



Finance and Capital Committee

Information Item IV-A

October 11, 2018

FY2020 Budget Outlook

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
202029

Resolution:
☐ Yes ☒ No

TITLE:

FY2020 Budget Outlook

PRESENTATION SUMMARY:

The presentation provides a preview of the FY2020 Operating Budget and FY2020-2025 Capital Improvement Program.

PURPOSE:

Management will present a preview of the FY2020 Operating Budget and FY2020-2025 Capital Improvement Program. Key elements will include:

- An update on Keeping Metro Safe, Reliable and Affordable (KMSRA)
- Operating and Capital Budget Priorities
- Capital and Operating Budget Overview
- Board Policy Considerations
- Schedule

DESCRIPTION:

Key Highlights:

The presentation begins with a review of progress to date on the General Manager/CEO's plan to Keep Metro Safe, Reliable and Affordable (KMSRA). Metro is ramping up to average capital investment of \$1.5 billion annually, has established a dedicated capital trust fund, exclusive to capital investment, and is limiting jurisdictional annual capital subsidy growth to three percent. Metro continues to encourage the U.S. Congress to reauthorize the Passenger Rail Investment and Improvement Act (PRIIA) beyond FY2020, which provides \$150 million in annual federal funds match by \$150 million provided by the District of Columbia, State of Maryland, and Commonwealth of Virginia. In order to establish a sustainable operating model, Metro is limiting jurisdictional operating subsidy growth to three percent and deploying innovative competitive contracting. The items on the KMSRA agenda that remain to be completed are amending the National Capital Area Interest Arbitration Standards Act, restructuring retirement benefits, and creating a Rainy Day Fund.

The FY2020-2025 Capital Improvement Program prioritizes improving customer service, fully funding system safety and compliance, continuing the focus on system preservation and State of Good Repair, meeting program budget and schedule, and developing a capital investment pipeline using the Development and Evaluation (D&E) process.

The FY2020 operating budget prioritizes increasing ridership, maximizing operating efficiency, increasing non-fare revenues, and enhancing employee engagement and development.

Background and History:

In April 2017, GM/CEO Paul Wiedefeld announced the plan to Keep Metro Safe, Reliable and Affordable (KMSRA). The plan calls for ten actions to restore the system to a state of good repair and establish long-term financial sustainability:

- 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
- Cap annual jurisdictional capital contribution growth at 3 percent
- Cap annual jurisdictional operating contribution growth at 3 percent
- 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

In response to the KMSRA plan, in April 2018, the legislatures of the District of Columbia, Maryland and Virginia passed bills to provide a combined \$500 million in dedicated funding to Metro each year. The Governor of Maryland, Governor of Virginia and the Mayor of the District of Columbia have since signed each bill into law. The KMSRA plan now serves as the basis for the development of the Metro FY2020 Operating Budget and FY2020-2025 Capital Improvement Program.

Discussion:

GM/CEO Budget Guidelines

The General Manager (GM/CEO) has provided staff with a series of guidelines for the FY2020 budget development process, shown below:

- Safety trumps service
- No service cuts
- No fare increases
- Improve customer service to grow ridership
- Additional management efficiency
- Invest in employees today ... for tomorrow
- Use flexibility provided by federal funding regulations
- Build capacity to deliver \$1.5 billion average annual capital program
- Explore outsourcing where appropriate
- Meet legislative 3 percent subsidy cap

FY2020-2025 Capital Improvement Program

The presentation includes an overview of the Capital Program Planning and Management process, including planning functions such as asset management and needs prioritization, as well as program development and implementation activities including Development and Evaluation, Project Development, and Project Implementation. The presentation then provides a series of examples of projects that are underway, in development, and in the Development and Evaluation stages.

FY2020 Operating Plan

The FY2020 Operating Plan begins with two key priorities: increasing ridership and employee engagement. The plan is subject to Maryland and Virginia statutes that limit growth to three percent. It begins with the FY2019 budget and adds additional service and labor settlement commitments that will add to the FY2019 subsidy. With these additions, the FY2019 revised Base subsidy is \$1.06 billion, of which three percent is \$32 million. In considering the FY2020 budget, there are additional subsidy drivers that will exceed \$32 million. The combination of inflation and revenue losses from outages for safety and State of Good Repair capital projects, for example, is \$40 million. Additionally, the combined impact of Silver Line Phase 2, mandates from the Occupational Safety and Health Administration (OSHA), and ADA Paratransit services, is more than \$90 million.

The following are key policy considerations for the Board to consider:

- FY2020-2025 Capital Improvement Program
 - Flexible use of federal funds for preventive maintenance
- FY2020 Operating Budget
 - Which items are within or above 3 percent cap
 - Collective Bargaining Agreements (CBA) cost of \$27 million
 - Impact of \$23 million revenue loss due to major safety and state of good repair capital projects
 - Budget, service reliability and safety implications of hours of service
 - Lack of contingency fund for emergencies and special events

- Long-term structural financial issues impact on FY2020 budget and beyond
 - Pension - annual cost is \$165 million
 - OPEB - annual cost is \$45 million
 - Bus Transformation Project

FUNDING IMPACT:

This is an information item previewing the GM/CEO's proposed FY2020 budget. There is no immediate impact on funding.

TIMELINE:

Previous Actions	<p>June 2018 – Conclusion of FY2018</p> <p>September 2018 – Board approved Collective Bargaining Agreements (CBAs) that followed the August 2018 arbitration award</p>
Anticipated actions after presentation	<p>November 2018 – FY2020 Proposed Budget presented to the Board</p> <p>December/January 2019 – Board Budget Deliberations</p> <p>January/February 2019 – Public Outreach and Public Comment Period</p> <p>March 2019 – FY2020 Budget Adoption</p> <p>April 2019 – Submit Federal Grant Applications</p> <p>July 2019 – Fiscal Year 2020 Begins</p>

RECOMMENDATION:

This is an information item – no recommendation at this time. Budget adoption is scheduled for March 2019. Budget approval in March is necessary to ensure uninterrupted regional funding of the capital program and to allow for the timely application and award of FTA grants.

FY2020 Budget Outlook

Finance & Capital Committee

October 11, 2018



- **Preview FY2020 Operating Budget and Capital Program**
 - Keeping Metro Safe, Reliable and Affordable (KMSRA) Update
 - Operating and Capital Budget Priorities
 - Capital and Operating Budget Overview
 - Board Policy Considerations
 - Schedule

■ **Safety, Reliability and Fiscal Accountability**

- ✓ Average annual capital investment ramp up to \$1.5 billion
- ✓ Dedicated Capital Trust Fund
- ✓ Trust Fund exclusive to capital investment, not operations
- ✓ Limit jurisdictional annual capital subsidy growth to 3%
- ✗ Reauthorize PRIIA

■ **Toward a sustainable operating model**

- ✓ Limit jurisdictional operating subsidy growth to 3% cap
- ✓ Innovative competitive contracting
- ✗ Amend National Capital Area Interest Arbitration Standards Act
- ✗ Restructure retirement benefits
- ✗ Create a Rainy Day Fund

■ **FY2020-2025 Capital Improvement Program**

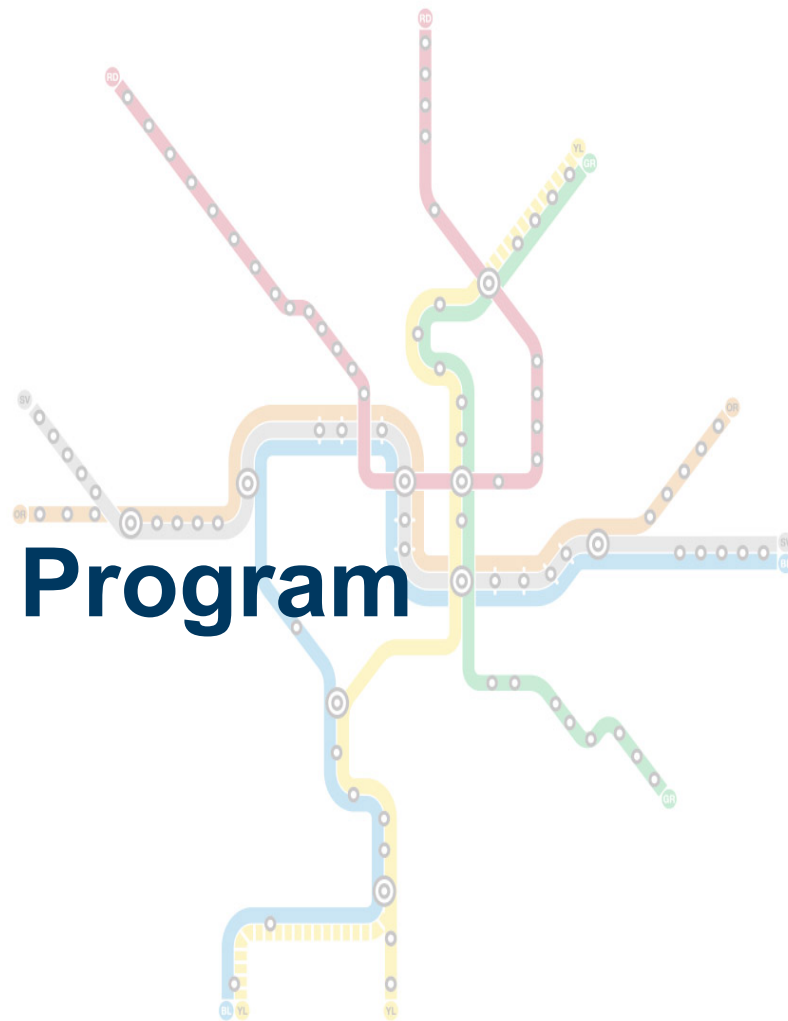
- Improve customer experience
- Fully fund system safety and compliance
- Continue focus on system preservation and State of Good Repair
- Meet program budget and schedule
- Ramp up to \$1.5 billion average annual program
- Develop capital investment pipeline (D&E)

■ **FY2020 Operating Budget**

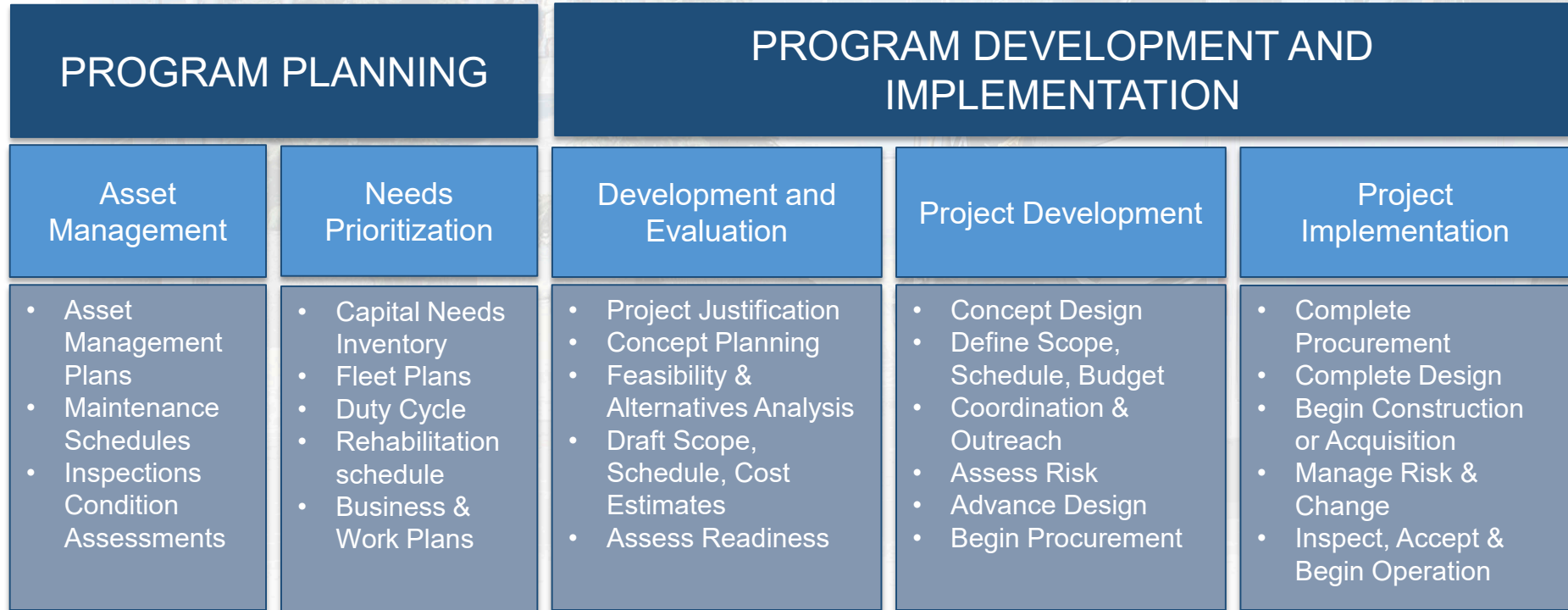
- Increase ridership
- Maximize operating efficiency
- Increase non-fare revenues
- Enhance employee engagement and development

- **Major parameters to meet key priorities**
 - Safety trumps service
 - No service cuts
 - No fare increases
 - Improve customer service (to grow ridership)
 - Additional management efficiency
 - Invest in employees today ... for tomorrow
 - Use flexibility provided by federal funding regulations
 - Build capacity to deliver \$1.5 billion average annual capital program
 - Explore outsourcing where appropriate
 - Meet mandated jurisdictional 3% subsidy cap
- **Budget is still under development**
 - Details will be provided in November 2018

FY2020-2025 Capital Improvement Program



Capital Program Planning and Management



Capital Improvement Program

Major Projects and Safety and Reliability Programs Underway

Active Major Projects

New 7000 Series Railcars

748 cars in service in 2019

Radio & Wireless Upgrades

Cellular by 2020
Radio by 2022

Andrews Federal Center Bus Facility

Open for operation in 2019

WMATA Office Consolidation

In progress

Ongoing Safety, Reliability and State of Good Repair Programs

Track Rehabilitation

New Buses & Paratransit Vans

Railcar & Bus Rehabilitation & Maintenance

Elevator & Escalator Rehabilitation & Replacement

Parking Garage Rehabilitation

Station Lighting & Cooling Programs

Rail Power System Rehabilitation & Upgrades

Train Control System Rehabilitation

Capital Improvement Program

Upcoming Projects & Programs in Development / Procurement

Station
Rehabilitation
Program

Potomac Yard
Station
(Reimbursable)

Railcar Heavy
Maintenance &
Overhaul Facility

Replacement of
Bladensburg Bus
Garage

Replacement of
Northern Bus
Garage

New 8000 Series
Railcars

Tunnel Water
Mitigation
Program

Bus Shelter
Replacement
Program

Transit Signal
Prioritization
Program
Expansion

Bicycle &
Pedestrian Access
Improvement
Program

Rail & Bus Control
Centers

Track
Maintenance
Equipment

Capital Improvement Program

Key Highlights: Development and Evaluation Program

Blue, Orange,
Silver Line
Corridor Reliability
& Capacity

Bridge & Aerial
Structure
Rehabilitation
Program

Tunnel Ventilation
Program

Core Station
Customer
Circulation &
Access
Improvements

Bus
Transformation
Strategy

Shady Grove
Station & Track
Infrastructure

Capacity
Reliability of &
D&G Junction
near Stadium-
Armory

Bus Facility
Rehabilitation
Program

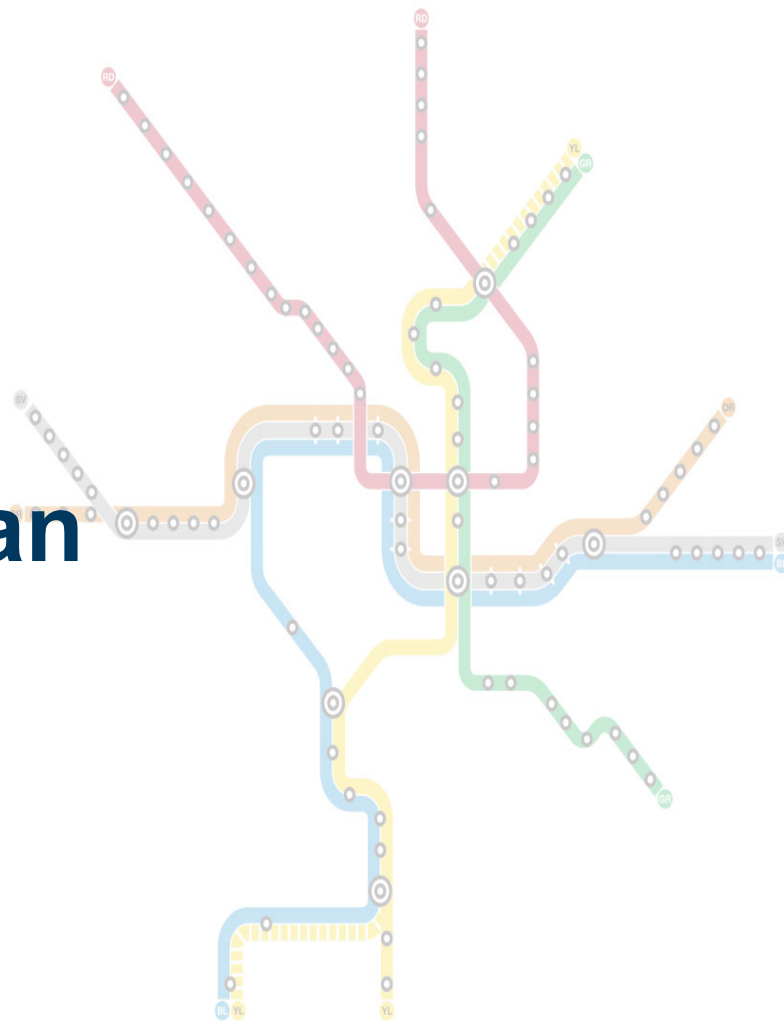
Rail Yard
Rehabilitation &
Upgrades

Western Bus
Garage
Replacement

Station Audio &
Digital
Engagement
Improvements

Train Control
System
Modernization

FY2020 Operating Plan



Increase Ridership

- **Focus on Reliability and Customer Service**

Rush Hour
Promise

Passes

Faster
Buses

Customer
Marketing

Service
Hours

Service
Frequency



Employee Engagement

- **Focus on Employee Development and Accountability**

Improve Metro's
recruiting
strategy and
process

Develop and
engage Metro's
frontline
management

Establish a new
performance
management
system

Initiate a labor
relations
improvement
plan

Improve
employee
facilities

Mandated 3% Cap

Maryland and Virginia legislation mandates 35% reduction in State funding to Metro if annual operating subsidy growth exceeds 3%; excluding:

- (i) any service, equipment, or facility that is required by any applicable law, rule, or regulation;
- (ii) any capital project approved by the WMATA Board before or after the effective date of this provision;
- (iii) any payments or obligations of any kind arising from or related to legal disputes or proceedings between or among WMATA and any other person or entity.”

- HB 372/SB 277 (MD) and HB 1539/SB 856 (VA)

FY2020 Operating Subsidy

■ FY2020 3% “Base” Subsidy Growth Level

(\$ in Mil)	Expense	Revenue	Subsidy
FY2019 Base	\$1,837	\$828	\$1,009
+ Additional Service	\$7	\$1	\$6
+ CBA/Labor Settlements	\$45	\$0	\$45
FY2019 Revised Base	\$1,889	\$829	\$1,060
+ 3% Subsidy Cap			\$32
FY2020 "Base"			\$1,092

3% Subsidy Cap = \$32 million

(\$ in Mil)	Value
Inflation	\$17
Revenue loss from outages	\$23
Initial Challenge	\$40

Operating Subsidy Growth Drivers

- **Additional FY2020 operating subsidy drivers are at least \$90 million above the baseline:**
 - Silver Line Phase 2
 - Occupational Safety and Health Administration Mandates
 - Paratransit Services

Key Policy Considerations

- **FY2020-2025 Capital Improvement Program**
 - Flexible use of federal funds for preventive maintenance
- **FY2020 Operating Budget**
 - Within or above 3% cap
 - CBA cost of \$27 million
 - Impact of \$23 million revenue loss due to major safety and state of good repair capital projects
 - Budget, service reliability and safety implications of hours of service
 - Lack of contingency fund for emergencies and special events
- **Long-term Structural Financial Issues Impact on FY2020 Budget and Beyond**
 - Pension - \$165 annual cost
 - OPEB - \$45 million annual cost
 - Bus Transformation Project

Timeline for FY2020 Operating Budget and FY2020-2025 Capital Improvement Program include:

- ✓ **October 2018:** FY2020 Budget Policy Discussion
- **November 2018:** FY2020 Proposed Budget presented to the Board; Submit Proposed Annual Funding Plan to FTA
- **December – January 2019:** Board Budget Deliberations
- **January – February 2019:** Public Outreach and Public Comment Period
- **March 2019:** FY2020 Budget Adoption
- **April 2019:** Submit Federal Grant Applications
- **July 2019:** FY2020 Fiscal Year Begins