Finance and Capital Committee

Information Item IV-A

September 22, 2022

FY2024 Budget Outlook
TITLE:
FY2024 Budget Outlook

PRESENTATION SUMMARY:
Staff will provide the Board with an outlook on the FY2024 budget, including progress on reducing the projected shortfall and service, fare and revenue options under consideration for FY2024.

PURPOSE:
Leadership will update the Board of Directors on the outlook for the coming year’s budget, including the reduced anticipated budget shortfall in FY2024 and options for closing that gap. Staff seeks Board guidance on service, fare and revenue options for the FY2024 operating budget.

DESCRIPTION:

Key Highlights:
- Ridership is expected to recover to 53 percent of pre-pandemic levels in FY2023 and potentially reach 70 percent in FY2024
- Revenue recovery is uneven, as higher-fare peak and long-distance trips have fallen more dramatically than off-peak and shorter trips
- Customer-friendly fare changes in FY2023 and expected in FY2024 will promote ridership, equity and a seamless rider experience
- The FY2024 budget gap has been reduced to $184.7 million. Staff will present to the Board for guidance a series of options for closing the shortfall

Background and History:

Gradual Ridership Recovery
As Metro looks ahead to fiscal year 2024, ridership data from the first nine months of calendar year 2022 show rail and bus ridership continuing to recover, if slowly, from the worst impacts of the pandemic. Total ridership is expected to reach approximately 53 percent of pre-Covid levels in FY2023 and potentially reach 70 percent in FY2024.
Pre-pandemic ridership (all modes) in FY2019 was 301.5 million trips, while FY2021 budgeted pre-pandemic ridership was 313.9 million trips. In FY2021, actual ridership fell to 81.3 million trips or 26 percent pre-pandemic recovery compared to a budget of 48 percent. In FY2022 actual ridership improved to 142.2 million trips or 45 percent pre-pandemic recovery compared to a budget of 34 percent pre-pandemic recovery.

The FY2023 budget includes ridership of 166.6 million trips or 53 percent recovery. Metrobus carried more riders than Metrorail during most of the pandemic, but Metrorail is expected to carry more riders than Metrobus in FY2023.

The prior FY2024 budget scenario estimated ridership recovery of 65 percent or 204.1 million trips; the updated forecast shows a possible opportunity for this to improve to 70 percent or 217.5 million trips based on:

- FY2022 ridership favorability trends extend through FY2024
- Anticipated return of Metrorail riders through employer return-to-office mandates, plus additional trips based on planned expansion (e.g., Silver Line Phase II, Potomac Yard)
- Increased ridership is contingent on 7K Series railcar return to service (ability to provide approved service levels)

**Uneven Revenue Recovery**

FY2024 passenger revenue is expected to recover to $389 million or 57 percent of pre-pandemic levels. The FY2025 scenario estimates ridership recovery of 75 percent or 235.5 million trips.

Ridership recovery has been gradual due to pandemic's continuing impacts. Revenue recovery continues to lag behind ridership recovery due to reduced average fares, which are significantly below pre-pandemic budgeted fares for all three modes.

Reduced average fares are driven by multiple factors:

- FY2022 and FY2023 fare decreases
- $2 Weekend Flat Fare
- $2 Late Night Flat Fare
- Unlimited Monthly Pass 11 percent reduction
- Fare evasion, which currently makes up a larger percentage of trips (paid trips fell, fare evasion remained steady)

**Expense Growth and Budget Gap**

The FY2024 gap has been reduced due to favorable revenues and expenses at the end of FY2022, slightly offset by impacts of collective bargaining agreements (CBAs). Operating expenses are not static from one year to the next and in FY2023 Metro anticipates incremental expenses of $48.7 million,
consisting mainly of capital allocation favorability ($33.3 million), inflation, CBAs, etc. The story for FY2024 is similar – anticipated additional expenses total $100.9 million, including CBAs and inflation, offset by proposed management reductions of $31.1 million. The net result of increased expenses and uneven revenue growth is an anticipated budget gap of $184.7 million in FY2024.

Discussion:

Service and Fare Optimization
In addition to discussion of funding issues, it is important to evaluate current service and fare offerings for opportunities to improve overall customer experience. The goal is to build on recent service and fare changes by developing concepts for consideration as part of FY2024 budget and beyond. Among these possible changes are 1) launching an effort to build a Better Bus network, 2) focusing on Metrorail service optimization and fare concept development, and 3) considering equity impacts of fare and service changes and analyzing anticipated impacts through a formal Title VI process.

Fare optimization concepts for discussion include fare increases or decreases, changing or eliminating the peak/off-peak fare difference, zone-based fares, and changes to parking fees (including expansion of non-passenger parking rates to more stations). Other Metrorail service concepts for consideration include increasing the core service and concentrating service in high-ridership segments, reconsidering the balance of Blue/Orange/Silver train frequencies in the core and terminals, and consideration of open hours to accommodate pre-scheduled maintenance outages.

Closing Gap
Metro has many options available to close the projected $184.7 million gap in FY2024, with opportunities in both revenues and expenses.

Revenue Options
Passenger Revenue has an opportunity to increase by $11.4 million from organically improving ridership as people return to work, plus recovered revenue from Metro’s proposed fare evasion prevention efforts.

Non-Passenger Revenue increase opportunities total $17.1 million and include $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 a reduction in lost revenue replacement from the capital budget.

Expense Options
Proposed Non-Personnel expense reductions total $7.0 million, offset by operating efficiencies of $17.0 million.
Proposed vacancy reductions total $3.0 million at an average salary of $90,777. This total represents a 2.1 percent reduction in vacancy expenses based on a 11.7 percent vacancy rate. Total annual vacancy cost is $140.4 million, or 14.2 percent of total budgeted Salaries and Wages.

**Proposed Subsidy Cap Increase**

An additional option for closing the gap is increasing the capped subsidy growth rate from three percent to five percent. This option would yield approximately $24 million for the gap closure effort but would require legislative changes in both Maryland and Virginia, as the three percent operating subsidy cap is statutory.

While Metro expects to achieve a balanced budget in FY2024, the long-term outlook remains bleak and structural budget gaps remain. The anticipated budget gap in FY2025 is $738 million, driven by organic expense growth (inflation), telework and rideshare (transit alternatives), decreases in non-passenger revenue, and proposed fare reductions.

**FUNDING IMPACT:**

Information item only - no impact on funding.

<table>
<thead>
<tr>
<th>Project Manager:</th>
<th>Dennis Anosike</th>
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<tbody>
<tr>
<td>Project Department/Office:</td>
<td>CFO</td>
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**TIMELINE:**

<table>
<thead>
<tr>
<th>Previous Actions</th>
<th>September 2022 – Executive Session discussions on FY2024 Budget Outlook</th>
</tr>
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<tbody>
<tr>
<td>Anticipated actions after presentation</td>
<td>November 2022 – GM/CEO Proposed FY2024 Budget</td>
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**RECOMMENDATION:**

No recommendation: item is information item only.
FY2024 Budget Outlook

Finance and Capital Committee
September 22, 2022
Structural Challenges Impact Mission Delivery

1. **CUSTOMER REVENUE STRUCTURE**
   - Changing Travel Patterns
   - Lower Customer Farebox Revenue
   - Increased Fare Evasion

2. **COST STRUCTURE**
   - Customer/Community Expectations
   - Labor
   - Inflation

3. **SUBSIDY STRUCTURE**
   - Lack of Dedicated Revenues
   - Historical Average Subsidy
   - Subsidy Cap Mandate
Post-Pandemic Ridership Recovery Continues

Note: Percentage restored based on original FY2021 313.9M Ridership Scenario
Customer Revenue Recovery Is Uneven

Proportion of ridership and revenue from peak Metrorail trips has dropped by 8 and 5 percent, respectively.

- Ridership:
  - June 2019: 37%
  - June 2022: 29%

- Revenue:
  - June 2019: 50%
  - June 2022: 45%

Proportion of revenue from very long Metrorail trips (>10 miles) has dropped from 36 percent to 31 percent.

Revenues remain significantly below FY19 Pre-Pandemic level.

- FY19: $784.6M
- FY20: $580.8M
- FY21: $166.6M
- FY22: $281.4M
- FY23: $382.5M
- FY24: $465.3M

June 2019
June 2022

Operating Revenue Outlook
Cost And Revenue Favorability Has Reduced FY2024 Budget Gap

<table>
<thead>
<tr>
<th>FY24 Funding Gap</th>
<th>FY23-FY24 Additional Expenses</th>
<th>FY22 Expense Favorability</th>
<th>FY22 Revenue Favorability</th>
<th>FY24 Gap Needing Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>($318.6M)</td>
<td>($149.6M)</td>
<td>$230.0M</td>
<td>$53.5M</td>
<td>$184.7M</td>
</tr>
</tbody>
</table>
Fare and Service Optimization
Recent customer-friendly fare changes
Promote ridership, equity, seamless experience

<table>
<thead>
<tr>
<th>FY2022 Improvements</th>
<th>FY2023 Improvements</th>
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<tbody>
<tr>
<td>• Free rail-bus transfers ($2 transfer discount)</td>
<td>• Late-night $2 Metrorail fares</td>
</tr>
<tr>
<td>• Rail weekend $2 flat fares</td>
<td>• Lower monthly unlimited pass price</td>
</tr>
<tr>
<td>• Lower 7-Day Regional Bus Pass Price</td>
<td>• Price of 32 trips, previously 36</td>
</tr>
<tr>
<td>• Pass price of $12, previously $15</td>
<td></td>
</tr>
<tr>
<td>• Regional providers included in rail-bus combo passes</td>
<td>• 50 percent off 7-day unlimited passes for six months</td>
</tr>
<tr>
<td><strong>Promo</strong></td>
<td></td>
</tr>
<tr>
<td>• 50 percent off rail-bus combo passes (1, 3, 7 day) for a month</td>
<td></td>
</tr>
</tbody>
</table>

Ridership impacts from fare or service changes build over time
Approved Service Levels in FY2023 Budget

**METROBUS**
- 135 Lines
- 12 Min. Frequency: 20 lines
- 20 Min. Frequency: 16 lines
- 79.3M TRIPS

**METRORAIL**
- 1,278 Railcars
- Line: AM/PM, All Day, Late Night
- RD: 5 min, 6 min, 10 min
- BL, OR, GR, YL: 10 min, 12 min, 15 min
- 1.4M TRIPS

**METROACCESS**
- 759 Vehicles
- Vans: 532
- Sedans: 227
- On-demand paratransit vehicles
- 85.9M TRIPS

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY
Bus Customers Responded to Improved All Day Service

- Higher ridership growth on the 36 bus lines upgraded to more frequent, all day service compared to the rest of the network

- Ridership grew more on lines and at times where service increased the most (e.g., Sunday service)

<table>
<thead>
<tr>
<th>Service Category</th>
<th>Change in Ridership August 2021 to June 2022</th>
<th>Share of Total Ridership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weekday</td>
<td>Saturday</td>
</tr>
<tr>
<td>12-Minute Network</td>
<td>+ 37%</td>
<td>+ 29%</td>
</tr>
<tr>
<td>20-Minute Network</td>
<td>+ 16%</td>
<td>+ 18%</td>
</tr>
<tr>
<td>Rest of Network</td>
<td>+ 13%</td>
<td>- 2%</td>
</tr>
<tr>
<td>System</td>
<td>+ 23%</td>
<td>+ 15%</td>
</tr>
</tbody>
</table>

Frequent Service Network
Launched in September 2021, the 12-minute and 20-minute network lines offer scheduled service at least every 12 or 20 minutes, 7am-9pm, 7 days a week
Service and Fare Optimization

- Bring fresh perspective and adapt our service and fares to best serve customers and maximize Metro’s value to the region.

- Opportunity to consider changes that align with values and priorities: customer-centric, equitable and inclusive, optimizing use of assets, fare policy principles.

- Build on recent service and fare changes by developing concepts for consideration as part of FY2024 budget and beyond:
  - Launch Better Bus network redesign effort
  - Focus on Metrorail service optimization and fare concept development this fall
  - Consider equity impacts of fare and service changes and analyze anticipated impacts through a formal Title VI process.
Fare Optimization Concepts

**FY2024 Concepts**

- **Fare increase/decrease**: Consider fare level changes
- **Peak/off-peak**: Change or eliminate time of day price difference
- **Zone fare**: Establish zone fares to replace mileage charges
- **Low-income fare**: Offer discounts for low-income customers
- **Parking fees**: Reduce fees to increase utilization and ridership
- **$1 Bus fare**: Reduce standard bus fare to $1 from $2
- **MetroAccess Fare**: Consider options to increase predictability

**Post-FY2024 Concepts**

- **Fare capping**
- **Fare integration**
Rail Service Optimization Concepts

- **Green/Yellow**
  - Increase service on core and southern segments Green and Yellow Lines
  - Serve fast-growing parts of the region, including major sports venues and airport

- **Red**
  - Optimize Red Line service, concentrating frequency in high ridership segments (post-pandemic ridership patterns)

- **Blue/Orange/Silver**
  - Optimize Silver Line service, adapt to longer run times
  - Consider first and last train times, airport service, and balance of BL/OR/SV frequency in core and to terminals

- **Operating Hours**
  - Consider options including opening earlier on Saturday and Sunday and closing later on Friday and Saturday
  - Consider pre-scheduled maintenance outages
  - Night-time options

Evaluate through multiple lenses:
- Drives Ridership
- Equitable Optimization
- Asset Optimization
Bus Service Redesign Underway

- Reimagine the bus system to build the network that best serves customers and meets the region’s needs

- Network recommendations for FY2025 with interim improvements along the way

- Increase access to frequent service
- Grow ridership and mode share
- Serve new development and travel patterns
- Make the system easier to use
- Align with fare structure
- Increase access to opportunity
- Utilize bus priority
- Metrobus’ role and funding structure
### Options For Closing $184.7M Budget Gap

#### Passenger Revenue Increases

- **$11.4M**
  - Improving Ridership
  - (65% to 70% Recovery, improve fare recovery)

#### Non-Passenger Revenue Increases

- **$3.0M**
  - Revenue Growth
  - (Parking, Advertising, etc.)

- **$14.1M**
  - Joint Development
  - (Lease Revenue, etc.)

#### Expense Reductions

- **$7.0M**
  - Operating Efficiencies

- **$3.0M**
  - Vacancy Reduction

#### Board Policy Decisions

- TBD
  - Fare and Service Optimization

- TBD
  - Increase Preventive Maintenance Transfer

- TBD
  - Increase Current Subsidy

Total Closing Budget Gap: **$146.2M**
Federal Grants Support for Operating Budget

Preventive Maintenance

Preventive Maintenance (PM) vs. Operating Maintenance

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

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

Preventive Maintenance in Capital Improvement Program

- Actual CIP
- Budget CIP
- PM
- Proposed PM


$ in millions

- $397 $376 $414 $410 $401 $406 $560 $575

- $1,163 $1,247 $1,525 $1,709 $1,836 $2,048 $2,425 $2,541
## Long-Term Budget Outlook

<table>
<thead>
<tr>
<th>FY2023</th>
<th>FY2024</th>
<th>FY2025</th>
<th>FY2026</th>
<th>FY2027</th>
<th>FY2028</th>
<th>FY2029</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gap</td>
<td>Federal Relief</td>
<td>Jurisdictional Subsidy</td>
<td>Total Expenses</td>
<td>Total Funding Sources (75%)</td>
<td>Total Funding Sources (100%)</td>
<td>Ridership Recovery</td>
</tr>
<tr>
<td>($738M)</td>
<td>($783M)</td>
<td>($829M)</td>
<td>($876M)</td>
<td>($924M)</td>
<td>100%</td>
<td>Ridership Restored</td>
</tr>
<tr>
<td>$249M</td>
<td>($575M)</td>
<td>($625M)</td>
<td>($677M)</td>
<td>($731M)</td>
<td>75%</td>
<td>Ridership Restored</td>
</tr>
</tbody>
</table>

**Revenue**

**Jurisdictional Subsidy**

**Total Expenses**

**Total Funding Sources (75%)**

**Total Funding Sources (100%)**

**Ridership Recovery**

**39 of 42**
Key Budget Milestones

FY2024 Proposed Budget Calendar

- Ridership and Revenue Outlook
- Board Authorizes Public Hearings
- Public Hearings & Outreach
- Board Budget Adoption
- FY2024 Begins

FY2023 Begins

- Oct
- Nov
- Dec
- Jan
- Mar
- Apr
- Jul

- GM/CEO Proposes Budget
- Board Budget Workshops
- Committee Budget Adoption
- Submit Federal Applications

Community, Customer, Stakeholder Engagement