Finance Committee

Information Item IV-B

November 2, 2017

GM/CEO FY2019 Proposed Budget

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number: 201930	Resolution: ○ Yes ◉ No

TITLE:

GM/CEO's Proposed FY2019 Budget

PRESENTATION SUMMARY:

Management will present the General Manager and Chief Executive Officer's (GM/CEO) proposed FY2019 budget.

PURPOSE:

To present the GM/CEO's proposed FY2019 budget to the Finance Committee and Board of Directors for consideration. Board adoption of the FY2019 budget is scheduled for March 2018.

DESCRIPTION:

Key Highlights:

- The GM/CEO's proposed FY2019 budget totals just over $3.1 billion and is grounded in Metro's three priorities: Safety, Service Reliability, and Financial Responsibility.
- Metro will continue to deliver capital investments to improve safety and reliability and renew and preserve the system. FY2019 planned investment totals $1.28 billion.
- The GM/CEO does not propose fare increases or service reductions and will encourage customers to ride through fare pass products.
- Management actions to improve efficiency and control costs will limit operating budget expense growth to less than one percent ($12 million), despite cost growth for legacy commitments, mandates and inflation.
- Jurisdictional funding support increases by $165 million: $136 million (21 percent) for capital investments and $29 million (3 percent) for operating budget support.
- GM/CEO proposing to adhere to three percent subsidy increase cap in FY2019 called for in the plan to Keep Metro Safe, Reliable and Affordable, even though the essential elements of the plan have not been acted on and revenue is projected to decline from the FY2018 budget level.
- Without dedicated revenue, PRIIA reauthorization and structural reforms, annual jurisdictional funding requirements to keep the system safe and reliable will increase by more than $1 billion in six years.

Background and History:

Metro's Structural Challenges

Metro continues to face structural challenges associated with chronic underinvestment in the maintenance, rehabilitation and replacement of the system's infrastructure and an unsustainable operating model. Metro is reliant on unpredictable year-to-year local, state and federal contributions and is one of the only major transit systems without a dedicated revenue source. Metro also has a substantial deferred capital needs backlog associated with aging transit system and has limited maintenance and rehabilitation opportunity due to "2-track" design and constrained work hours. Metro is a labor-intensive operation with over 70 percent of the operating budget going to pay for wages and benefits and has substantial legacy commitments on wages, pension and health benefits. MetroAccess demand and subsidy have grown rapidly as Metro has limited ability to control the costs of the mandated service. Metro has no "Rainy Day" fund or contingency for unpredictable financial shocks.

Keeping Metro Safe, Reliable and Affordable

In April 2017, GM/CEO Paul Wiedefeld announced the plan to Keep Metro Safe, Reliable and Affordable. 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

To date, the region has not yet formally acted to implement the key elements of the plan.

Back2Good

Over the last two years Metro has pushed ahead on key priorities to improve Safety, Service Reliability and Financial Responsibility. Metro increased the rate of capital investment, spending nearly $1.2 billion in FY2017 advancing safety, reliability and system preservation projects including SafeTrack. Safety and reliability have improved through track inspection and preventive maintenance program and new 7000 series railcars. Metro erased a $116 million FY2017 revenue shortfall through management actions including reducing the size of the Metro workforce by 800 positions, other cost savings, and prior year budget surpluses. Metro balanced the FY2018 budget through management actions, service reductions, fare increases, and increased jurisdictional contributions.

Discussion:

FY2019 Proposed Budget Priorities

The GM/CEO's proposed FY2019 budget totals just over $3.1 billion and is grounded in Metro's three priorities: Safety, Service Reliability, and Financial Responsibility. The GM/CEO's Budget priorities:

• Fund safety, compliance and reliability improvements to drive ridership
• Deliver capital program investment to renew and preserve the system
• Encourage customers to ride through fare pass products
• No service reductions and no fare increases
• Fund legacy commitments, mandates and cost inflation while limiting operating subsidy growth to 3 percent ($29 million)
• Implement Management Actions to improve efficiency and reduce cost, including outsourcing where effective

Proposed Capital Budget and Six-Year Capital Program

The GM/CEO's $8.5 billion proposed FY2019-2024 capital program is focused on projects that improve the safety, reliability and state of good repair of Metro's infrastructure, equipment and other assets. The six-year investment plan is based on ongoing projects and prioritized system preservation and renewal needs from the Capital Needs Inventory. Metro and the region must invest an average of $1.5 billion of over the next ten years. Metro's annual capital investment will ramp up from current investment levels (approximately $1.2 billion) to over $1.5 billion annually by FY2022.

After several years of capital delivery falling short of expectations, Metro successfully invested $1.16 billion in FY2017, 122 percent of the original FY2017 capital budget and 99 percent of the amended budget. Metro's FY2018 capital budget totals $1.25 billion and, after the first quarter, Metro is forecasting that at least 95 percent of the budget will be invested. Metro's planned FY2019 capital investment totals $1.28 billion. Over 85 percent of the investment planned for FY2019 is to fund projects, programs and contracts that are already underway.

Key FY2019 capital budget deliverables include, but are not limited to: 164 new 7000 series railcars (completing delivery of the 748 new railcars); completion of the new bus garage and overhaul facility at Andrews Federal Center; continued delivery of the radio and wireless communication project; rail power system reliability and capacity improvements; track and structures rehabilitation; rehabilitation and replacement of station platforms, escalators, elevators, lighting, parking garages, and cooling systems; replacement of buses and paratransit vehicles; and modernization of information technology systems and infrastructure. Additional information about FY2019 capital project deliverables and highlights of the six year capital program are included in the attached presentation.

Capital Program Funding

$8.5 billion of federal and regional capital investment is required over the next six years to ensure a safe and reliable Metro system. Funding from current sources will not meet this need. The Passenger Rail Investment and Improvement Act (PRIIA), which provided $1.5 billion of federal funding for Metro's capital program for ten years expires after Metro's FY2020 (federal fiscal year 2019). Metro's proposed FY2019-2024 capital program assumes that PRIIA ends after FY2020 and that federal formula funding programs remain at current levels. Without federal PRIIA reauthorization and a dedicated revenue source, annual jurisdictional contributions will total $6.3 billion over the next six years, $4+ billion more than the $2 billion contributed through the FY2011-2016 Capital Funding Agreement.

The FY2019 capital budget assumes federal formula and a PRIIA funding totaling $459 million, MWAA and other funding of $33 million, and $787 million of funding from the jurisdictions (including funding to match federal grants). The $787 million of jurisdictional funding is $136 million (21 percent) more than the jurisdictional share of the FY2018 budget.

Capital Project Development and Evaluation

The FY2019 capital program will continue to advance the development and evaluation of new major projects and system preservation programs. Development and evaluation initiates include, but are not limited to: a new railcar acquisition program primarily for the replacement of the 2000 and 3000 series railcars, the replacement or rehabilitation of Bladensburg and Northern bus garages, a new railcar overhaul facility, tunnel water mitigation and ventilation systems, and core station passenger circulation improvements.

FY2019 Proposed Operating Budget

The GM/CEO's proposed FY2019 operating budget totals $1.837 billion. The proposed budget assumes no fare increases, no service reductions, $38 million of management actions to reduce expenses and increase business revenues, and a $29 million increase in jurisdictional subsidy (three percent).

FY2019 Operating Revenue

Metrorail and Metrobus ridership continues to perform below expectations due to changes in trip-making, telework, competition from other transportation options, low gas prices, after-effects of reliability challenges and the SafeTrack program, and the impacts of the fare increases and service reductions implemented earlier this year. Bus and rail ridership and revenue are below budget through the first quarter of FY2018. Rail ridership has stabilized as compared to the same period in FY2017, but is below budget as the budget assumed some recovery post-SafeTrack. Consistent with regional and national trends, bus ridership is below both last year's actual performance and FY2018 budget expectations. While Metro expects that ridership will increase as new and returning customers experience reliability improvements, the FY2019 proposed budget includes ridership and revenue assumptions based on the current ridership realities. FY2019 bus and rail ridership are projected to be about five percent and three percent below the FY2018 budgeted levels, respectively. FY2019 bus and rail revenues are projected to be about $25 million (3.5 percent) below the FY2018 budget.

Legacy Commitments, Mandates and Inflation

Some of Metro's fundamental operating cost drivers are not controllable. In FY2019 Metro's costs will increase for legacy commitments, mandates, inflation and market realities. The proposed FY2019 operating budget assumes a total of $42 million of cost growth for: paratransit ($11 million), legacy labor commitments including contractually obligated wage steps and health care and pension contributions ($16 million), energy including propulsion power for rail and fuel for bus ($7 million), and inflation on materials, supplies and services contracts ($8 million).

Management Actions and Initiatives to Reduce Operating Cost and Generate Revenue

Over the last two years, Metro has acted to improve efficiency and reduce operating expense through the reduction of 800 positions and contributions to non-represented employee healthcare, implementation of controls on absenteeism and workers' compensation, and the launch of the Abilities-Ride program as an alternative to high cost MetroAccess service. Metro is also increasing revenue through enhanced advertising and improved fare enforcement through the Fair Share initiative. To balance the budget and meet the three percent subsidy cap commitment, management is advancing additional actions to reduce cost and generate more revenue including $25 million of further cost efficiencies and reductions, $5 million of additional controls on overtime expense, $6 million in parking revenue initiatives, and $2 million from expanded advertising opportunities.

While aggressive management actions closed the FY2018 and FY2019 budget gaps, the scale of the reductions is unsustainable. Major structural reforms consistent with the actions called for in the GM/CEO's plan are required in order to constrain future operating subsidy growth and ensure financial sustainability. Metro will move ahead with efforts to advance structural changes including outsourcing where effective, a reexamination of the bus network (similar to efforts underway in other metropolitan areas), and a review of opportunities to save money by consolidating pension and health care programs.

FY2019 Jurisdictional Operating Subsidy

The proposed budget constrains jurisdictional operating subsidy growth to $29 million, three percent more than the $980 million FY2018 approved operating subsidy. Jurisdictional subsidy increased by $135 million (16 percent) from FY2017 to FY2018 after no increase the previous year (operating subsidy was $845 million in both FY2016 and FY2017). Without sustainable, structural changes to control costs, Metro forecasts that jurisdictional operating subsidy will grow by an average of 7.5 percent per year from FY2020-2024.

Not included in the FY2019 Proposed Budget

The GM/CEO's commitment to cap annual operating subsidy growth at three percent requires structural reforms and does not include funding to increase service or address unsustainable mandates or initiatives. These potential additions would force increased contributions from the jurisdictions above the three percent cap. The FY2019 proposed budget does not include funding for:

- Silver Line Phase 2 – costs to ramp up to revenue service operations are assumed to begin in FY2020.
- Increases in rail and bus service requiring additional subsidy (e.g. State of Good Operations bus proposals, elimination of Grosvenor turnbacks).
- Increased funding request from Office of the Inspector General.
- Wage increases for FY2019 or prior years.
- Reduction in FTA grant funding of vehicle preventive maintenance (remains at $60 million).
- Additional funding for contributions to Other Post Employment Benefits (OPEB) trust.
- Rainy day contingency fund to insulate Metro's jurisdictional funding partners from unexpected financial shocks.

Operating and Capital Budget Risks

There are substantial and ongoing risks inherent in the proposed FY2019 budget including:

- Ridership uncertainty due to changes in trip-making and transportation market (telework, alternate modes, gas prices, etc.)
- Outcome of collective bargaining
- Significant paratransit ridership growth
- Pension and OPEB liabilities
- Safety needs and additional system inspection and maintenance efforts
- Federal uncertainty – PRIIA reauthorization, formula program funding, transit benefit, federal employment and contracting levels

Metro does not have a rainy day or contingency fund for emergencies or unexpected market shifts. A rainy day fund would insulate the jurisdictions from unbudgeted events such as federal government shut downs, major unscheduled regional events, safety mandates, energy price volatility, and snow and other operational disruptions. The GM/CEO's plan to Keep Metro Safe, Reliable and Affordable calls for the establishment of a rainy day fund for emergencies, compliance mandates and unexpected market shifts. The GM/CEO will propose guidelines for use of the rainy day fund to include specific prohibitions on its use for routine expenses or bargaining agreements.

FUNDING IMPACT:

This is an information item presenting the GM/CEO's proposed FY2019 budget. There is no immediate impact on funding.	
Project Manager:	Thomas J. Webster
Project Department/Office:	CFO/OMBS

TIMELINE:

Previous Actions	March 2017 – Adoption of FY2018 Budget April 2017 – GM/CEO announced plan to Keep Metro Safe, Reliable and Affordable October 2017 – Finance Committee review of Ridership trends
Anticipated actions after presentation	December 2017 – Publication of FY2019 Proposed Budget; Authorization for Public Hearing (for capital program and FTA grants) December-February – Budget Deliberations March 2018 – Adoption of the FY2019 Budget

RECOMMENDATION:

This is an information item – no recommendation at this time. Budget adoption is scheduled for March 2018. Budget approval in March necessary to ensure uninterrupted regional funding of the capital program and to allow for the timely application and award of FTA grants.

Washington Metropolitan Area Transit Authority

FY2019 Proposed Budget

Finance Committee
November 2, 2017

Metro continues to face structural challenges

Chronic Capital Underinvestment	• Reliant on unpredictable year-to-year local, state and federal contributions without dedicated revenue source • Substantial deferred capital needs backlog associated with aging transit system • Limited maintenance and rehabilitation opportunity due to “2-track” design and constrained work hours
Unsustainable Operating Model	• 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 the costs of the mandated service • No “Rainy Day” fund or contingency for unpredictable financial shocks

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

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

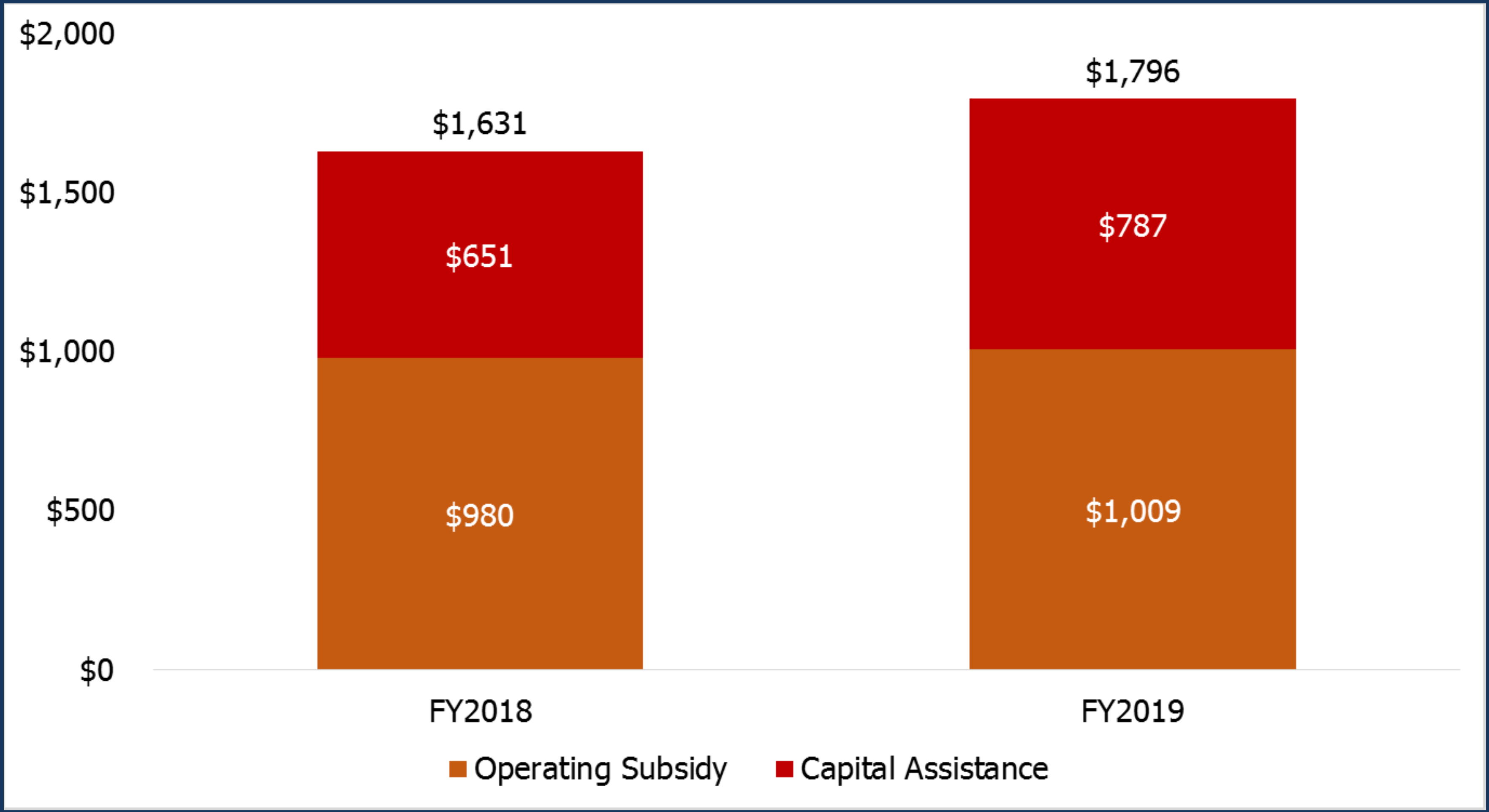
Back2Good

- Increased rate of capital investment – nearly $1.2 billion invested in FY2017 – advancing safety, reliability and system preservation projects including SafeTrack
- Improving safety and reliability through track inspection and preventive maintenance program and new 7000 series railcars – 424 in service as of October 23
- Erased $116 million FY2017 revenue shortfall through management actions including reducing the size of the Metro workforce by 800 positions, other cost savings, and prior year budget surpluses
- FY2018 budget balanced through management actions, service reductions, fare increases, and increased jurisdictional contributions

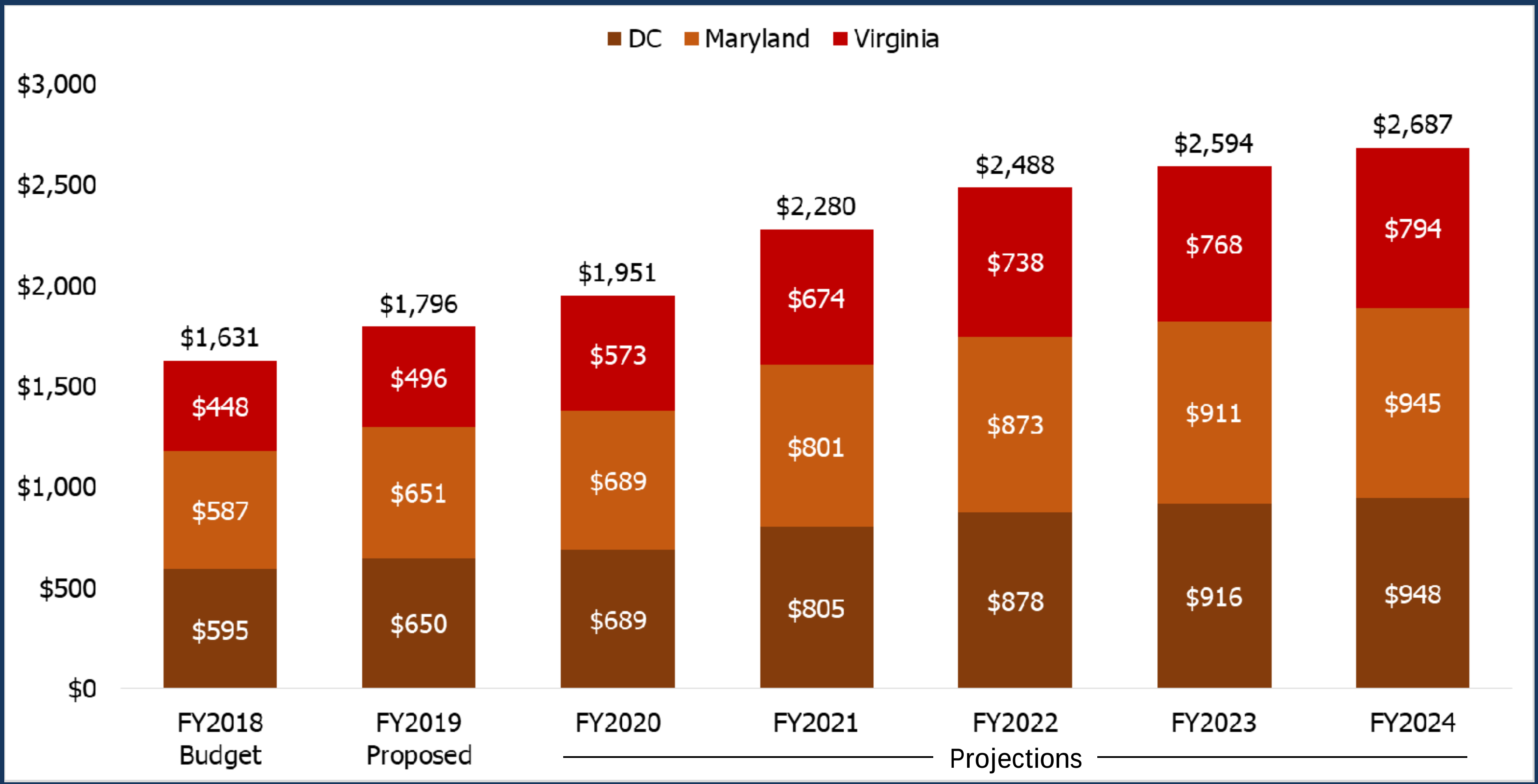
FY2019 Proposed Budget Priorities

- Fund safety, compliance and reliability improvements to drive ridership
- Deliver capital program investment to renew and preserve the system
- Encourage customers to ride through fare pass products
- No service reductions and no fare increases
- Fund legacy commitments, mandates and cost inflation while limiting operating subsidy growth to 3 percent ($29 million)
- Implement Management Actions to improve efficiency and reduce cost, including outsourcing where effective

FY2019 Jurisdictional Operating and Capital Funding - $165 million increase



FY2019-2024 Jurisdictional Capital and Operating Funding Outlook



Without dedicated revenue, PRIIA reauthorization, and structural reforms, the annual jurisdictional capital and operating funding requirement will increase by more than $1 billion in six years

FY2019 Capital Budget

Note: Due to rounding, numbers and percentages presented throughout this document may not sum to the totals.

Proposed Capital Budget and Six-Year Plan

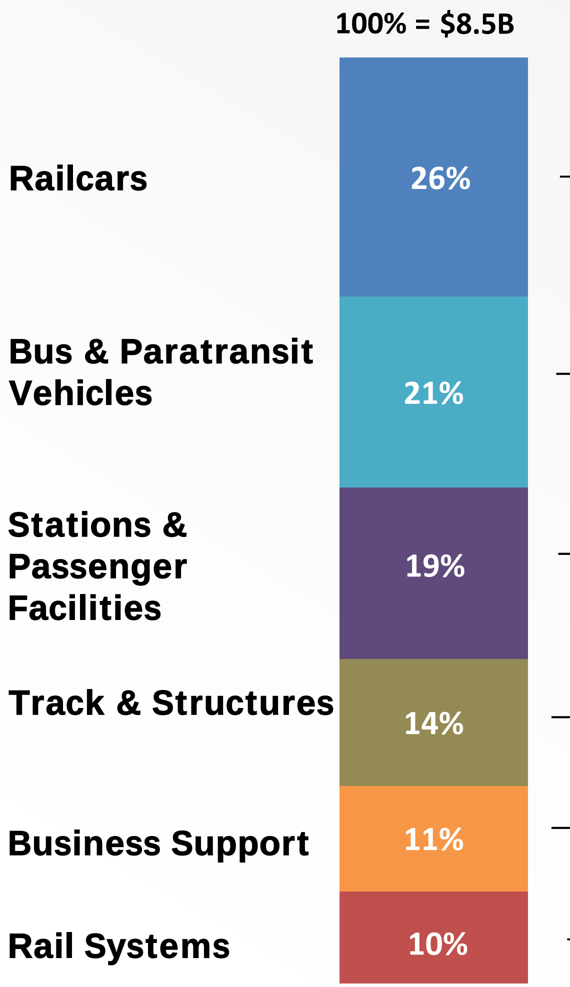
FY2019 Proposed Capital Budget:

- Planned investment of $1.28 billion
- Over 85 percent of planned investment already underway

Six Year Plan:

- Proposed $8.5 billion six-year investment based on ongoing projects and prioritized system preservation and renewal needs from Capital Needs Inventory
- Federal funding assumptions: PRIIA funding ends after FY2020; federal formula funding continues for next six-years at current levels
- Includes funding for development and evaluation of projects including: Bladensburg and Northern bus garages rehab/replacement, new railcar overhaul facility, tunnel water mitigation and ventilation systems, and core station passenger circulation improvements

FY2019-2024 Investment by Asset Category



New railcar fleet & OH Facility
- 748 new 7000 series cars
- Start the replacement of 2000 and 3000 legacy cars
- Construction of new overhaul facility

Bus Garages and Fleet
- Completion of Andrews Bus Garage
- Rehab/Replacement of Northern and Bladensburg Bus Garages
- Continue bus and MetroAccess fleet replacement

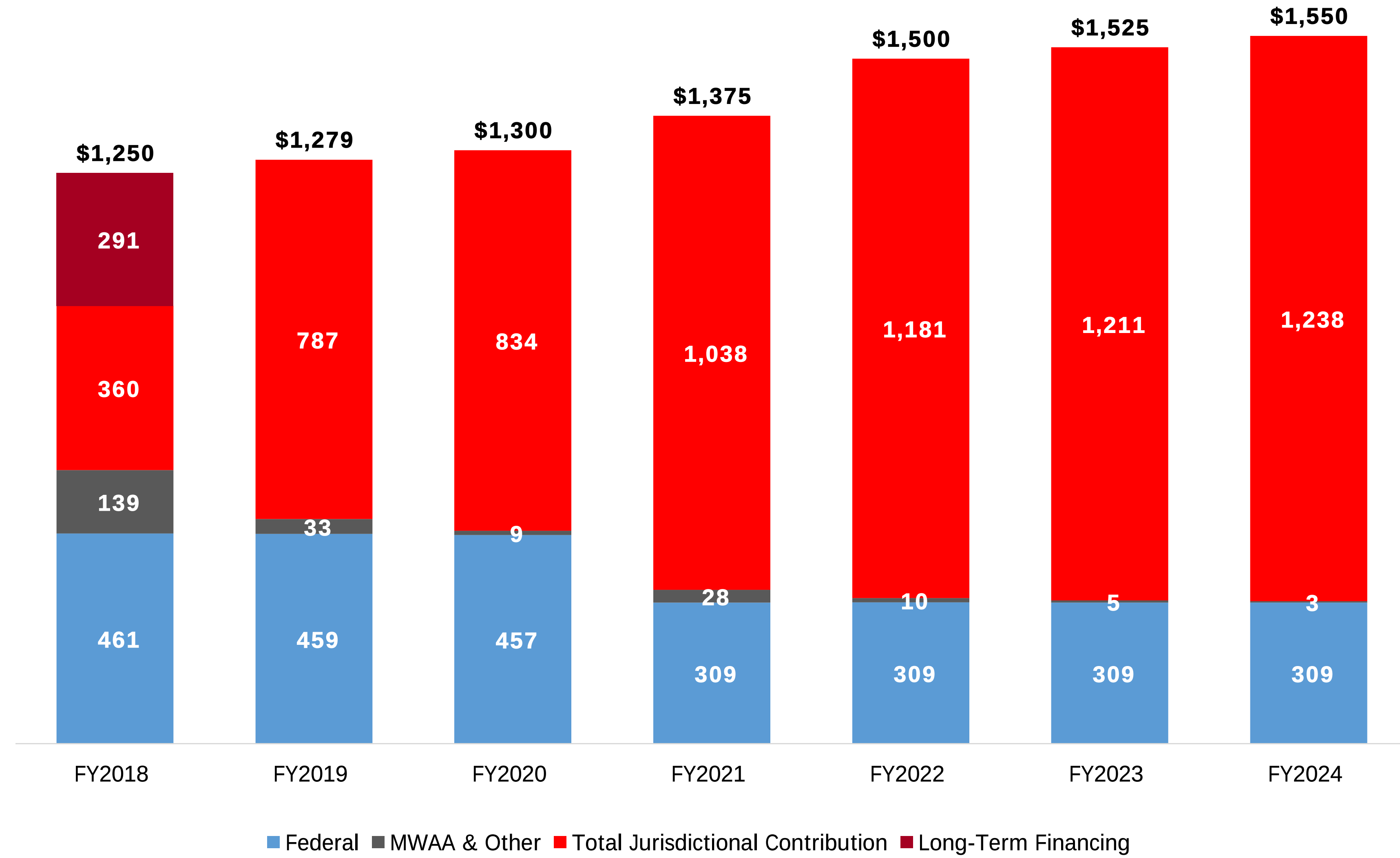
Station Upgrades & Capacity
- Continue replacement of escalators
- D&E capacity and circulation improvements at core stations
- Replace and modernize existing fare collection assets

Track Rehab & Tunnels
- Continue replacement components (crossties, fasteners, switches, insulators), based on condition
- Complete water remediation and ventilation in tunnels
- Third rail reconfiguration

Admin and IT Infrastructure
- Consolidation of WMATA offices
- Continue upgrades of IT infrastructure

Traction Power
- Continue power systems and automatic train control programs based on condition
- Complete traction power upgrades to support reliability and more 8-car trains

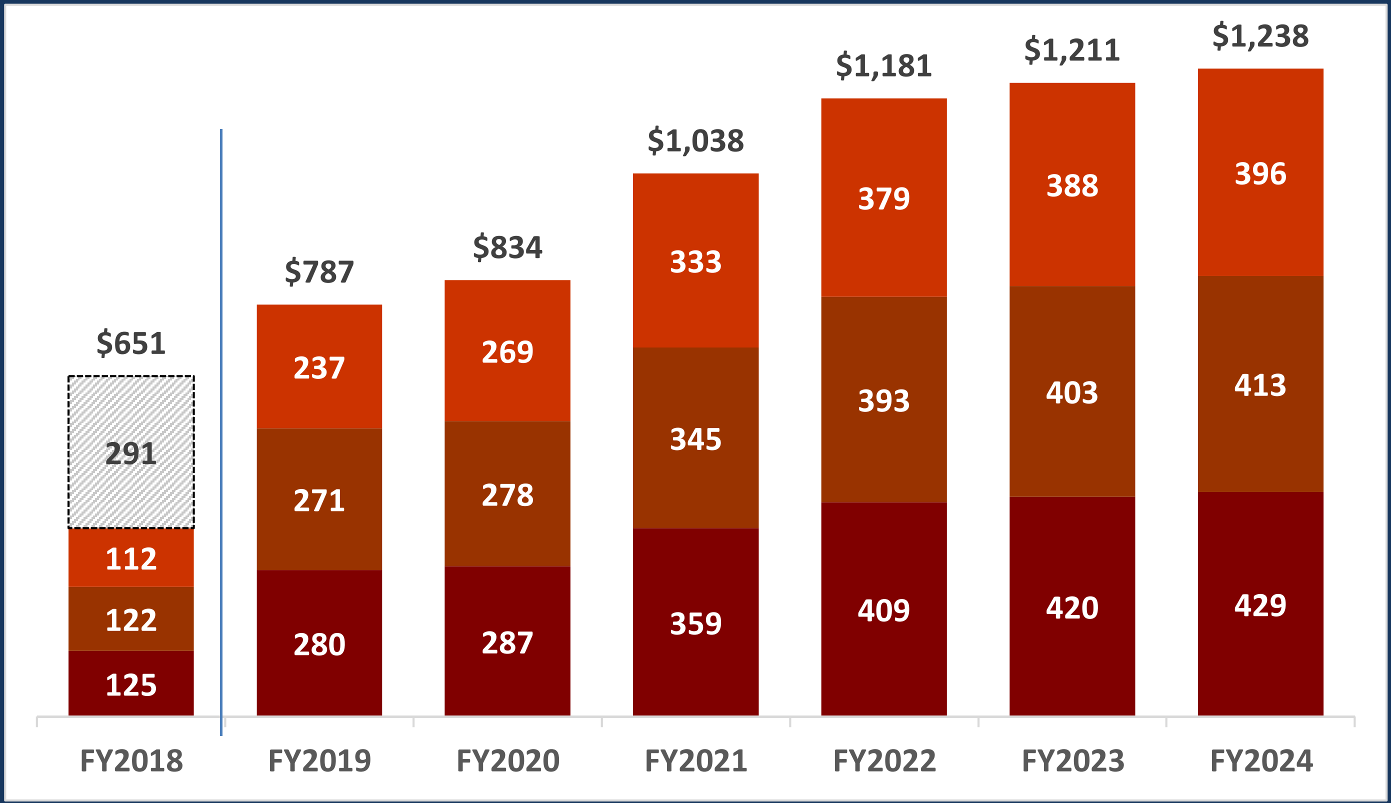
FY2019-2024 Capital Need without Dedicated Revenue / PRIIA Reauthorization



Note: Projections assume PRIIA ends after FY2020.

FY2019-2024 Jurisdictional Capital Funding Requirement without Dedicated Revenue / PRIIA Reauthorization

Estimated annual capital contribution need by jurisdiction $M



Total 6-year requirement without dedicated revenue & PRIIA, $M

VA	$2,002
MD	$2,103
DC	$2,184

Notes: FY2018 includes $291M of Long Term Financing. Projections assume PRIIA ends after FY2020.

FY2019 – FY2024 Proposed Investment Summary

Investment Category ($M)	FY2019 Proposed	6 Year Proposed
Railcars	$441	$2,171
Rail Systems	$184	$852
Track & Structures	$134	$1,196
Stations & Passenger Facilities	$243	$1,580
Bus & Paratransit Vehicles	$192	$1,757
Business Support	$84	$973
TOTAL	**$1,279**	**$8,530**

Railcars

Program ($M)	FY2019 Proposed	6 Year Proposed
Acquisition	$289	$765
Maintenance/Overhaul	$116	$721
Maintenance Facilities	$35	$686
Total	**$441**	**$2,171**

FY2019 Key Deliverables

- Acquisition of 164 new 7000 series railcars
- Continue railcar preventive maintenance and rehabilitation activities
- Continue using local funding for parts for railcar rehabilitation
- Complete repairs at Shady Grove and Branch Ave rail yards; rehab railcar lifts

6 Year Highlights

- 748 new 7000 series railcars in service
- 1000, 4000, and 5000 fleets replaced
- Start replacement of 2000/3000 fleets
- Focused investment in existing railcar fleet to improve safety and reliability
- Construction of new overhaul facility

Rail Systems

Program ($M)	FY2019 Proposed	6 Year Proposed
Propulsion	$66	$452
Signals & Communications	$119	$401
Total	**$184**	**$852**

FY2019 Key Deliverables

- Complete underground installation of radio infrastructure on Blue/Orange Line
- Install 16 power quality meters, and replace 6 transformers
- Install 7 tie-breaker stations and 5 traction power sub-stations
- Track circuit replacement
- Pilot wayside-worker protection system

6 Year Highlights

- Complete pilot of wayside-worker protection system
- Complete replacement of track circuits
- Continue traction power upgrades to support reliability and more 8-car trains
- Continue power system and automatic train control programs based on condition

Track & Structures

Program ($M)	FY2019 Proposed	6 Year Proposed
Fixed Rail	$100	$814
Structures	$34	$382
Total	**$134**	**$1,196**

FY2019 Key Deliverables

- Replace 12 switches and 13 miles of running rail
- 23,500 direct fixation fasteners
- Remove and replace 13,000 crossties
- Replace 14,000 insulators
- Repair, mitigate, and eliminate tunnel leaks; rehabilitate 70,000 linear feet of drainage

6 Year Highlights

- Maintain track in a state of good repair with annual program to replace components including crossties, fasteners, switches, and insulators based on condition
- Complete water remediation and ventilation in tunnels
- Start bridge rehabilitation program
- Third rail reconfiguration

Stations & Passenger Facilities

Program ($M)	FY2019 Proposed	6 Year Proposed
Platforms & Structures	$105	$671
Vertical Transportation	$60	$335
Station Systems	$78	$574
Total	**$243**	**$1,580**

FY2019 Key Deliverables

- Replace 15 escalators, rehabilitate 16 escalators, rehabilitate 13 elevators
- Drainage improvements at 8 locations
- Replace station chillers and cooling towers
- D&E Gallery Place station capacity and circulation
- Begin platforms rehabilitation

6 Year Highlights

- Continue reinvestment in elevators and escalators
- Rehabilitation of parking facilities
- Station lighting renewal
- Gallery Place capacity and circulation improvements
- Grosvenor garage expansion
- D&E L'Enfant Plaza station capacity improvements

Bus & Paratransit

Program ($M)	FY2019 Proposed	6 Year Proposed
Bus & Paratransit Acquisition	$95	$695
Bus Overhaul & Maintenance	$61	$389
Bus Maintenance Facilities	$32	$346
Bus Passenger Facilities	$5	$327
Total	**$192**	**$1,757**

FY2019 Key Deliverables

- 100 replacement CNG buses
- Continue bus rehabilitation and repair
- 225 Paratransit vans
- Complete construction of Andrews Federal Bus Garage
- D&E bus garage rehab/replacement

6 Year Highlights

- Sustain bus and paratransit fleet through annual replacement and rehabilitation
- Rehab/Replacement of Bladensburg and Northern bus garages
- Evaluation of construction of new bus garages

Business Support

Program ($M)	FY2019 Proposed	6 Year Proposed
IT	$55	$341
MTPD	$1	$8
Support Equipment & Services	$28	$624
Total	**$84**	**$973**

FY2019 Key Deliverables

- Continue roof rehabilitations and replacements
- Begin development of financial system upgrade
- Modernize work order system

6 Year Highlights

- Rehabilitate and repair facility roofs across Metro system
- Consolidation of WMATA office facilities
- Complete financial system upgrade
- Continue investment in hardware and required software improvements to support business operations

FY2019 Operating Budget

Note: Due to rounding, numbers and percentages presented throughout this document may not sum to the totals.

FY2019 Proposed Operating Budget

($ in millions)	FY2018 Budget	FY2019 Proposed	$ Change	% Change
Revenue	$845	$828	($17)	(2.0%)
Expense	$1,825	$1,837	$12	0.7%
Subsidy	$980	$1,009	$29	3.0%

FY2019 Subsidy Growth Constrained to 3 percent

($ in millions)		Subsidy Impact
FY2018 Approved Subsidy		**$980**
Ridership Decline	Metrorail and Metrobus	$25
	Subtotal	**$25**
Legacy Commitments, Mandates and Inflation	Contractually obligated wage steps	$7
	Health Care and Pension	$9
	Paratransit	$11
	Energy Costs	$7
	Inflation: Materials, Supplies & Services	$8
	Subtotal	**$42**
Management Actions to Reduce Cost and Generate More Revenue	Control Overtime Costs	($5)
	Baseline Reductions and Efficiencies	($25)
	Increase parking revenue	($6)
	Increase advertising revenue	($2)
	Subtotal	**($38)**
FY2019 Jurisdictional Subsidy	**FY2019 Proposed Subsidy**	**$1,009**
	Subsidy Increase (3%)	**$29**

Management Actions and Initiatives to Reduce Cost and Generate Revenue

- **Management Actions already implemented:**
  - ✓ Reduced 800 positions and non-represented employee healthcare
  - ✓ Implemented controls on absenteeism & workers' compensation
  - ✓ Launched Abilities-Ride
  - ✓ Enhanced advertising
  - ✓ Fair Fare Collection – increase enforcement

- **Additional Management Actions to reduce cost and generate more revenue:**
  - ✓ Cost efficiencies and reductions - $25 million
  - ✓ Control overtime expense – $5 million
  - ✓ Increase parking revenue opportunities - $6 million
  - ✓ Expand advertising - $2 million
  - ✓ Advance structural reforms - TBD

Potential additions could force increased contributions from the jurisdictions above 3 percent cap

FY2019 Proposed Budget <u>Does Not</u> Include:

- Silver Line Phase 2
- Increases in rail and bus service -
  - State of Good Operations or other bus service proposals requiring additional subsidy
  - Requests for increased rail service frequency
- Increased funding request from Office of the Inspector General
- Wage increases for FY2019 or prior years
- Reduction in FTA grant funding of vehicle preventive maintenance (remains at $60 million)
- Additional funding for contributions to OPEB trust
- Rainy day fund

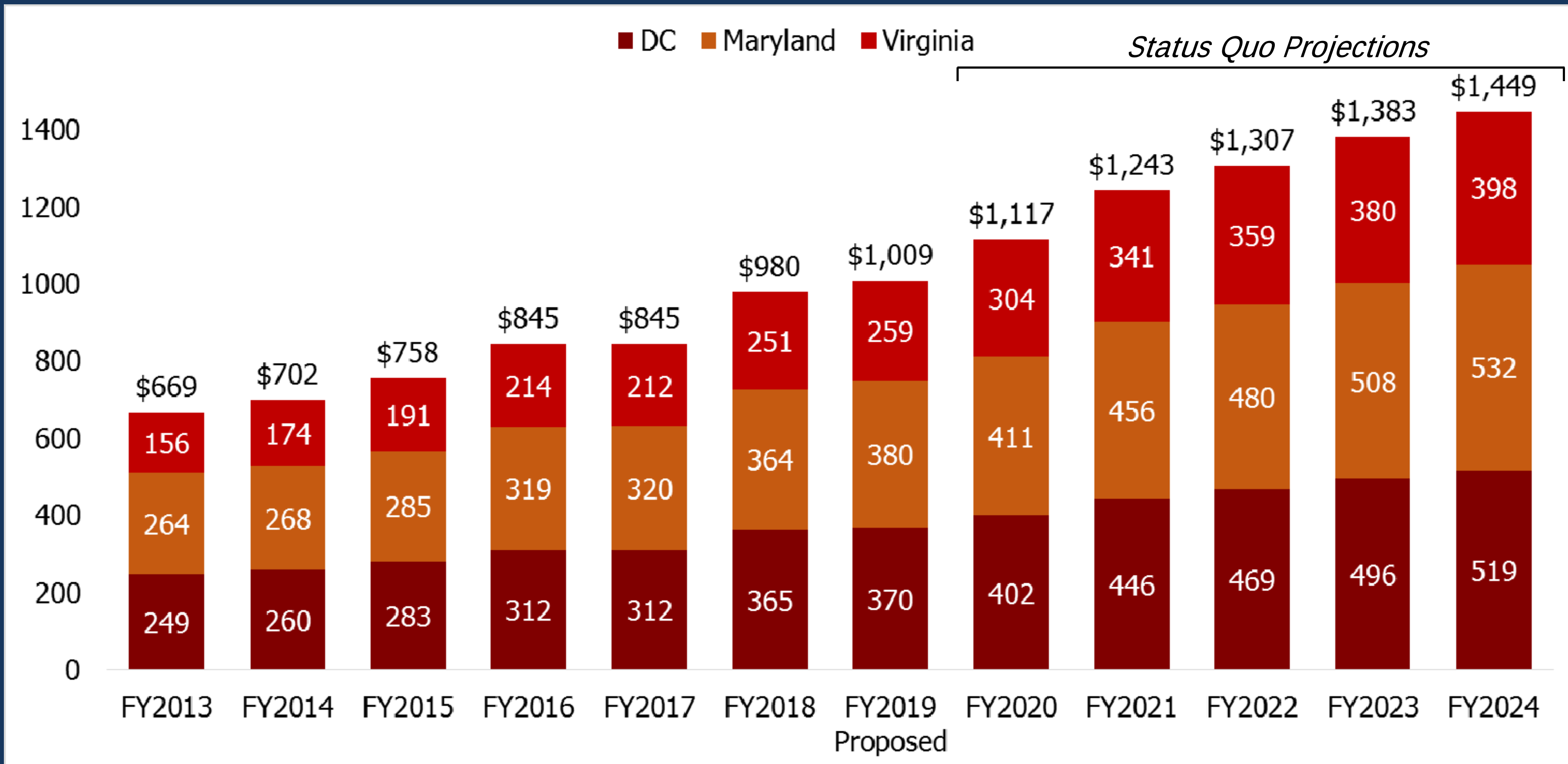
Budget Risks

- Ridership uncertainty due to changes in trip-making and transportation market (telework, alternate modes, gas prices, etc.)
- Outcome of collective bargaining
- Significant paratransit ridership growth
- Pension and OPEB liabilities
- Safety needs and additional system inspection and maintenance efforts
- Federal uncertainty – PRIIA reauthorization, formula program funding, transit benefit, federal employment and contracting levels

Rainy Day Fund

- 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
- GM/CEO will propose guidelines for use of Rainy Day Fund
  - For emergencies, compliance mandates and unexpected market shifts; not for routine expenses or bargaining agreements

Structural reforms are required to constrain operating subsidy growth to 3% beyond FY2019



- ❑ Reform arbitration process
- ❑ New retirement plan for new hires
- ❑ Reset Bus Network
- ❑ Redesign paratransit delivery model
- ❑ Competitive contracting, where effective
- ❑ Consolidate pensions, healthcare

Next Steps

- **December:** Publication of Proposed Budget Document; Authorization for Public Hearing (for capital program and FTA grants)
- **December-February**: Budget deliberations
- **Jan-Feb**: Public outreach and public comment period
- **March**: Adoption of FY2019 Budget

Budget approval in March is recommended to ensure uninterrupted regional funding of the capital program and to allow for the timely application and award of FTA grants

Appendices

Note: Due to rounding, numbers and percentages presented throughout this document may not sum to the totals.

Proposed Capital Budget Funding Sources

Funding Source ($M)	FY2018 Budget	FY2019 Proposed	Change
Federal Grants	$461	$459	($1)
Jurisdictional Match & SP	$360	$787	$427
MWAA & Other	$139	$33	($106)
Long Term Financing	$291	$0	($291)
Total Funding	**$1,250**	**$1,279**	**$29**

Proposed Jurisdictional Capital Contributions

Jurisdiction ($M)	FY2018 Budget	FY2019 Proposed	Change
District of Columbia	**$230**	**$280**	**$49**
Maryland	**$223**	**$271**	**$47**
City of Alexandria	$23	$30	$6
Arlington County	$44	$56	$12
City of Fairfax	$1	$2	$0
Fairfax County	$76	$96	$21
City of Falls Church	$1	$2	$0
Commonwealth of Virginia	$51	$51	$0
Virginia Subtotal	**$197**	**$237**	**$40**
Total Contribution	**$651**	**$787**	**$136**

Note: Does not include debt strategy or contributions for debt service payments

Impact of Ridership Declines

(in millions)	FY2017 Actual	FY2018 Budget	FY2018 Forecast	FY2019 Projection
REVENUE				
Rail	$531	$543	$541	$542
Bus	$137	$161	$139	$137
MetroAccess	$10	$10	$10	$10
Parking	$41	$42	$40	$47
Other Revenue	$64	$59	$59	$60
Reimbursables	$35	$31	$31	$32
Total Revenue	**$818**	**$845**	**$820**	**$828**
RIDERSHIP				
Rail	177	179	173	173
Bus	122	117	111	111
MetroAccess	2.4	2.4	2.4	2.4
Total Ridership	**301**	**298**	**287**	**287**

Expense Growth Drivers: Legacy Commitments, Mandates and Inflation

- Legacy commitments and inflation - $31 million:
  - ✓ Contractually obligated longevity wage increases - $7 million
  - ✓ Health care and pension - $9 million
  - ✓ Materials, supplies and services - $8 million
  - ✓ Fuel, propulsion power and electricity - $7 million
- Paratransit - $11 million:
  - ✓ Contract rate increases and ridership growth - $11 million

FY2019 Proposed Operating Budget

	FY2018	FY2019	Growth	
			$	%
REVENUE				
Rail	$543	$542	($1)	0%
Bus	$161	$137	($24)	-15%
Access	$10	$10	$0	1%
Parking	$42	$47	$5	11%
Advertising	$24	$26	$2	8%
Other	$35	$34	($0)	-1%
Reimbursables	$31	$32	$1	4%
Total Revenue	**$845**	**$828**	**($17)**	**-2%**
EXPENSES				
Labor	$885	$877	($8)	-1%
Fringes	$423	$429	$6	1%
Services	$294	$305	$11	4%
Materials & Supplies	$101	$105	$4	4%
Fuel	$33	$33	$0	0%
Utilities & Propulsion	$88	$94	$6	7%
Other	$42	$42	$0	0%
Capital Allocation	($40)	($47)	($7)	16%
Total Expenses	**$1,825**	**$1,837**	**$12**	**1%**
SUBSIDY	**$980**	**$1,009**	**$29**	**3%**

FY2019 Operating Subsidy by Jurisdiction

($ in millions)	Metrorail	Metrobus	MetroAccess	FY2019 Proposed	FY2018 Approved	Variance $	Variance %
District of Columbia	**$134.6**	**$207.8**	**$27.3**	**$369.7**	**$364.6**	**$5.1**	**1.4%**
Montgomery County	$74.0	$68.8	$25.0	$167.8	$161.4	$6.4	4.0%
Prince George's County	$65.2	$95.2	$51.8	$212.2	$202.4	$9.9	4.9%
Maryland Subtotal	**$139.2**	**$164.0**	**$76.8**	**$380.0**	**$363.7**	**$16.3**	**4.5%**
City of Alexandria	$19.1	$22.0	$1.0	$42.1	$40.3	$1.8	4.5%
Arlington County	$37.9	$34.1	$0.8	$72.8	$70.9	$1.9	2.7%
City of Fairfax	$1.3	$0.6	$0.3	$2.2	$2.2	$0.0	1.0%
Fairfax County	$63.7	$60.9	$14.9	$139.4	$135.3	$4.1	3.0%
City of Falls Church	$1.0	$1.6	$0.1	$2.7	$2.7	$0.1	2.3%
Virginia Subtotal	**$123.0**	**$119.2**	**$17.1**	**$259.2**	**$251.3**	**$7.9**	**3.2%**
Total Subsidy	**$396.7**	**$491.0**	**$121.2**	**$1,008.9**	**$979.5**	**$29.4**	**3.0%**

Notes: Does not include debt service. Subsidy allocation estimates are preliminary and will be updated during the budget process.