

ITEM 9 –Information

June 21, 2017

WMATA State-of-Good-Repair Funding - Needs and Regional Strategy

Staff

Recommendation:

Adopt Resolution R26-2017 supporting WMATA’s Plan and the recommendations of the Metro Strategy Group as adopted by COG on June 14, 2017 (COG Resolutions R36-2017 and R37-2017)

Issues:

None

Background:

Following the briefing on the COG Metro Technical Panel’s Final Report in May, the Board will be briefed on WMATA’s “Keeping Metro Safe, Reliable, and Affordable” Plan and will be briefed on the recommendations of COG’s Metro Strategy Group. The Board will be asked to support the WMATA General Manager/CEO’s “Keeping Metro Safe, Reliable, and Affordable” Plan and endorse the COG Board Statement of Principles on Metro.



MEMORANDUM

TO: Transportation Planning Board
FROM: Kanti Srikanth, TPB Staff Director
SUBJECT: WMATA State of Good Repair Funding - Needs and Regional Strategy
DATE: June 15, 2017

The Transportation Planning Board (TPB) is aware of the challenges the Washington Metropolitan Area Transit Authority (WMATA) is facing in maintaining the regional metro rail system in a state of good repair, and has been engaged in understanding this challenge. On June 14, 2017, the Metropolitan Washington Council of Governments (COG) Board adopted Resolution R36-2017 and R37-2017 to support the WMATA General Manager's "Keeping Metro Safe, Reliable, and Affordable" Plan and to adopt a statement of principles on WMATA to guide their path forward throughout 2017. The TPB is being asked to consider TPB Resolution R26-2017 which will endorse both COG Resolution R36-2017 and R37-2017.

BACKGROUND

One of the Goals and Priorities the TPB has adopted in its Regional Transportation Priorities Plan is to ensure a state of good repair of the region's transportation infrastructure. The Constrained Long Range Plan and Transportation Improvements Program both assume that the existing and planned transportation infrastructure will be maintained in a state of good repair. However, the TPB is also aware that there currently is a gap between the funding needed to maintain the Metro rail system in a state of good repair and what funding is currently available.

The TPB has been engaged in understanding WMATA's challenges and working with the member jurisdictions of WMATA and this region through COG and WMATA. TPB staff have participated in COG's Chief Administrative Officers (CAOs) Metro Technical Panel to document the funding needs to operate the current Metrorail system in a safe and reliable manner and to explore potential sources of any additional revenue the region may need to meet the safety and reliability funding needs of the Metrorail system. In November 2016, the TPB was briefed on the Technical Panel's interim report. At the May 17, 2017 TPB meeting, the Board was briefed on the final report, which included information on Metro's 10 year operating and capital funding gaps, the economic value of Metro, suggested metrics and benchmarks for Metro, and assessment of options for a future dedicated source of funding.

On April 19, 2017 WMATA's General Manager/CEO released his "Keeping Metro Safe, Reliable, and Affordable" Plan that documents Metrorail's 10-year funding needs for maintaining the Metrorail system in a state of good repair which is consistent with the COG Metro Technical Panel's final report. On June 14, 2017, the COG Board adopted resolution R36-2017 (attached) supporting the WMATA General Manager/CEO's Keeping Metro Safe, Reliable, and Affordable Plan.

On April 26, 2017, the COG Board established a Metro Strategy Group. This group was charged to review the Metro Technical Panel's report and other information and to prepare policy recommendations, for regional actions, that support achievement of the region's goals for long-term sustainment of Metro as a critical regional transportation system. The Chairman of the TPB has been serving as member of the Metro Strategy Group along with other members of the TPB. The Metro Strategy Group developed a Statement of Principles on Metro to guide the path forward of its work. On June 14, 2017, the COG Board adopted this statement with Resolution R37-2017 (attached).

The TPB is being asked to consider TPB Resolution R26-2017 which will endorse both COG Resolution R36-2017 and R37-2017.

NATIONAL CAPITAL REGION TRANSPORTATION PLANNING BOARD
777 North Capitol Street, N.E.
Washington, D.C. 20002

**RESOLUTION SUPPORTING THE WMATA GENERAL MANAGER/CEO'S KEEPING METRO SAFE,
RELIABLE, AND AFFORDABLE PLAN AND ENDORSING COG BOARD OF DIRECTORS STATEMENT OF
PRINCIPLES ON METRO TO ASSIST WITH DEVELOPING A REGIONAL STRATEGY TO FACILITATE
ACHIEVEMENT OF THE REGION'S GOALS FOR METRO**

WHEREAS, the National Capital Region Transportation Planning Board (TPB), which is the metropolitan planning organization (MPO) for the Washington Region, has the responsibility under the provisions of the Fixing America's Surface Transportation (FAST) Act for developing and carrying out a continuing, cooperative and comprehensive transportation planning process for the Metropolitan Area; and

WHEREAS, the Federal Planning Regulations of the Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA) implementing the FAST Act, which became effective June 27, 2016, requires the TPB to develop a long range transportation plan (CLRP) and a Transportation Improvement Program (TIP); and

WHEREAS, the TPB's long range transportation plan CLRP contains the programs and projects that the region's transportation agencies have committed to fund, build and operate through 2040 and the TIP reflects the planned funding obligations for the projects and programs for a six-year period; and

WHEREAS, one of the Goals and Priorities the TPB has adopted is to ensure a state of good repair of the region's transportation infrastructure, and its CLRP and TIP assumes that the existing and planned transportation infrastructure will be maintained in a state of good repair; and

WHEREAS, the TPB is aware of the challenges the Washington Metropolitan Area Transit Authority (WMATA) is facing in maintaining the regional metro rail system in a state of good repair befitting a world class Metro rail system that this region has had and deserves; and

WHEREAS, the TPB is aware that there currently is a gap between the funding needed to maintain the Metro rail system in a state of good repair and what funding is currently available; and

WHEREAS, the TPB has been engaged in understanding this challenge and working with the member jurisdictions of WMATA and this region through the Metropolitan Washington Council of Governments (COG) and WMATA; and

WHEREAS, staff of the TPB have participated in the Metro Technical Panel convened by COG to document the funding needs to operate the current Metrorail system in a safe and reliable manner and explore potential sources of any additional revenue the region may need to meet the safety and reliability funding needs of the Metrorail system; and

WHEREAS, staff of the TPB was briefed on the Technical Panel's interim and final reports in November of 2016 and in May of 2017; and

WHEREAS, the Metro Technical Panel's final report documents information on Metro's 10 year operating and capital funding gaps, the economic value of Metro, suggested metrics and benchmarks for Metro, and assessment of options for a future dedicated source of funding; and

WHEREAS, on April 19, 2017 WMATA's General Manager/CEO released his Keeping Metro Safe, Reliable, and Affordable Plan that documents Metrorail's 10-year funding needs for maintaining the Metrorail system in a state of good repair which is consistent with the COG Metro Technical Panel's final report; and

WHEREAS, the COG Board on June 14, 2017 adopted resolution R36-2017 supporting the WMATA General Manager/CEO's "Keeping Metro Safe, Reliable, and Affordable" Plan; and

WHEREAS, the COG Board on April 26, 2017 established a Metro Strategy Group to review the Metro Technical Panel's report and other information and prepare policy recommendations, for regional actions, that support achievement of the region's goals for long-term sustainment of Metro as a critical regional transportation system; and

WHEREAS, the Chairman of the TPB has been serving as member of the Metro Strategy Group along with other members of the TPB; and

WHEREAS, the Metro Strategy Group has developed a Statement of Principles on Metro to guide the path forward of its work which the COG Board adopted as resolution R37-2017 at its June 14, 2017 meeting; and

WHEREAS, the TPB finds the WMATA GM/CEO's "Keeping Metro Safe, Reliable, and Affordable" Plan consistent with the COG Metro Technical Panel's work that the TPB has supported; and

WHEREAS, the TPB finds the Metro Strategy Group's Statement of Principals consistent with the TPB's goal and priority to ensure Metrorail's state of good repair and safe and reliable service and the TPB's call for fully funding Metro state of good repair needs as assumed in its long-range transportation plan; and

NOW, THEREFORE, BE IT RESOLVED THAT the National Capital Region Transportation Planning Board endorses COG's resolutions R36-2017 and R37-2017 (attached).

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET, NE
WASHINGTON, DC 20002**

RESOLUTION SUPPORTING THE WMATA GENERAL MANAGER/CEO'S *KEEPING METRO SAFE, RELIABLE, AND AFFORDABLE PLAN*

WHEREAS, the Metropolitan Washington Council of Governments (COG) is comprised of 24 jurisdictions of the National Capital Region's local governments and their governing officials, plus area members of the Maryland and Virginia legislatures and the U.S. Senate and House of Representatives, and COG provides a focus for action on issues of regional concern; and

WHEREAS, the COG Board of Directors has identified restoring Metro as its top priority reflecting the critical role Metro plays in the success of region's economy, transportation mobility, and overall quality of life; and

WHEREAS, the region's leaders are unified in their desire to support the Washington Metropolitan Area Transit Authority's (WMATA's) ongoing initiatives to achieve a safe, reliable, efficiently managed system, maintained in a state of good repair; and

WHEREAS, the *Keeping Metro Safe, Reliable, and Affordable Plan* ("Plan") released by the WMATA General Manager/CEO on April 19, 2017 provides a sound strategy for furthering the region's goals for a safe, reliable, and efficient system, building on the success of the *SafeTrack* program and the *Back2Good* initiative; and

WHEREAS, the board recognizes that achievement of the goals in the General Manager/CEO's Plan and the ultimate return of Metro to a world class transit system urgently requires identification of a long-term, sustainable funding solution and the board, supported by its Metro Strategy Group, is actively engaged in seeking regional consensus on funding solution.

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

The board supports the direction and spirit of the General Manager/CEO's *Keeping Metro Safe, Reliable, and Affordable Plan* as a constructive framework for improving Metro and looks forward to ongoing collaboration and coordination with WMATA to help achieve the region's vision for a fully restored, world class Metro system efficiently managed in a state of good repair.

I HEREBY CERTIFY THAT the foregoing resolution was adopted by the COG Board of Directors on June 14, 2017.

**Laura Ambrosio
COG Communications Specialist**

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET, NE
WASHINGTON, DC 20002**

RESOLUTION ADOPTING THE COG BOARD OF DIRECTORS STATEMENT OF PRINCIPLES ON METRO

WHEREAS, the Metropolitan Washington Council of Governments (COG) is comprised of 24 jurisdictions of the National Capital Region's local governments and their governing officials, plus area members of the Maryland and Virginia legislatures and the U.S. Senate and House of Representatives, and COG provides a focus for action on issues of regional concern; and

WHEREAS, the COG Board of Directors has identified restoring Metro as its top priority reflecting the critical role Metro plays in the success of region's economy, transportation mobility, and overall quality of life; and

WHEREAS, the board established a Metro Strategy Group to assist with developing a regional strategy to facilitate achievement of the region's goals for Metro of a fully restored, world class system that is safe, efficiently managed, and maintained in a state of good repair; and

WHEREAS, the Metro Strategy Group recommends the board adopt a series of principles to provide a focus for the regional actions needed to achieve these goals; and

WHEREAS, the recommended principles emphasize the urgent need for local and state governments, the business community and other stakeholders to take unified actions to ensure that funding solutions and associated supporting actions are in place by July, 2018; and

WHEREAS, the principles further emphasize the critical role of the federal government to support America's transit system.

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

The board adopts the following *Statement of Principles on Metro* to guide the path forward throughout 2017.

I HEREBY CERTIFY THAT the foregoing resolution was adopted by the COG Board of Directors on June 14, 2017.

**Laura Ambrosio
COG Communications Specialist**



**COG Board of Directors
Statement of Principles on Metro
June 14, 2017**

1. The region adopts the goal of a fully restored, world class Metro system that is safe, efficiently managed in a fiscally responsible manner, and maintained in a state of good repair.
2. Bridging the gap in WMATA's long-term capital needs is the funding priority.
3. The optimal way to address WMATA's capital funding gap for state of good repair and critical capital needs is through a dedicated funding source or sources that are earmarked to WMATA, fully bondable at the highest possible financial rating, and enhances WMATA's overall financial standing.
4. WMATA's operating and maintenance funding needs should be addressed through application of management best practices and reforms, as well as funds derived from increased ridership, before determining if there is a need for additional funding to fill any remaining gap in operating and maintenance funding needs.
5. Local and state contributions for capital subsidies, as well as operating and maintenance subsidies, should be predictable with an annual growth rate of not more than three percent.
6. The local jurisdictions, the states, the business community and additional stakeholders will collaborate to accomplish these goals by the start of WMATA's Fiscal Year 2019.
7. Enhancement and reform of WMATA's governance and operations may be accomplished through agreements, policies, and legislative actions that optimally would be accomplished without reopening the WMATA compact at this time.
8. We call on the federal government to recognize its fiscal responsibility to America's transit system and the federal workforce utilizing the Metrorail system.



Washington Metropolitan Area Transit Authority

Keeping Metro Safe, Reliable & Affordable

An Action Plan to Meet
Regional Transit Needs





Metro is critical to the region

Drives economic growth in the region



Increases property value near Metro stations (by 7-9%).



Provides easy access to jobs (54% of jobs are within 0.5 mile of a Metro station).

Improves quality of life and mobility of residents

Supports over 1 million trips every single day (~20% of mode share in the region).

Enables 2.3 million trips by transit dependents per year.



Moves employees of 277 federal agencies (~1/3 peak A.M. commuters).

Promotes environmental sustainability



Improves air quality by reducing auto use, avoiding emission of 260 tons of VOCs, 22 tons of particulate matter, and 500K tons of CO2.



Attracts new residents by making region affordable

Allows ~20% of rail and 53% of bus riders to live a car-free lifestyle.



Saves households a combined \$705 million in yearly time savings, irrespective of their Metro usage.



WMATA and region must address Metro's challenges over three horizons





Right the Ship (2016-2017)

- **Safety above service reinforced at all levels**
 - One day shutdown in March 2016
 - Launch of SafeTrack in June 2016
- **Service reliability and customer service**
 - 7000 Series railcars
 - 15 minute grace period on Metrorail
- **Fiscal management**
 - Accountability—“at will” employees—terminations
 - Revised ethics and nepotism policies
 - 800 position eliminated
 - Containing absenteeism, overtime, workers’ compensation
 - Timely Audits
 - Capital Program delivery





Back2Good (2017-2018)

BACK2GOOD

Update Published: June 8, 2017



RAILCARS

- **1000- and 4000-series gone six months ahead of schedule:** By the end of this month, all of Metro's oldest and least reliable railcars – the 1000- and 4000-series cars – will be off the tracks permanently
- **More new trains carrying passengers:** 43 new 7000-series trains in service at the end of May
 - 7000-series railcars perform 2x better than rest of the fleet
 - First regularly scheduled 7000-series train coming to the Silver Line in June



SERVICE RELIABILITY

- **MyTripTime shows lengthy delays are infrequent:** In May, 91% of all rail trips resulted in customers arriving within 5 minutes of schedule
- **Fewer unscheduled delays:** The number of unscheduled delays in the first 5 months of 2017 is down 23% compared with the same period in 2016
 - Delays caused by railcar problems down 41%
 - Delays caused by track problems down 3%

For more information on WMATA's plan for 2017, visit wmata.com/back2good



SAFETY

- **SafeTrack program to be completed on June 25:** Intensive maintenance effort renewing 1/3 of the system's track in just over one year
 - **Before SafeTrack:** 22% of all wooden ties in the system were defective
 - **Now:** just 2%
 - **Before SafeTrack:** nearly 350 temporary gauge rods needed to hold track in place
 - **Now:** just 19



STATION IMPROVEMENTS

- **New escalators going in:** With the completion of a major escalator project at Woodley Park Station, Metro has now replaced 75 escalators since 2011 and refurbished another 150 to like-new condition



FINANCIAL MANAGEMENT

- **Improved workforce accountability:** New management policies have resulted in 20% reduction in sick leave and leave without pay taken in April 2017, compared with previous year



Metro faces structural funding challenges

Chronic Capital Underinvestment

- Reliant on unpredictable year-to-year annual local, state and federal investments, with only one more year of committed capital funding.
- Substantial deferred capital backlog (\$25 billion unfunded needs).
- Historic focus on system expansion, rather than asset maintenance.
- Large maintenance costs associated with an aging transit system.
- Limited maintenance and rehabilitation opportunity due to “2-track” design and constrained work hours.
- One of the only major U.S. transit systems without dedicated funding.

Unsustainable Operating Model

- Structural operating funding deficit (\$290 million in FY2018).
- Labor-intensive operation – over 70% of operating budget funds personnel (wages & benefits).
- Substantial legacy commitments on wages, pension and health benefits.
- Operating costs rising at nearly 2Xs the rate of non-subsidy revenues.
- No “Rainy Day” or contingency fund.



Keeping Metro Safe, Reliable and Affordable: Capital

➤ To provide a safe and reliable system:

- Increase jurisdictional capital contributions with a 3% annual growth gap
- Invest **\$15.5 billion over the next ten years for critical capital projects**, increasing the average annual investment to \$1.5 billion
- **Establish a multi-year, stable revenue source generating \$500 million per year for a new Capital Trust Fund**
- Dedicate the Capital Trust Fund strictly to capital investment.
- Secure Congressional **reauthorization of federal capital investment (PRIIA) at least at the current level of \$1.5 billion over 10 years**

These recommendations do not require changes to the WMATA compact.



Keeping Metro Safe, Reliable and Affordable: Operating

- **To improve Metro's business model and address affordability:**
 - Cap current jurisdictional **operating subsidies at 3% annual growth**, achieved through aggressive cost containment
 - Preserve pension commitment to active employees and retirees, but provide a **defined contribution plan for new hires**
 - Support enhanced **flexibility to reduce costs** with innovative approaches and **competitive contracting** of targeted functions, where permitted
 - **Create a Rainy Day Fund** to incrementally provide 10% of the operating budget over 10 years
 - Congress should **amend the National Capital Area Interest Arbitration Standards Act** (the Wolf Act) to require an arbitration process that considers the financial condition of WMATA

These recommendations do not require changes to the WMATA compact.



Action Items

Metro cannot complete this transformation on its own – success in our safety, reliability, and financial responsibility depends on Board, regional, community and business, and federal support:

- ✓ Board, jurisdictions, business members build support for at least a \$500 million annual Capital Trust fund
- ✓ Jurisdictions establish a stable, multi-year revenue stream to support a \$500 million annual Capital Trust fund investment
- ✓ Congress reauthorizes the federal PRIIA investment at the current level of \$1.5 billion over ten years
- ✓ Congress amends the federal Wolf Act to ensure that arbitration considers Metro's financial conditions

Keeping Metro Safe, Reliable and Affordable

By WMATA GM/CEO Paul J. Wiedefeld, April 19, 2017

Introduction

Metro represents a \$40 billion asset and enterprise that has generated returns on regional and national investments through mobility, traffic congestion relief, improved air quality, and economic development. Now more than 40 years old, customers are feeling the effects of an aging system that is jeopardized by decades of deferred maintenance. Today, the system has a total of \$25 billion in unfunded capital needs. **With only one more year of committed capital funding, Metro needs \$15.5 billion over the next 10 years to remain safe and reliable.** Significantly, Metro is still one of the only major American transit systems without funding dedicated to preserve its assets, and to invest in safety and reliability.

Metro also has a unique business model for operating bus and rail services that flows from WMATA's charter and governance structure, which has become financially unsustainable with cost growth that far exceeds revenue. While rider fares and commercial sources, such as advertising, fund more than 45 percent of Metro's operating costs – one of the highest cost recovery rates in the country – Metro's operating expense is rising at nearly twice the rate of Metro's (fare and commercial) revenues.

Left unchecked, Metro's public subsidy requirement for day-to-day operations would grow from \$980 million to \$1.6 billion annually in 10 years – driven primarily by wage and benefit costs. Even if Metro were to regain tomorrow the 100,000 average daily riders lost over the last decade, its public subsidy need for day-to-day operations would still grow to \$1.5 billion in 10 years.

Without a change to this business model, the funding jurisdictions will have to continue to choose every year between substantially reducing service or finding \$12 billion more in public money for Metro's operations over the next 10 years.

Failure to act, and/or continued reliance on insufficient capital and unchecked operating expense growth, could result in cannibalization of capital funding to the detriment of system safety and reliability, erasing the gains Metro has made through SafeTrack and perpetuating the unreliable service riders have endured for too long. New railcar delivery would slow or end, necessary transfer station safety and passenger flow improvements would linger on the drawing board, the bus fleet would age in place, the nation's largest escalator fleet would fall back into disrepair, and customer satisfaction would remain in the 65-70 percent range or decline. Further, because Metro is a key component of the Capital's national security cordon, providing WMATA with the necessary resources to discharge this duty is imperative.

Not only would Metro safety and service be compromised, but inaction would worsen Metro's financial condition, as it becomes more unsustainable each year.

WMATA's unfunded liabilities would grow, and its deteriorating financial condition would impact the agency's credit rating, increase its debt profile and costs to borrow money, which is necessary to ensure proper cash flow. The \$1.0 billion unfunded pension liability would not be addressed and could grow, and the active employee health care costs and \$1.8 billion retiree and other post-employment benefits (OPEB) liability would continue to climb.

Rather than continue a yearly process of lurching from one funding exercise to another to keep Metro afloat, the region would be better served by establishing a new approach to funding that preserves Metro's value, delivers safe and reliable transit service, supports a world-class transit experience for residents and visitors to the nation's capital, and provides stability for Metro's valued customers and employees.

To that end, WMATA has completed a detailed analysis of the financial challenges it faces and practical requirements necessary to keep Metro safe, reliable and affordable. The analysis is focused on two priorities: dedicated capital funding to provide safe and reliable service, and changes to WMATA's business model to keep service affordable for riders and taxpayers.

This framework for WMATA seeks to inform the public and the urgent discussions underway among stakeholders about how to meet Metro's needs next year and beyond. While respecting that WMATA wages and benefits are established through collective bargaining, this analysis also sets forth certain principles intended to enable Metro to provide fair compensation to its current employees, while identifying management tools and other opportunities to achieve efficiencies.

Several significant requirements are contained here that address both capital and operating expenses, as well as financial management best practices, including:

- Grow Metro's capital program to \$1.5 billion average annual investment to fund safety and reliability with a dedicated revenue stream
- Reauthorize and fund federal capital investment (PRIIA) in safety and reliability at least at current level (\$1.5 billion over 10 years)
- Commit to a regional multi-year, stable revenue source to generate \$500 million per year for a Capital Trust Fund
- Provide a lock box feature to ensure the Fund is dedicated to capital investment
- Maintain the current level of jurisdictional capital funding with three percent annual growth cap
- Preserve pensions for active employees and retirees, but provide 401K-like plans for new hires
- Provide flexibility to reduce costs of day-to-day operations with tools including competitive contracting of targeted functions, where permitted (e.g. new services, operations and facilities, such as Silver Line Phase II)

- Amend the National Capital Area Interest Arbitration Standards Act (aka Wolf Act) to require arbitration process consideration of financial realities
- Create a Rainy Day Fund of to incrementally provide 10% of the operating budget over 10 years
- Cap jurisdictional contributions for operating at three percent annual growth

Metro's Capital Requirement

Capital investment is the lifeblood of transit systems, particularly (capital-intensive) rail properties, and is absolutely vital to maintaining the current system and new Silver Line extension in safe and reliable condition. For Metro, capital is necessary to pay for new and rebuilt railcars and buses, tracks, infrastructure, the power system required for 8-car trains, and much needed safety and passenger flow improvements in transfer and other high ridership stations.

While Metro has \$25 billion in total unfunded capital needs, WMATA will require \$15.5 billion of this amount over the next ten years for critical capital projects.

WMATA's Capital Funding Agreement and PRIIA authorization both expire next year, imperiling the current (annually appropriated) stream of capital for safety and reliability projects. WMATA's annual capital program is currently funded by:

- *Federal Formula Grants: \$300M*
- *Federal PRIIA: \$150M*
- *Regional match for PRIIA: \$150M*
- *Jurisdictions' commitment: \$210M*

To supplement the \$810 million in federal and jurisdictional capital funding, the Board and jurisdictions authorized borrowing \$291 million to be repaid by future jurisdictional annual contributions.

Even if this level of effort continues, the capital funding shortfall for Metro's safety and reliability requirements will be at least \$7 billion over 10 years. To maintain a safe and reliable bus and rail network, WMATA must ramp up to a \$1.5 billion average annual capital investment program.

To address this substantial need, levels of investment must be committed by both federal and regional stakeholders. To adequately fund Metro safety and reliability requirements, **PRIIA should be reauthorized and funded at least at the current level of effort (\$1.5 billion over 10 years).** And the region needs to establish a **new dedicated revenue stream and Capital Trust Fund to provide \$500 million annually, exclusively for capital projects.** This new revenue source would demonstrate sustained regional support for the Metro system and create a foundation for planning, contracting, and delivering critical safety and reliability projects. This

commitment will differ significantly from the current Capital Funding Agreement that governs jurisdictional capital contributions to WMATA only through FY2018.

The annual nature of year-to-year capital allocations from the funding jurisdictions limits the region's ability to efficiently and effectively leverage those dollars in the capital markets through bonding. The new Capital Trust Fund must be well-defined – it needs to be funded by a multi-year revenue source that contains a specific, dedicated revenue stream for WMATA. For Metro, “dedicated” refers to capital funding that is predictable, multi-year, has no expiration, and is not subject to annual appropriations.

This structure would separate WMATA's Capital Trust Fund for safety and reliability from the annual competition within governments for funding other state and municipal priorities. It also reduces borrowing costs, which benefits both WMATA and its funding partners, and enables the capital markets to provide WMATA with the best available ratings.

Additionally, the new Capital Trust Fund should be shielded from day-to-day operations to ensure this new funding goes to capital investments. Historically, WMATA has offset certain shortfalls in operating funding by shifting federal grant funding to pay for eligible maintenance costs, a practice the WMATA Board of Directors took a step towards reducing this year.

The new Capital Trust Fund must be permanently and structurally precluded from use as a de facto reserve for day-to-day operations of bus, rail, and paratransit.

Changing the Business Model

Today, operations are funded by fare-paying riders, commercial revenues, and support from taxpayers who benefit from transit service through traffic mitigation, development, jobs, and economic growth.

Operating expenses are rising at twice the rate of Metro fares and commercial revenues. **Left unchecked, operating cost growth will generate invoices to funding jurisdictions totaling \$1.1 billion next fiscal year.**

Operating costs include materials and energy, but by far the most significant cost drivers are wages and benefits for the people who operate and maintain rail and bus services – comprising more than 70 percent of total operating expenses. To curb operating cost growth, WMATA and its stakeholders need to take action in several areas, including:

Improving Efficiency

- Continue to eliminate inefficient business practices and outdated functions to drive accountability
- Improve productivity through strengthening management of absenteeism, overtime, and workers' compensation

- Increase ridership by providing more reliable service
- Open to competition those functions that Metro has the ability to outsource where efficiencies can be gained (e.g. new functions, operations and facilities, such as Silver Line Phase II)
- Develop new technologies (e.g. track inspection, fare collection, online customer care) and automation to improve productivity
- Timely right-size service to demand

Changing Policy

- Amend the National Capital Area Interest Arbitration Standards (aka Wolf) Act to mandate that arbitrators who preside over interest arbitrations render awards that are consistent with WMATA's financial condition and do not exceed the ability or willingness of the funding jurisdictions to pay, as Congress originally intended
- Cap annual increases in jurisdictional portion of operating and capital subsidies for the system (after including new bus facilities, Potomac Yard station and Silver Line Phase II) at three percent
- Avoid unfunded service expansion beyond currently approved levels
- Create and contribute to a "Rainy Day Fund" that incrementally provides 10% of the operating budget over 10 years

Stabilizing Workforce Costs

- Continue to fund OPEB Trust through efficiency savings
- Provide all new employees defined contribution (i.e. 401K) benefit plans
- Continue providing defined benefit pension plans to eligible active employees and protect legacy pensions to eligible current retirees
- Reduce reliance on overtime and prevent fatigue by staffing up key operating positions
- Invite WMATA Labor Unions to compete for new work, such as Silver Line Phase II

These tools and policy changes borrow from best practices nationally in capital investment and transit cost controls, including the practice of opening various functions and services to competitive bidding, where permitted. Such a process could invite proposals from both private companies and WMATA Labor Unions when possible. Further, these changes are responsive to the needs of funding jurisdictions to curb annual cost growth, and enable Metro to maintain a policy of fare increases not more frequently than every other year. Metro also needs to generate revenue from increased ridership, advertising, real estate and concessions by an annual average of 1.5 percent.

It is encouraging that the Metropolitan Washington Council of Governments (MWCOC) and others are considering funding and governance changes to WMATA's structure.

Those bodies are in a position to assess practices among funding jurisdictions for lessons learned by municipal and state governments with respect to managing public sector employees to determine if there are other policies that might benefit WMATA.

WMATA has and will continue to reach out to share cost and revenue assumptions in further detail with funding partners, WMATA's Board of Directors, former Department of Transportation Secretary Ray LaHood, MWCOG and the Jurisdiction CAOs/CFOs, and the region's business and community leaders, as well as employees and riders in the National Capital Region, to reach solutions that keep Metro safe, reliable and affordable.