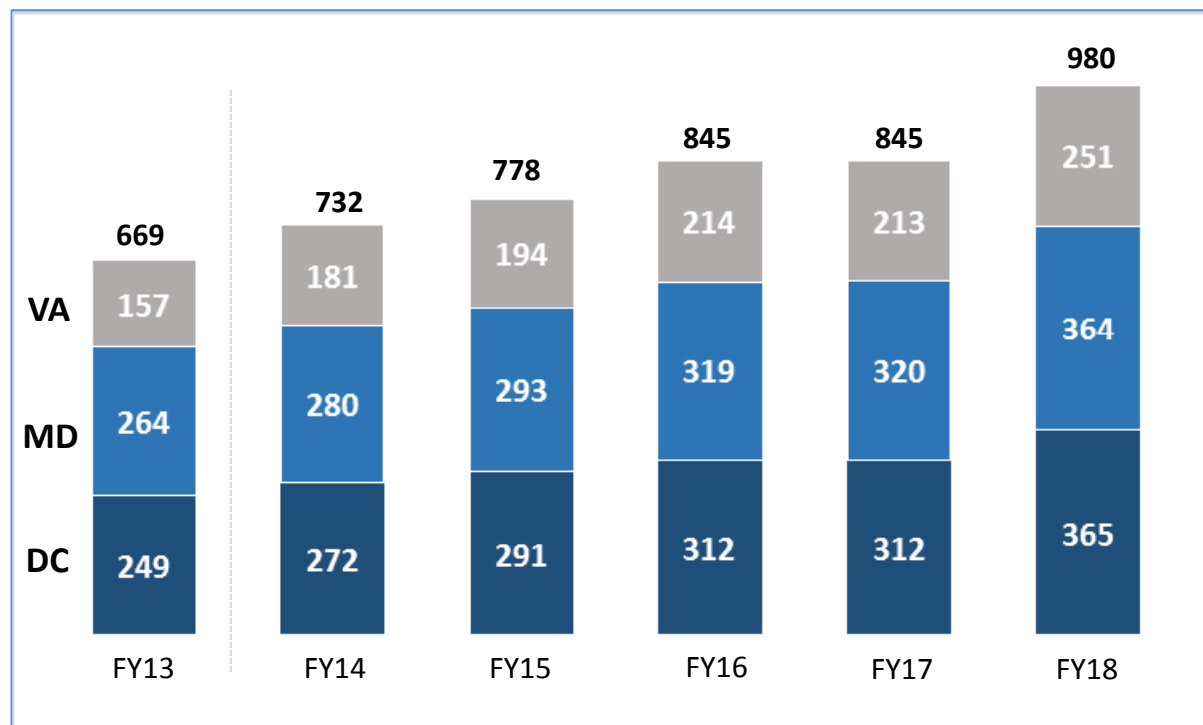
- **Requires WMATA and the region to:**
 - ✓ **Cap annual jurisdictional operating contribution growth at 3%**
 - ✓ **Support flexibility to reduce cost through **innovation** and **competitive contracting**, where effective**
 - ✓ **Amend the **National Capital Area Interest Arbitration Standards Act (Wolf Act)** to require consideration of WMATA's financial condition**
 - ✓ **Initiate **new retirement program for new hires****
 - ✓ **Create a **Rainy Day Fund** to mitigate unforeseen obligations**

Transforming Metro requires flexibility and long term financial sustainability



Historical Operating Subsidy Contribution

Annual Operating contribution by jurisdiction – actual contribution, \$M



Total 5-year contribution, \$M

\$1,053

\$1,576

\$1,552

Operating subsidy has grown an average of 9.0% per year over the last 5 years



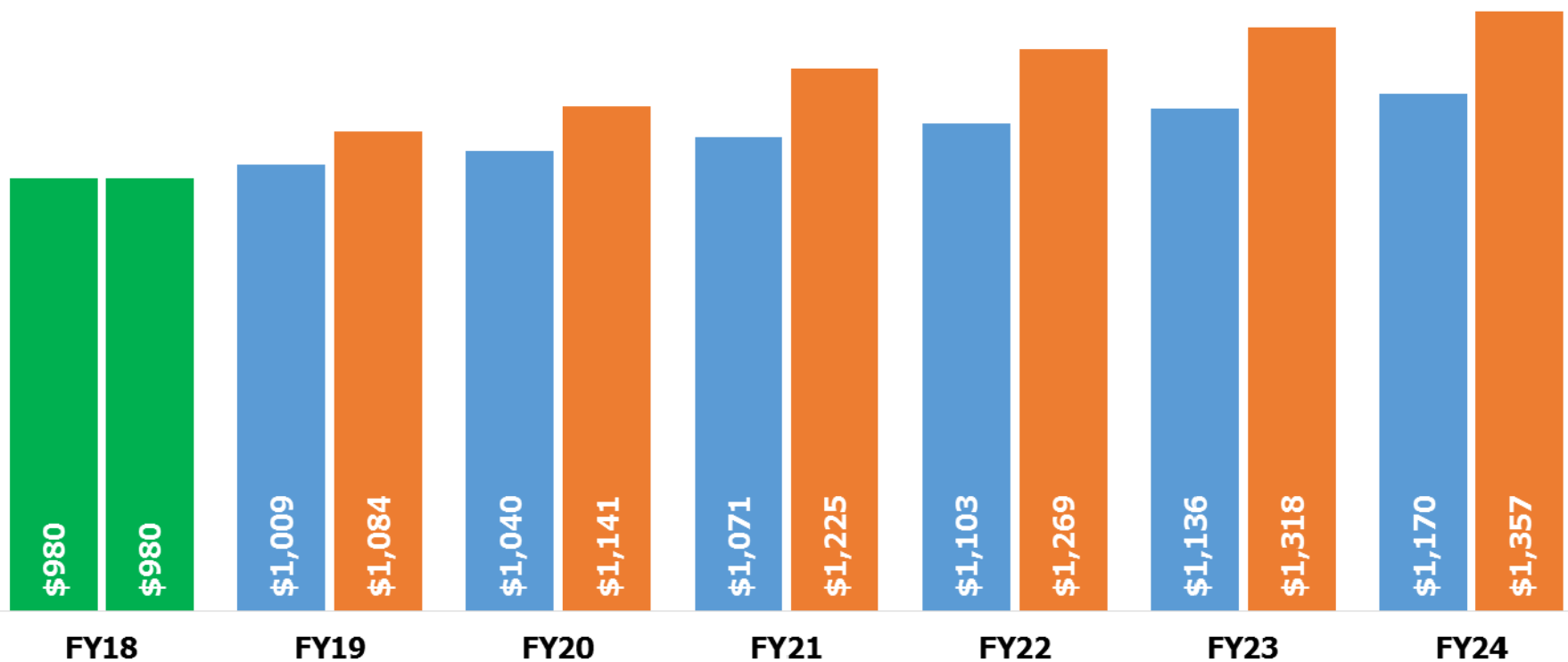
FY2018 budget balanced, but did not resolve structural deficit

- \$290 million gap due to declining revenue and increasing costs
- Budget balanced:
 - ✓ Management Actions
 - ✓ Fare increases and Service Adjustments
 - ✓ Grant funding of preventive maintenance
 - ✓ Jurisdictional contributions increase by \$135 million after no increase from FY2016 to FY2017
- Management will continue to take action to improve productivity, reduce costs and generate revenue
- Without regional support of transformative changes, management actions alone will not limit subsidy growth to 3% per year



Without structural reforms, jurisdictional operating subsidy will be \$1 billion higher over 10 years

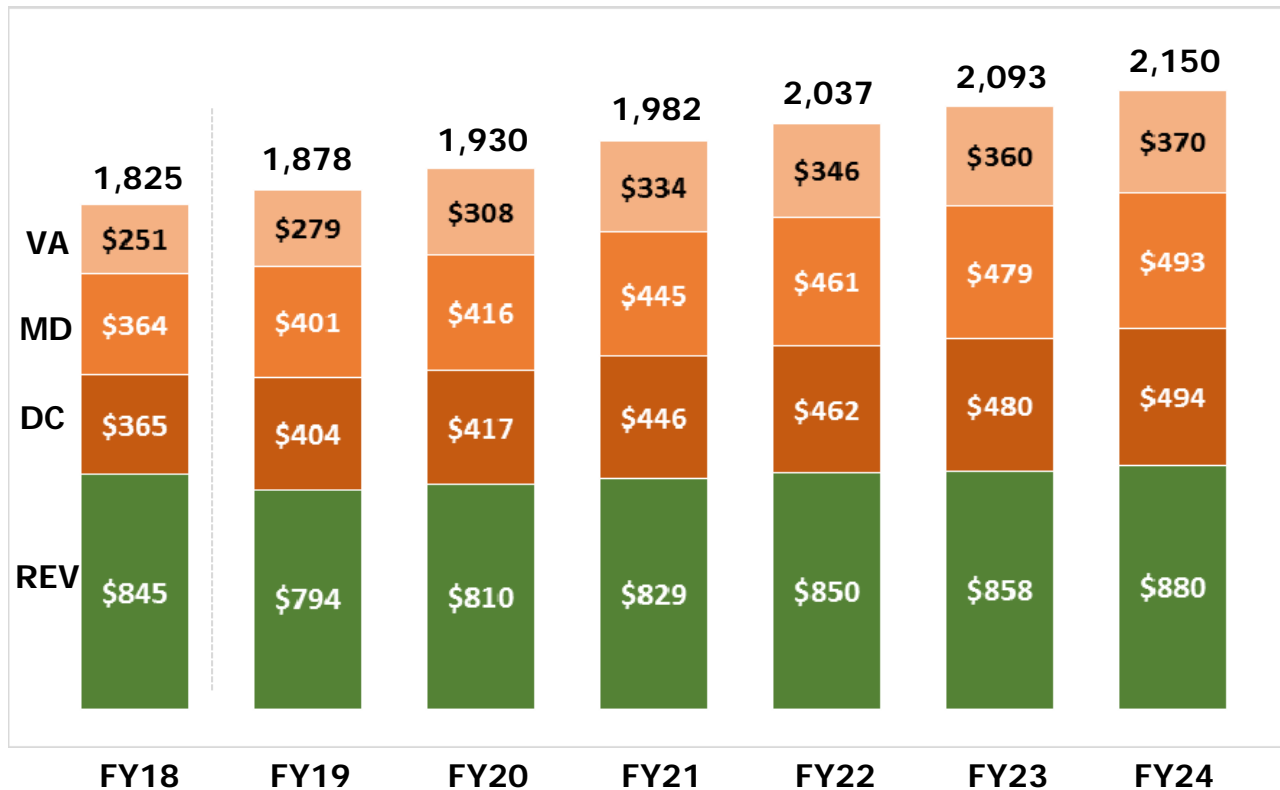
■ 3% Cap on Subsidy Growth ■ Status Quo Subsidy Growth



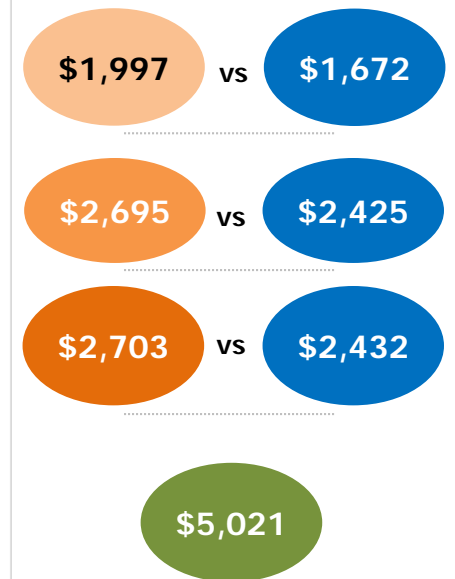


Operating Budget Outlook Without Structural Reforms

Annual Operating contribution by jurisdiction – projection, \$M



Total 6-year contribution, \$M



Includes Silver Line estimates starting FY2020; does not include CBA adjustments for FY2017, FY2018



Operating Subsidy Cap Commitment

- 3% subsidy growth cap applies to **current services only** beginning in FY2019
- Commitment will not apply to new mandates or services such as:
 - ✓ Silver Line Phase 2
 - ✓ Potomac Yard Station, station entrances, etc.
 - ✓ New/expanded bus routes or more frequent rail service
 - ✓ Extreme growth in demand for mandated MetroAccess service
 - ✓ Legacy Collective Bargaining Agreements, pension and OPEB liabilities will require additional funding
- Requires reform of arbitration process, new retirement program for new hires, competitive contracting and a rainy day fund



Staying within 3% Subsidy Growth Cap needs regional support

Actions to meet the 3% subsidy growth cap will include:

- ✓ Increasing non-fare revenues
 - Advertising, concessions, public-private partnerships, etc.
- ✓ Increasing fare revenues
 - improve service reliability, fare enforcement, parking initiatives, joint development
- ✓ Leveraging capital investment and technology to reduce operating cost
 - Energy efficiency, Signal Priority, etc.
 - Reduce unplanned/corrective operating maintenance
- ✓ Continuing to improve operating efficiency to control cost
 - Absenteeism, workers' compensation, overtime, etc.
- ✓ Right size bus and rail
 - Efficient route alignments, alternative delivery models, etc.



Rainy Day Fund protects the region from unexpected events

- With a Rainy Day Fund, jurisdictions are insulated from future financial shocks to Metro
- Recent unbudgeted events that impacted Metro include:
 - ✓ Federal government shut down
 - ✓ Papal visit
 - ✓ Safety mandates
 - ✓ Energy price volatility
 - ✓ Snow and other operational disruptions
- Jurisdictional contribution to a Rainy Day Fund will begin in FY2019; reaching 10% of Metro's annual budget in FY2027
- GM/CEO will propose guidelines for use of Rainy Day Fund



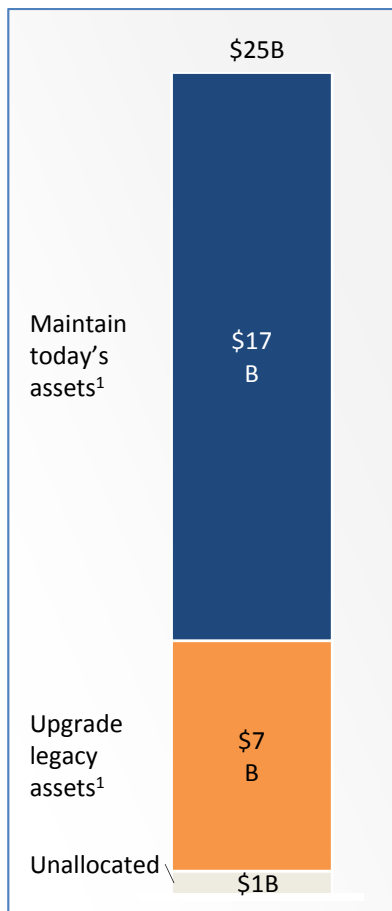
Appendix



Unconstrained 10-Year capital investment need is \$25B

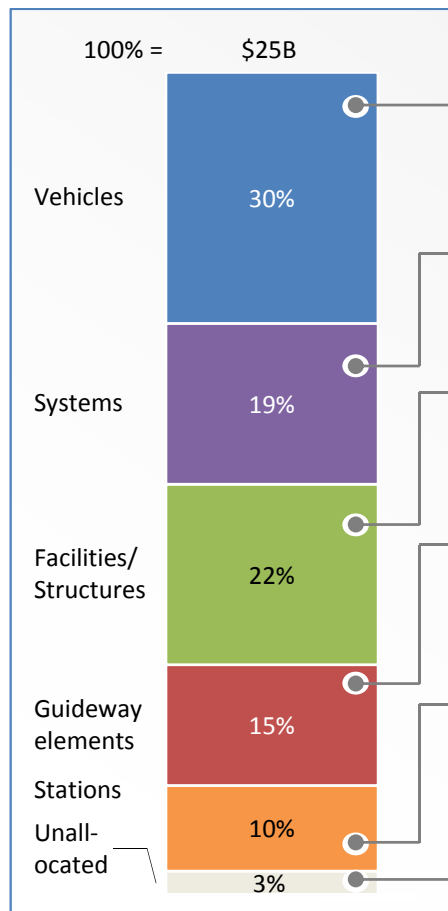
10-year capital needs focus on maintaining today's assets

Needs by category, \$B






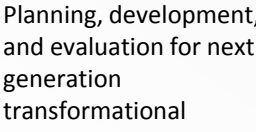


Critical projects are unfunded

Needs by asset class, percent, \$B



Example projects requiring funding

New railcar fleet		<ul style="list-style-type: none"> 748 new 7000 series cars Accelerated replacement of 2000 and 3000 legacy cars Enables all 8-car trains
Radio and wireless		Complete upgrades to radio system and underground wireless infrastructure
Andrews Bus Garage		New bus operations and maintenance facility, fuel and wash buildings, heavy repair & overhaul, and other structures
Track Rehab		Annual program to replace components (crossties, fasteners, switches, insulators), based on condition
Fare gates		Replace and modernize existing fare collection assets
Development & Evaluation (D&E)		<ul style="list-style-type: none"> Red Line Core Capacity Red Line Water Remediation Rosslyn Tunnel Gallery Place, Union Station, etc Bladensburg Bus Garage

¹ In Metro's Capital Needs Inventory, "maintain today's assets" needs are labeled "State of Good Repair needs" and "upgrade legacy assets" are labeled "new needs"

SOURCE: 10-Year Capital Needs: Inventory and Prioritization (November 2016)



Capital Needs Beyond \$15.5 billion

Metro's development and evaluation program will prepare for more than \$10 billion of potential future investments not yet fully defined or included in the plan:

Operational Flexibility & Efficiency Projects

- Pocket tracks and crossovers
- Roadway improvements to prioritize buses
- New, strategically located bus maintenance facilities
- Modern business support systems for scheduling, maintenance, asset management, financial management and security

Future Major Asset Upgrade Projects

- Tunnel water mitigation and ventilation system upgrades (long-term solutions)
- Traction power system upgrades (full implementation)
- Train control and communication modernization
- Core station passenger circulation improvements (full implementation)
- Platform, bridge and tunnel structural rehabilitation

Passenger Capacity Projects

- Additional railcars for expanded 8-Car trains
- Expanded railcar storage and maintenance facilities
- Blue Line Connector (Rosslyn Tunnel)
- Additional buses for increased service frequency on regional corridors
- New station entrances and station access improvements