

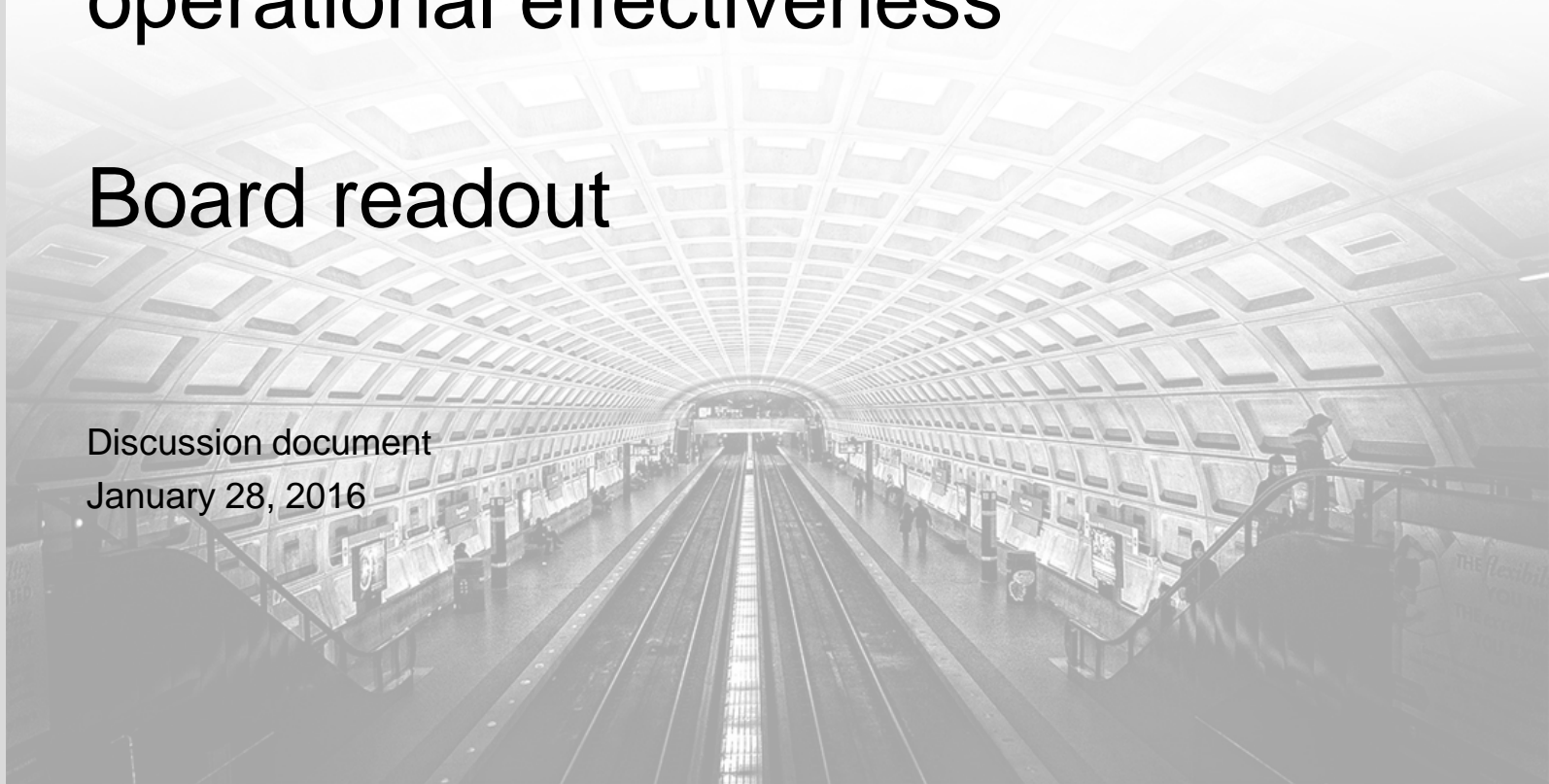


# Financial management and operational effectiveness

## Board readout

Discussion document

January 28, 2016



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- **Recap**
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# Recap from last time

There is a three part vision for WMATA's change story:



**I. Alter the fiscal trajectory and win back jurisdiction trust**

- WMATA's farebox recovery ratio (fare revenues / operating costs) has declined from 47% in CY11 to 45% today and will drop further if fiscal trends continue. Two major drivers account for this
  - **a. Revenue growth has slowed to 2.8% per year over FY11-15**
    - **Rail ridership has declined to 2005 levels despite population growth of 800K over the last decade.** Although several causes are suggested, declining satisfaction, the reduction in SmartBenefits, and falling reliability are likely relevant drivers. Notably, ridership at peer rail systems has grown substantially in the last decade with some hitting historic highs
    - **Rail system revenues would need to grow at 7% every year to 2020 to maintain current operating deficit**
    - **Bus ridership presents a more positive picture, growing at 2% p.a. since 2010.** Customer satisfaction has been steady
  - **b. At the same time, operating costs are growing faster (4% p.a. over FY11-15) than revenues**
    - **Personnel expense growth of 5% p.a. has driven most of this cost inflation**, given that it is 74% of total. In turn the primary driver of personnel cost is headcount growth of 6% p.a. among waged employees
    - **Growing headcount has been accompanied by fewer regular hours per FTE** (-2% p.a.) and growing annual wages (4% p.a.)—i.e., more employees today are doing the same work done in the past. This dynamic has led to 7% growth in fringe expense, outpacing peer average of 4%
    - **Headcount growth has outpaced the utilization of the system** (passenger trips per employee have decreased 3.9% in rail and 4.4% in bus p.a.) – i.e., fewer passenger trips are supplied by each employee
  - **c. Financial management processes are at a low maturity level** and require a comprehensive plan to turnaround



**II. Improve reliability and win back customer trust**

- **a. Metrorail's rail reliability issues have multiple operational root causes.** The primary driver is train car failures and maintenance delays, which have doubled the number of late trains. This is despite WMATA having higher rail maintenance spend since 2013 vs peers on a per mile basis. Parts delays and fleet age explain part of the problem, but improved maintenance practices, tools and techniques will help ensure sustained performance.
- **b. In the long run, a fundamental change in reliability also requires a strategic, focused, and well executed capital program.** There is currently no centralized capital function in contrast to other leading transit system. WMATA does not deploy its full capital budget, even after some organic labor is recategorized as capital expense (~\$258M in FY2015)



**III. Restore safety record**

- **WMATA's safety record over the last two years 2013-15 has been better than peers overall;** however high profile incidents over the last year have elevated safety concerns in the minds of the public and led to falling customer perceptions
- **There is still significant work to be done to implement the recommendations of the FTA**
- **Addressing safety and restoring public confidence through tangible action and communication** should be part of the turnaround

# Workplan: We are nearing the end of Phase 3

## Phase 1: Ramp up and rapid diagnostic

- Launch data requests
- Conduct interviews with ELT
- Rapid survey and analyses of WMATA's situation using WMATA data, interviews, and benchmarking to transit experience in other properties
  - Revenues – fare and non-fare
  - Operations and maintenance
  - Capital deployment
  - Staffing and personnel cost
  - Financial management systems and processes
- Identify long list of initiatives that tackle challenges
- Prioritize initiatives to identify quick wins, incremental change, and transformation initiatives

Dec 17:  
Board meeting

## Phase 2: Develop 3-4 initiatives to build momentum

- 3-4 initiative deep dives: conduct detailed analysis of WMATA's current state in issue areas, identify gaps, and size and describe financial and operational impact
- Create business case for change
- Syndicate with WMATA teams / change leaders

## Phase 3: Develop implementation plan

- Prepare case for change
- Develop implementation roadmap for select initiatives
- Provide recommendations on performance management architecture manage change (e.g., scorecard,

Jan 28:  
Board mtg

## Phase 4: Support implementation

- Analyze outsourcing opportunities
- Support and implementation coaching as needed
- Organizational assessment
- Optional tasks as required by WMATA
- Launch additional initiatives if agreed to

Feb 11:  
Board meeting

# The team has focused on 5 deep dives these past three weeks and made substantial progress

## Description

### 1. Savings from reduced vendor spend

- **Paratransit:** Evaluate specific efficiency initiatives, develop savings estimate and roadmap
- **Deep-dive in one procurement category:** Evaluate potential savings opportunities in one category of spend (3rd Party Engineering) using advanced acquisition practices (analysis of variability in different labor categories; price benchmarking, and terms and conditions)

### 2. Operations & Maintenance

- **Deep-dive in railcar maintenance:** Identify opportunities to reduce delays due to rail car maintenance, including constraints to lean operation (variability, inflexibility, waste), parts planning/purchasing processes, and high-priority components

### 3. Customer initiatives

- **Describe, evaluate, and prioritize customer facing initiatives:** Evaluate and sequence a set of initiatives which visibly improve customer experience and increased ridership based on management ideas, board input, survey data, and other transit agencies' experience

### 4. Capital planning

- **Develop capital planning best practices,** identify potential early improvement opportunities and conduct workshop

### 5. Parking and HQ

- **Identify opportunities to monetize existing assets,** developing preliminary financial perspectives and transaction structures

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# In order to address these four inter-related challenges, experience suggests the transformation has to be a portfolio of initiatives

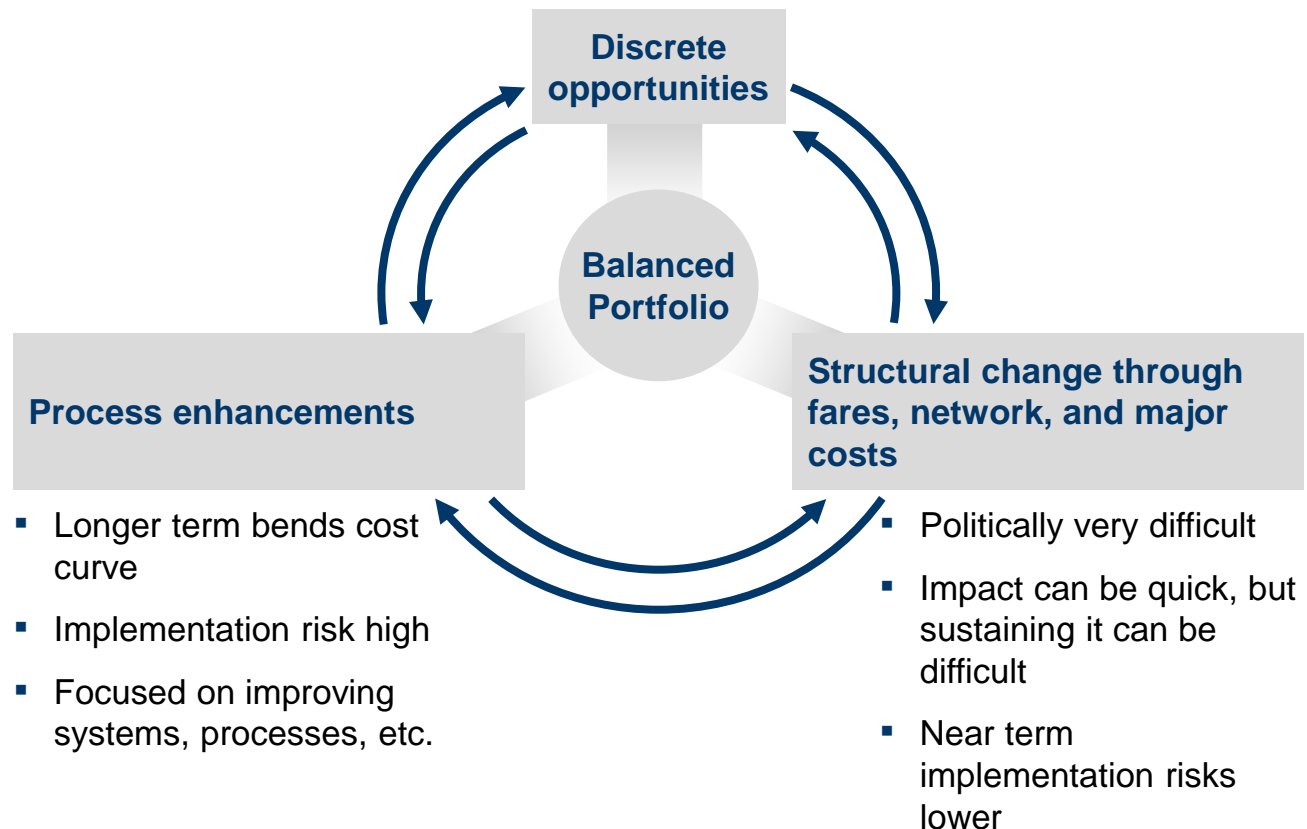
## Objectives of the transformation...

- **Regain the trust of WMATA customers** by improving safety and reliability which creates the space for bigger, bolder initiatives
- **Regain the trust of the jurisdictions** by demonstrating short and long term improvements in the financial position which demonstrates capability to invest
- **Lay the groundwork to substantially reform critical business processes** (especially financial management and systems)



## ...imply a balanced portfolio

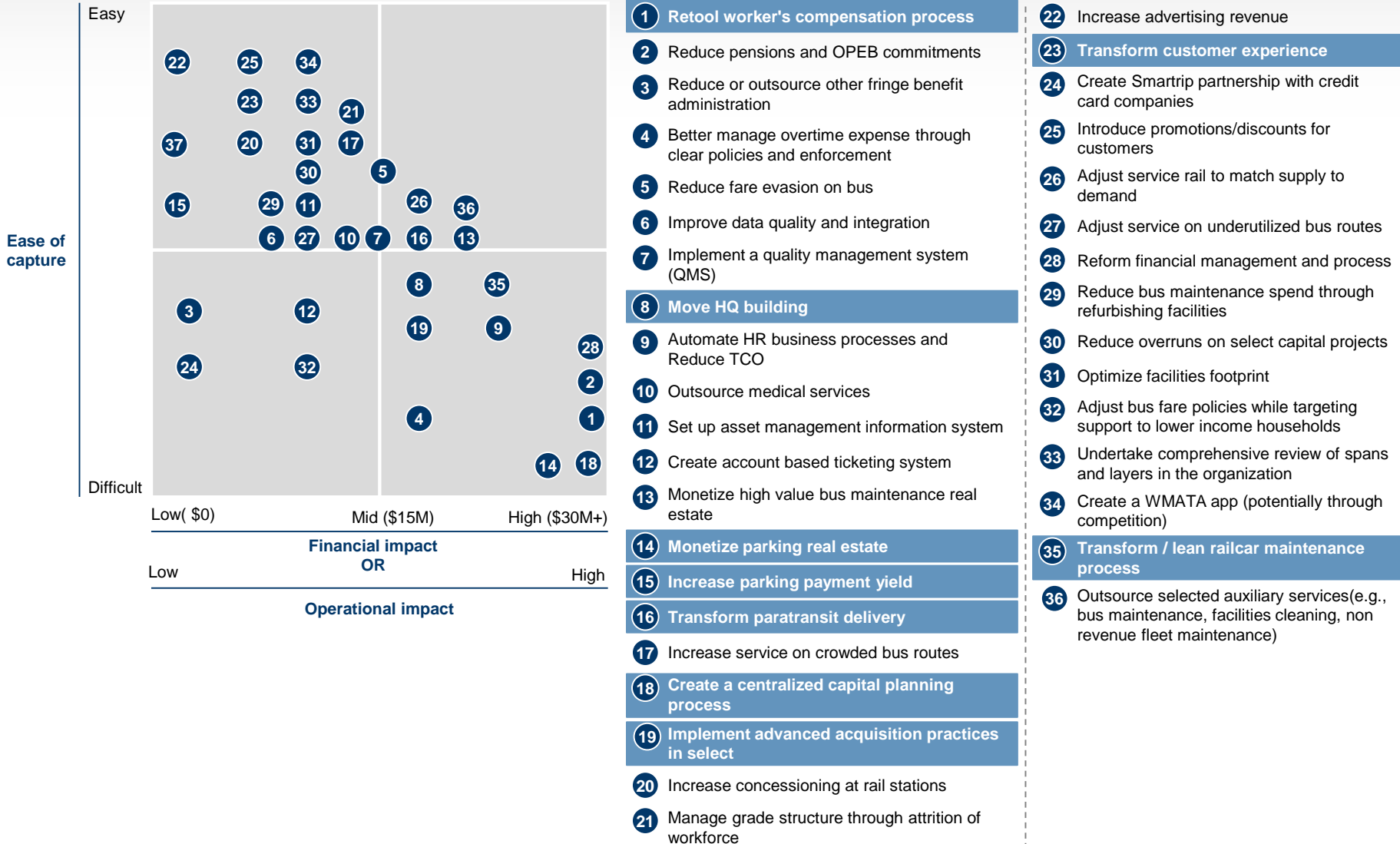
- Relatively quick impact, but typically \$5M-30M per initiative
- Requires focus and execution
- Savings can be re-invested in other priorities





# Expert interviews, experience from other systems and internal discussions generated a wide range of ideas

Deep dives follow

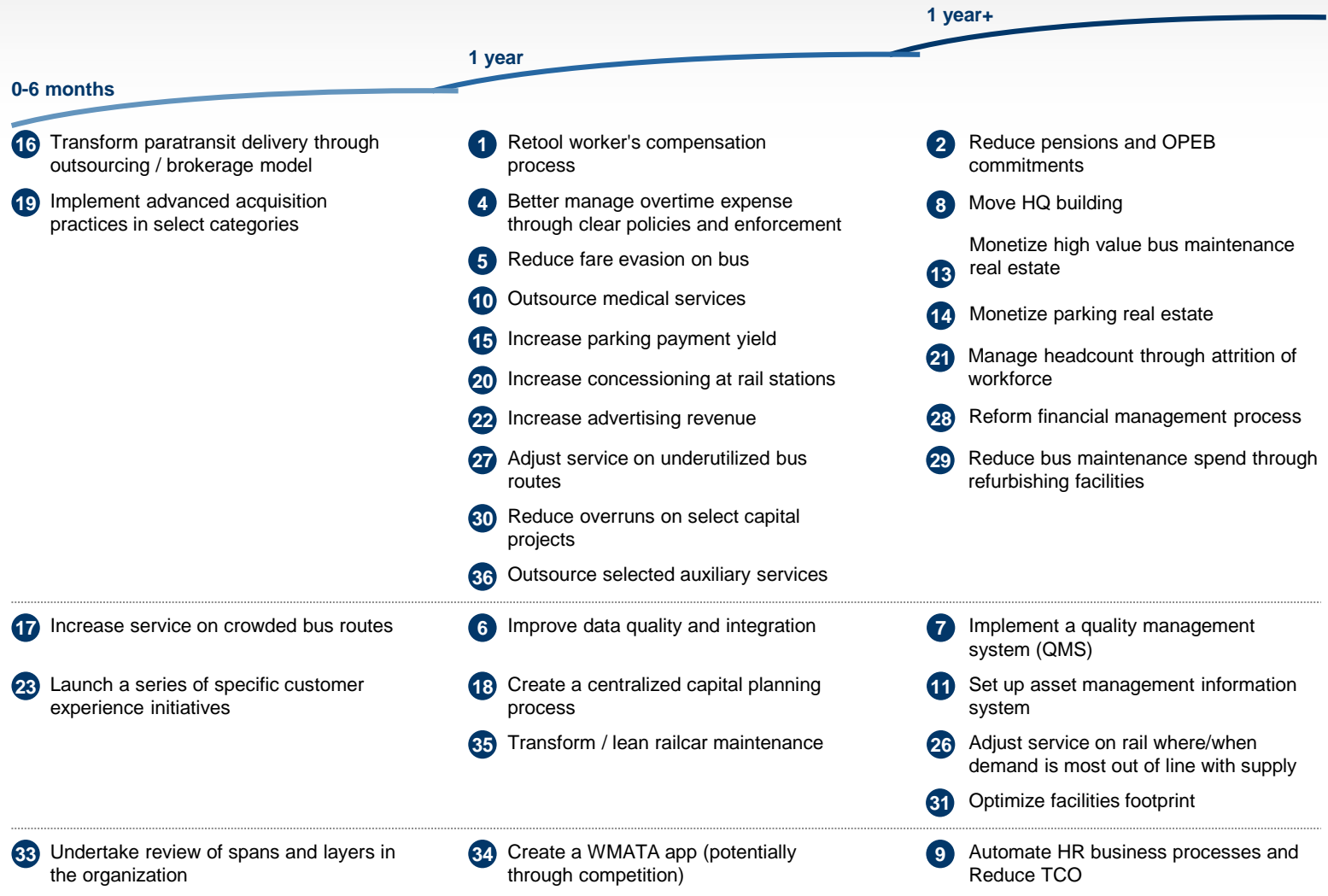


# The roadmap has been built with 3 simple principles in mind

- Understand the **relative loading** on various activities over time
  - Individual lead and support departments
  - Budget
  - Staffing
- **Ensure impact early** in both visible and subtle ways
  - Front-load initiatives which are relatively easy to capture and demonstrate momentum on a change story (e.g., paratransit)
  - Back-load initiatives which require buy-in from jurisdictions and/or political constraints once jurisdiction and customer trust has been fully restored
- Focus impact on each of the **3 priority areas** while fixing core processes
  - Reliability
  - Fiscal sustainability
  - Safety
  - Internal processes / architecture

# The transformation roadmap sequences the initiatives with these 3 principles as guides

## Illustrative Plan



-- Continue corrective action plans --

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# Executive summary – Paratransit

- **MetroAccess is a critical part of WMATA's operations, providing >2M trips annually at an operating cost of ~\$110M** to customers with disabilities in the WMATA transit zone. Demand is forecast to grow to >3M cost to ~**\$170M** by FY2025 due to aging population.
- **MetroAccess contracts out 85% of its operating expenses:** driving services (\$71M), call center operation (\$17M), quality assurance (\$3M), and support functions (\$6M). Renegotiation with current contractors may yield cost savings via lower revenue hour rates and improved dispatch efficiency.
- **There is an opportunity for further (20%) cost improvements from innovative delivery models**, based on taxi outsourcing pilots and cleansheet analysis. Increasing the scale of such approaches could avoid \$10-40M of cost per year. There are three options to consider.
  - a) **Jurisdiction-led model** (e.g., TransportDC pilot), in which jurisdictions administer all aspects of a partnership with ride service companies. Cost savings of \$12-23M p.a. with some implementation risk (jurisdictions may resist extra burden).
  - b) **WMATA-led model**, in which WMATA administers all aspects of a partnership with ride service companies. Cost savings of \$11.5-22.5M p.a. and more brand risk than a Jurisdiction-led model. In addition, if customers must choose to take the new service, savings may not reach calculated levels due to low demand.
  - c) **Brokerage model**, in which a broker (hired by WMATA or the jurisdictions) manages all outsourced rides via black car or taxi. Cost savings of \$16-32M p.a. Broker is directly incentivized to dispatch efficiently and can guarantee certain volumes while capitalizing on full network effect.
- **Outsourcing (or eliminating) extra-ADA service is another important consideration:** MetroAccess provides ~300k extra-ADA trips per year (trips with no fixed-route equivalent, trips to customers who are “grandfathered” to coverage beyond the required ¾ mile zone and fixed-route service hours). Outsourcing could save \$5-10M per year. Eliminating grandfathering altogether would save \$15M, but it is less feasible.
- **Any of these options could be implemented within six months of approval**

# Transit authorities are becoming more sophisticated in paratransit delivery models which make use of market principles

## Predominant practice:

Use dedicated in-house vehicles for majority (>75%) of trips, contract driving service



### Example

- **WMATA:** owns 675 dedicated accessible vans and contracts out driving service to 3 vendors (TransDev, First Transit, and Diamond Transportation) at revenue hour rates ranging from approx. \$34-38 and call center operations to MV; trips are assigned based on contractor's geographic proximity to customer

### Outcome

- **WMATA:** Per-trip operating cost of \$50.75 is in line with peers but leaves room for significant cost savings (based on regional pilot programs and other agencies' experience with outsourcing)

## Mature agencies:

Outsource small portion (ie, <20%) of trips to 1 contractor



- **SolTrans (Solano, CA):** contracted National Express to take over the operation of 9 paratransit vehicles and 75 fixed route buses in Jul 2014
- **North County (San Diego, CA):** In Feb 2011, North County Transit District (NCTD) outsourced its paratransit services to American Logistics Company, responsible for providing and maintaining the vans used

- **SolTrans:** 71% decrease in accidents, a 75% decrease in passenger falls and a 56% decrease in employee injuries vs. 6 month period before contract began
- **North County:** The contract is projected to save \$8M over a 6-year contract period without reducing customer services or increasing fares to public, while reducing greenhouse emissions by 30%

## Advanced agencies:

Outsource >20% of trips to multiple ride providers, often using a brokerage for competitive pricing

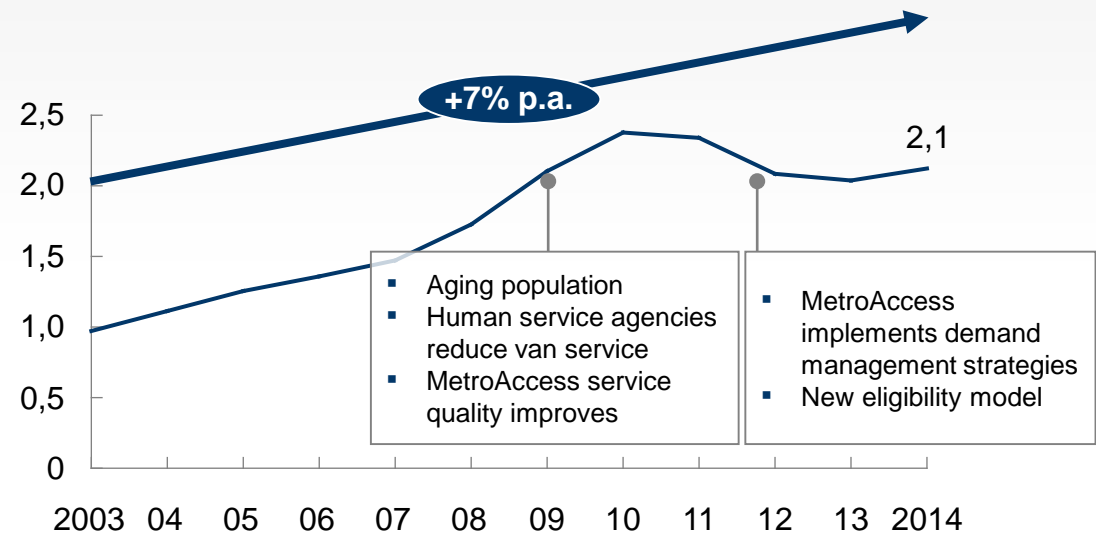


- **MTA:** awarded a paratransit brokerage contract to MTM and CTG in July 2013, under which MTM subcontracts with livery and black car companies to provide paratransit service
- **LACMTA:** Paratransit service is provided by Access Services, a non-profit that contracts out service to local private providers on behalf of 44 agencies in the county
- **MTA:** The expanded use of brokered car services and prepaid taxi debit cards for eligible paratransit riders resulted in savings of \$45M in 2014, compared to regular paratransit door-to-door service
- **LACMTA:** Working with 7 contract service providers, Access Services achieved over 90% on-time performance with a service complaint rate of 0.5 per 100 trips in FY 13/14

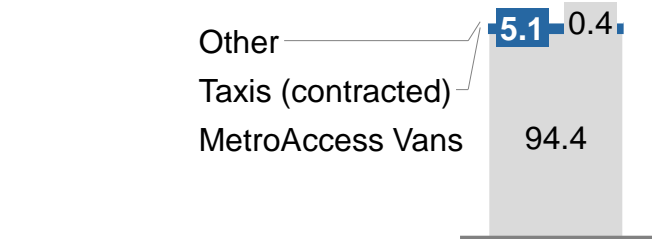
# MetroAccess provides 2M rides per year to customers with disabilities in the WMATA transit zone

MetroAccess trips have grown 7% p.a. for the past decade, provided mainly by Metro-owned vans

MetroAccess Trips, Trips (M) by FY



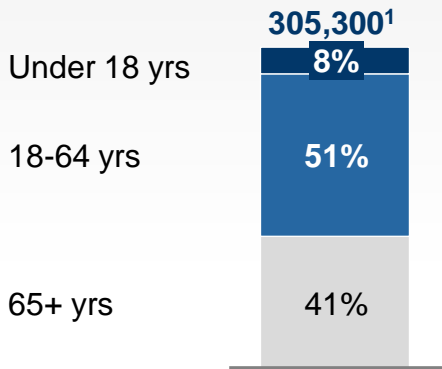
Vehicle provision, % of rides by vehicle type, Jan-Nov CY15



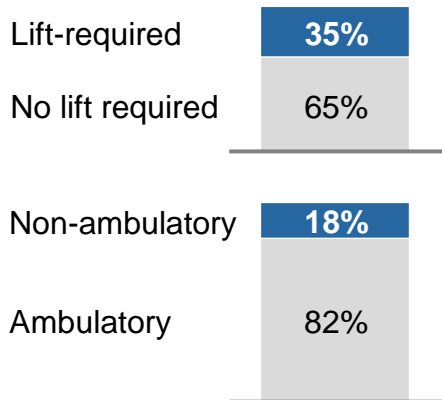
1 Disabled population in WMATA service area, 2009-2013 average

A majority of customers are ambulatory and do not require a lift

Age, % of MetroAccess customers



Mobility, % of trips by mobility type

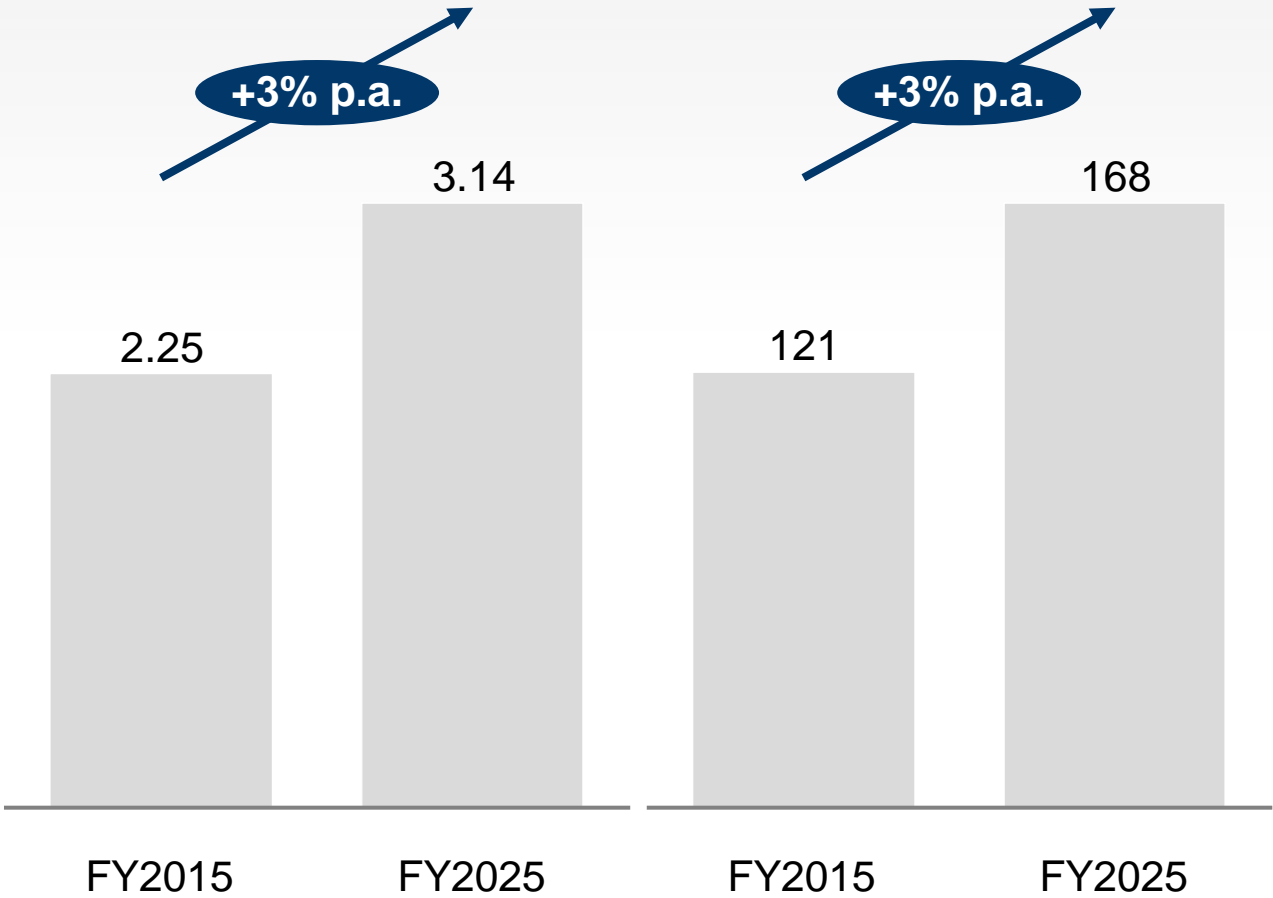


# Metroaccess trips and costs will steadily rise unless innovative delivery models are adopted

**MetroAccess trips**  
Trips, M

**MetroAccess operating cost**  
\$M (2014 dollars<sup>1</sup>)

## Observations



- Due to an aging population in the DC metro area, MetroAccess trips and operating cost are projected to grow 3% p.a. for the next 10 years
- In a high-growth scenario<sup>2</sup>, operating costs could reach \$200M by FY2025

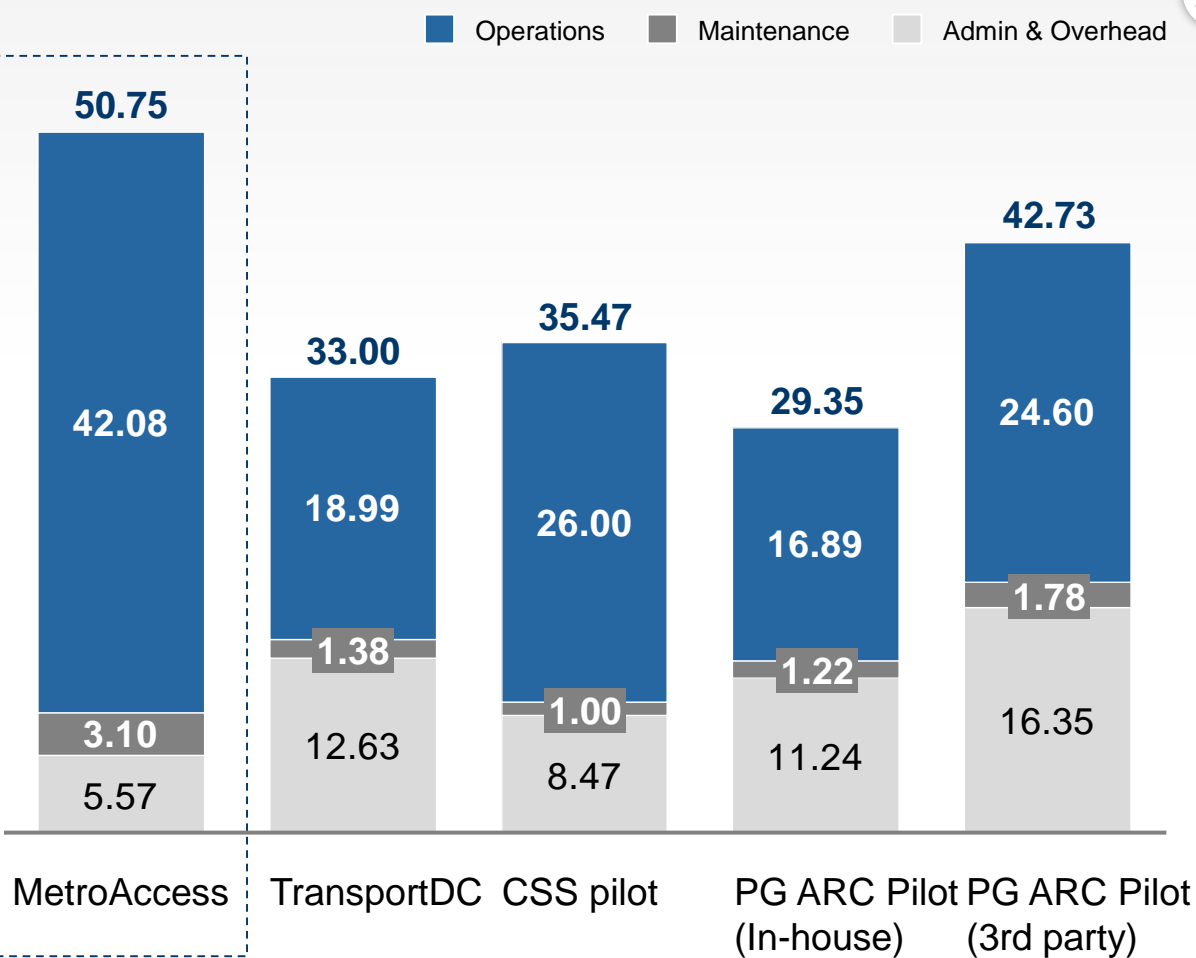
<sup>1</sup> Study assumes that cost per ride stays at \$53.67 (2014 WMATA budgeted cost); actual cost will rise due to wage growth, inflation in administrative costs, etc

<sup>2</sup> MetroAccess market share of specialized transportation trips in the region grows from 35% to 40%



# However, taxi outsourcing pilots reveal potentially large savings beyond the current unit costs (~40%)

Per-trip operating costs, \$



## Observations

- Market-based pilot programs have significantly lower cost per-trip than MetroAccess
- Operations (which includes driving services) drives the largest dollar differences between MetroAccess and the pilot programs

# There are two opportunities for efficiency gains in MetroAccess operations

Lever	Current state	Future state	Annual cost savings, \$M
<b>A</b> Provide only ADA-mandated service	<ul style="list-style-type: none"> <li>WMATA spends about \$1M on late pick-up credits (7-8% of all trips) and other trips not required by ADA</li> </ul>	<ul style="list-style-type: none"> <li>Abolish late trip credits</li> <li>Provide service only in ADA-mandated area</li> </ul>	5-10
<b>B</b> Allow a portion of rides to be shifted to lower cost providers	<ul style="list-style-type: none"> <li>95% of all MetroAccess rides are provided by dedicated vehicles at high cost of \$50.75 per trip</li> <li>Early success with pilot programs points to potential for large-scale savings</li> </ul>	<ul style="list-style-type: none"> <li>Expand taxi and TNC pilots to all jurisdictions</li> <li>Provide additional non-wheelchair rides through a black car brokerage model</li> </ul>	10-40

Savings are not additive

## Potential for further efficiency gains:

- Though further research is needed, renegotiation with current service providers (TransDev, First Transit, and Diamond) could yield significant savings via:
  - lower revenue hour rates (downward cost pressure from outsourcing in lever B)
  - trip scheduling optimization

# A By phasing out late pickup trip credits and outsourcing extra-ADA trips, WMATA could save \$6-11M

Lever	Description	Savings opportunity, \$M	Assumptions
1 Phase out late pickup trip credits	<ul style="list-style-type: none"> <li>Customers receive \$6 credit (two \$3 trip credits) for each late pickup, a policy not mandated by ADA requirements</li> </ul>	~1	<ul style="list-style-type: none"> <li>7-8% of all pickups (160,000-190,000 trips) are late<sup>1</sup></li> <li>Save \$6.00 in credit per late pick-up</li> </ul>
2 Outsource trips beyond the ADA-mandated 0.75 mile zone and/or outside fixed route service times to taxis	<ul style="list-style-type: none"> <li>Extra-ADA fares occur if: <ul style="list-style-type: none"> <li>Customer was grandfathered in (before FY2011) to full coverage in the region beyond 0.75 mile zone</li> <li>No fixed route alternative for a given trip exists</li> <li>Fixed route alternative exists, but is not running at time of paratransit trip</li> </ul> </li> </ul>	5-10	<ul style="list-style-type: none"> <li>Extra-ADA fares represent 15% of all trips</li> <li>Assume those trips are shifted to taxis or black cars, with per-trip cost of \$25.11<sup>3</sup></li> </ul>

1 On-time performance of 92.7%, cited in Department of Access Services CY2015-2017 Business Plan

2 Total FY2014 trips= 2,147,200, thus (15%)\*(2,147,200)=322,080 trips shifted; (\$50.75-\$25.11)\*(322,080)=\$8,258,131

3 Average of clean sheet per-trip cost (\$17.22) and TransportDC cost (\$33)

# **B** There are three basic models for a large outsourcing effort with different levels of savings, implementation difficulty, and customer perception risk

[DETAILS FOLLOW](#)



● Most favorable
 ● Least favorable

Model	Description	Savings	Ease of implementation	Customer/ Stakeholder
<b>1 Jurisdiction-led outsourcing</b>	<ul style="list-style-type: none"> <li>Through a direct partnership with ride-provider companies, jurisdictions offer alternative service to MetroAccess</li> <li>Savings realized from lower insurance, personnel, and fleet costs</li> </ul>			
<b>2 WMATA-led outsourcing</b>	<ul style="list-style-type: none"> <li>WMATA directly outsources rides to taxis/e-hail companies</li> <li>Savings realized through lower personnel and fleet costs</li> </ul>			
<b>3 Brokerage</b>	<ul style="list-style-type: none"> <li>Brokerage (black car and/or taxi) administered by WMATA or jurisdictions (eg, through non-profit like Access Services)</li> <li>Per-trip savings realized through more efficient network model, competitive bidding, and negotiation process</li> </ul>			


# The 3 models considered vary across procurement, administration, ride provision, and customer interaction processes

	① Jurisdiction-led	② WMATA-led	③ Brokerage
<b>Procurement</b>	<ul style="list-style-type: none"> <li>Jurisdiction transportation agency or taxi commission release RFP to service providers and evaluate bidders and award contracts</li> </ul>	<ul style="list-style-type: none"> <li>Dept. of Access Services works with Chief Procurement Officer to release RFP, evaluate offers, and award contracts</li> </ul>	<ul style="list-style-type: none"> <li>Dept. of Access Services works with Chief Procurement Officer, or the jurisdictional transportation agencies release RFP, evaluate offers, and award contracts</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>Jurisdiction hires additional FTEs for: ride verification, customer service, marketing, invoice review</li> <li>IT investment for ride verification system</li> </ul>	<ul style="list-style-type: none"> <li>WMATA expands CAPS by up to 3 FTEs (cost up to ~\$500,000) to handle ride verification, customer service, marketing, ride provider contract management</li> <li>Additional spend on marketing</li> </ul>	<ul style="list-style-type: none"> <li>Broker schedules and dispatches ADA-eligible trips</li> <li>Broker ensure that all vehicles are technologically equipped for automated verification</li> <li>Broker is responsible for quality and coordination of entire ride process</li> </ul>
<b>Ride provision</b>	<ul style="list-style-type: none"> <li>Taxicab or transportation network company provides next-day ride service</li> </ul>	<ul style="list-style-type: none"> <li>Taxicab or transportation network company provides next-day ride service</li> </ul>	<ul style="list-style-type: none"> <li>Broker matches customer with black car or taxi for next-day trip (focus on ambulatory)</li> </ul>
<b>Customer interaction</b>	<ul style="list-style-type: none"> <li>Customers choose to call jurisdiction-specific phone number or use provider-specific app instead of calling MetroAccess phone number</li> </ul>	<ul style="list-style-type: none"> <li>Customers choose to call MetroAccess phone number or use app (integrated among all ride providers)</li> </ul>	<ul style="list-style-type: none"> <li>Customers use a single interface and are routed to broker automatically; customers do not choose to take brokered service</li> </ul>
















# The 3 models considered differ in estimated cost savings and support needed

 Detail to follow  
 Least favorable

**PRELIMINARY**

 Most favorable

## Analysis


Criteria	1 Jurisdiction-led	2 WMATA-led	3 Brokerage
<b>Savings</b>	<ul style="list-style-type: none"> <li>Per-trip cost: \$25.11<sup>1</sup></li> <li>Total savings: \$12-23M<sup>2</sup> p.a.</li> <li>Savings are not guaranteed because jurisdictions must carry out programs and may rely on customers self-selecting into new modes</li> </ul> 	<ul style="list-style-type: none"> <li>Per-trip cost: \$25.11</li> <li>Total savings: \$11.5-22.5M<sup>3</sup> p.a.</li> <li>Savings are ensured by guaranteeing certain trip volumes/percentages to broker</li> </ul> 	<ul style="list-style-type: none"> <li>Per-trip cost: \$15.56</li> <li>Total savings: \$16-32M p.a.</li> <li>Savings are ensured by guaranteeing certain trip volumes/percentages to broker</li> </ul> 
<b>Market capacity</b>	<p>Market likely to be sufficient: 1,235 needed rides represent &lt;1% of current capacity</p> 	<p>Market likely to be sufficient: 1,235 needed rides represent &lt;1% of current capacity</p> 	<p>More information on black car market size is needed; brokers may also use taxi service, likely to have sufficient supply</p> 
<b>Number of trips</b>	<ul style="list-style-type: none"> <li>20-40% of all trips: 450,926-901,851</li> <li>Total trip number may be constrained by customers' demand for new mode</li> </ul> 	<ul style="list-style-type: none"> <li>20-40% of all trips: 450,926-901,851</li> <li>Total trip number may be constrained by customers' demand for new mode</li> </ul> 	<ul style="list-style-type: none"> <li>20-40% of all trips: 450,926-901,851</li> <li>Trip numbers can be guaranteed in broker contract</li> </ul> 
<b>Induced demand</b>	<p>Induced demand (18% growth in total DC trips above projection in TransportDC pilot) is a risk if service is viewed as superior (same-day service, single passenger rides, etc)</p> 	<p>Induced demand (18% growth in total DC trips above projection in TransportDC pilot) is a risk if service is viewed as superior (same-day service, single passenger rides, etc)</p> 	<p>No risk of induced demand because customers do not choose to take brokered service</p> 
<b>Administrative/IT support needed</b>	<p>Minimal; jurisdictions will take on administrative function</p> 	<p>Additional FTEs needed to manage program ( ~\$500,000)</p> 	<p>Only contract management of broker is needed; broker handles all administration of program</p> 


1 average of TransportDC (\$33) and cleansheet estimate (\$17.22)

2 reflects range of 20-40% of trips being outsourced, after all fixed costs have been scaled down proportionally to remaining MetroAccess trips; more detail on following pages
















3 reflects additional \$500,00 cost p.a. of additional FTEs to handle IT implementation/support

# The 3 models considered differ on implementation and customer/community perception risks

 Least favorable

 Most favorable

## Analysis

Criteria	1 Jurisdiction-led	2 WMATA-led	3 Brokerage
<b>Time horizon</b>	<1 year from procurement to implementation (based on TransportDC pilot)	 >1 year from RFP to implementation, due to Federal Acquisition Regulation and procurement backlog	 1 year from RFP to implementation (possible to circumvent FTA regulations via jurisdiction-funded compact) 
<b>ADA compliance</b>	Jurisdictions (not WMATA) are technically the service provider	 WMATA is able to offer ADA service (legal opinion by Akin Gump, Oct 2015) but must be billed to jurisdiction separately	 Broker contract could be structured to satisfy legal requirements 
<b>Customer experience</b>	Customers will likely find taxi/TNC service more comfortable and convenient (as indicated by TransportDC and MTA experiences)	 Customers will likely find taxi/TNC service more comfortable and convenient (as indicated by TransportDC and MTA experiences)	 Customers will likely find black car/ taxi/ TNC service more comfortable and convenient (as indicated by TransportDC and MTA experiences) 
<b>Disability community reaction</b>	Disability advocacy may be skeptical of service quality from new provider, yet TransportDC has attracted little criticism	 History of aggressive lobbying suggests that disability advocacy community may have immediate negative reaction, targeted at WMATA	 Disability advocacy may be skeptical of service quality from new provider, yet TransportDC has attracted little criticism 
<b>Other brand implications</b>	Low: brand kept distinct from MetroAccess (jurisdiction branding)	 High: service will be more directly linked to WMATA than in other models	 Low: if administered by jurisdictional compact Moderate: if administered by WMATA 

# Cleansheet analysis of taxi service suggests per-trip costs could be more than halved ( ~\$17 for taxi vs current \$50.75)

*PRELIMINARY: more detailed cleansheet to be done during RFP process*

### Sources

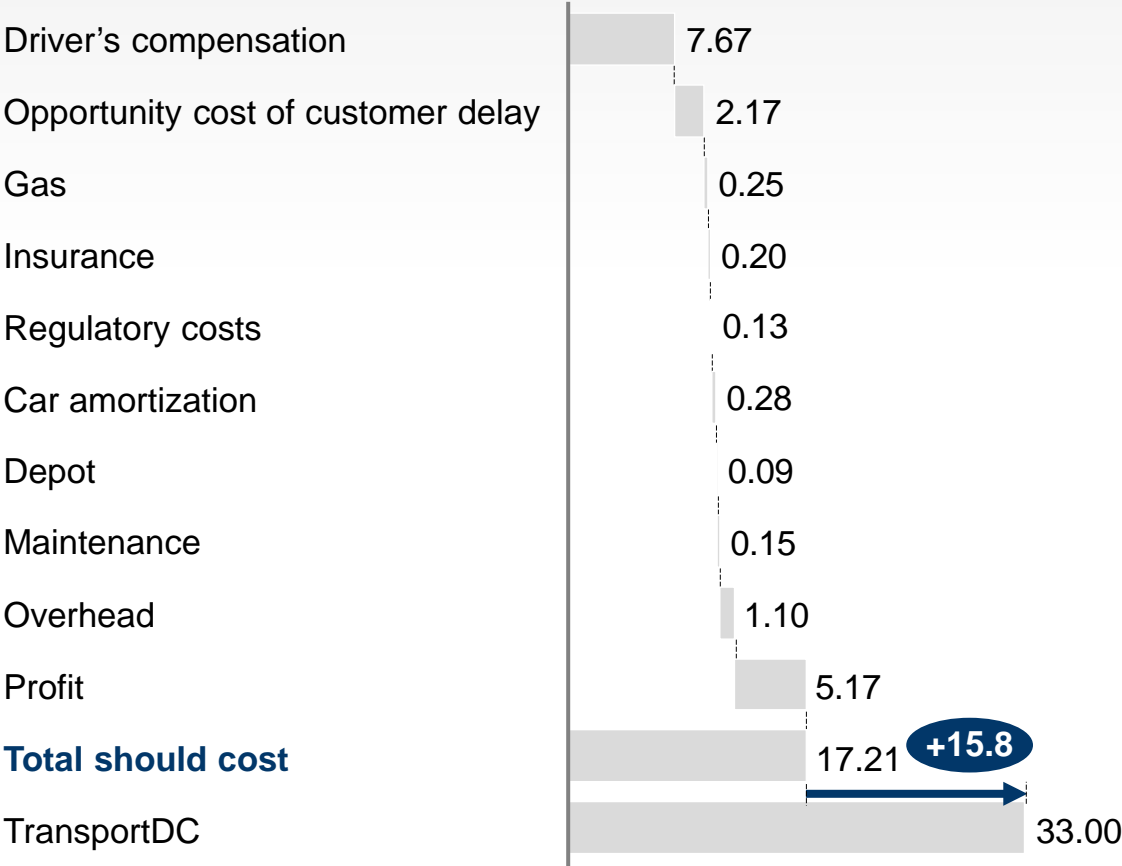
- Town cars drivers/manager interviews
- Industry experts
- Economic Research Institute
- WARDS
- Automotive Fleet Fact Book
- US Government Energy Information Administration
- US Bureau of Labor Statistics
- City and county taxi commissions
- Team analysis

### Key model assumptions

- Car: Toyota Prius hybrid
- Average trip distance: 6.67 miles<sup>1</sup>
- Driver earnings: \$1095.66/week<sup>2</sup>
- Trips efficiency: 65%<sup>3</sup>
- Profit: 30% margin<sup>4</sup>

### In-house cleansheet estimate of average taxi trip cost

#### Dollars per average trip



1 MetroAccess trip data FY2015

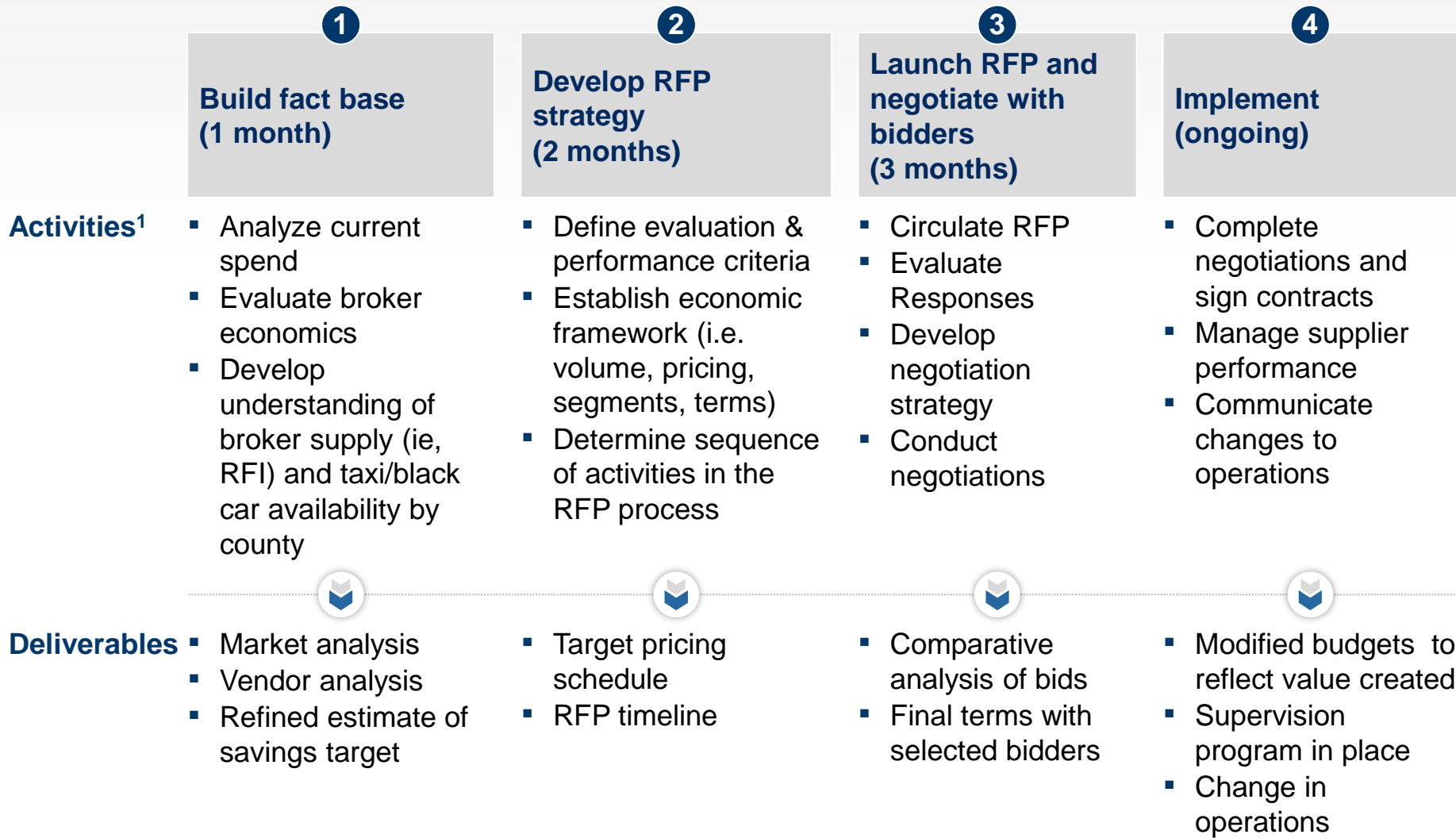
2 Bureau of Labor Statistics

3 New York City For-Hire Transportation Study (Jan 2016)

4 Capital IQ; press searches



# To implement either a jurisdiction-led or broker model, a four-part implementation plan is recommended



1 Activities would be conducted by jurisdictions in the case of jurisdiction-led outsourcing, and by WMATA for the broker model

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## Executive summary – railcar maintenance (1/2)

- **Railcar maintenance is the single most important determinant of service reliability** and a major driver of safety, cost and customer satisfaction. **63% of all rail line delays** are caused by railcar failures. The two primary drivers of railcar-induced delays are
  - a) Car availability – 36% of delays caused by a railcar failure preventing that car from being dispatched
  - b) Car reliability – 27% of delays caused by a railcar failure that caused a train to be removed from service
- On **car availability**, we identified two major factors driving the number of cars out of service (OOS)
- **Parts out of stock** – since April 2015, the number of cars OOS due to parts unavailable has increased tripled. This has reliability knock-on effects by hindering effective preventative maintenance.
  - a) Time between PO and vendor delivery accounts for the major share (~75%) of part lead times
  - b) Each segment of the procurement process exhibits high variability in cycle time
  - c) Between 2013-15, the share of part PR lines with >30 days from PR->PO increased from 21% to 53%.
  - d) Recent changes in the process will alleviate some of these challenges, though cars OOS will continue to be a challenge fueled by federal procurement constraints, procurement team bandwidth, and limited inter-departmental communication
- **Low repair throughput** – an average shop will put out 6-8 cars OOS awaiting repair per shift, which could be improved by addressing key inefficiencies
  - a) Estimated technician wrench time ranges between 25-40%, below a best-in-class standard of 60%
  - b) Daily system- and shop-level planning falls short of best practice, leading to (1) uneven distribution of cars for repair between shops; (2) delays from waiting 45-60 minutes for yard movements; (3) shop lifts left vacant; and (4) technicians starting work orders without all necessary tools and parts

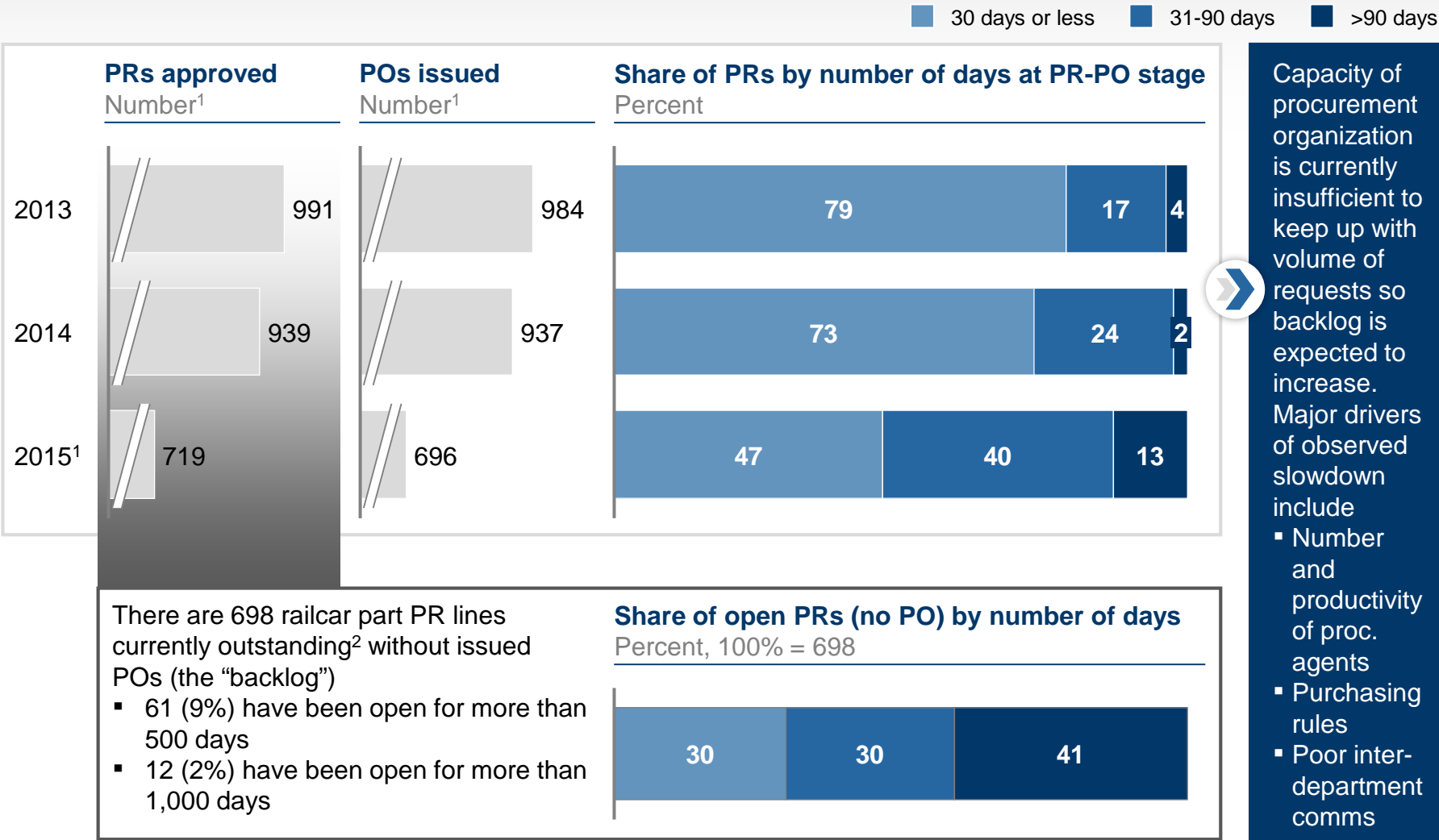
## Executive summary – railcar maintenance (2/2)

- On **car reliability**, three major factors contribute to delays induced by in-service failures:
  - a) **Below average QA/QC process** – assets that experience a repeat failure to the same subsystem within a week of repair is between two and five times greater than the fleet-wide average failure rate
  - b) **PI and repair protocols allow repeated failures** – periodic inspection procedure changes, repair protocols and engineering requests move organically based on learned experience rather than based on data-rich root cause failure analyses (i.e., reliability centered maintenance)
  - c) **Long term decline in average experience of mechanic staff** – high turnover rates and decreasing average tenure, matched with a training program that has not kept pace with an increased number of less experienced new hires, leaves a technical staff more prone to mistakes and slower repairs
- **Addressing these challenges will require a concerted long-term effort** to build cross-departmental coordination (e.g., a transparent, data-driven and integrative procurement process), a best-in-class RCM program and a robust look-ahead planning capability for fleet distribution and maintenance work. To realize gains in the next 60 days, **WMATA should focus on three things right now**:
  - a) **Detailed root causes analysis of repeated failures** matched with appropriate changes in preventative maintenance and repair protocols
  - b) Targeted **review of inventory planning data** (e.g., lead times, reorder points) for critical parts such that automatic refills are alleviating capacity constraints within the procurement organization, and review in a **regular management coordination meeting** to quickly troubleshoot parts procurement problems
  - c) Pilot one-two **changes in maintenance planning and scheduling** (e.g., 24-hour look-ahead scheduling, create kits for most common jobs including parts, tools, and spec sheets)

# We tested eight priority areas and found major opportunity in four

Drivers of service reliability			Key takeaway	Potential impact
Delays	Car availability	Procurement of parts	<ul style="list-style-type: none"><li>Cars out-of-service (OOS) due to part availability has tripled since April 2015 and PRs are taking longer to fill—recent changes will address some of these challenges</li></ul>	
		Labor efficiency	<ul style="list-style-type: none"><li>Brentwood and Greenbelt shops show meaningfully higher labor hours per work order after correcting for truck overhauls (6.8) than average for other shops (3.6)</li></ul>	
		Car yard delays	<ul style="list-style-type: none"><li>Significant variation between operators in time to bring cars from yard to shop, but even the fastest takes a median of 45 min per move</li></ul>	
		OOS distribution by shop	<ul style="list-style-type: none"><li>OOS cars are not reliably distributed between facilities, with daily variation of +/- 50% the previous day's number of cars, leaving some shops overloaded and some underutilized</li></ul>	
	In service failures	QA/QC	<ul style="list-style-type: none"><li>In general, a newly repaired railcar subsystem is 2-5x more likely to fail within 7 days than the fleet-wide average failure rate for that subsystem</li></ul>	
		Retention and training	<ul style="list-style-type: none"><li>Mechanics are increasingly younger and less experienced requiring a matching response from training programs to fill the capabilities gap</li></ul>	
		RCM	<ul style="list-style-type: none"><li>WMATA has a reliability analytics group but no reliability centered maintenance function capable of linking root cause analysis to changes in maintenance behavior</li></ul>	
		Operations	<ul style="list-style-type: none"><li>No discernable link between manual train operation and increased brake or propulsion failures</li><li>Insignificant number of brake failures linkable to operating under propulsion faults</li></ul>	

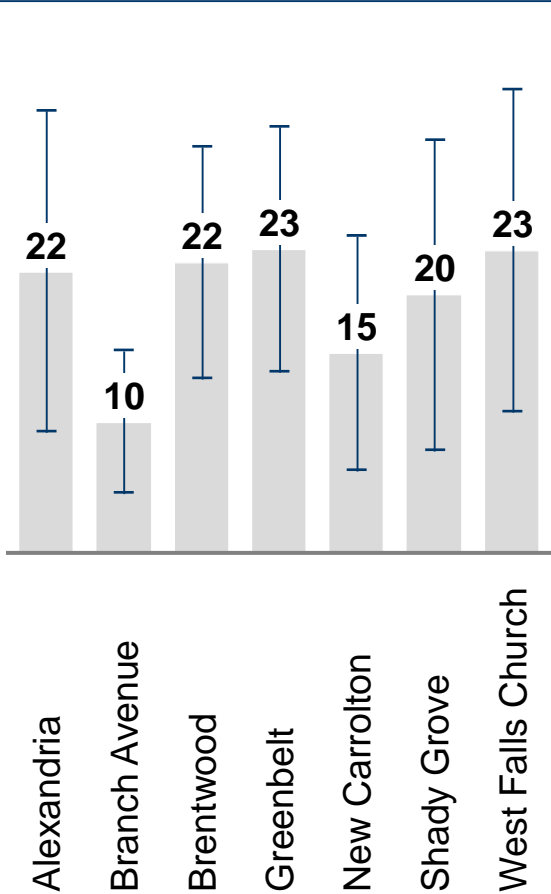
# The procurement process slowed significantly at the PR to PO stage last year, with 6x as many PRs taking >90 days, even at lower volume



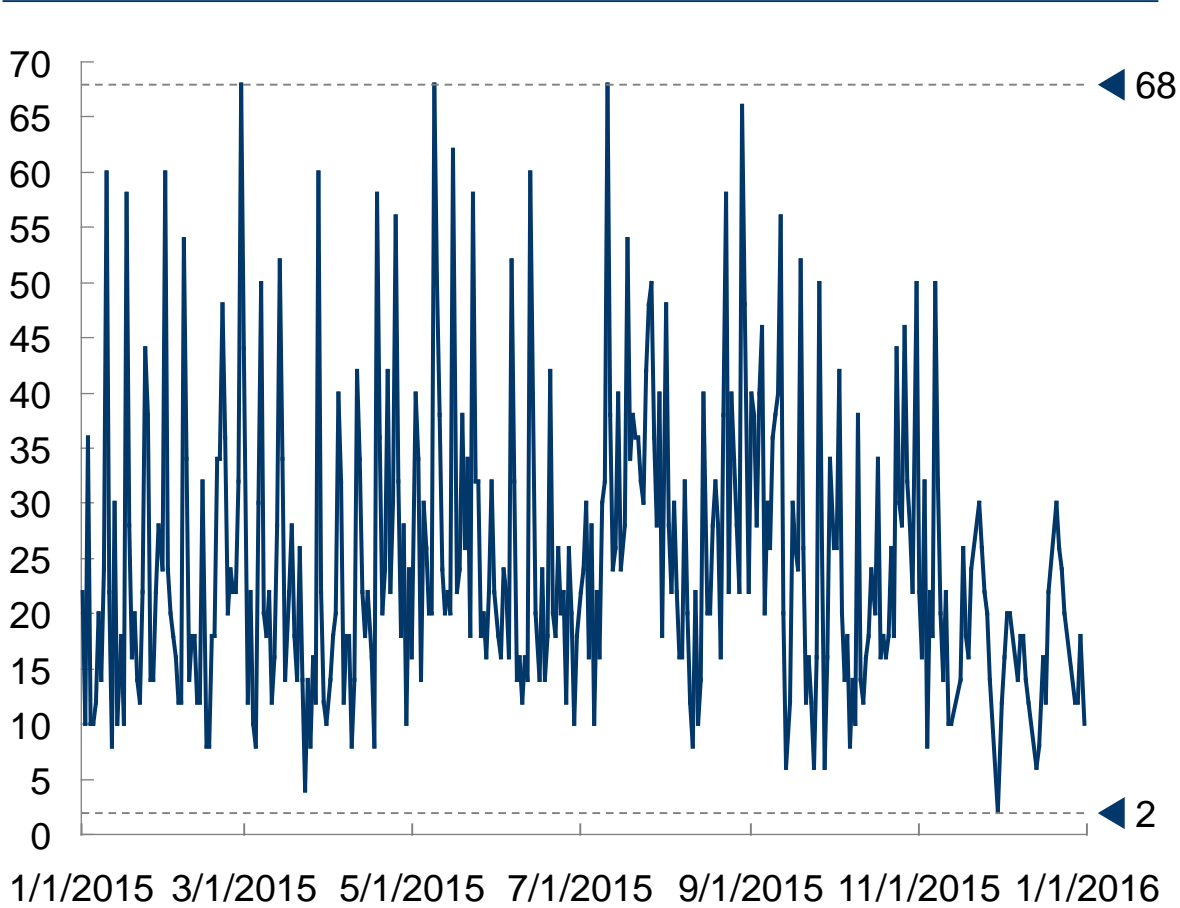
1 Data does not include PRs with outstanding POs and therefore disproportionately excludes 2015 PRs issued  
2 As of January 19, 2016

# Distribution of cars for repair to yards each night is uneven, preventing efficient match of work and shop capacity

Mean number of daily cars awaiting repair and  $\pm 1$  standard deviation  
Number of cars, avg. 2013-2015<sup>1</sup>



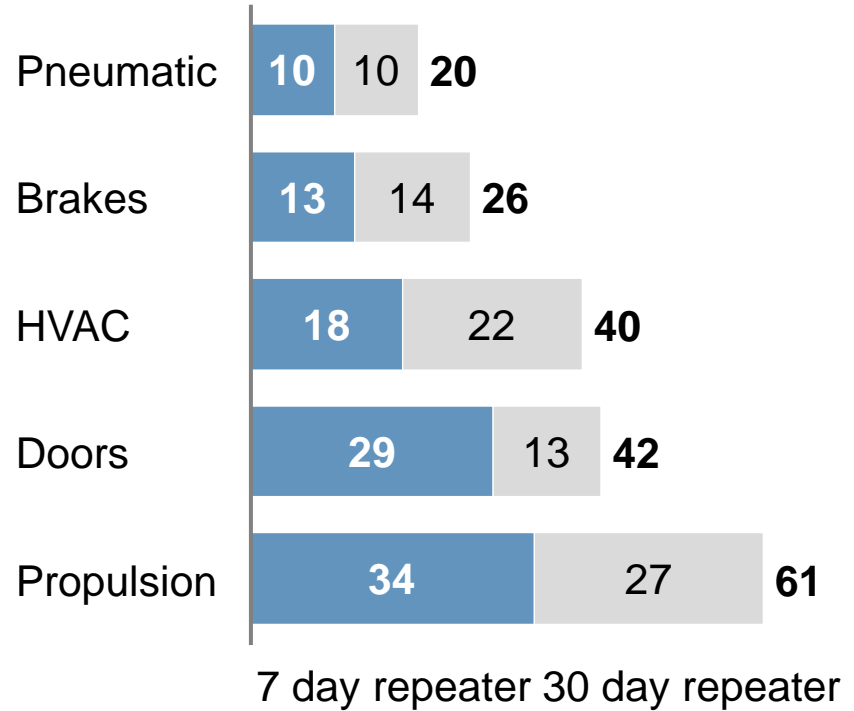
Cars OOS awaiting repair at 07:00 each morning  
Daily number of cars, Jan. 1, 2015-Dec. 31-2015, Alexandria example



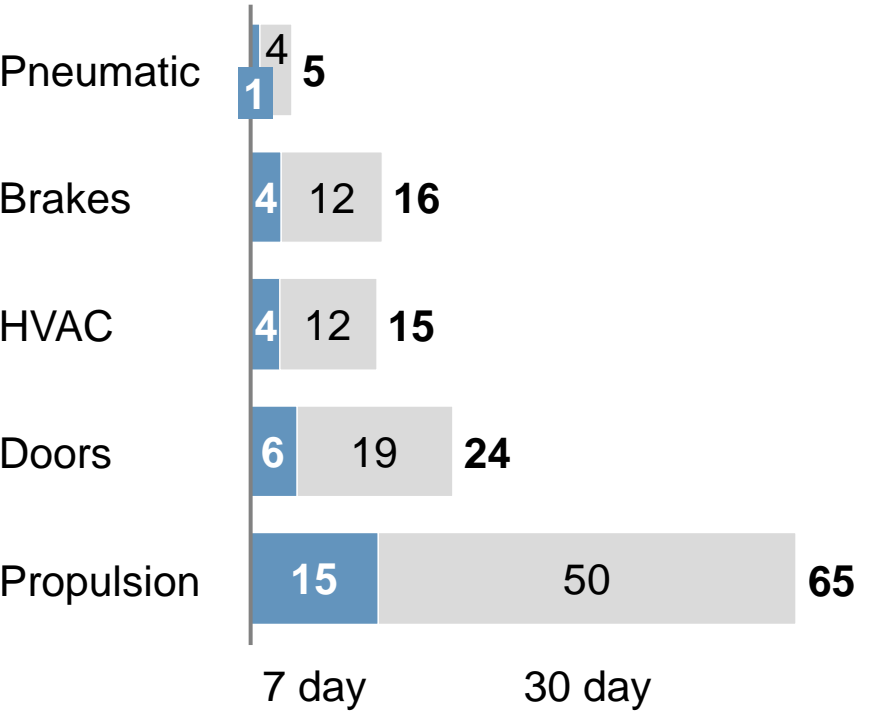
<sup>1</sup> Excludes Glenmont and Largo, as they average 1 and 3 cars per night, respectively

# The high rate of repeaters – 2 to 5X the background failure rate – across sub-systems indicates a potential quality problem

Share of assets that experience a repeat failure to the same sub-system within 7 or 30 days  
Percent<sup>1</sup>



Average failure rate of subsystem per car in any 7 or 30 day period  
Percent<sup>1</sup>



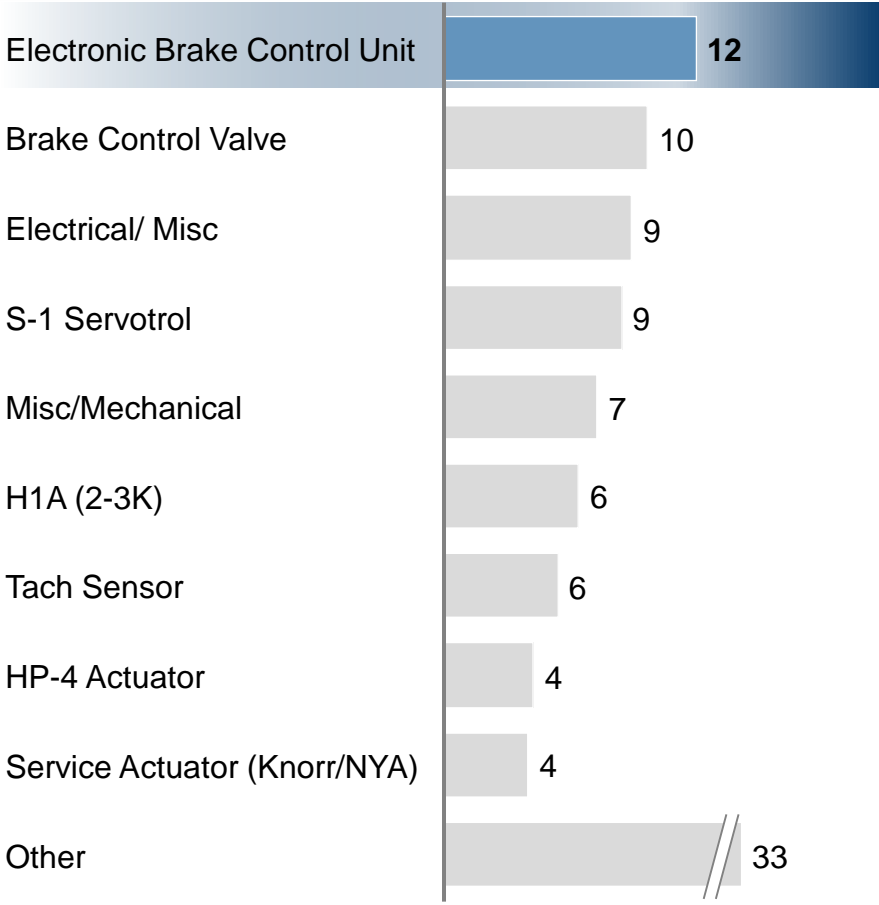
<sup>1</sup> Years of analysis vary by sub-system based on data availability but generally include 2014-15



# RCM would zero in on the top failures: in-service brake failures account for 25% of delays, and EBCU problems are the leading cause of brake failure

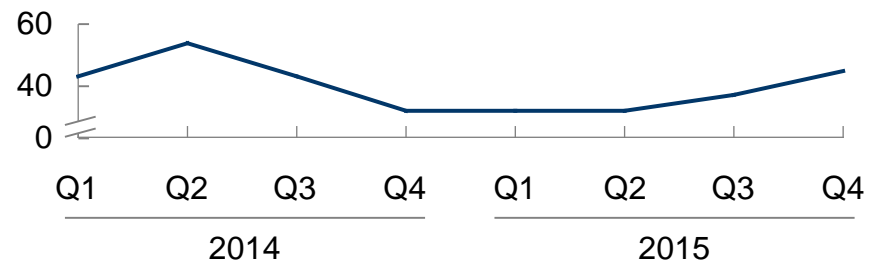
## EBCU failures are the most common failure

Share of all brake failures count, 2014-15, percent<sup>1</sup>



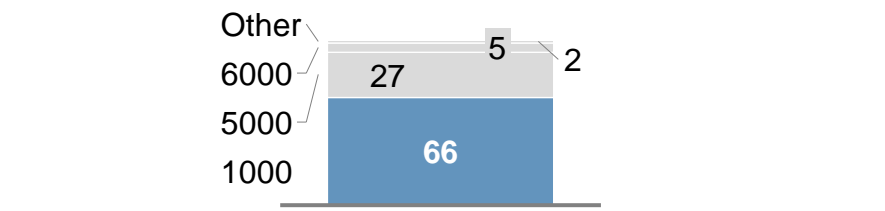
## EBCU failures have been fairly consistent over time, although the 2015 total was 15% lower than 2014

Number of incidents per quarter



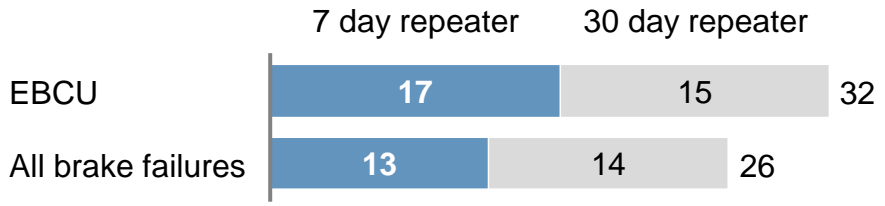
## The EBCU is principally a 1K problem

Share of EBCU failures, 2014-15, percent



## EBCU repeats more frequently than other brake failures

Share of all brake failures count, 2014-15, percent



<sup>1</sup> Excludes no trouble found, adjust/clean/service, and diagnose/reset codes

# WMATA's journey to improved reliability and rail service anchors on three major improvement themes

## Improvement theme

## A vision for the future state

## Immediate next steps

### Cross-departmental coordination

- Frequent, regular coordination meetings between railcar maintenance, procurement, supply chain, engineering, and operations provides immediate attention to pressing reliability challenges

- Appoint process owner
- Set meeting cadence
- Select attendance list
- Hold first meeting

### Reliability-centered maintenance

- Data-rich reliability analytics (including root cause failure diagnoses) fuels a continuous feedback loop that informs revision of PI procedures, updates to repair guidelines, and part need forecasts

- Define data needs and priority analyses
- Set up systems to capture and record data
- Set review cadence

### Look-ahead yard and shop planning

- In-yard diagnosis of car failures indicates parts, tools, shop space, and time required to complete—no WO starts without complete parts and tools
- Yard operators plan train moves using 8 hour-ahead maintenance schedules

- Conduct selective in-yard diagnoses
- Build “repair kits” with necessary parts for common repairs
- Test effectiveness

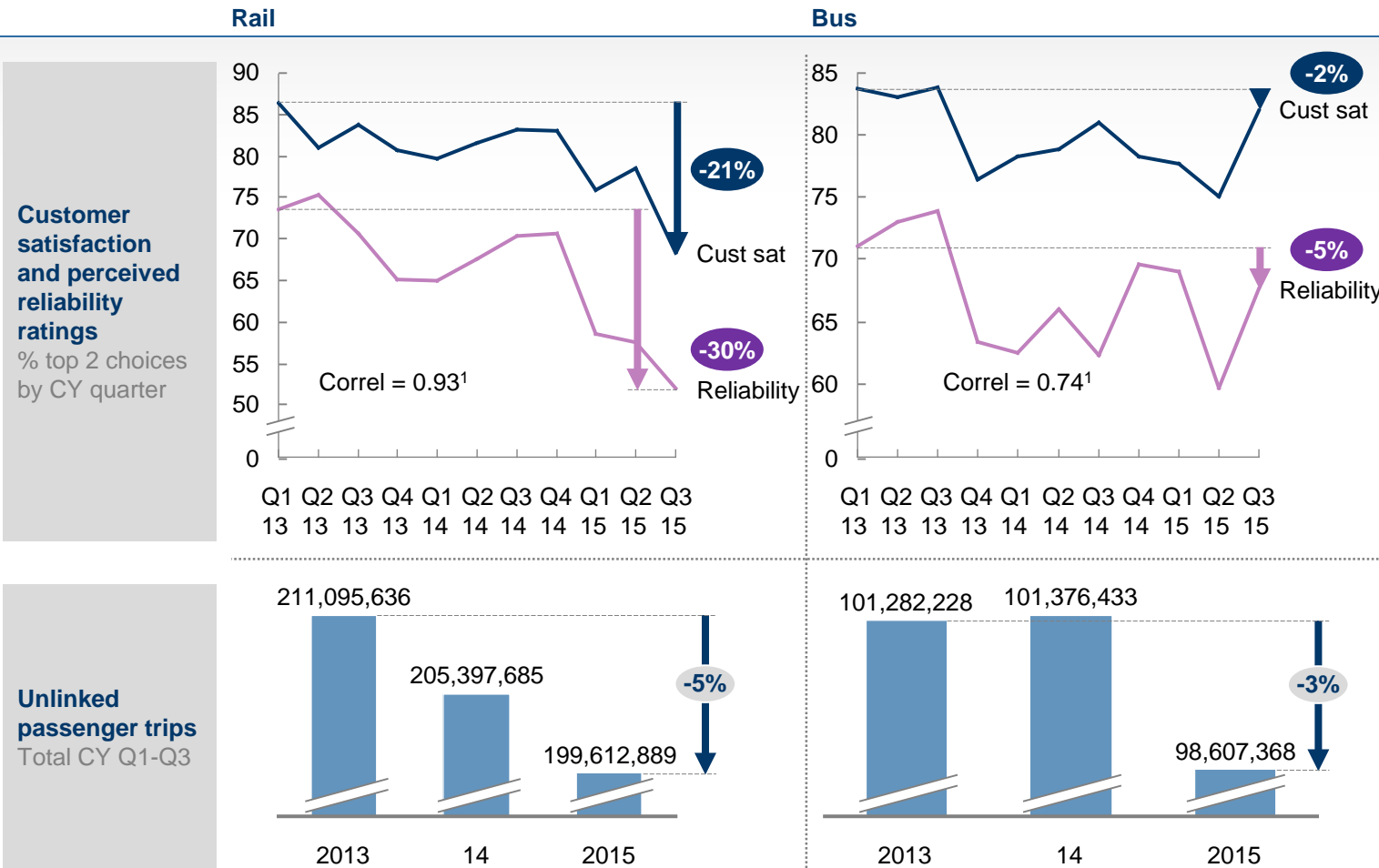
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## Executive summary – customer experience initiatives

- **WMATA is facing a customer experience problem** in rail with a 21% decrease in customer satisfaction since 2013; bus was relatively flat over the same period
- **WMATA should create a portfolio of initiatives that is framed around customer needs** of reliability, information, safety, and comfort
  - A successful portfolio can contribute to **a narrative of how Metro will put customers first and build internal and regional credibility** while the organization attacks the larger and more challenging set of problems around reliability
  - In rail there should be an emphasis on turning customer sentiment around while in bus there should be an emphasis on creating an upward shift in the satisfaction level
- Internal evidence suggests **the most important step to improving customer experience is improving reliability**—customers want WMATA to excel at their core competencies first—but work can still be done in the meantime on other customer experience improvements
- A portfolio of customer experience initiatives should include both quick wins (low cost and <3 months to implement) and long-term initiatives (longer duration, higher cost, or higher complexity), consider retaining riders and increasing ridership, and touch on both rail and bus
- Along with these initiatives, WMATA has an opportunity to take a more strategic approach to customer experience that bridges departments and leverages measurement
- These improvements can be realized through clear roles and responsibilities, formal collaboration, and updated measurement and decision-making

# WMATA has an opportunity to turn around the decline in customer satisfaction through customer experience (CE) improvements



Due to the large drop in rail customer satisfaction, later customer experience initiatives focus on rail

- WMATA has opportunity to improve customer satisfaction
- Improving customer satisfaction will require a comprehensive approach to customer experience measurement

<sup>1</sup> Reliability has the strongest relationship to customer satisfaction; train cleanliness has experienced a similar drop

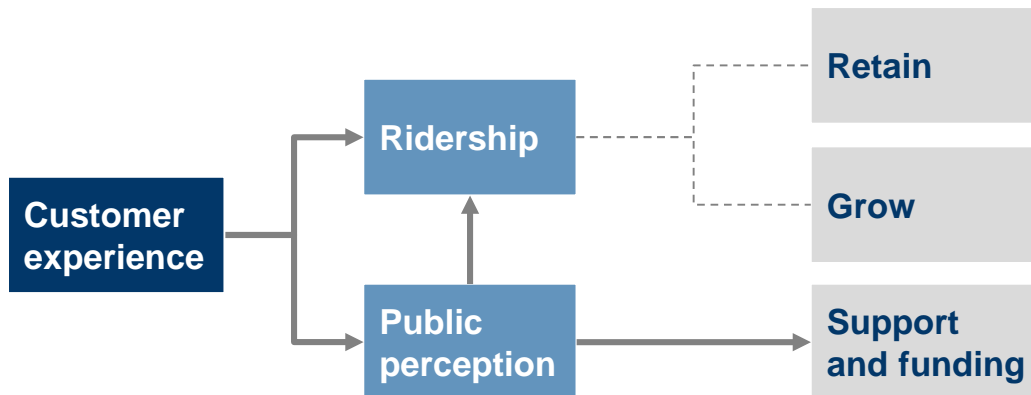
# WMATA needs a portfolio of initiatives that addresses the goals of improved customer experience

## Portfolio of initiatives

- WMATA's customer experience portfolio of initiatives should include
  - 3-5 **quick wins**
  - 3-5 **long-run initiatives**: more challenging, higher impact
  - Initiatives for **both rail and bus**
  - Initiatives to retain riders, grow ridership, and improve public perception
- The portfolio should be communicated to the public with this structure
- Initiative selection should prioritize initiatives based on an impact and feasibility assessment
- Customer experience improvements should become part of an organization-wide effort

## Initiative identification

- Initiatives were collected through conversations with WMATA employees, external expertise, peer system precedent, and customer survey data
- The initiatives were evaluated and prioritized according to impact/feasibility
- WMATA employees had the opportunity to comment on initiatives based on past experiences and knowledge
- Representatives from Rail, Bus, and Customer Satisfaction have been briefed on the recommendations and are prepared to support them



- Initiatives may address one or multiple branches of the tree
- A balanced portfolio of initiatives will address all branches of the tree
- An effective portfolio of initiatives will include initiatives that affect all branches of the tree

# A portfolio of customer experience initiatives can create a narrative for transformation

**Bold**  
initiatives  
plans are  
being  
created

	Aspirations	Quick wins	Long-term
"We will get you there without delay"	<ul style="list-style-type: none"><li>Trains and buses that arrive on schedule</li><li>Rides that finish without customers needing to offload</li></ul>	<i>How can Metro change how it does business to get a quick win here?</i>	<ul style="list-style-type: none"><li><b>Rail reliability improvements (e.g., railcar availability)</b></li><li><b>Priority Corridor Networks improvements for bus service reliability<sup>1</sup></b></li></ul>
"We will keep you informed about service status so you can make educated choices"	<ul style="list-style-type: none"><li>Reliable information about the next train or bus</li><li>Clear and relevant updates about service status</li></ul>	<ul style="list-style-type: none"><li><b>Service communication strategy and standardization</b></li><li><b>Maintenance signage (esp. ELES)</b></li><li><b>Static signage refresh</b></li><li><b>Luminator installation</b></li></ul>	<ul style="list-style-type: none"><li><b>Update train arrival estimates (PID) to be reliable and adapt to actual service</b></li><li><b>Fix the railcar PA system so customers can hear the operator</b></li></ul>
"We will do everything to keep you safe whenever you ride with us"	<ul style="list-style-type: none"><li>MTPD presence to keep you safe</li><li>A system maintained with your safety as the highest priority</li></ul>	<ul style="list-style-type: none"><li>Increase MTPD presence for real and felt customer safety</li></ul>	
"We will provide a clean and comfortable service and system"	<ul style="list-style-type: none"><li>A trip that isn't overcrowded: 8 car trains wherever possible and quick escalators that work</li><li>Clean trains, buses, stations, and stops that are in good repair</li></ul>	<ul style="list-style-type: none"><li><b>Escalator speed increase trial</b></li></ul>	<ul style="list-style-type: none"><li><b>Shelter and bus stop rehabilitation</b></li><li><b>Priority Corridor Network improvements<sup>1</sup></b></li><li>Station rehabilitation of appearance and lighting</li></ul>

How can WMATA turn long-term goals into quick wins?

1 PCN helps with service reliability and bus crowding

# Beyond these initiatives, WMATA can update its approach to customer experience through a journey-based approach

## Customer experience

**Customer experience** captures all interactions between WMATA and its customers

A **touchpoint** is a discrete interaction between a customer and WMATA (e.g., riding an escalator into a station)

A **journey** captures all touchpoints in how a customer engages with WMATA from their perspective, with a concrete beginning and end (e.g., ride the metro to work)

Journeys are multi-touch and multi-channel (e.g., Smartrip machine, escalator, platform, train) and are difficult to capture in discrete statistics

**Journeys represents an evolution in thinking over traditional touchpoint (or 'moment') approaches**

## WMATA example

### Ride Metrorail

- Enter the station on the escalator
- Tap into the network
- Move to the platform
- Wait for the train
- Enter the train
- Ride to desired stop
- Exit train
- Exit station

**In a journey of many touchpoints, 90% satisfaction at each step may leave <50% of customers satisfied with the journey**



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# Executive summary – capital process







WMATA has a solid strategic foundation as articulated in Momentum and as advanced by proposals like PLAN. However, the organization's **capital allocation and deployment process shows significant gaps to best-in-class design and performance** when compared with peer organizations. To address these gaps, WMATA should focus immediate attention on three core priorities.

- **Develop and codify a strategic capital plan** to serve as the guiding document for WMATA's capital program
- **Build on PLAN to create a robust method for project prioritization** that will drive annual allocation decisions in a transparent, objective and consistent manner.
  - A comprehensive asset inventory and capital needs assessment is central to this method and will underlie a fact-based prioritization model
  - A functioning prioritization system also requires that project proposals be detailed and use a standard set of assumptions and calculations in budget and impact forecasting so that they can be force ranked
- **Create an independent capital programs organization** led by a direct report to the GM and staffed to manage capital investment allocation, deployment and reporting processes.
  - **First**, this provides necessary bandwidth and focus to develop, codify and enforce a capital process that is today inconsistent, diffusely managed and occasionally ad hoc.
  - **Second**, it puts the capital process in charge of an objective entity, establishing an intermediary between the duties of financial/budgetary management (OMBS) and the sources of demand for capital investment (e.g., TIES)

# A successful capital program requires strong practices in 6 components that make up the capital process



# There are gaps in WMATA's capital program from best practices across all dimensions of capital process

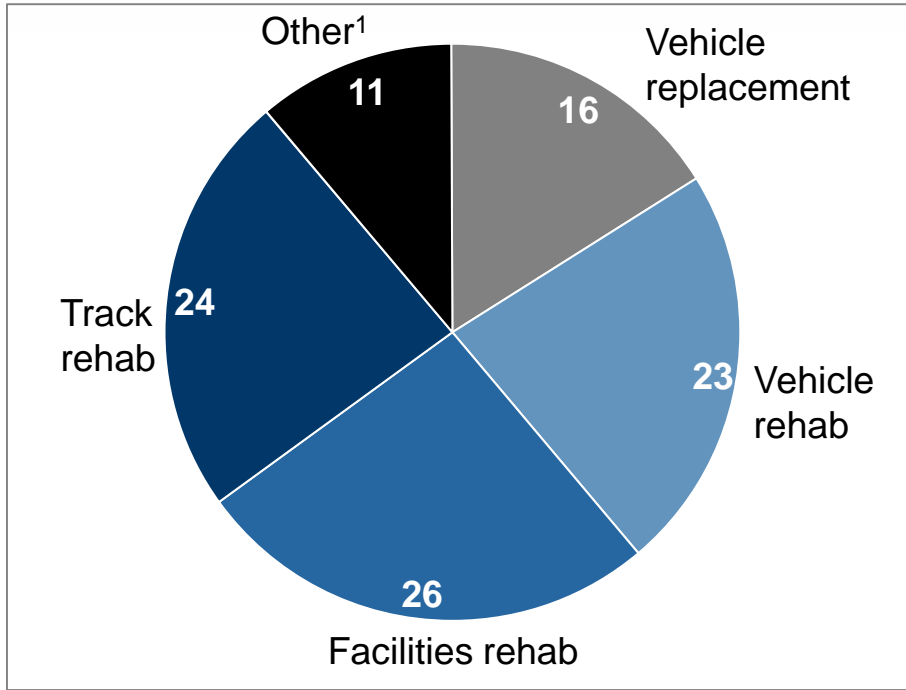
Dimension		Current practice	Best practice
Strategic planning		<ul style="list-style-type: none"> <li>Capital allocation decisions are made in reaction to existing commitments, available grants, and projects outlined in Momentum</li> </ul>	<ul style="list-style-type: none"> <li><b>Capital allocation decisions are based on an enterprise-level strategic plan</b> that lays out specific and measurable goals derived from the underlying capital components of the agency's strategic vision</li> </ul>
Portfolio prioritization		<ul style="list-style-type: none"> <li>Department heads make prioritization decisions separately without standard criteria</li> <li>PLAN has drafted a proposed prioritization process with metrics</li> </ul>	<ul style="list-style-type: none"> <li>An independent review committee <b>force ranks proposals based on clear criteria and specific metrics</b> such as review risk/reward tradeoffs, feasibility, and strategic fit</li> </ul>
Planning and forecasting		<ul style="list-style-type: none"> <li>Budgets are top-down estimates with straight-line distributions over project life</li> <li>PLAN drafted a model using O&amp;M cost analysis to replace the current process</li> </ul>	<ul style="list-style-type: none"> <li>Budgets are based on <b>bottom up analysis</b> using standardized assumptions and planned schedules to distribute budget over project life</li> </ul>
Project execution & management		<ul style="list-style-type: none"> <li>Deliverables are not consistently defined and scope can grow</li> <li>Procurement processes are not well understood by all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Leadership enforces a <b>clearly defined process</b> for budget and schedule execution</li> <li>A detailed <b>contracting and procurement strategy</b> exists <b>grounded in lifecycle TCO</b> analytics</li> </ul>
Performance tracking and lookback		<ul style="list-style-type: none"> <li>Project performance is not currently evaluated using KPIs</li> <li>Project lookback happens on an <i>ad hoc</i> basis as there is currently no formal process</li> </ul>	<ul style="list-style-type: none"> <li>Performance is tracked against <b>specific KPIs</b></li> <li>Project lookback exists, is used on all projects, and lessons are codified and incorporated into future practice</li> </ul>
Org and capabilities		<ul style="list-style-type: none"> <li>There is no sponsor for the entire capital program as a direct report to the GM</li> <li>There has been high turnover and capabilities are underdeveloped in some areas</li> </ul>	<ul style="list-style-type: none"> <li>Organization structure includes an <b>independent authority to oversee the capital program</b></li> <li>Responsibilities and competencies defined across all major roles with capability building plans in place</li> </ul>

1 Best practices based on assessment capital process for public and private capital intensive firms

# WMATA’s current allocation of capital shows a near-exclusive focus on rehabilitating aging infrastructure

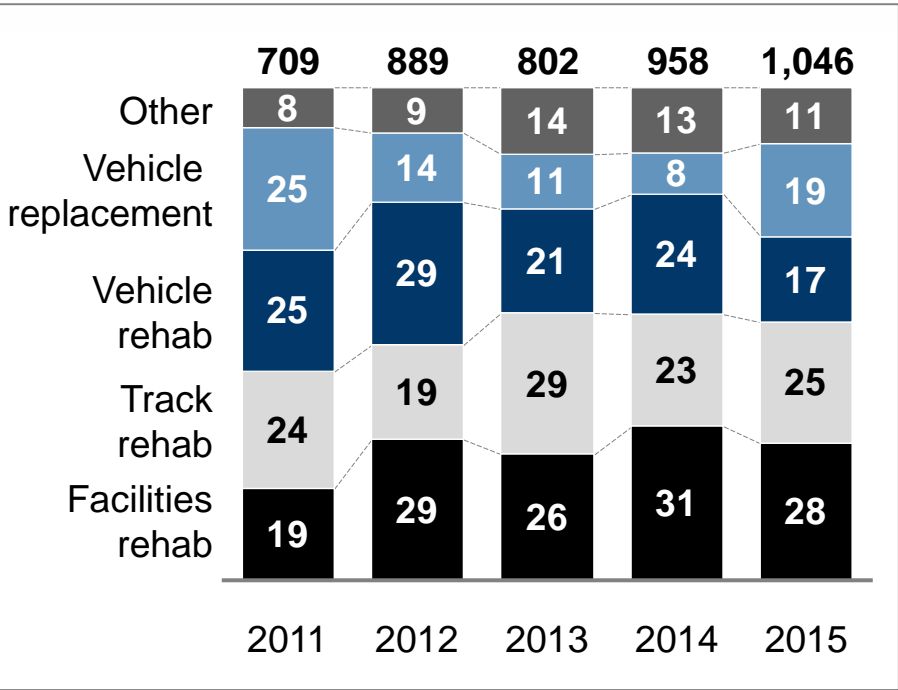
Budget allocation by project type

Average 2011-2015, %



Budget allocation by project type

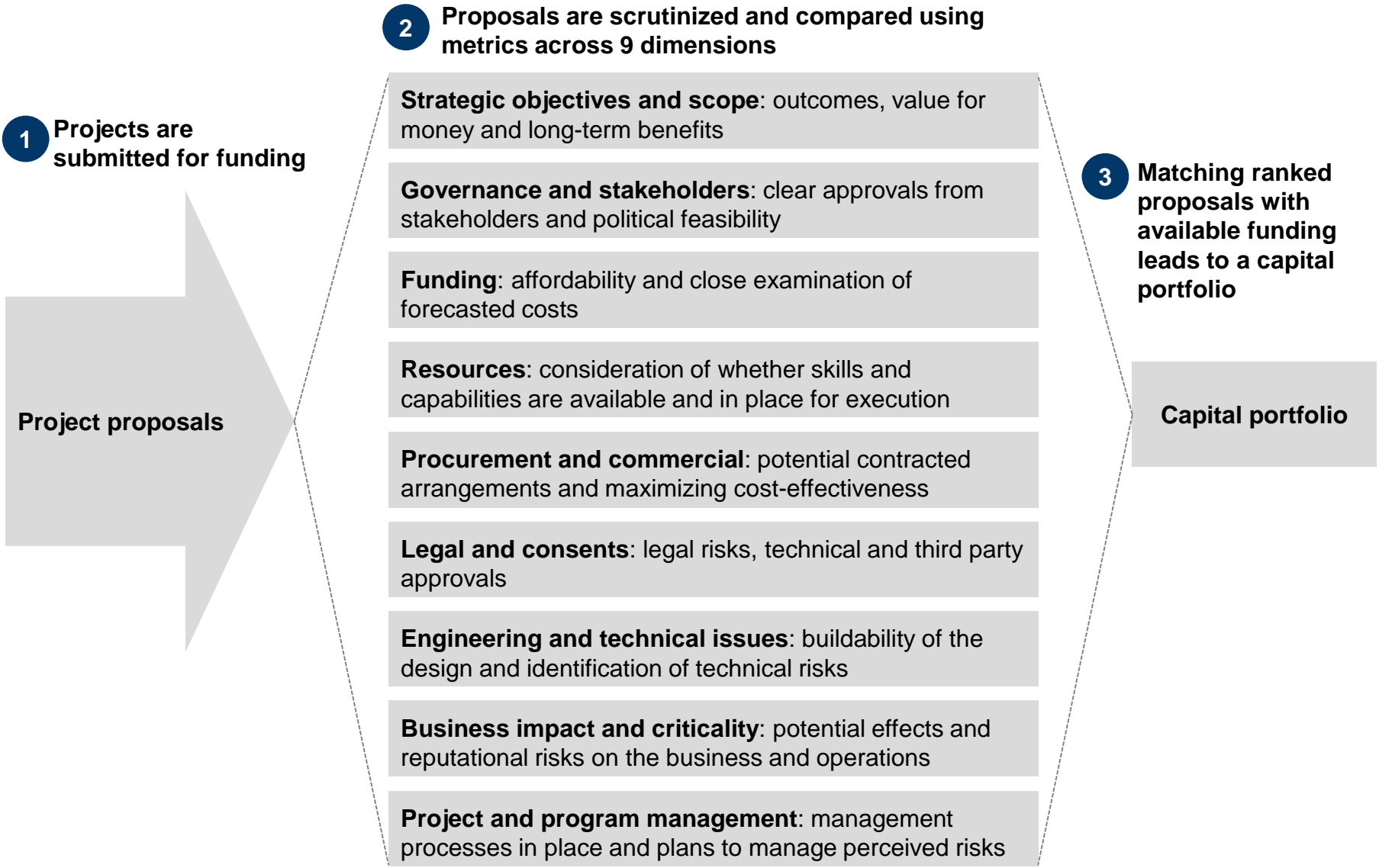
2011-2015, % \$M



- WMATA’s recent history of budget allocation implies a prioritization of rehabilitation
  - The portion of annual budget allocated to facilities rehab has increased since 2011 while that of vehicle rehab has shrunk
- WMATA’s budget suggests a strategic plan that emphasizes rehab over replacement or investments not directed toward achieving a state of good repair

<sup>1</sup> Other includes business support projects such as operations software and business support facilities and equipment

# Transport for London uses a rigorous portfolio allocation process that evaluates potential projects with metrics across 9 dimensions



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# Reduce HR Technology cost of ownership by directly focusing on improving current infrastructure

**Initiative description:** Invest \$2-3M to stabilize PeopleSoft 9.1 HRMS system to reduce ongoing support costs (\$1M per year savings) and the need for a complex PeopleSoft 9.2 upgrade which would cost between \$10M and \$20M. Additional operational cost savings likely.

## Financial impact:

- Potential savings associated with stabilizing PeopleSoft HRMS:**
- Avoid 9.2 upgrade costs. 9.1 upgrade that cost over \$12M for WMATA.
  - Reduce internal and external support costs going forward (potential savings of at least \$1M per year)
  - Opportunity to improve transaction efficiency and free up resources for reporting, analytics and strategic initiatives. Currently, HR is below the 75th percentile in a number of key cost metrics in the following areas:
  - Total HR cost/HR FTE
  - Labor cost as a % of total FTE
  - HR expense as a % of revenue.
  - Opportunities to reallocate talent to higher value activities
  - Reduce financial variability associated with future technology and HR/Payroll improvement efforts

- Specific activities funded by investment**
- Invest in resources to execute master data mapping, end-to-end process design, labor contract provision analysis and requirements definition during stabilization period within critical steps outlined above

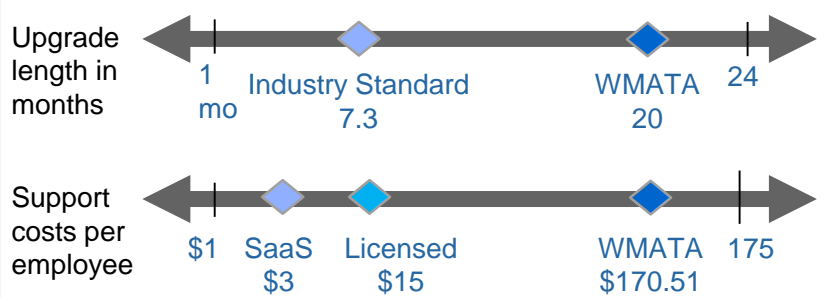
## Non financial impact

- Operations**
- Improve HR and Payroll strategic focus
  - Mitigate risk associated due to manual activities
  - Improve speed of transactions and HR service delivery

## Risks

- **KEY RISK:** In order to realize savings it will be critical to consider change management, governance, data and process along with technology specific improvements.
- Critical to build strong foundation through sound position management and budget to actual tracking
- Organizational roles and training for a leading future state operational environment
- User acceptance will be critical
- Critical to manage Kronos time collection implementation in parallel to PeopleSoft improvements

## Non financial impact

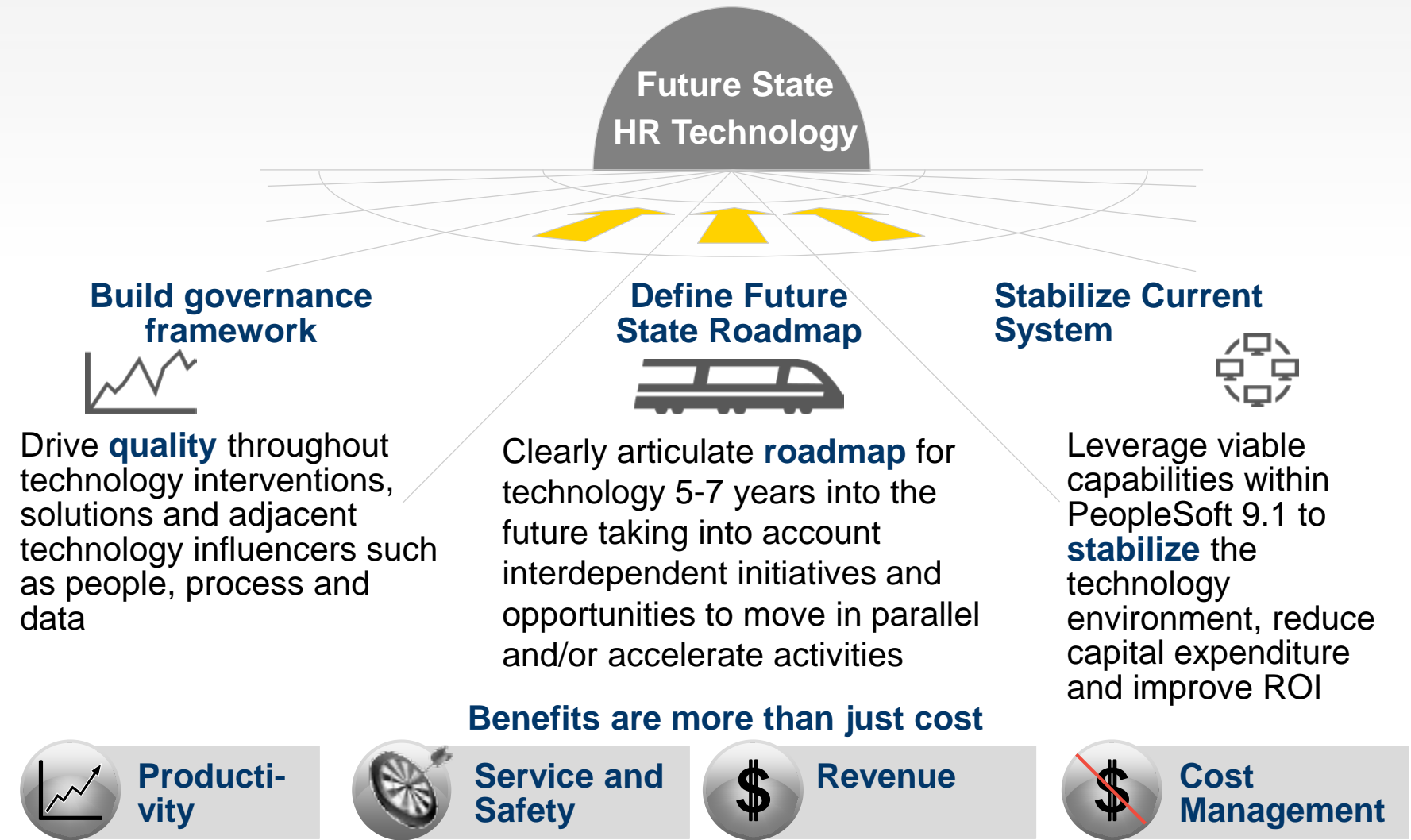


**WMATA's operational performance falls outside of the bottom quartile across multiple HR metrics.**



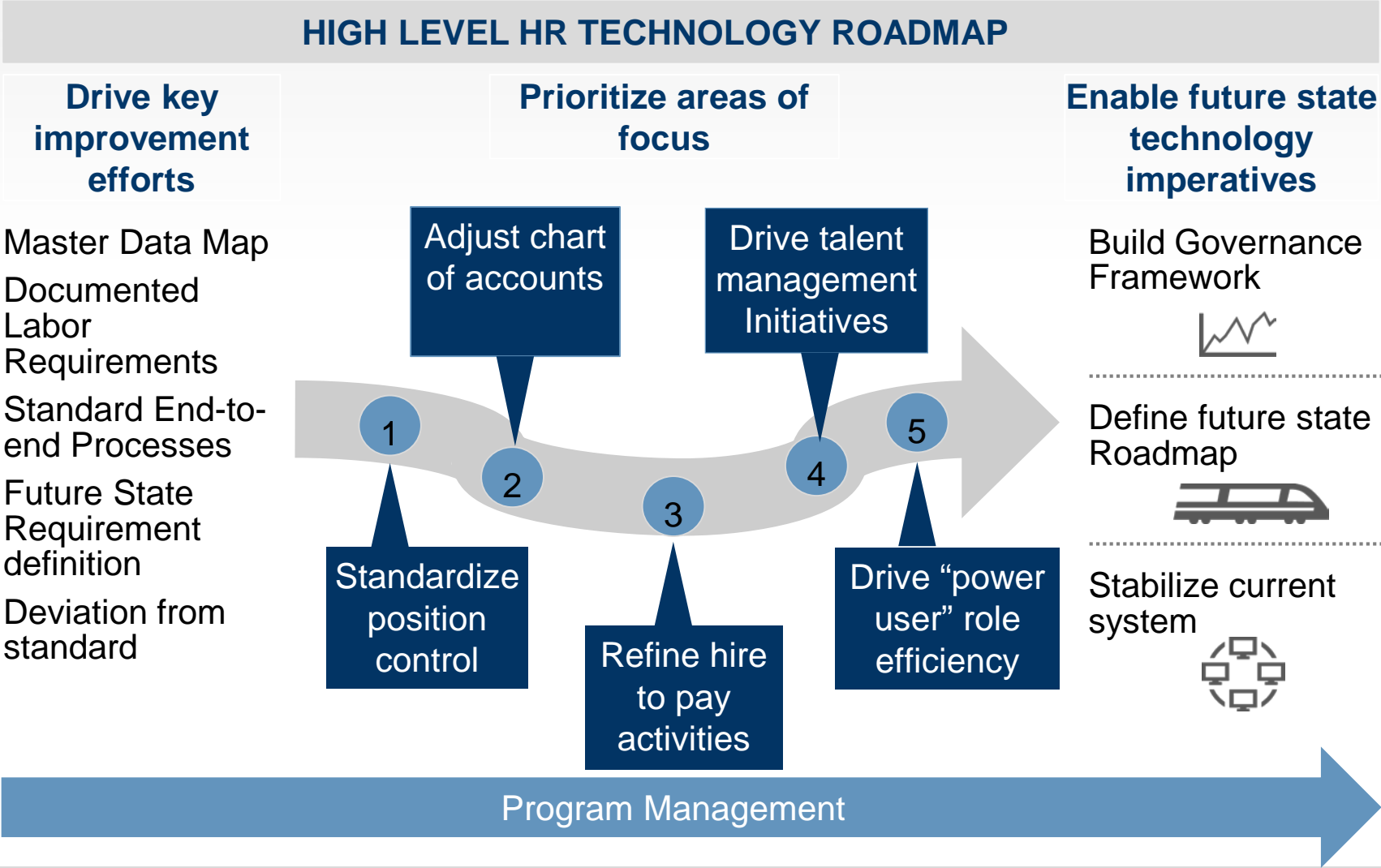
# HR Technology imperatives

## Aligning WMATA technology imperatives with organizational value levers to drive improvement



# HR Technology Roadmap

In our experience a comprehensive approach can increase cost of ownership savings appreciably



# Tactical path to improved technology cost of ownership

## In order to realize the cost savings objectives WMATA will need to follow an integrated path forward

	Phase 1	Phase 2	Phase 3
Phases			
	Deep Dive Assessment	Detailed Roadmap Design	Implementation of Changes
	Technology Assessment	Roadmap design	Implement technology improvements
	Data Assessment	Data Mapping	Data cleansing, standardization and ongoing governance
Work Streams	Develop High Level Process Design	Create detailed process documentation	Document refined detailed process and document technical improvements
	Scope change	Design change program	Implement change initiatives
		Set up governance structure	Implement program management and governance
Timing	8-10 weeks	4-6 weeks	TBD

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# The Vision & Design Approach: Pension and Retiree Medical

**The Vision:** Educate and empower membership to make informed financial decisions based on their individual needs by providing:

- ❑ **Choice** - give membership more alternatives to meet their needs
- ❑ **Knowledge & Tools** - Access to independent financial planners, education and tools
- ❑ **Tax effective results** - Subsidized and tax efficient savings & retirement vehicles

**Design Approach:** Goal is to reduce cost while providing membership with choices that may better meet their personal needs:

- ❑ **Pension:** provide a lump sum option that includes a rollover over into another qualified plan that is managed by the member directly
- ❑ **Retiree medical,** move to more consumer-driven healthcare design and take advantage of federal subsidies via lower premium Medicare Supplement/Medicare Advantage plans available to WMATA and its members
- ❑ **Educate, Inform, Equip:** Provide financial education and counseling to support their decision making – structured communication campaigns, seminars, financial planners, hotlines, modelling tools and other support

**Financial Results:** Initial estimates are significant though subject to more in-depth actuarial review and analysis<sup>1</sup>:

- ❑ **Pension:** the actuarial accrued liability would be reduced by up to \$140 million, plus potential reduction to plan contribution of up to \$20 million in Year One. Assumes lump sum option is selected by approx. 25% of active membership and does not include the value of COLA outside the contract period
- ❑ **Retiree medical:** the actuarial accrued liability would be reduced by up to \$400 million, also reducing the cash requirements over time
- ❑ **Educate, Inform, Equip:** Cost of continual, ongoing financial education estimated from \$25 to \$50 per active member. Assuming 10,000 active members, cost estimate is \$250,000 to \$500,000 per year - some of which might be paid using pension assets.

<sup>1</sup> Financial savings are based on high level estimates. Actual savings will be based on final design, membership demographic experience, and economic factors such as inflation investment return

# Pension lump sum option

**Initiative description:** Existing active membership would be provided lump sum option. Additional financial education/counseling would also be provided to better equip members to make their own financial decisions. Amounts can be rolled over into an IRA or another qualified plan. Also consider providing more uniform trustee services through single provider to support administration of offering.

**Financial impact:**

**Potential savings from reducing pensions commitments:**

- High: up to \$140M assuming 25% of active memberships' accrued benefits are paid out as a lump sum.
- Actual savings will be dependent on a number of additional factors including lump sum design and mortality experience
- Additional savings available to inactive membership but would anticipate lower percentage electing lump (particularly for retirees)

**Investment required**

- Low/medium: One time implementation costs (e.g. administration setup, communication/member education, membership negotiation) potentially payable from pension trust. Ongoing cost of financial education/counseling to employees providing benefits beyond pension

**Risks**

- Savings of buy-out/lump sum will be a function of membership acceptance rate and basis for lump sum conversion (which will work against each other).
- Voluntary buy out could lead to some anti-selection risk if elected by unhealthy members
- Potential of membership disruption and media risk (but lower due to voluntary nature of offering)
- Potential tax/legal barrier offering to retiree membership - but retirees can be excluded and have not been included in anticipated cost savings
- Greater liquidity risk for lump sum payout
- Will require negotiation and each pension actuary could potentially estimate the financial impact of lump sum option differently

**Non financial impact**

**Operations**

- Reduced administration requirements with single lump sum payment rather than ongoing annuity
- More uniform trustee services will provide better financial transparency at reduced cost to WMATA

**Customers**

- Improved membership engagement and empowerment through financial education/counseling and increased pension choice
- Cultural shift from paternalistic to shifting of investment and longevity risk to membership (though voluntary)

**Non financial impact**

**Organizational implications**

- Could be extremely attractive option to membership but will need to be negotiated

**Political feasibility**

- While shifting of investment and longevity risk could raise concerns still highly feasible considering voluntary nature and coupling of financial education/counseling
- Potentially consider limiting lump sum to no more than 50% of member's accrued pension benefit to reduce paternalistic concerns

1 More information is required to better estimate cash financial impact

# Retiree medical changes

**Initiative description:** Change retiree medical plan design and delivery to consolidate and leverage scale for better premiums and benefits more in line with market. Considerations include moving to more consumer based healthcare plans and eliminating post Medicare health coverage by providing membership subsidies to move to private exchanges and/or offering a Group Medicare Advantage plan

**Financial impact:**

**Potential savings from reducing pensions commitments:**

- Potential saving could vary dramatically
- Estimated savings<sup>1</sup> (based on retiree medical actuarial accrued liability of \$1,500M as of July 1, 2013):
- Market based solution: Approximately \$800M by shifting current program with account based solutions (HSAs/HRAs), consolidating vendors, and using Medicare Supplement via direct with vendor or retiree exchange platform or offering group Medicare Advantage
- **Proposed paternalistic approach:** Approximately \$400M. Similar to Market with greater grandfathering and subsidies

**Investment required**

- Moderate: Implementation costs due to design, communication/ member education, negotiations, private exchange evaluation and transition

**Risks**

- Potential for some membership disruption and media risk with exchange option although option with group Medicare Advantage plan will minimize that disruption
- Healthcare markets are continually changing, CMS funding may change significantly although that has not occur in the past
- Differences in administration, design and providers among different membership groups provide additional design and process challenges

**Non financial impact**

**Operations**

- High: Membership negotiations, development of communication campaign, exchange evaluation, workforce disruption and transition
- Reduced administration by transitioning post Medicare eligible to exchanges

**Customers**

- Active and retired membership will require communication, financial counseling and education.
- Cultural shift from paternalistic by shifting medical cost considerations from sponsored Plan to retirees through consumer based plans & exchanges or Medicare Advantage plan

**Non financial impact**

**Organizational implications**

- Cultural shift and dependency on external private exchanges
- Vast majority of membership/retirees can be provided similar or greater quality healthcare at a lower cost

**Political feasibility**

- Will be greatly dependent on ability to negotiate with members. Some additional design cost savings may need to be shifted to membership to encourage change

1 Changes will immediately lower cash costs but more information is required to estimate timing

# Pension Design Next Steps

Project Stage	Phase I: Objective setting and data collection	Phase II: Design review and pricing	Phase III: Stakeholder alignment	Phase IV: Implementation
Project Activities	<ul style="list-style-type: none"> <li>Develop initial design objectives (e.g. cost, competitiveness, etc.) and negotiation strategy</li> <li>Conduct interviews with key stakeholders and interested parties</li> <li>Confirm timeline</li> <li>Request and collect data</li> </ul>	<ul style="list-style-type: none"> <li>Identify alternative lump sum designs options by plan</li> <li>Estimate financial impact under proposed alternatives under varied actuarial assumptions</li> <li>Develop sample employee benefit statements</li> <li>Review results with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Prepare presentations for varying stakeholders to review results and solicit feedback</li> <li>Conduct meetings to gain buy in from stakeholders</li> <li>Review feedback from stakeholder meetings</li> <li>Update recommendations for design and implementation alternatives</li> </ul>	<ul style="list-style-type: none"> <li>Document drafting and approval support as needed</li> <li>Steps to be determined based on results of Phases I-III</li> <li>Go live date objective of January 1, 2017</li> </ul>
Outputs	<ul style="list-style-type: none"> <li>Overview of current program</li> <li>Guiding principles</li> <li>Listing of data items</li> <li>Project management timeline and tracker including milestones, meeting and deliverable dates</li> </ul>	<ul style="list-style-type: none"> <li>Comparison of current payment options by plan</li> <li>Detailed impact analysis on Participants, comparing “current” to the new, alternative designs</li> <li>Financial impact analysis to WMATA under alternative designs and actuarial assumptions</li> <li>Proposed design to review with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder briefings and feedback tracking</li> <li>Presentations summarizing process, results, rationale and recommendations .</li> <li>Report outlining review process and conclusions</li> <li>Final presentation summarizing recommendations for approval</li> </ul>	<ul style="list-style-type: none"> <li>Outputs to be determined based on results of Phases I-III</li> <li>Go live date objective of January 1, 2017</li> </ul>
Timing	<ul style="list-style-type: none"> <li>February</li> </ul>	<ul style="list-style-type: none"> <li>March-May</li> </ul>	<ul style="list-style-type: none"> <li>May-June</li> </ul>	<ul style="list-style-type: none"> <li>July-December</li> </ul>



# Retiree Medical Design Next Steps

Project Stage	Phase I: See Pension	Phase IIa: Gap Analysis	Phase IIb: Design and pricing	Phase III & IV: Alignment and Implementation
Project Activities	<ul style="list-style-type: none"> <li>Develop initial design objectives (e.g. cost, competitiveness, etc.) and negotiation strategy</li> <li>Conduct interviews with key stakeholders and interested parties</li> <li>Confirm timeline</li> <li>Request and collect data for detailed financial analysis and design</li> </ul>	<ul style="list-style-type: none"> <li>Identify gaps between objectives and current program</li> <li>Perform cost projections of current program</li> <li>Review benefit program competitiveness/leading practices</li> <li>Current vendor assessment</li> </ul>	<ul style="list-style-type: none"> <li>Identify possible design alternatives to close gaps</li> <li>Perform cost projections for alternative designs</li> <li>Perform high level analysis of work force disruption under alternatives</li> <li>Market vendor analysis and review</li> </ul>	<ul style="list-style-type: none"> <li>See Pension</li> </ul>
Outputs	<ul style="list-style-type: none"> <li>Overview of current program</li> <li>Guiding principles</li> <li>Listing of data items</li> <li>Project management timeline and tracker including milestones, meeting and deliverable dates</li> </ul>	<ul style="list-style-type: none"> <li>Design Scorecard</li> <li>Financial projections for current program</li> <li>Leading practices and benefit benchmarks</li> <li>Vendor assessment and review</li> <li>Periodic check point meetings to review results</li> </ul>	<ul style="list-style-type: none"> <li>Design Scorecard</li> <li>Financial estimates for alternative designs and vendor considerations</li> <li>Summary and analysis of potential work force disruptions</li> <li>Periodic check point meetings to review results</li> </ul>	<ul style="list-style-type: none"> <li>See Pension</li> </ul>
Timing	<ul style="list-style-type: none"> <li>February</li> </ul>	<ul style="list-style-type: none"> <li>March</li> </ul>	<ul style="list-style-type: none"> <li>May-June</li> </ul>	<ul style="list-style-type: none"> <li>Phase III: May-June</li> <li>Phase IV: July-December</li> </ul>

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    - **Workers' compensation**
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  - Real estate
  - Third party spend
- Change management architecture

# WMATA Workers' Compensation Claims Opportunity Overview

## EXECUTIVE SUMMARY

- WMATA leadership believes that improvements can be made to improve Workers' Compensation (WC) program results
- There is a strong belief that WC fraud and abuse is major driver of their current claim severity experience
- EY was invited to participate in high-level discussions and a limited review of WC program data to evaluate the opportunity for improvement
- EY believes that there are opportunities for WMATA to drive better overall program performance by addressing not only fraud and abuse, but also optimizing key aspects of WC program to align with public sector leading practices
- Based on EY's experience working with similar programs, WMATA should anticipate a 5-8% reduction in annual WC claim spend within approximately 24 months<sup>1</sup>
- Based on current open claim costs of \$151million, the target savings would range from \$8 - \$12 million<sup>1</sup>
- In addition to improved financial results, we would forecast corresponding improvement in key non-financial areas as well, including a reduction in overtime and additional staffing costs, and improved quality and efficiency of service to WMATA customers.

<sup>1</sup> EY generally targets 10% -15% WC savings based on our public sector with such clients as City of Chicago, New York Metropolitan Transportation Authority, Cook County IL, NY School Construction Authority but given a number of solid management practices in place at WMATA, we have reduced the savings target to 5% - 8%.

# WMATA Workers' Compensation Claims High-level Current State Analysis

- **Findings:** WMATA appears to be experiencing an unusually large number of high severity open Workers' Compensation claims. As indicated below, 83% of the current open claim inventory carries a total incurred of \$10,000 or more. WMATA's long term goal should be to reduce this below 40%.
- **Findings:** Claim closure rates within the first 12 months of the life of the claim have been deteriorating significantly since 2010. This claim closure pattern is typically represented by increasing disability durations and overall claim severity, and may also be influenced by increasing attorney representation by injured workers.

Total Incurred	WC Claim Count	% of Open Inventory
1,000,000 +	25	2%
\$500K to \$1M	62	6%
\$250K to \$500K	97	9%
\$100K to \$250K	222	20%
\$50K to \$100K	127	11%
\$10K to \$50K	391	35%
\$5k to \$10K	87	8%
Under 5K	101	9%
Total	1112	100%

Policy Year	Closed within 12 Months
2000	66%
2001	50%
2002	41%
2003	50%
2004	46%
2005	52%
2006	44%
2007	40%
2008	53%
2009	49%
2010	55%
2011	33%
2012	40%
2013	42%
2014	36%

- **Additional analysis is needed to –**
  - **Identify the causes of these trends**
  - **Assess current claim service providers**
  - **Evaluate current claim policies & procedures**

# WMATA Workers' Comp Claims High-level Maturity Assessment

- Below is a high-level maturity model that illustrates EY's assessment of WMATA's current state compared to Industry Practices, based on our review and discussions to date.
- While WMATA has many solid and sound practices in place today, they are constrained by a liberal regulatory environment and the impact of a well informed, unionized workforce.
- Based on EY work with other public sector clients, there are opportunities to gravitate over time to leading practices given the appropriate support and infrastructure.

Category	Lagging Industry Practice	Industry Practice	Leading Practice
<b>Vendor/Third Party Administrator Oversight</b>	<p><b>No formal independent Quality Assurance audit of TPA claims handling practices</b></p> <p>This includes an audit conducted by the <u>employer</u> or <u>broker</u> as they would not be considered independent</p>	Independent Quality Assurance audit of TPA claim handling practices on a semiannual to annual basis. Audits evaluate compliance with agreed upon service handling instructions. (e.g. contact timeliness, adherence to reserve authority)	<p>Independent Quality Assurance audit of TPA claim handling practices on a semiannual to annual basis. Audits include an analysis of performance against established claim processes and an evaluation of the effectiveness of claim outcomes</p> <p>QA performance scores are utilized in determining TPA compensation</p>
<b>Light Duty Program</b>	No formal light duty program	<b>Documented light duty program that is managed solely by a specialized unit</b>	Documented light duty program that is managed by a specialized business unit but communicated throughout the organization. Operations, Occupational Health and WC Risk Management work closely together to coordinate light duty and modify the light duty program as needed.
<b>Performance Management</b>	<b>Responsibility for Workers' Compensation performance rests solely with the Risk Management or Finance functions</b>	<p>Culture of accountability for Workers' Compensation results throughout the organization with cost driver claim metrics communicated at the operation level.</p> <p>Formal performance goals rest with Risk Management or Finance functions</p>	All stakeholders within the organization share responsibility for Workers' Compensation performance management. Managers and Supervisors within the operations are also held accountable for Workers' Compensation results. Examples of operation level performance goals are Injury avoidance/frequency, claim duration, and light duty utilization.
<b>Data and Reporting</b>	<p><b>Informal data analysis and claim reporting on an as needed basis</b></p> <p><i>(Recognized by WMATA Risk Management with an in-flight initiative to remediate)</i></p>	Standardized and scheduled high level claim data analysis and reporting. Examples of limited high level reports would include claim volume, claim duration, claim frequency, and claim severity.	Robust data mining and reporting used to identify claim management and safety trends. Specific reports tailored to identify and monitor indemnity, medical, and expense cost drivers ( <i>see initiative 1 – root cause analysis</i> )
<b>Employee Communication Practice</b>	No formal requirement for communication with injured employees receiving ongoing Workers' Compensation benefits	<b>Risk Management or operations maintain contact with injured employees on an as needed basis</b>	Both Risk Management and operations maintain contact with injured employees receiving ongoing Workers' Compensation every 2 weeks. The results of the communication are then shared with all stakeholders including the TPA

# WMATA Workers' Comp Claims High-level Maturity Assessment

## Impact & Risks

Based on EY's experience with similar programs, the **likely target areas for improved WC program results include:**

- **Reduce the frequency and impact of WC fraud, abuse, malingering**
- Improve internal communication and **optimize utilization of high-quality WMATA treating physicians**
- **Reduce prevalence of attorney retention**
- **Reduce disability duration** which will reduce the frequency of indemnity vs. med only claims
- **Improved quality of third party claims administrator** management of WC claims

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**In addition to reduced claim costs,** EY would forecast the following non-claim benefits for WMATA:

- **Reduce need for additional staffing and overtime** currently utilized to account for absence
- **Improved employee morale** with reduced absence
- **Improved service quality** due to a reduction in unnecessary and unplanned extended absences

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**EY believes the risks are limited & manageable for WMATA to handle:**

- Organizational disruption as hard-core WC users and their constituents may push back against change that will disrupt their preferred status quo
  - In this regard, much of what EY has successfully implemented with other similar, unionized, public sector organizations have generally not required collective bargaining given the nature of our recommendations

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# There are opportunities for WMATA to optimize parking

**WMATA could transfer significant long term risk to the private sector. A private sector developer would be incentivized to generate revenue and provide a better user experience while maintaining the existing benefits for transit riders**

## Revenue Enhancements and Additional Services

- The private developer could provide additional value add services to customers at stations that deliver supplemental revenue and enhance the customer experience. These could include:
  - Dry cleaning
  - Shoe repair
  - Grocery collection
  - Online retail delivery lockers
  - Courier drop-off
  - Car washing
  - Newspapers and magazines
  - Lottery tickets

## Increase Enforcement of Meters

- Currently ticket fine revenue is transferred to the jurisdictions, whereas parking meter revenue is retained by WMATA
- There is a perception that the current enforcement regime of metered spaces is insufficient, resulting in customers choosing not to pay (either in whole or in part), negatively impacting WMATA revenue
- Lack of data to underpin the hypothesis and aid enforcement – could benefit from technology updates

## Use of Technology

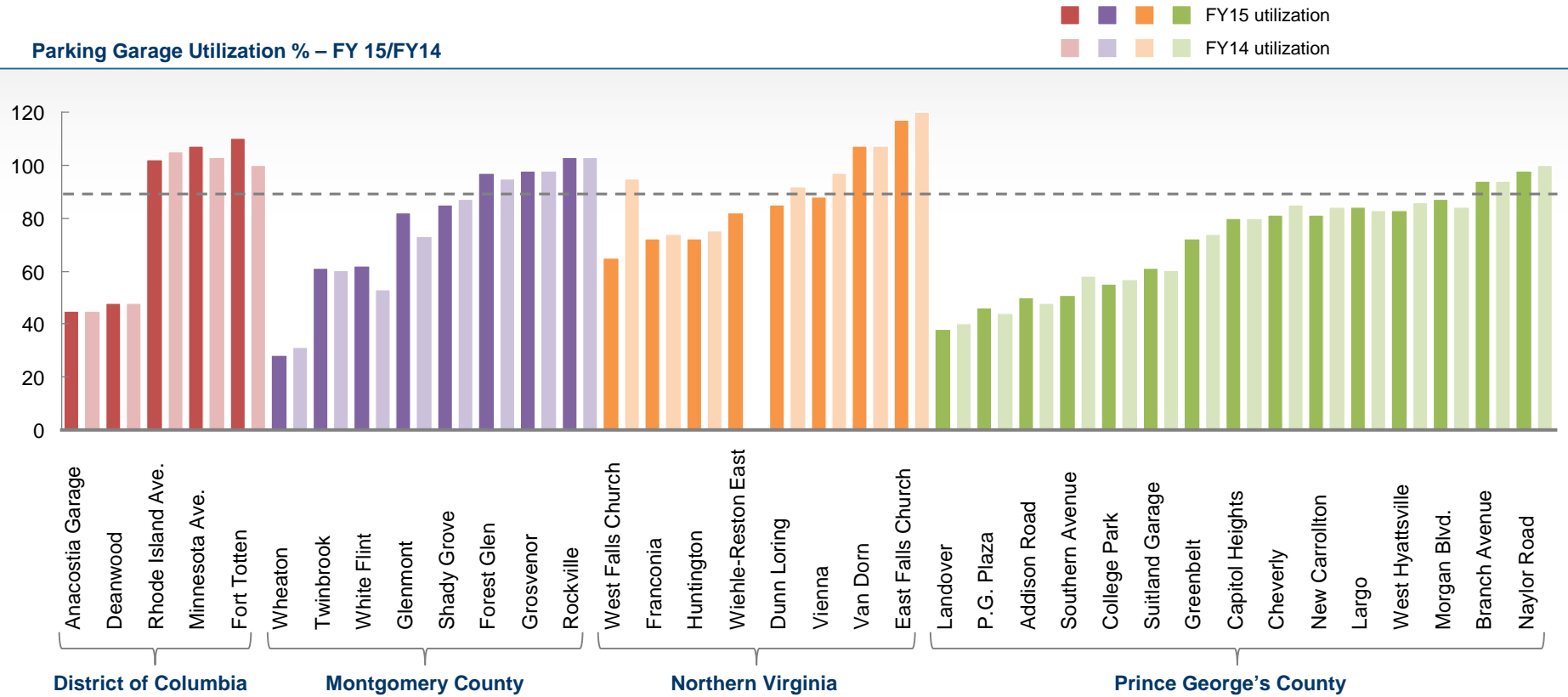
- Current technology for WMATA parking spaces is outdated coin operated machine technology which is problematic for users and has operating challenges for WMATA
- Upgrading parking space technology to modern multi-space solar powered meters will allow for customers to use credit cards and parking apps, while allowing WMATA to collect additional data on use and reduce interval for cash collection
- Consider revenue management / yield management tools to maximize revenue in peak and off peak times

## Discounts for Transit Riders

- In the majority of parking lots and garages, all users pay the same amount regardless of whether they are using the Metro
- Allowing for segmented pricing protects rates for Metro's customers but allows for additional revenue from non-transit users



# By optimizing parking rates, WMATA could see revenue increases of more than \$1 MM



- In FY15 parking rates increased by 10 cents (~2.2%) per day for all parking garages and 60 cents (13.3%) per day for the majority of Prince George's County parking garages
- Total utilization reduced by 1% across all garages with the majority (69%) of garages recording a reduction in utilization while 31% remained constant or increased
- Total revenue increased by \$1.0 MM in FY15, although all of this growth was related to the jurisdiction's surcharge revenue and so isn't shown in the WMATA base revenue
- 10 garages experience high utilization (>90%) suggesting that demand exceeds supply and not all demand is satisfied in all periods
- Optimizing the rate structure at those facilities that currently experience strong demand (e.g., >90%) could result in revenue increase of more than \$1.0 MM
- Reducing rates at underutilized parking structures could help drive ridership and therefore total revenue

# There is strong demand for parking assets by private sector operators

Recent transactions have transferred responsibility and risk for revenues and operations and provided upfront value to owners

## Precedent Transactions

Transaction	No. Spaces	Total Value (\$m)	Value per space (\$)
Chicago Garages	9,176	563	61,356
Chicago Meters	36,000	1,160	32,222
MBTA North Station Garage	1,275	50	39,216
Harrisburg Parking	9,119	215	23,577
InterPark Operating Leases	30,527	500	16,379
Ohio State University	35,000	483	13,800
InterPark Company	37,000	313	8,459
The Parking Spot	67,000	360	5,373
Indianapolis Parking	23,456	20	853

- Significant precedent of private sector entities assuming the risk and reward of parking via long term concession transactions
- Pricing is a key area of focus and drives valuation, but concession agreements typically define pricing policy and maximum rate escalation
- There have been high-profile transactions that have faced major criticism. For example, the Chicago Meters transaction faced a number of challenges which negatively affected peoples view. These included: immediate rate hike, broken meters, perception of undervaluation and use of funds
- One-time upfront cash benefit results in long term impact to ongoing revenue stream to the Authority

## Ohio State University Parking

- Ohio State University had pricing considerations similar to that of a transit agency. The cost of parking is one of many costs that customers evaluate when making decisions to consume a service
- The Concession Agreement caps annual rate increase that can be applied. 5.5% for the first 10 years and then greater of 4.0% and 5 year CPI
- OSU balanced their desire for upfront proceeds with the concern about parking becoming too expensive for staff and students. They could have allowed lower rate increases which would have reduced the upfront payment
- Monthly rates in 2015 range from \$9.10 per month to \$68.98 per month depending on the parking lot and type of access
- OSU received significant market interest which translated to a strong valuation

## Precedent Transactions

### Infrastructure Funds

QIC  
Alinda Capital  
Carlyle  
IFM  
Macquarie  
Ontario Teachers  
KKR

### Parking Operators

Laz Parking  
Interpark  
Standard Parking  
Parking Solutions  
Central Parking System  
Imperial Parking  
Ampco System Parking

# WMATA Parking Concession Valuation Summary

## WMATA can transfer responsibility and risk for revenues and operations to private sector developer and benefit from an upfront payment

- Various scenarios have been developed to estimate the potential value to WMATA of entering into a long term parking concession with a private developer
- Any upfront payment would be unencumbered and available to WMATA to use for both operating and capital costs

(USD 2016)

Low Range Scenario

High Range Scenario

Total Upfront Value of Concession to WMATA

\$270 MM / \$4,400 per space

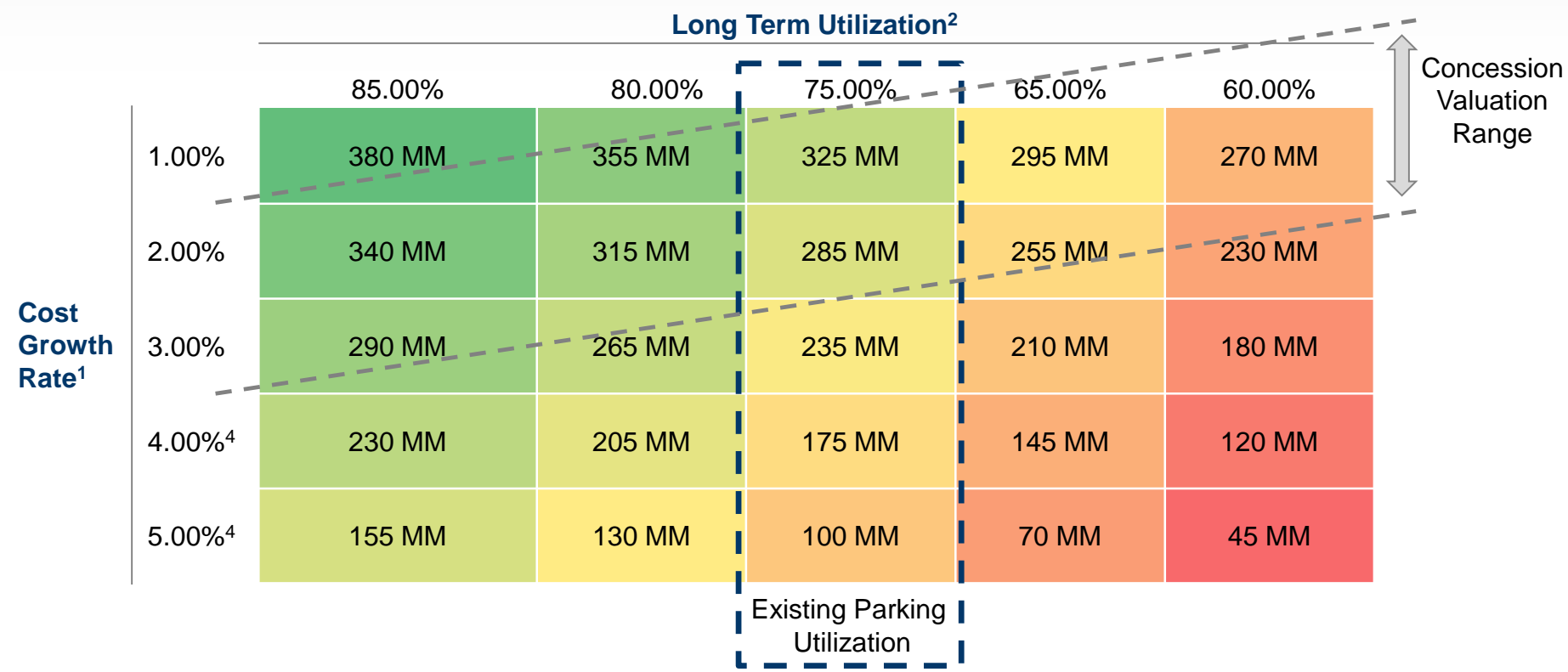
\$370 MM / \$6,000 per space

- Assumes a long term concession to operate and manage over 60,000 parking spaces across Montgomery and Prince George’s County, the District of Columbia and Northern Virginia
- The developer would be limited as part of the contract to be able to increase rates on an annual basis. For purposes of this analysis, annual increases have been capped at CPI (assumed to be 2% per annum)
- The private developer would be required to operate the facilities in accordance with pre-defined service and maintenance specifications. Failure to comply would lead to assessment of liquidated damages and potential termination of the contract
- Operating cost efficiencies of 10-20 % are assumed for all concession scenarios and upside scenarios assume private developer is able to generate 10 % in additional revenues beyond that which WMATA current achieves through supplemental services
- Existing County surcharges would not be transferred to the private developer, but would be retained and reserved for expansion of parking spaces. Additional capacity has not been included in this analysis
- Possible tax impacts of a concession on outstanding tax-exempt surcharge bonds not analyzed; tax counsel should be consulted
- Concession of WMATA parking assets should have no impact on outstanding general WMATA revenue public debt (per the WMATA 2009 Gross Revenue Bond Resolution, parking revenue is not pledged)

# Revenue and ridership risk can be meaningfully transferred to a private sector developer

The value to WMATA of continuing to own and operate its facilities varies dramatically depending on its ability to manage operating costs, generate demand and increase utilization rates

Present Value of 50 Year Net Operating Revenues to WMATA (2016 \$USD) 3

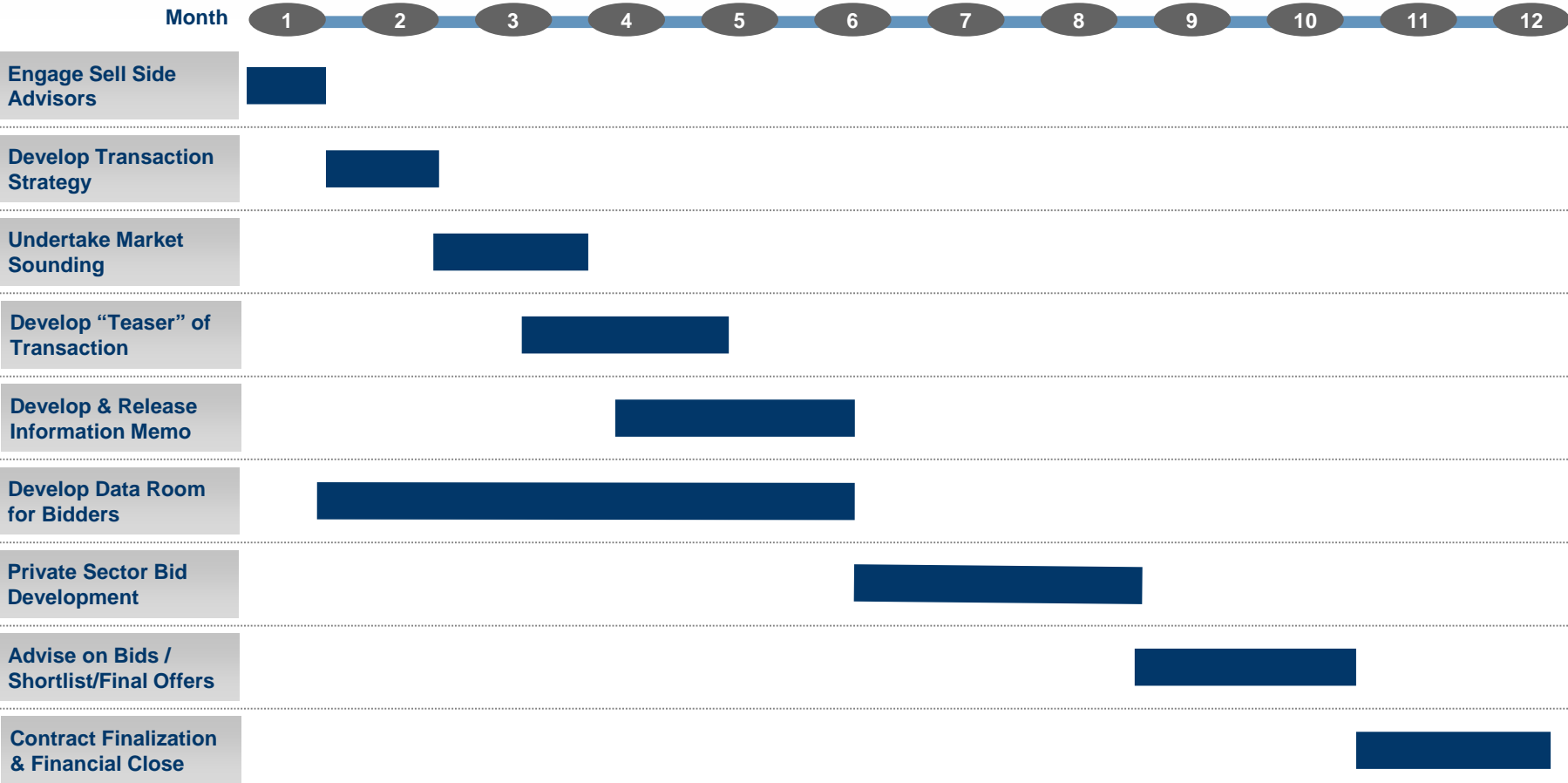


1 Assumes revenues grow at CPI of approximately 2 percent  
2 Where applicable, utilization grows or declines from its current level of 75 percent over a 5 year period to the relevant level  
3 Assumes a discount rate of 10 percent, which reflects the riskiness of projected net operating revenues  
4 Results in negative operating cash flow in out years, but positive value in present value terms

# Illustrative Timeline for Implementation

## Timeline

The chart below maps an illustrative timeline, containing key milestones and the expected timing of those milestones, based on the assumption of 6 – 12 month sale process from date at which advisors are engaged.



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# Executive summary

- WMATA is considering the potential sale of its headquarters at 600 5th Street, NW; to rationalize the sale and relocation, an options analysis was conducted
- Based on information from the WMATA Facilities Management team, WMATA is projected to incur over \$50 million of capital expenditures within the headquarters building in order to maintain its operations and comply with Life Safety and American Disabilities Act codes
- The following summarizes a preliminary analysis of potential sale scenarios and relocation options of which WMATA can take advantage in order to maximize sale proceeds and reduce extraordinary Capex exposures, including:
  - Sell JGB and relocate to an owned site
  - Sell JGB and relocate to a leased facility
- In the event that WMATA decides to sell and relocate they will have several potential strategies to evaluate; the following analysis also highlights the financial and operational considerations of the sale of JGB and relocation

## Current state – 600 5th St NW

- 600 5th Street, NW (JGB) is a 437,000 square foot office building that was constructed in 1974 and is considered Class C quality
- JGB is located in the East End submarket of Washington, DC, and neighbors the Verizon Center
- Over the past two decades, the East End has transformed into one of the more highly desired office, residential, retail, and tourism submarkets in Washington, DC
- WMATA estimates \$50 million in capital expenditures are needed at JGB to comply with Washington, DC building code requirements and fulfill other capital needs; should WMATA need to pull any construction permits for JGB, WMATA will be required to spend additional capital to retrofit a proportionate share of the building to code
- WMATA does not have any operational requirements for its administrative offices to be located within Washington, DC, and can relocate its headquarters to various locations that are within walking distance to Metro stations





# Hold or sell

WMATA has examined selling opportunities over the past 15 years; the recent economic development in Washington DC, particularly in the East End submarket and the resulting appreciation of real estate values presents an opportune time to exit the asset.

Prior to examining relocation alternatives, it is important to first examine the JGB-specific strategic options:

## 1) Hold

- The hold option entails WMATA retaining ownership of JGB to house its current headquarters' operations and employees
- WMATA will be required to incur in excess of \$50 million in capital expenditures, due to the deferred maintenance and lack of compliance with building codes
- Next Steps:
  - Because WMATA will not exit the facility, there will be no need to examine relocation opportunities; however, WMATA could consider other potential cost-savings and capex mitigation initiatives (i.e., third-party facility management, facility-specific procurement, facility energy savings, ongoing maintenance initiatives)

## 2) Sell

- WMATA could sell JGB and relocate its operations elsewhere
- WMATA could sell to a buyer in its as-is state or could maximize potential proceeds by rezoning the property
- Depending on the sale strategy, the estimated sale price of JGB is between \$82 million and \$105 million
- Next steps:
  - Begin Sale process
  - Explore relocation alternatives

## Sell scenarios

The sell scenarios outlined below highlight potential outcomes of two different market transactions

### 1) As-is sale

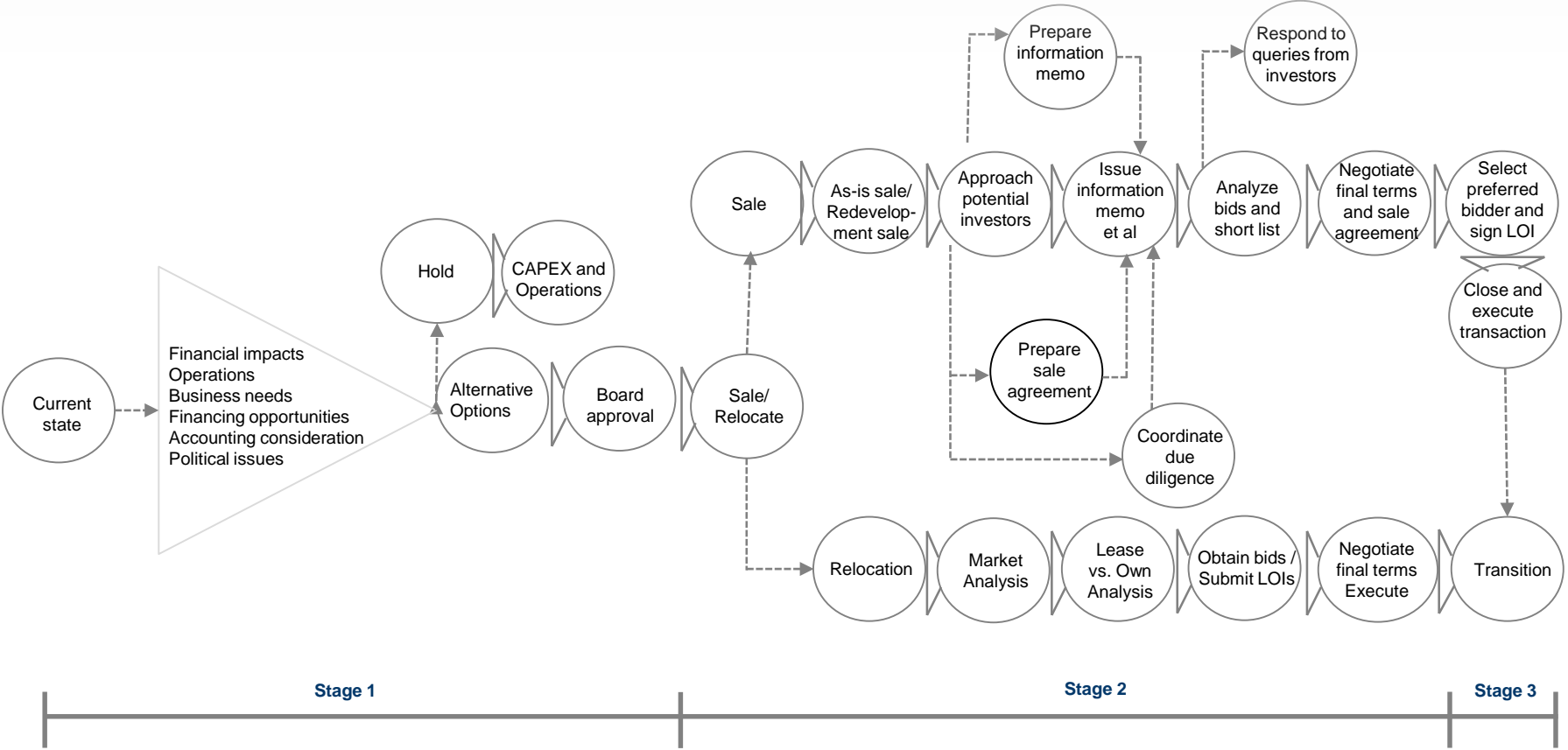
- An as-is sale assumes that a buyer would purchase JGB and either lease it back to WMATA, or lease it to prospective office tenants
- Income approach assumptions:
  - JGB is 437,644 gross square feet, which includes 330,430 rentable square feet plus additional parking square footage. For similar class C office space, the typical annual full service rents per square foot are \$42.00 for above grade office space and \$15.00 for basement space
  - The costs to retrofit the building will be \$50 million
- Based on these assumptions an as-is sales price could range between \$70 million and \$80 million

### 2) Land redevelopment sale

- A land redevelopment sale assumes that a buyer would purchase the site, demolish the existing building to develop a new class A office building, and lease it to prospective tenants
- Sales assumptions:
  - The property is located in an SP-2 zoning district, which allows for a maximum density of 6.00;
  - The 600 5th St NW site has a special exemption for the current building that allows a maximum density of 7.64; It is likely that the maximum density for a redevelopment to be between 6.00 and 7.64; however, higher density ratios for C-4 zoning could add an additional 20,000 to 120,000 buildable square feet to the property.
  - According to recent comparable sales, a buyer would pay approximately \$285 per buildable square foot
- Based on these assumptions a sales price for land redevelopment could range between \$82 million and \$105 million; a price in excess of this range could be achieved if WMATA is able to increase the zoning to C4 prior to sale

# Proposed approach

The following methodology maps out the typical approach for a sale and relocation



## Next steps

- Establish PMO governance to work in concert with the Board and stakeholders
- Design future strategy direction
- Due Diligence
  - Interview WMATA Board and other stakeholders to identify and analyze additional asset strategy considerations (e.g., financial impacts, operations, business needs, financial opportunities, accounting considerations, and political issues)
  - Obtain financial statements, budgets, and capital plans
  - Obtain a third-party appraisal/survey of land in order to validate acquisition pricing
  - Conduct objective market due diligence
    - Identify alternative sites in order to identify the most strategic and/or cost-effective location
    - Identify site selection protocols
      - Define strategic drivers, risks, and thresholds
      - Research market and submarket supply/demand and pricing
      - Analyze ownership interest scenarios
    - Develop cash flow analysis
    - Develop vendor selection criteria
- Review funding and financing alternatives and combinations
  - Sale proceeds
  - Tax Increment Financing
  - Operating cash flow
- Structure and Operations
  - Explore alternative structures that may be available for development (e.g., joint venture with developer, ground lease, monetization of development after delivery)
  - Explore cost-savings opportunities for future state of WMATA headquarters
    - Third-party facilities management
    - Facility energy management
    - Facility third-party spend

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# Preview: Third party services spend savings are typically captured through demand management, de-specing, and price reductions

## Demand management

- Reduce demand by instituting controls and policies that prevent unnecessary spend

## De-specing

- Remove unnecessary features that far exceed specifications through engineering changes

## Price reduction

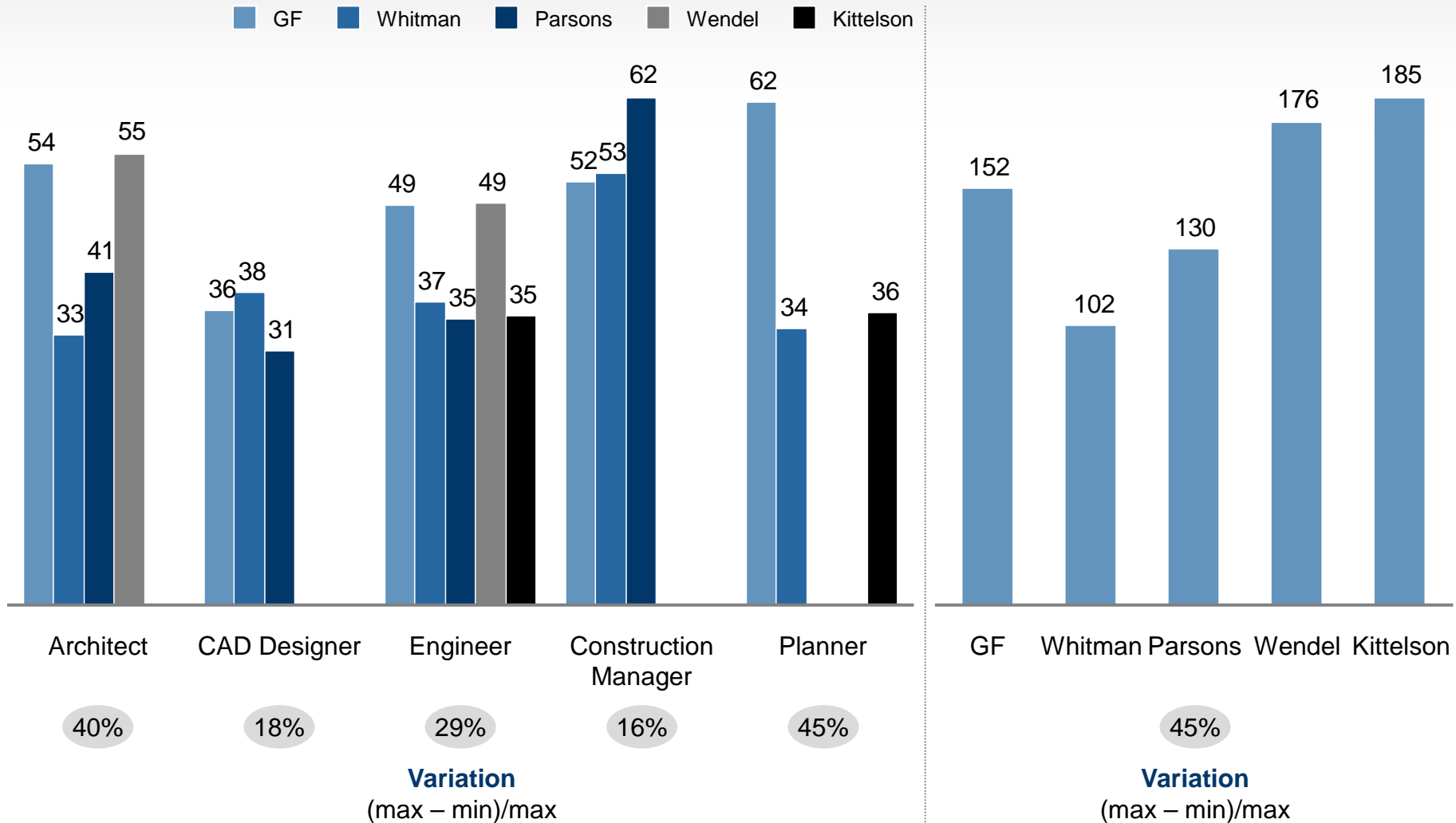
- Negotiate lower prices by bringing cost transparency through internal/external rate benchmarking and cleansheeting

- Identify heterogeneity in the hourly rate for the same job performed by different contractors
- Use the rate heterogeneity as a negotiating tool for specific work and change orders to put downward pressure on price
- This information is a tool and fact base for rate negotiations

# Preview: There is evidence of variance in WMATA's rate cards for third party engineering services in both hourly rate and overhead cost

Average cost per hour for third-party resources, \$/hour

Cost burden (overhead) for third-party engineering resources, %



# Next steps for workstream

## For this effort

- Analyze rate variance for all of WMATA's major third party engineering contracts
- Measure savings opportunities by analyzing specific work orders

## Next steps for WMATA

- Implement rate card analysis in negotiations
- Train procurement staff and project managers to use rate cards to reduce contract spend
- Develop cleansheets for the “should” cost as another negotiating tool



# Contents

- Recap
- Overall transformation roadmap
- Initiative deep dives
- **Change management architecture**

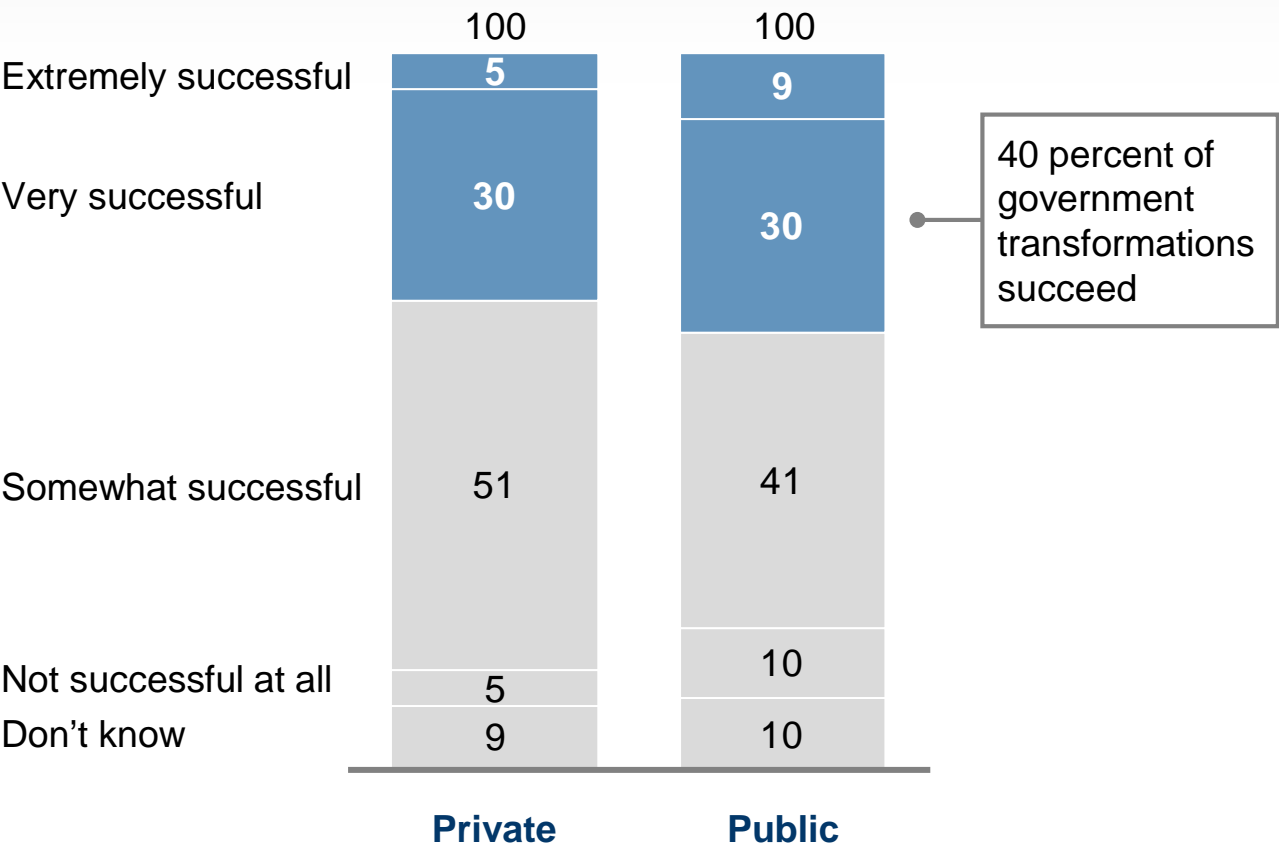
# Executive summary – Change management architecture

- **Change is not harder in public sector than in the private sector:** in a 2012 survey, 39% of public sector transformations were deemed successful vs. 35% for private sector
  - **Moreover, three recent cases illustrate successful government agency transformations** in crisis turnaround, adjusting to changing external demands, and moving from good to great
- **Driving transformational change typically requires sponsorship at the highest levels (ie by the GM) and a dedicated transformation office (TO)** led by a transformation/restructuring officer. The TO serves as a forum for the most talented change agents and centralizes accountability, transparency, and course correction
- **Successful transformations typically do 5 things and avoid 1 pitfall**
  - **Assign accountability:** give real responsibility to leaders and hold them accountable
  - **Communicate:** celebrate change stories through social media
  - **Empower employees:** enable front-line employees to design solutions immediately
  - **Form a talented team:** recruit the top talent to become part of the transformation team
  - **Identify influencers:** identify career leaders as formal and informal change agents
  - **Avoid over-emphasizing process:** focus on having the right conversations, guided by measurable outcomes
- **Our experienced suggest a typical transformation can take 1-3 years, depending on resources,** urgency of need, and chosen delivery model but requires a tightly observed workplan and control
- **There are several organizational support tools needed for this kind of ambitious transformation:** strategic planning, KPIs, target setting, forecasting, performance reviews, and key enablers (eg, leadership IT support)

# Achieving transformational change is hard, but it is not harder in the public sector than in the private sector

How successful was the transformation in reaching the targets your organization set?

Percent (Public=974, Private=4,572)



# Indeed several U.S. government organizations have achieved significant impact through successful transformations

NOT EXHAUSTIVE

Transformation type	Objective	Results	Agency
Crisis turnaround	Designing and implementing <b>new organization models</b> for an enforcement organization and <b>re-motivating staff after a crisis</b>	<ul style="list-style-type: none"><li>▪ Institutionalized approaches for <b>cross-functional collaboration</b></li><li>▪ Helped turn staff's <b>strong opposition</b> to the restructuring <b>into overwhelming approval</b></li><li>▪ "The <b>biggest turnaround I have seen</b> in more than 25 years in government"</li></ul>	<ul style="list-style-type: none"><li>▪ Natural resources agency</li></ul>
Adjusting to changing external demands	Developing <b>performance improvement levers</b> to meet <b>increasing demand</b>	<ul style="list-style-type: none"><li>▪ Achieved <b>55% productivity improvement</b></li><li>▪ <b>100%</b> of staff report that they are "<b>encouraged to come up with new and better ways of doing things</b>"</li><li>▪ "The biggest impact is that <b>this place just feels so different. It feels less stressful</b>"</li></ul>	<ul style="list-style-type: none"><li>▪ Social services agency</li></ul>
Moving from good to great	Developing a <b>professional nursing model</b> for attracting and retaining <b>high-quality nurses</b> while <b>improving quality of care</b> for patients in the armed forces	<ul style="list-style-type: none"><li>▪ Standardized <b>patient-centered care model</b> across hospitals</li><li>▪ <b>Increased quality of care</b> e.g. decreased patient fall rates and medical administration errors by &gt;60%</li><li>▪ Increased <b>various measures of nursing team engagement</b>, e.g. self-scheduling</li></ul>	<ul style="list-style-type: none"><li>▪ Armed forces nursing</li></ul>

# A transformation office is a centralized body to drive change across an ambitious multi year program

## Description of the Transformation Office



- **Distinct entity within the organization**  
(Independent, unbiased, challenging)



- **Clear focus on results**  
(Relentless, bias to action, transparent)



- **New culture of execution**  
(Celebration of successes, accountability for misses)



- **The Conductor**  
(One single source, clear roadmap)

## Role of the Transformation Office

- **Holds people accountable** on a weekly basis to delivering on the plan
- **Tracks value delivery** from idea status all of the way to “the bottom line”
- **Communicates progress** and **process** constantly to stakeholders
- **Ensures a clean sheet, best in class approach** to all activities (i.e., challenges thinking)
- **Works with leadership to ensure initiative pipeline is sufficiently filled** to deliver overall transformation target identifying areas for potential out-of-the box solutions

# The Transformation Office (TO) will be structured to track progress and ensure decisions are made in a timely manner

PRELIMINARY

Mandate	<ul style="list-style-type: none"><li>To track weekly progress, hold workstream sponsors and leads accountable, make tactical decisions, and remove roadblocks to further progress</li></ul>
Governance	<ul style="list-style-type: none"><li>Reports to Restructuring Committee, which is empowered to appoint / confirm members of the TO and request further information to hold TO accountable</li></ul>
Composition	<p><b>2-3+ from every workstream</b></p> <ul style="list-style-type: none"><li>Sponsor</li><li>Workstream lead</li><li>Relevant initiative owners (big initiatives, initiatives needing support / decisions)</li></ul>
Cadence	<ul style="list-style-type: none"><li>90-120 minute meeting every week (covering all workstreams)</li><li>All materials due day before meeting</li></ul>
Agenda	<p><b>Workstream update</b></p> <ul style="list-style-type: none"><li>Review numbers and progress</li><li>Discuss critical needs</li></ul> <p><b>Initiative by initiative review</b></p> <ul style="list-style-type: none"><li>Move initiatives through pipeline (ideation, validation, etc.)</li><li>Identify decisions / issues for escalation</li><li>Review last week deliverables / next week commitments</li></ul> <p><b>TO overview</b> (numbers, calendar, cross-workstream issues)</p>

Weekly transformation office meetings to begin immediately as workstreams kickoff

# Successful public sector transformations leverage five change actions and avoid one pitfall

## Good transformations ...

## In addition, great transformations ...



### Assign accountability

- Create a program management office to manage the transformation

- Give **real responsibility** to leaders and hold them accountable through meaningful **performance dialogues**



### Communicate

- Create a communication plan tailored to all stakeholders – internal and external to the organization
- Identify and actively engage skeptics

- **Ensure buy-in on all levels** and **celebrate success stories** regularly by
  - Developing and cascading effective **change stories**
  - Triggering **top-down & bottom-up communication**
  - Using **cutting-edge communication, Web 2.0 (e.g. blogs/social media) and videos** with key influencers in starring roles



### Empower employees

- Develop processes that increase employee autonomy in the long-term

- Foster **bottom-up innovation** by empowering front-line employees to **design, test, and refine solutions** now



### Form a talented team

- Dedicate staff to the effort by creating temporary assignments

- Work with leaders to **release the best talent** to become a part of the **transformation organization**
- Rewarding that talent via **accelerated career paths**



### Identify influencers

- Leverage career leaders as subject matter experts to identify opportunities and test potential solutions
- Involve and transfer responsibility to ultimate owners as early as possible

- Identify **formal** and **informal change agents** to drive change by using **social network mapping tools**
- Have leaders share **personalized commitment statements** with staff
- Build **sustainable capabilities** by engaging leaders to **teach new hires** about their roles
- **Partner** political appointees and career leaders

## Avoid over emphasizing process

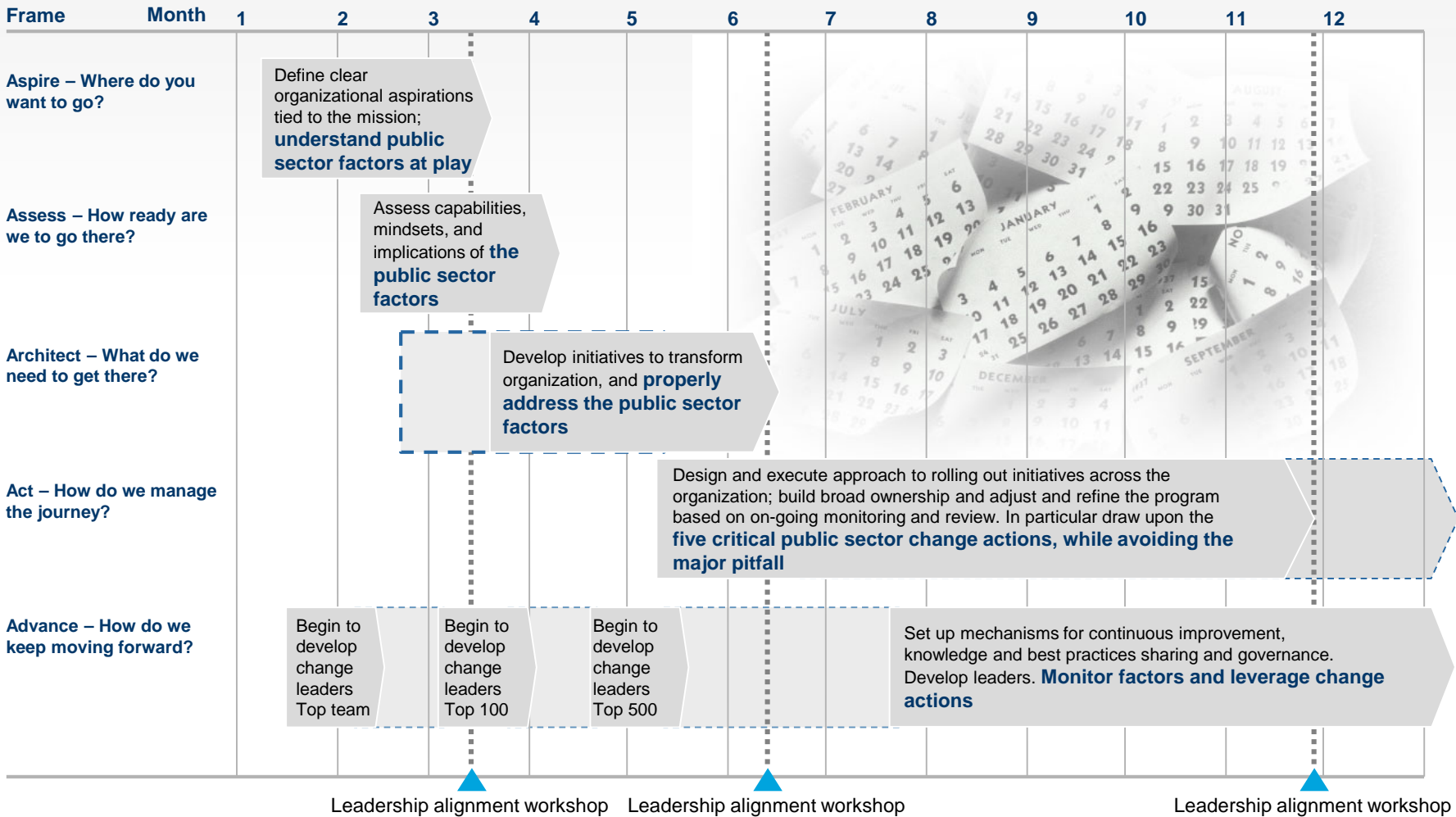
- Define clear, unambiguous metrics and milestones and create systems and processes to track success and impact rigorously

- Focus on **having the right conversations** to improve the transformation's impact, and discontinue meetings and structures that do not create measurable impact

# A typical transformation program can take from 12 months up to 2-3 years<sup>1</sup>

Objective

EXAMPLE



<sup>1</sup> Duration and resource need may vary significantly depending on type of transformation, specific company situation, and chosen company delivery model

<sup>2</sup> Usually takes from 3-6 months but could take up to 2-3 years depending on number of Business Units, functions, geographies, and employees covered



# Supporting the transformation requires putting in place 6 elements

## Communications to Board, politicians, Congress, the public

- Clear vision supported by set of strategic priorities that is responsive to customers and bought into by political stakeholders

- Leadership, mindsets, and behaviors
- Resources and capabilities
- Data and IT systems
- Integrated rhythm
- Consequences & rewards
- Change management

- Robust performance dialogue around business performance to plan with clear action plans

