“PROPOSED FISCAL YEAR 2011 BUDGET”

Testimony of

Richard Sarles, General Manager

Washington Metropolitan Area Transit Authority

Before the

Council of the District of Columbia

Committee on Public Works and Transportation

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Good afternoon, Chairman Graham, other members of the Committee on Public Works and Transportation, and staff. I am Richard Sarles, General Manager of the Washington Metropolitan Area Transit Authority, commonly known as WMATA or Metro. Thank you for the opportunity to testify today on Metro's proposed fiscal year 2011 budget. This budget is not final, and is scheduled for consideration by Metro's Board of Directors on April 22.

Metro's proposed fiscal year 2011 budget totals $2.1 billion. That total is composed of Metro's operating budget, which supports the daily delivery of transit service (including personnel costs, fuel and propulsion costs, etc.), and the capital budget, which funds investments in the vehicles, equipment, facilities, and infrastructure of the transit system. Sources of funding for those needs include the following: state and local funds of $896.9 million; federal funds of $398.6 million; passenger fares and parking revenues estimated at $759.6 million, and $41.5 million in other sources (such as advertising and fiber optic revenue).

OPERATING BUDGET

Metro’s proposed operating budget needs for fiscal year 2011 are valued at $1.4 billion. The operating budget is funded by $759.6 million in passenger fares and parking revenues; $574.2 million in state and local funds; $41.3 million in business revenues; and $40.0 million in other funds. The District’s share of Metro’s budget will be determined when the Board decides on the level of fare increase, service reductions, and the source of the additional subsidy. The Mayor has included $245,318,034 in his FY2011 budget to support Metro’s operating budget.

Fiscal year 2011 is likely the most difficult year, financially speaking, that Metro has ever had to face. The economic slowdown is having a continued impact on Metro, as it is on every part of our nation. For the transit industry as a whole, the economic slowdown has meant that ridership and revenue are down, while costs continue to go up.

For Metro, the austere economic times are a major contributor to the projected 8% decline in revenues from fiscal year 2010 to fiscal year 2011. Despite the encouraging ridership numbers that we have seen lately, for fiscal year 2010 ridership revenue has been 6% lower than expected for Metrorail and 10% lower than expected on Metrobus. Metrorail ridership for fiscal year 2011 is projected to be just 2% above the FY 2009 levels. On Metrobus, ridership growth over 2009 levels is only projected to be 1.5%. There are several reasons for these numbers, primarily the continued high unemployment in the metropolitan area combined with reduced spending by consumers. Riders are taking fewer long trips, which causes the average Metrorail fare to decrease. Lower Metrorail ridership has resulted in less revenue coming in from Metro parking facilities as well. Metro is also experiencing declining advertising revenue, declining revenue from pay phones, and less interest income due to the national economic conditions.

In fiscal year 2011, Metro's proposed budget would include growth in expenses of 3%, assuming full implementation of the cost-reducing measures described below. (Without such measures, Metro's expenses would increase by 8.5%). Major cost drivers include the rise in health care cost, market losses in pension values, the increasing demand for MetroAccess service, and the Red Line collision in June of 2009. Metro employee health care cost for fiscal year 2011 is projected to increase by 10%, which is in line with national trends for costs of health insurance. Contributions to employee pensions are projected to be $102.8 million, or 24.5% higher, due to the poor performance of the stock market. The cost to provide MetroAccess paratransit service is projected to increase by $17 million, and the cost of our liability insurance and claims will increase by $12.7 million in fiscal year 2011, primarily as a result of the Red Line collision.

Although expenses are increasing significantly in some areas, other costs are being held constant. Salaries are anticipated to increase by only 1%. Wages will increase by 3% in accordance with recent binding arbitration. Metro has managed to contain costs for fuel and electricity, supplies, and utilities through an innovative energy "swap" program, which locks in lower pricing for diesel fuel and electricity for months at a time. Over the last three years WMATA has cut its administrative budget substantially. We have reduced our administrative staff by either a Reduction-in-Force (132) or the abolishment of positions (519) by 651 positions.

The imbalance between projected revenues and expenses has created a $189 million gap in our fiscal year 2011 operating budget, if jurisdictional subsidies are held constant. In order to close that gap, Metro's proposed budget includes layoffs, fare increases, and service reductions, as follows:

- Fare Increase……………………………….$89.2 million
- Bus Service Reductions……………………$18.3 million
- Rail Service Reductions……………………$15.4 million
- Manage ADA Demand Growth…………….$10.0 million
- Departmental Reductions…………………. $16.3 million
- Additional Contributions……………………$40.0 million

Metro fare increases have been relatively small throughout Metro's history. Between 2004 and 2008 Metrorail peak boarding fare increased from $1.35 to $1.65 or 22.2%. In the proposed budget the peak rail boarding fee would increase to $1.90 or by 15%. For Metrobus between 2004 and 2008 the cash boarding fee increased from $1.25 to $1.35 or 8.0% . For the 2011 proposed budget, the bus boarding fee would increase to $1.60 or 19%.

Metro's Board of Directors authorized the staff to conduct public hearings around the region to receive comments on proposed adjustments to Metrorail, Metrobus and MetroAccess passenger fares, routes and hours of service, changes to MetroAccess policies, and other gap-closing measures. Metro held six public hearings from March 22, 2010 through April 1, 2010 at which 1,842 people either testified or provided written comments. We also received 3,633 completed on-line questionnaires. Overall, the message that we got from our riders around the region was: do not cut service; get a larger contribution from the federal government and the local governments; and raise fares if you have to.

CAPITAL BUDGET

Metro's proposed capital budget for fiscal year 2011 would cover approximately $718.3 million of needs, which does not include Reimbursable projects. Sources of funding for those capital needs include federal formula funds, federal dedicated funding dollars, local jurisdictional matching dollars for both the federal formula funds and federal dedicated funds, and additional local contributions.

Metro has more than $11 billion in capital needs over the next 10 years that should be funded to ensure a steady state of good repair, the safety and efficiency of Metro's operations, and improved customer experience. The Metro Matters funding agreement that governed our capital program over the last six years will expire at the end of fiscal year 2010, and we are presently negotiating a new funding agreement with our jurisdictional partners. When signed, this new agreement will allow Metro to maintain its credit rating, enter into multi-year contracts, and realize significant procurement savings because of the size of those contracts. Mayor Fenty has included $100,919,000 in his capital budget to support Metro's capital budget.

Key projects that are proposed to be funded in our FY2011 capital budget include initiating replacement of the 1000 series rail cars, the purchase of new buses, and rehabilitation of segments of the rail system. I want to note that the National Transportation Safety Board is expected to issue its final report on the June 22, 2009 Red Line collision shortly before or during fiscal year 2011, and that report may contain recommendations that will have a cost associated with their implementation. Metro is committed to responding to those recommendations and that response may affect our ability to undertake all of the projects that have been planned for FY2011, absent additional funding.

Thank you again for the opportunity to testify today. I would be happy to respond to any questions that the Committee may have.