Finance and Budget Committee

Information Item IV-A

May 10, 2018

FY2018 Third Quarter Financial Update

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number: 201989	Resolution: ○ Yes ◉ No

TITLE:

FY2018 Third Quarter Financial Update

PRESENTATION SUMMARY:

Staff will present a summary of FY2018 operating and capital results through the third quarter of FY2018.

PURPOSE:

Management will update the Finance and Budget Committee on the FY2018 operating and capital budget results and highlight key challenges and major accomplishments of the third quarter.

DESCRIPTION:

Key Highlights:

• Operating budget through Q3 was $18 million favorable; full year operating budget forecast is $6 million favorable.

• Operating revenues through the third quarter of FY2018 were $601 million, or $20 million below budget.

• Operating expenses totaled $1.33 billion, or $38 million below budget. The favorability was primarily driven by savings in salaries and wages due to continued vacancies, which were $34 million below budget, and by lower spending on services contracts, which was $18 million below budget.

• $810 million of capital investments were made through Q3. Full year capital investment is forecasted between $1.17 and 1.25 billion, compared to a budget of $1.25 billion.

Background and History:

Operating Budget
The $1.8 billion operating expense budget is funded by $845 million of passenger fares and non-fare revenue (i.e. advertising, etc.) and $980 million of operating subsidy from Metro's funding jurisdictions. The FY2018 operating budget represents a $135 million increase in jurisdictional subsidy contributions from the level of FY2016 and FY2017 (operating subsidy remained at $845 million both years).

Capital Budget
Metro's FY2018 capital budget of $1.25 billion includes funding to repair, rehabilitate, and replace Metro's capital assets, including vehicles, stations, track and structures, power, yards and garages and business support.

Discussion:

Operating revenues through the third quarter of FY2018 were $601 million or $20 million below budget, while operating expenses totaled $1.33 billion or $38 million below budget. The net operating position was $18 million favorable through the third quarter.

The favorability in operating expenses was primarily driven by savings in salaries and wages, which were $34 million below budget, and by lower spending on services contracts, which was $18 million below budget.

The operating revenue unfavorability to budget is primarily attributable to a continuing decline in bus ridership and revenue versus prior year, as well as lower than planned average bus fares. While bus revenue was three percent lower than last year, it was 15 percent below budget through the third quarter. Ridership on bus continues to face challenges stemming from the fare increases, growth in alternative transportation options, and telecommuting.

Operating Revenue
Total WMATA revenue was $601 million through the third quarter, below budget by $20 million or three percent. Metrorail passenger revenue of $391 million was $3 million below budget but was $8 million higher than prior year (two percent).

MetroBus passenger revenue of $93 million was $16 million below budget through the third quarter (15 percent), representing a decline of $3 million (three percent) from last year. MetroAccess passenger revenue was marginally below budget (less than one percent), while ridership was two percent below both budget and prior year.

Parking revenue was two percent above budget through March and three percent higher compared to prior year. Total Non-Passenger revenue, including Reimbursables, was two percent below budget.

Total transit ridership on all modes through the third quarter was 212 million trips, a decrease of 10 million trips or five percent compared to prior year. Ridership was below budget for all modes through the third quarter and total ridership for all modes was below budgeted trips by 7.3 million or three percent.

Operating Expenses
Through March, FY2018 operating expenses of $1.33 billion were favorable to budget by $37.8 million or three percent. The favorability was mostly due to a continuing high vacancy rate and timing issues. Total expenses for FY2018 were five percent greater than the same period in FY2017.

Personnel Expenses
As of the end of the third quarter, personnel expenses (including salaries/wages, overtime, and fringe) of $961.6 million were favorable to budget by $25.4 million or three percent. This favorability was primarily due to vacancies, of which there were 787 at the end of March.

Salaries and Wages
Salary and wage expenses of $572.6 million were under budget by $34.2 million or six percent. This variance is attributed to high vacancy in Rail and Support Services.

Overtime
Overtime expenses of $56.2 million were below budget by $5.8 million or 9.3 percent. Key contributors include policy implementation and enforcement, usage of contractor support to secure administrative buildings thus reducing the overtime burden and continued weekly overtime monitoring by management.

Fringe
Fringe benefit expenses were $14.6 million greater than budget at the end of the third quarter. Increased contributions to workers compensation reserves contributed to the unfavorability. Pension and healthcare were unfavorable by a combined $0.5 million due to market returns on investments being lower than expected, requiring WMATA to cover the difference to meet the funding requirement. The unfavorability in fringe was partially offset by $3.6 million favorability in FICA due to lower salary and wages.

Non-Personnel
Non-personnel expenses of $370.8 million through March were below budget by $12.4 million or 3.2 percent. The main areas of expense savings were services (excluding Paratransit), fuel (gas, diesel and CNG) and utilities, offset by materials and supplies.

Services
Services were favorable to budget by $18.0 million through the third quarter of FY2018. This favorability is mostly driven by delays in launching and procurement of support service contracts including custodial, facilities, security and communications. In addition, revenue collection services are favorable due to lower maintenance on point-of-sale and U*Pass support.

Although services expenses are favorable overall, the favorability is partially offset by MetroAccess paratransit service expenses, which were unfavorable to budget by $9.6 million. Paratransit is over budget for several reasons, including $3.3 million in wage equity adjustments paid to the contractors and $3.6 million due to the late start for Abilities Ride.

Capital Overhead Allocation
Capital overhead allocation credit through the third quarter of FY2018 totaled $28.9 million or $8.4 million less than budget. The decreased capital allocation credit is consistent with year-to-date spending being lower than budget primarily in the following programs Automatic Train Control (Signal & Communications) and track rehab and maintenance (Fixed Rail).

Capital Improvement Program
Metro invested $810 million in its capital program through March, compared to a budget of $902 million. Full year capital investment is forecasted between $1.17 and $1.25 billion, compared to a budget of $1,250 million. FY2018 Q3 capital program performance by category is summarized below.

Railcar
Metro invested $360.9 million in the Railcar category through FY2018 Q3. Highlights for the quarter include:
• 52 new 7000 series railcars accepted - a total of 524 new railcars accepted through March 2018
• Rehabilitation of railcar lifts at Shady Grove shop complete, West Falls Church shop expected June 2018

Rail Systems
Metro invested $63.6 million in Rail Systems through Q3. Highlights include:
• Started installation for cell service between Dupont and Union Station
• Accelerating delivery of Radio equipment into Q4 FY2018
• Awarded contract for replacement and upgrade of seven power facilities
• Began evaluation of next generation train communication technology

Track & Structures
Metro invested $101.1 million in Track & Structures through Q3. Highlights include:
• 14,023 crossties replaced
• 17,797 direct fixation fasteners renewed
• 5,181 insulators renewed
• 10 switches rehabilitated
• 8.7 miles of running rail renewed
• 35 miles of track tamped
• 713 joints eliminated

Stations & Passenger Facilities
• Metro invested $118.7 million in Stations & Passenger Facilities through Q3. Highlights include:
• Awarded multi-year contract to upgrade station lighting
• Awarded contract for Phase 2 of structural improvements at Rhode Island Avenue; work begins Q1
• Seven escalators replaced and two elevators rehabilitated in Q3
• Contract for emergency gates underway

Bus & Paratransit
Metro invested $117.7 million in the Bus & Paratransit through Q3. Year-to-date highlights through the third quarter include:
• 75 Metrobus rehabilitations complete
• 17 CNG buses delivered in Q3, 87 buses forecasted for FY2018
• Installed security cameras on 207 buses – 230 to be complete by end of Q4
• 55 of the 227 Metro Access vans planned for FY2018 have been received through March 31 (all in Q3)
• Andrews Federal Center is ahead of original FY2018 plan; construction on schedule

for completion in spring of 2019

Business Support
• Metro invested $47.8 million through Q3 in the Business Support program. Highlights include:
• WiFi access complete at 38 stations thru Q3
• System testing and training materials complete for Metro Time Keeping project
• Replacement of network infrastructure to support bus and rail operations
• 28 of 41 Non-Revenue Service vehicles received, remainder due in Q4

FUNDING IMPACT:

Information item only - no funding impact.

TIMELINE:

Previous Actions	February 2018 - FY2018 Second Quarter Update March 2018 - Approval of FY2019 Budget
Anticipated actions after presentation	September 2018 - FY2018 Year-End Financial Update

RECOMMENDATION:

No action required -- information item only.

FY2018 Third Quarter Financial Update

Finance and Budget Committee
May 10, 2018

FY2018 Q3 Financial Results

- $18 million favorable operating net through Q3
- Operating revenue $20 million below budget, primarily due to lower ridership and revenue
- Operating expense $38 million favorable, primarily due to salaries & wages and lower spending on services
- Capital investment $810 million; year-end forecast is $1.17-1.25 billion

Net Operating Position & Forecast

($ in millions)	FY2018 Q3		Favorable (Unfavorable)		FY2018 Year End		Favorable (Unfavorable)	
	Actual	Budget	$	%	Forecast	Budget	$	%
Revenue	$ 601	$ 620	($20)	(3%)	$ 816	$ 845	($29)	(3%)
Expense	$1,332	$1,370	38	3%	$ 1,790	$1,826	36	2%
Net Subsidy	$ 732	$ 750	18	2%	$ 974	$ 980	6	1%
Cost Recovery	45%	45%			46%	46%		

(trips in millions)	Q3 Actual	Q3 Budget	Favorable / (Unfavorable)	FY2018 Forecast	FY2018 Budget	Favorable / (Unfavorable)
Rail	128	131	(3)	175	179	(4)
Bus	83	87	(4)	111	117	(6)
MetroAccess	1.7	1.8	(0.1)	2.3	2.4	(0.1)
Total Ridership	**212**	**220**	**(8)**	**288**	**298**	**(10)**

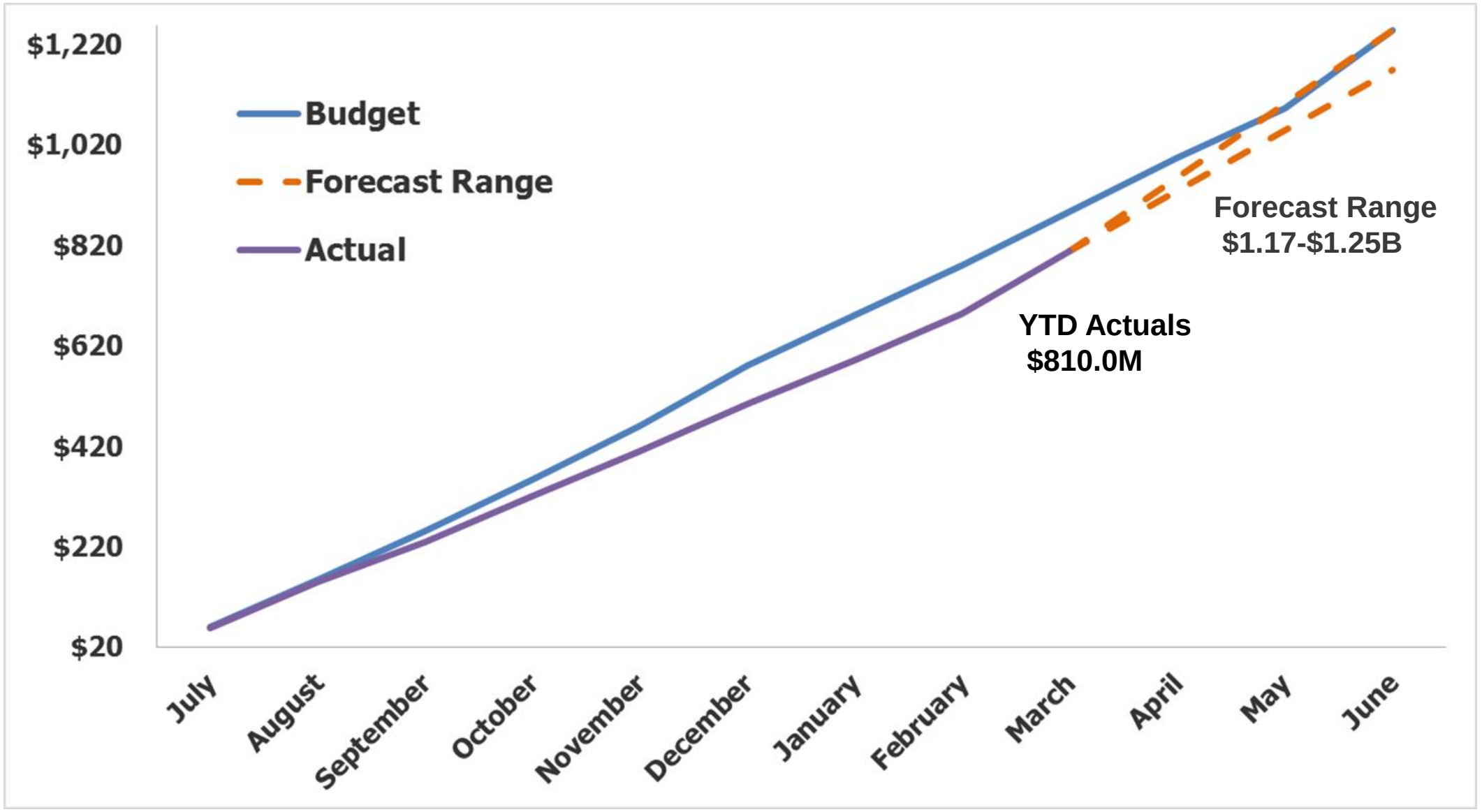
FY2018 Q3 Operating Revenue Results

($ in millions)	FY2018 Q3 YTD Actual	FY2018 Q3 YTD Budget	Favorable/ (Unfavorable)
Passenger Revenue			
Metrorail	$391.5	$394.5	($3.0)
Metrobus	93.0	109.0	(16.0)
MetroAccess	7.1	7.2	(0.0)
Parking	31.6	30.9	0.7
Other Passenger	14.0	14.0	0.0
Total Passenger Revenue	**$537.2**	**$555.5**	**($18.3)**
Advertising	16.9	16.9	0.0
Other Revenue	23.5	25.3	(1.8)
Reimbursables	23.2	22.7	0.5
Total Non-Passenger Revenue	**$63.6**	**$64.9**	**($1.3)**
TOTAL REVENUE	**$600.8**	**$620.4**	**($19.6)**

FY2018 Q3 Operating Expense Results

($ in millions)	FY2018 Q3 YTD Actual	FY2018 Q3 YTD Budget	Favorable/ (Unfavorable)
Salary/Wages	572.6	606.8	34.2
Overtime	56.2	61.9	5.8
Benefits	332.8	318.2	(14.6)
Total Personnel Expense	**$961.6**	**$986.9**	**$25.4**
Services	202.3	220.3	18.0
Materials & Supplies	80.5	75.5	(5.0)
Fuel (Gas/Diesel/CNG)	19.4	26.9	7.5
Utilities & Propulsion	60.3	66.1	5.8
Insurance/Other	37.2	31.8	(5.4)
Capital Allocation	(28.9)	(37.3)	(8.4)
Total Non-Personnel Expense	**$370.8**	**$383.2**	**$12.4**
TOTAL EXPENSES	**$1,332.4**	**$1,370.2**	**$37.8**

FY2018 Capital Investment



FY2018 Q3 Capital Budget Performance

Investment Category *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
Railcar	$360.9	$392.2	$485.7	$486.0	($0.3)
Rail Systems	63.6	86.0	148.3	155.4	(7.0)
Track & Structures	101.1	87.4	122.5	126.3	(3.8)
Stations & Pass. Facilities	118.7	125.7	170.7	171.5	(0.7)
Bus & Paratransit	117.7	156.8	199.3	201.2	(2.0)
Business Support	47.8	54.1	101.0	109.6	(8.6)
TOTAL	**$810.0**	**$902.2**	**$1,227.5**	**$1,250.0**	**($22.5)**

Railcar

Investment by Program *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
Acquisition	$242.3	$260.3	$340.3	$332.8	$7.5
Maintenance/ Overhaul	93.3	103.3	110.8	116.9	(6.1)
Maintenance Facilities	25.3	28.5	34.5	36.4	(1.8)
Total	**$360.9**	**$392.2**	**$485.7**	**$486.0**	**($0.3)**

FY2018 Q3 Accomplishments

- 52 new 7000 series railcars in service - total of 524 new railcars accepted through March 2018 (of which 520 are in service)
- Rehabilitation of railcar lifts at Shady Grove shop complete, West Falls Church shop expected June 2018
- Exercised option for one-year extended warranty

Rail Systems

Investment by Program *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
Propulsion	$26.3	$25.9	$36.8	$39.1	($2.4)
Signals & Communications	37.3	60.1	111.6	116.2	(4.6)
Total	**$63.6**	**$86.0**	**$148.3**	**$155.4**	**($7.0)**

FY2018 Q3 Accomplishments

- Started installation for cell service between Dupont and Union Station
- Accelerating delivery of Radio equipment into Q4 FY2018
- Awarded contract for replacement and upgrade of seven power facilities
- Began evaluation of next generation train communication technology

Track & Structures

Investment by Program *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
Fixed Rail	$62.0	$77.7	$78.9	$81.4	($2.5)
Structures	39.2	9.7	43.6	44.9	($1.3)
Total	**$101.1**	**$87.4**	**$122.5**	**$126.3**	**($3.8)**

FY2018 Accomplishments through Q3

14,023 crossties replaced
17,797 direct fixation fasteners renewed
5,181 insulators renewed
10 switches rehabilitated
8.7 miles of running rail renewed
35 miles of track tamped
713 joints eliminated

Stations & Passenger Facilities

Investment by Program *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
Platforms & Structures	$62.0	$62.7	$86.8	$86.7	$0.1
Vertical Transp.	40.7	34.9	53.4	52.5	0.9
Station Systems	15.9	28.1	30.5	32.3	($1.8)
Total	**$118.7**	**$125.7**	**$170.7**	**$171.5**	**$(0.8)**

FY2018 Q3 Accomplishments

- Awarded multi-year contract to upgrade station lighting
- Awarded contract for Phase 2 of structural improvements at Rhode Island Avenue; work begins Q1 FY2019
- Seven escalators replaced and two elevators rehabilitated in Q3
- Contract for emergency gates underway
- Forecast reflects reduction for work completed in prior year planned to be completed in FY2018

Bus & Paratransit

Investment by Program *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
Bus and Paratransit Acquisition	$14.5	$71.1	$70.4	$65.4	$5.0
Bus Maint./Overhaul	39.6	50.1	48.3	54.7	(6.4)
Bus Maint. Facilities	61.8	30.5	75.9	73.8	2.0
Bus Passenger Facilities	1.7	5.0	4.7	7.3	(2.6)
Total	**$117.7**	**$156.8**	**$199.3**	**$201.2**	**($2.0)**

FY2018 Q3 YTD Accomplishments

- 75 Metrobus rehabilitations complete
- 17 CNG buses delivered in Q3, 87 buses forecasted for FY2018
- Installed security cameras on 207 buses – 230 to be complete by end of Q4
- 55 of the 227 Metro Access vans planned for FY2018 have been received through March 31 (all in Q3)
- Andrews Federal Center is ahead of original FY2018 plan; construction on schedule for completion in spring of 2019

Business Support

Investment by Program *($ in millions)*	FY18 Actual thru Q3	FY18 Budget thru Q3	FY2018 Forecast	FY2018 Budget	Over/(Under) Current Budget
IT	$36.9	$40.5	$82.9	$85.0	($2.1)
MTPD	0.3	0.7	1.1	1.5	(0.4)
Support Equip./Services	10.7	13.0	16.9	23.1	(6.2)
Total	**$47.8**	**$54.1**	**$101.0**	**$109.6**	**($8.7)**

FY2018 Q3 Accomplishments

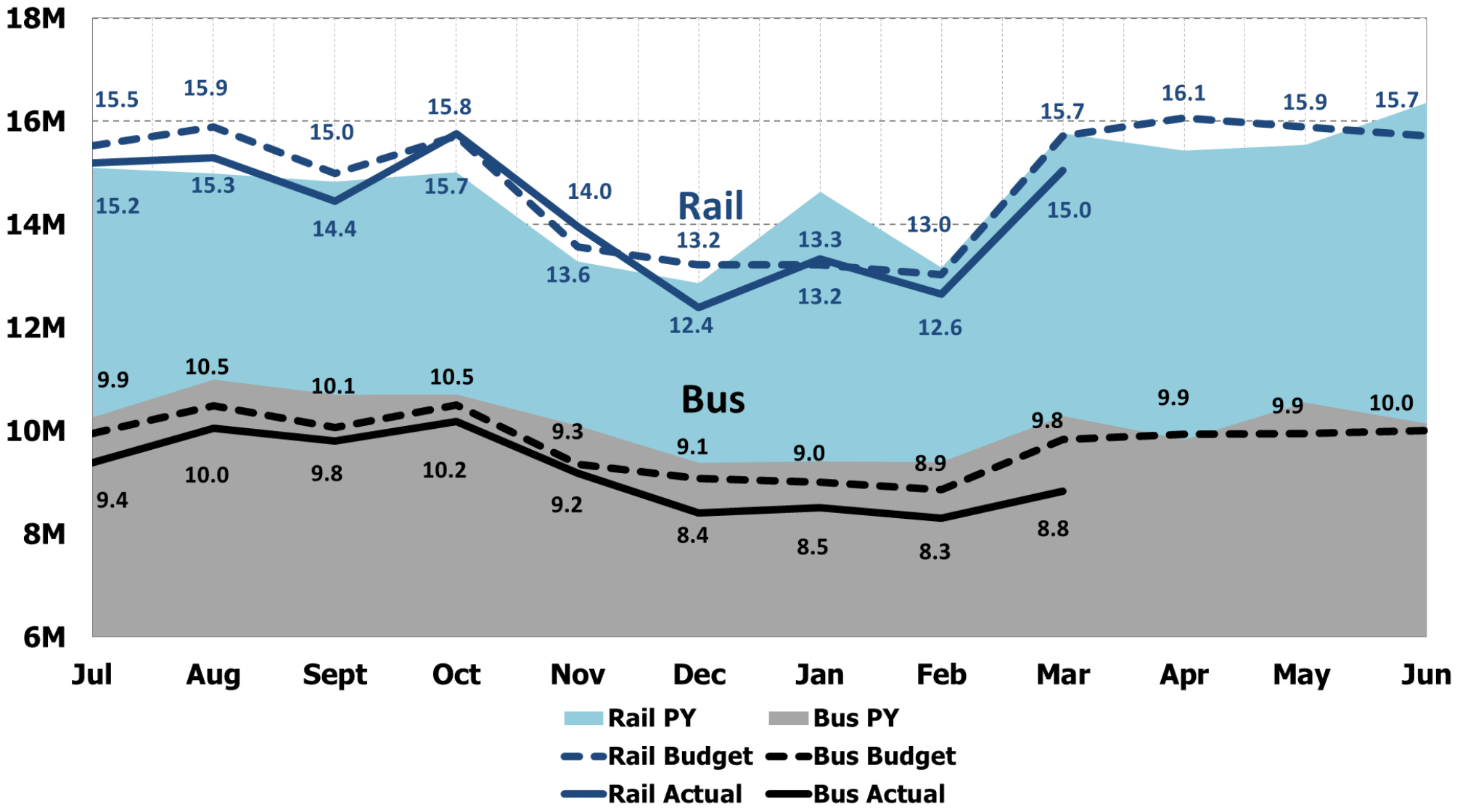
- WiFi access complete at 38 stations thru Q3
- System testing and training materials complete for Metro Time Keeping project
- Replacement of network infrastructure to support bus and rail operations
- 28 of 41 Non-Revenue Service vehicles received, remainder due in Q4

Appendix: Ridership

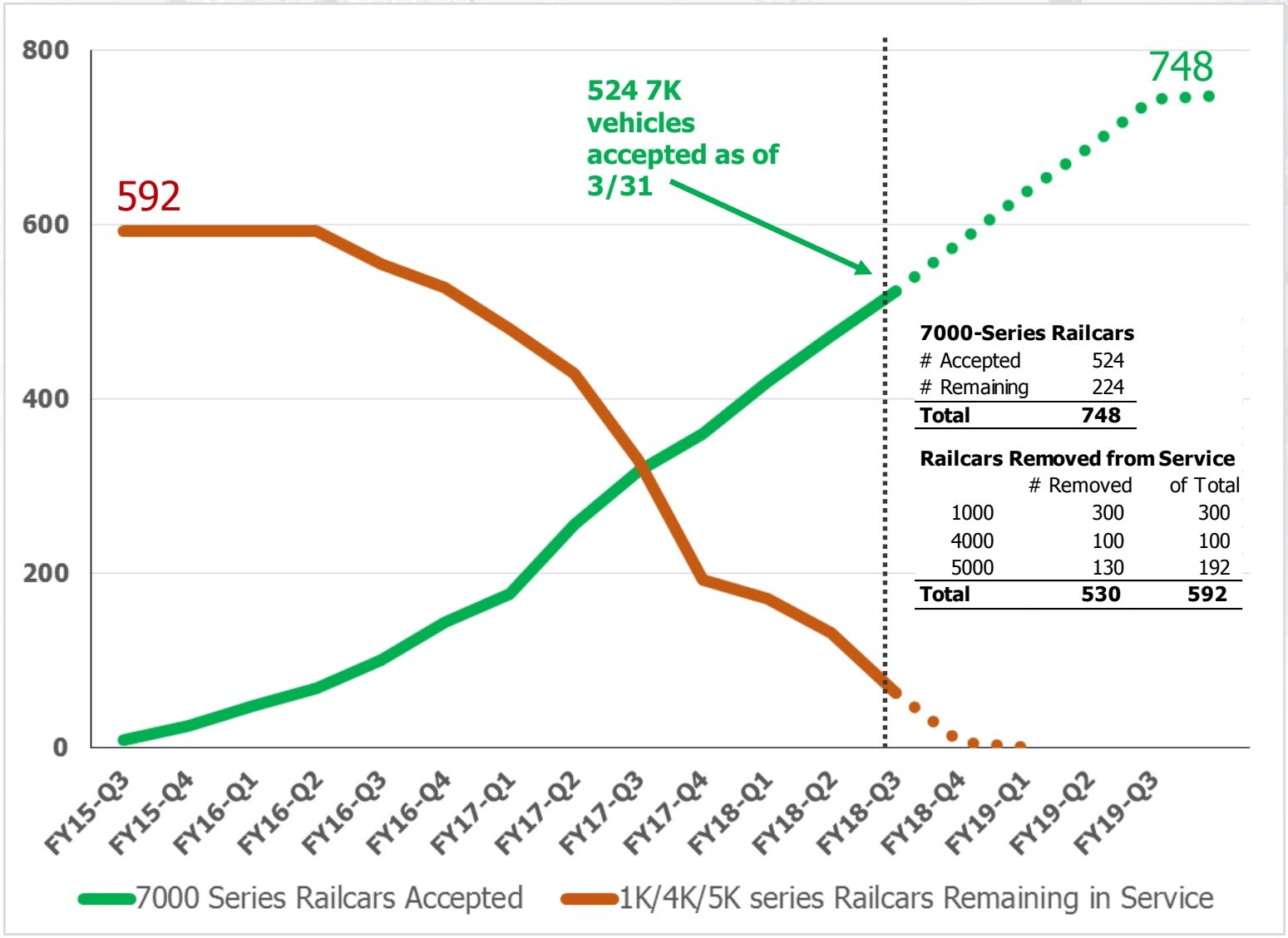
Trips in Thousands

Q3	Q3 FY2017	Q3 FY2018		Variance vs.	
	Actual	Actual	Budget	Prior Year	Budget
Metrorail	43,561	41,030	41,949	-5.8%	-2.2%
Metrobus	29,085	25,642	27,686	-11.8%	-7.4%
MetroAccess	573	559	559	-2.4%	0.0%
System Total	**73,219**	**67,231**	**70,194**	**-8.2%**	**-4.2%**
YTD	**Q3 FY2017**	**Q3 FY2018**		**Variance vs.**	
	Actual	**Actual**	**Budget**	**Prior Year**	**Budget**
Metrorail	129,636	128,062	130,844	-1.2%	-2.1%
Metrobus	91,218	82,617	87,094	-9.4%	-5.1%
MetroAccess	1,761	1,726	1,768	-2.0%	-2.4%
System Total	**222,615**	**212,405**	**219,706**	**-4.6%**	**-3.3%**

Appendix: Ridership



Appendix: 7000 Series Railcar Acquisition Program



7000-Series Railcars

# Accepted	524
# Remaining	224
Total	**748**

Railcars Removed from Service

	# Removed	of Total
1000	300	300
4000	100	100
5000	130	192
Total	**530**	**592**

Total Estimated Project Cost	**$1,709**
Life to Date Expenses	**$1,071**
Remaining Cost to Complete	**$638**

$ in millions