

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 North Capitol Street, N.E.
Washington, D.C. 20002

RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO CONVENE A TECHNICAL PANEL TO PREPARE A METRORAIL SAFETY, RELIABILITY AND STATE OF GOOD REPAIR NEEDS AND REVENUE ASSESSMENT AND COORDINATE WITH WMATA ON DEVELOPMENT OF OPERATING BENCHMARKS AND PERFORMANCE METRICS

WHEREAS, the Metro rail system is the most significant regional transportation system and plays a critical role in meeting the National Capital Region's socio-economic and mobility needs and has served this need for the past 40 years; and

WHEREAS, a series of recent events including the January 12, 2015 L'Enfant Plaza smoke incident, subsequent smoke, fire and other disruptive events in 2015 and 2016 have undermined Metrorail's reliability and strongly reinforce the urgent need to restore the safety of the aging Metrorail system; and

WHEREAS, these recurring issues led to a 29 hour complete shutdown of the system in March of this year and the region is now faced with an extended period of safety-related repair and maintenance work activities called SafeTrack, which is anticipated to cause significant inconvenience and disruption of socio-economic activities in the region; and

WHEREAS, on March 30, 2016 COG in partnership with the Greater Washington Board of Trade held a summit of the regional elected and business leaders to discuss the importance of restoring Metro rail to a World Class System by addressing the safety and service reliability challenges the system is facing at present; and

WHEREAS, the region's leaders are unified in their desire to help the Washington Metropolitan Area Transit Authority address the safety and service reliability issues faced by its Metro rail system; and

WHEREAS, the current safety and service reliability issues of Metro are partly due to the funding constraints it faces; and

WHEREAS, on January 6, 2005, COG, the Greater Washington Board of Trade and the Federal City Council issued "The Report of the Metro Funding Panel", and

WHEREAS, the 2005 report examined and documented Metrorail operating and capital funding needs for 2005-2015, and evaluated a range of financing alternatives for providing funding to meet the needs; and

WHEREAS, the 2005 report concluded that insuring safety, reliability, and state of good repair for the Metrorail system requires stable and predictable funding; and

WHEREAS, in 2008, the United States Congress adopted the Passenger Rail Investment and Improvement Act (PRIIA) which established an annual, ten year dedicated federal appropriation of \$150 million annually, matched by \$50 million each from the District of Columbia, Maryland and Virginia, and such funding has helped address some of the capital cost needs to bring Metrorail into a state of good repair identified in the 2005 study; and

WHEREAS, the current state of safety and service concerns associated with Metrorail and the resultant disruptions to mobility and commerce in the region reaffirms the need to thoroughly explore and address to the best of the region's ability the funding and revenue needs of the Metrorail system;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS THAT:

- A. The Board authorizes the Executive Director to convene a Technical Panel of Chief Administrative Officers and Chief Financial Officers, who in partnership with the Washington Metropolitan Area Transit Authority Chief Financial Officer will:
 1. Document current funding projections for:
 - a. Operating the current Metrorail system in a safe and reliable manner;
 - b. Fully implementing the Metrorail system's replacement/rehabilitation program.
 2. Provide the Board with an interim report by October 12, 2016 or in a timely manner following release of WMATA's needs assessment; and
 3. Explore potential sources for any additional revenue the region may need to meet the above safety and reliability funding needs of the Metrorail system, and
 4. Resources to carry out the work of the Technical Panel shall be mainly provided by in-kind contributions, however, the Executive Director is authorized to allocate additional resources to support this initiative drawn from the existing FY 2016 and FY 2017 approved work program and budget.

- B. The COG Board further authorizes the Executive Director to coordinate with WMATA on development of operating benchmarks and performance metrics for the Metrorail system for review and input from the Technical Panel with the report issued to the Board.

I HEREBY CERTIFY THAT the foregoing resolution was adopted by the COG Board of Directors on June 8, 2016.

**Laura Ambrosio
COG Communications Specialist**

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 North Capitol Street, N.E.
Washington, D.C. 20002

**RESOLUTION ACCEPTING THE CHIEF ADMINISTRATIVE OFFICERS TECHNICAL PANEL ON METRO
INTERIM REPORT**

WHEREAS, the Metrorail system is the most significant regional transportation system and plays a critical role in meeting the National Capital Region's socio-economic and mobility needs and has served this need for the past 40 years; and

WHEREAS, the region's leaders are unified in their desire to help the Washington Metropolitan Area Transit Authority (WMATA) address the safety and service reliability issues faced by its Metrorail system that are partly due to funding constraints; and

WHEREAS, the current state of safety and service concerns associated with Metrorail and the resultant disruptions to mobility and commerce in the region reaffirms the need to thoroughly explore and address to the best of the region's ability the funding and revenue needs of the Metrorail system; and

WHEREAS, on June 8, 2016 the board adopted Resolution R39-2016 authorizing the Executive Director to convene a Technical Panel of Chief Administrative Officers and Chief Financial Officers to partner with WMATA to develop safety and reliability performance metrics for Metro, analyze operating and capital funding needs, and assess revenue options to meet operating and capital funding needs; and

WHEREAS, the panel also analyzed the economic value of Metro and its importance to the region.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE METROPOLITAN
WASHINGTON COUNCIL OF GOVERNMENTS THAT:**

1. The board accepts the Technical Panel's Interim Report and expresses its gratitude to its members for their support to date, and for continuing its work on this critical priority for the region.
2. The board directs the Executive Director and the Technical Panel to coordinate with the WMATA General Manager to complete its technical foundation work and provide a final report to the COG Board of Directors by the end of the first quarter of 2017, consistent with the focus areas in R39-2016, plus the addition of analysis of the economic value of Metro.

I HEREBY CERTIFY THAT the foregoing resolution was adopted by the COG Board of Directors on October 26, 2016.

Laura Ambrosio
COG Communications Specialist

COG TECHNICAL PANEL INTERIM REPORT ON METRO

October 2016



Metropolitan Washington
Council of Governments

COG TECHNICAL PANEL INTERIM REPORT ON METRO

Prepared by the COG Chief Administrative Officers Technical Panel on Metro, October 2016

ABOUT COG

The Metropolitan Washington Council of Governments (COG) is an independent, nonprofit association that brings area leaders together to address major regional issues in the District of Columbia, suburban Maryland, and Northern Virginia. COG's membership is comprised of 300 elected officials from 22 local governments, the Maryland and Virginia state legislatures, and U.S. Congress.

CREDITS

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Application of Financial Model by DC CFO Using Existing WMATA Operating and Capital Budget Data

The assumptions and results of the DC CFO analysis are provided below. The panel emphasizes the preliminary nature of the results, the significant sensitivity of the results to the major assumptions, and the expectation that a far more precise analysis will be prepared by early 2017 using Metro's FY 2018 operating budget and future estimates of operating costs and capital needs.

Key model input assumptions for 10 year needs assessment:

- Sources of data:
 - WMATA's FY 2017 adopted budget
 - Included inflation factors for projecting revenues and costs
 - Added additional amounts for continued Safe Track operations
 - Used WMATA's 6-year CIP as basis for capital needs
 - Added Metro 2025 CIP in addition to the baseline 6-year CIP
- Primary Revenue assumptions:
 - Federal funding (PRIIA) is reauthorized in FY 2020 and remains at current levels (\$150M annually)
 - Local jurisdictions continue to match federal funding at current levels
 - Existing jurisdictional contributions (local and state) rise 3 percent annually above FY 2017 levels
 - Assumes passenger revenues decline by approximately 10 percent in FY2017 to reflect decrease in ridership and remain flat until FY 2022 – then grow at 3 percent annually
- Primary Cost assumptions – Operating and Maintenance
 - Personnel, services, materials and supplies are grow at 3 percent annually compounded rate.
 - Continued annual Safe Track costs inflated 3 percent per year (\$100M base FY 2018)
 - Fuel, propulsion power and utilities are inflated at a 2 percent compounded annual rate.
 - Other Post-employment benefits (OPEB) contributions at recommended levels by WMATA CFO
- Primary Cost assumptions – Capital
 - 6 year CIP from WMATA's FY 2017 Proposed Budget – Effective July 1, 2016
 - Assumes complete Metro 2025 capital program (power supply and railcars for 8 car trains, core station improvements, new blue line connections, pocket tracks, maintenance facility, etc.)

Projected Operating Funding Gap: FY 2017-FY 2026

Estimated 10-year operating revenues: \$18.930 billion

Estimated 10-year operating funding needs: \$21.050 billion

Estimated total operating gap is approximately \$2.1B – over 10 years

Projected 10-year Capital Funding Gap: FY 2017-FY 2026

Estimated 10-year capital funding revenues: \$8.133 billion

Estimated 10-year capital funding needs: \$17.980 billion (complete Metro 2025 program; 18B scenario)

Estimated 10-year capital funding needs: \$11.734 billion (most of Metro 2025 deferred beyond 10 year period; \$12B scenario)

Estimated 10-year total capital gap is approximately \$9.846 billion for an \$18 billion CIP scenario (assumes complete Metro 2025 program)

Estimated 10-year total capital gap is approximately \$3.303 billion for an \$12 billion CIP scenario (assumes majority of Metro 2025 deferred)

The DC CFO concluded based on an assessment of Metro’s historical capacity to expend capital funds that the lower level of capital funding over 10 years of approximately \$12 billion is a realistic estimate of what Metro could actually execute for capital projects over 10 years.

Therefore, using the \$12B CIP scenario, which the DC CFO views as more realistic, the total combined 10-year operating and capital funding gap using all of the assumptions above would be:

Figure 2: Application of Financial Model by DC CFO

(\$ Millions)	
CIP Funding Gap	\$ 3,303.39
Operating and Maintenance Effort Budget Gap	2,119.16
Total	5,422.55
Annual Average	\$ 542.26

Source: DC CFO

Use of Debt Financing

Without debt financing, the DC CFO’s analysis results in an annual average funding gap of \$542 million. To mitigate the impact of this additional funding requirement, the DC CFO then applied an assumption of the use of bond funding to finance the capital funding gap. He notes that a reliable funding source, such as a dedicated tax or fee could be leveraged to achieve a reasonable borrowing cost. The reliable funding source would also be used to cover the additional annual operating costs.

Additional assumptions applied by the DC CFO for debt financing were an “A” credit rating or higher, 30-year financing term, and a 5 percent long-term borrowing cost, to debt finance the \$3.3 billion CIP funding gap. Use of long-term financing spreads the capital costs over the life expectancy of the capital assets as well as extends the repayment costs to the current and future beneficiaries of the projects.

Application of the above assumptions results in a 10-year total funding gap of \$2.9 billion or an average of \$290 million per year (operating average \$210 million plus debt service of \$80 million), thereby reducing the total average additional annual funding requirement from \$540 million to \$290 million, approximately a 54 percent reduction.

On October 12 the DC CFO Jeff DeWitt, presented the above analysis with estimates of Metro’s needs over the next 10 years to a joint meeting of the Mayor of the District of Columbia, the

Governor of Maryland, and the Governor of Virginia. It was characterized as a working draft assessment, to be revised once WMATA provides new updated operating and long-term capital cost needs. WMATA is scheduled to submit their operating and capital needs data by December 2016.

The panel again emphasizes its support for the DC CFO modeling tool, but notes it has not reached consensus on Metro's financial needs. The panel plans a detailed review of critical assumptions including fares, jurisdictional subsidies, operating costs, and operating efficiencies capital project assumptions, and other factors that will ultimately be considered to enable the panel to provide recommendations on how to meet Metro's long term financial needs.

NEXT STEPS

The WMATA General Manager is now presenting his proposed FY 2018 operating budget in October 2016. The capital needs inventory will be completed by year-end 2016, and will inform the FY 2018 budget and longer-term capital funding needs. Once WMATA's updated data is available, the DC CFO's funding model will be used to provide updated information including funding needs and financing alternatives.

By the end of the first quarter of 2017, the Technical Panel plans to complete its technical foundation work and provide the COG Board of Directors with its final report. The final report will include an update of the analysis of metrics and benchmarking, associated performance goals and targets, updated data on the economic value of Metro, and importance to the regional economic and tax base of a restored Metro system. The report will also provide the COG Board with its conclusions on funding needs, as well as revenue and financing options for regional consideration and action by policymakers.