ITEM 11 - Action
January 19, 2005

Acceptance of the
Final Report of the Regional Panel to Address Dedicated Funding for the Washington Metropolitan Area Transit Authority (WMATA)

Staff Recommendation: Adopt Resolution R13-2005 to accept the final report of the WMATA funding panel.

Issues: None

Background: In September 2004, a panel was established to address dedicated funding sources for WMATA. The panel was cosponsored by the Metropolitan Washington Council of Governments, the Greater Washington Board of Trade, and the Federal City Council. The Board will briefed by the panel chairman, Mr. Penner, on the conclusions and recommendations from the final report released on January 6. The full report is available for download form the COG web page at mwcog.org.

TPB R13-2005
January 19, 2005

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
NATIONAL CAPITAL REGION TRANSPORTATION PLANNING BOARD
777 North Capitol Street, N.E.
Washington, D.C. 20002

RESOLUTION ACCEPTING THE REPORT OF THE WMATA FUNDING PANNEL

WHEREAS, the National Capital Region Transportation Planning Board (TPB) has been designated by the Governors of Maryland and Virginia and the Mayor of the District of Columbia as the Metropolitan Planning Organization (MPO) for the Washington Metropolitan Area; and

WHEREAS, in February 2004 the TPB issued a report, *Time to Act*, concluding that substantial additional financial commitment at federal, state, regional, and local levels is necessary to meet the Washington Metropolitan Area Transit Authority's ("WMATA") capital funding needs, and

WHEREAS, a number of entities (including the U.S. Government Accountability Office, the Brookings Institution, and the Northern Virginia Transportation Authority) have documented the financial difficulties faced by the Washington Metropolitan Area Transit Authority ("WMATA"), and have suggested or called for an independent analysis of the need for and potential creation of one or more dedicated revenue sources for WMATA; and

WHEREAS, on September 8, 2004, the Metropolitan Washington Council of Governments ("COG"), joined by the Greater Washington Board of Trade and the Federal City Council authorized the creation of a "blue ribbon" panel to verify and quantify WMATA's current and future financial needs, to catalog and analyze potential alternative dedicated revenue sources for WMATA, and to make such findings, conclusions, and recommendations as the panel deems financially and legally workable and appropriate; and

WHEREAS, thirteen individuals, with extensive knowledge and experience in areas of transit, economics, public finance, and political science were named to the Panel on the Analysis of and Potential for Alternate dedicated Revenue Sources for WMATA ("Dedicated Revenue Panel' or "Panel") with a charge to review existing research and analyses, to develop its own research and investigation into the pros and cons of selected alternative dedicated revenue sources, and to report to the three sponsoring organizations on or about December 15, 2004; and

WHEREAS, the Panel was given independent professional staff to assist it in its responsibilities, in addition to the staffs of the three sponsoring organizations and WMATA, itself; and

WHEREAS, the Panel formally met seven times, and communicated substantially on a number of occasions, among itself, and with staff, and twice sought public comment, initially on the concepts of the questions presented by the sponsoring organizations, and ultimately, on the Panel's draft report, adopted on December 14, 2004; and

WHEREAS, the Panel's final report, issued on January 6, 2005, finds, concludes, and recommends that:

- Maryland, Virginia, and the District of Columbia mutually implement a regional dedicated revenue source sufficient to address the projected shortfall for WMATA capital maintenance and system enhancement; and
- The preferable regional dedicated revenue source option is a regional sales tax (if a sales tax is not mutually acceptable to the three jurisdictions, other studied and recommended options for consideration include a regional payroll tax or parallel increases in property taxes); and
- Farebox revenues should continue at the current operating ratio of 57 percent; and
- The federal government should participate significantly in addressing the shortfall for capital maintenance and system enhancement; and
- The federal, state, and local funding of Metro Access, or paratransit, should be addressed separately from this financing effort.

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

1. The Report of the Panel, and its analysis, findings, conclusions, and recommendations, are accepted with gratitude.

2. Participating TPB agencies and jurisdictions are encouraged to evaluate the report and its recommendations, and to consider making it part of their legislative packages for the 2005 sessions of the respective legislatures, either for action in 2005 or for appointment of legislative study commissions or other entities to examine and negotiate a mutual solution among the three compact jurisdictions.

3. The governors of Maryland and Virginia and the Mayor of the District of Columbia are encouraged to meet and explore the Panel's specific funding alternatives, to embrace a revenue source for all three jurisdictions, and to urge its consideration by their respective legislatures.

4. Congress and the Administration are requested to acknowledge the reliance of the federal workforce on WMATA and take such additional action as necessary to ensure adequate and reliable federal support for the system, consistent with the Panel's recommendation.

5. TPB members and staff should work with stakeholders to assist local, state and federal officials in understanding the nature of the WMATA funding requirements, the immediacy of the need, and the desirability of both a dedicated revenue source and adequate federal participation in ensuring appropriate levels of capital maintenance and system enhancement.

Report of the Metro Funding Panel

January 6, 2005

Sponsors: **Metropolitan Washington Council of Governments**
Federal City Council
Greater Washington Board of Trade

Panel Members:	**Rudolph G. Penner, Chairman** **Gus Bauman** **Thomas M. Downs** **James W. Dyke, Jr** **Nuria I. Fernandez** **J. Kenneth Klinge** **John E. Peterson** **Dale Susan Rosenthal** **Major F. Riddick, Jr** **Michael C. Rogers** **Pauline A. Schneider** **Matthew S. Watson** **James A. Wilding**
Federal Observers: **(Non-Voting)**	**Emil Frankel** **Tyler Duvall (alternate)** **Bill Womack**
Staff Director:	**Mortimer L. Downey**
Support:	**David Robertson (MWCOG)** **Ron Kirby (MWCOG)** **Lee Ruck (MWCOG)** **Robert Peck (GWBOT)** **Robert Grow (GWBOT)** **John Hill (FCC)** **Richard A. White (WMATA)** **Deborah S. Lipman (WMATA)** **Robert Puentes (Brookings Institution)**
Report Prepared by:	**PB Consult Inc.**

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Preface

January 6, 2005

David Robertson
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Metropolitan Washington Council of Governments
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Washington, DC 20002

Robert Peck
President
Greater Washington Board of Trade
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Washington, DC 20006

John Hill
Executive Vice President
Federal City Council
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Gentlemen:

I am pleased to transmit the Report of the Panel on the Analysis of and Potential for Alternate Dedicated Revenue Sources for WMATA, as reviewed and authorized by the Panel.

The Panel would like to thank the three sponsoring organizations for advancing the critical issue of dedicated funding for WMATA and their support for the Panel. In the three months since its creation, the Panel has formally met six times, and has communicated substantively a number of times informally. It has been well served by Mort Downey, its professional staff director, by representatives of the three sponsoring organizations, and by representatives of the Brookings Institution, GAO, Congress, the Department of Transportation, and WMATA itself.

Among the primary findings, conclusions, and recommendations of the Draft Report are:

- There is, and will continue to be, an expanding shortfall of revenues available to address both capital needs and operational subsidies of the Metrorail and Metrobus systems.
- Federal needs require the federal government to significantly participate in addressing these shortfalls, particularly for capital maintenance and system enhancement.

- The Compact jurisdictions of Maryland, Virginia, and the District of Columbia should mutually create and implement a single regional dedicated revenue source to address these shortfalls.
- The most viable dedicated revenue source that can be implemented on a regional basis is a sales tax.
- Federal and regional authorities should address alternate methods of funding MetroAccess, or paratransit, needs of the region.

These issues and many others are addressed in detail in the Panel's report and supporting documentation.

At its December 14 meeting endorsing the draft report, the Panel agreed to circulate the report for public comment through December 31. Comments were submitted to the Panel in writing and online through the COG web site, www.mwcog.org, and are summarized in an appendix to the report. The Panel will release the report and a summary of public comments at a press conference tentatively scheduled for January 6. The Panel also urged that the co-sponsoring organizations ---COG, the Greater Washington Board of Trade, and the Federal City Council --- advance the work of the Panel by aggressively advocating on behalf of the Panel's findings, conclusions and recommendations and take a lead role in building a coalition to support a dedicated revenue source for WMATA.

Members of the Panel are gratified for this opportunity to advance public discussion and consideration of a potential solution to the critical needs of Metropolitan Washington's most important regional resource. We stand behind the efforts of our sponsors to convince Washington area citizens and businesses, and the governments of Maryland, Virginia, and the District of Columbia, as well as Congress and the Executive Branch to create a dedicated funding source for WMATA.

Sincerely,

Rudolph G. Penner
Chairman
Panel on the Analysis of and Potential for
Alternate Dedicated Revenue Sources for WMATA

Introduction

After a quarter century, Metro is succeeding beyond expectations in ridership, has become an integral part of the region, and yet is literally falling apart. The idea was visionary, but its successful execution has been hampered by an outmoded funding arrangement. To review this issue, the Panel on Metro Funding (Panel) was formed in September 2004 by the Metropolitan Washington Council of Governments (COG), the Greater Washington Board of Trade (BOT) and the Federal City Council to examine dedicated funding for the Washington Metropolitan Area Transit Authority (WMATA or Metro). It operates under a charter from the Board of Directors of COG with a mission to research funding options for the region's major public transit operator and report to its sponsors and to the elected officials of the District of Columbia, Maryland and Virginia.[1] This report is intended to fulfill the Panel's responsibility to review underlying financial and legal assumptions, catalog and analyze potential dedicated revenue sources, and provide findings and recommendations on their legal and financial feasibility.

This effort was undertaken in response to the substantial ongoing operating and capital funding shortfalls experienced by WMATA as it operates, maintains, renews and expands the region's major public transportation assets, including the Metrorail and Metrobus systems. The Panel's 13 voting members and 2 federal observers who did not participate in the Panel's votes provide expertise in economics, political science, public finance and regional transit.[2] The Panel's work included review of already published studies[3], collection of data from WMATA and preparation of specific analyses by the Panel staff. Particular focus was put on the comparison of WMATA's financial structure with those of comparable transit agencies around the country. Much of this work is reflected in this report, including copies of key material provided for the Panel. The Panel held six public meetings between October and December 2004, including one with opportunity for public comment. The report also was circulated before publication to allow further stakeholder comment.[4]

The Panel concludes that WMATA's transportation services play a vital role in the economic and social life of the Washington region. In addition to its important role in carrying federal employees to and from work, it is a key component of the region's emergency response system. Continued success in this role is at material risk by failure to invest adequately in the system's capital needs and to provide funding for critical operating requirements with a resulting decline in the system's condition and unacceptable levels of performance. WMATA's current financing mechanism, focused on annual commitments by participating jurisdictions for funding needs, is a factor in such decline. Projecting forward with reasonable assumptions as to fare increases and subsidy growth, there is a shortfall totaling $2.4 billion over the next ten years, mainly in

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[1] See Appendix A for the Panel charter.
[2] See Appendix B for the biographies of Panel members.
[3] See Appendix C for a list of prior studies.
[4] See Appendix D for a summary of public comments received at the meeting and submitted before publication.

funds for necessary capital investment. Timely action on the recommendations in this report is critical. WMATA has in place interim capital revenues that will cover their needs for the next year or two. They have proposed a balanced operating budget for the next fiscal year. The funding gaps they face will grow rapidly after 2007. The region needs to use this window of relative stability to assure that WMATA has the long term funding it needs for the rest of the decade so that necessary investments can be planned and financed to maintain a quality service.

Accordingly, the Panel recommends that elected officials in the region take immediate steps to provide a significant degree of dedicated funding for Metro on a regional basis. Such dedicated funding will allow a greater degree of advance planning for system needs and support the management actions needed to turn these plans into reality. While maintenance of current local, state and federal effort will be needed, new sources of dedicated funding will assure that the system can continue to maintain a state of good repair while meeting growing demand for its services. In addition, the Panel recommends that the federal government play a greater continuing role in the support of Metro, given the significant contribution of Metro transportation services to the effective functioning of the government as well as the substantial environmental, economic and social benefits Metro service creates for the National Capital Region.

Key Findings, Recommendations and Conclusions

The Panel finds that the development of Metro and implementation of its rail and bus services have had positive measurable effects the Washington Metropolitan Region—development, economic growth and environmental enhancement. A variety of benefits are enjoyed by all those have helped pay WMATA's costs over the years, including the federal, state and local governments, regional businesses and the region's citizens. All those beneficiaries have shared in the development and operation of the system, with those costs divided fairly equally among the federal government, the riders and the state and local jurisdictions (see chart on page 36). Sustaining this progress will be important to the region's future.

Commitments of new resources will be required if this progress is to continue. The Panel finds that, even with reasonable assumptions about maintenance of effort by the federal, state and local governments, and a continued level of farebox support that exceeds that in most metropolitan areas, WMATA's finances are insufficient to insure continued effective Metrorail and Metrobus service. Particularly disturbing is the lack of sufficient capital funding to sustain the existing system and support an enhancement of services to meet growing demand. There is also a need for additional operating support, dependent in part on the level to which the region maintains the subsidy formulas now in place.

In addition to needs of an expanding Metro system, the Panel concludes that the expenses for MetroAccess the door-to-door transportation service operated by WMATA for the benefit of the region's disabled population are a significant and rapidly growing portion of the projected gap in Metro's operating results. The Panel finds that MetroAccess is an essential service to its users, but that the needs of this service should be met from other than transportation system revenues. It has therefore not included these needs in its consideration for uses of dedicated revenue, but views the projected \$1.1 billion project shortfall in MetroAccess funding through 2015 as an urgent matter that requires the attention of the federal government, WMATA and the entire region. To include the MetroAccess subsidy as part of the gap to be met from WMATA resources would unduly burden riders of the core system with this added expense.

Compounding the need for resources is the fact that very little of the WMATA budget has any level of year-to-year assurance. Most regional transportation agencies around the country derive a significant level of their support from regionally dedicated revenue sources. As shown in Appendix G, 22 of the nation's largest transit systems have a greater degree of dedicated tax revenue than does Metro. Western cities such as Los Angeles, Houston or Seattle derive more than half their budget in that way. Comparable Eastern cities such as New York, Boston, and Chicago have tax support in the 20% to 30% range. The Panel finds that WMATA would benefit significantly from similar treatment.

The mix of sources and shares for future WMATA support has been and will continue to be the subject of discussion by elected officials and the public in the region, but the time for definitive action is now. Present operating and capital arrangements have created a short period of stability, but more permanent arrangements should be put in place soon if Metro is to avoid a downward spiral in its condition and performance. Transit systems that have entered into such a spiral find it difficult and expensive to recover. The failure to act promptly would have severe consequences on the region's economy and security.

The many parties who benefit from the existence of quality Metro service should share in those costs. The Panel identifies a number of revenue measures which could meet these needs. It finds that the federal government, whose workforce is the mainstay of Metro ridership, is the largest single beneficiary of this service and should continue to share in the costs of the system. State and local governments and riders (both residents and visitors) will contribute to meeting the system's needs, but the Panel finds the need for some dedicated revenues to assure that the projected WMATA gaps are closed, whether through new taxes or dedication of existing ones.

In light of the regional nature of Metro service and wide distribution of benefits received from that service, the Panel believes that revenue measures would most appropriately be enacted at a regional level rather than allocated among the jurisdictions.

Ultimate consideration of these revenue measures is the province of federal, state and local elected officials, and successful execution of a plan in the interests of the region will fall to the WMATA Board. The Panel notes that similar efforts around the country have succeeded, especially when there is clarity as to what will be accomplished and a rational basis of management accountability to the public for service and results. The passage of referenda to fund transportation improvements in areas as diverse as Phoenix, Denver, San Diego or Austin, as well as the overwhelming support for Metro bond financing in Arlington and Fairfax shows the degree of voter support when tangible results are offered. (See Appendix L). The Panel also notes the concerns that have been raised in recent months about WMATA's management culture and effectiveness, as is aware of steps management is taking to achieve a higher standard of results. These steps are timely and necessary. Progress in this regard will be critical in achieving public acceptance of the need for new revenues.

Based on these findings, the Panel concludes and recommends as follows:

1. **The Compact jurisdictions of Maryland, Virginia, and the District of Columbia should mutually select, authorize, and implement a regional dedicated revenue source sufficient to address the projected shortfall for capital maintenance and system enhancement** necessary to service the public transit needs of those persons living in, working in, and visiting the area of the WMATA Compact. This regional dedicated revenue source would be significantly less if the federal government participates in proportion to the benefit it receives.

2. **The most desirable, workable, and acceptable dedicated revenue source that the compact jurisdictions can utilize, particularly since it captures funds not only from regional residents but from visitors to the area, is an increase of the sales taxes applicable to the area covered by the compact.** The Panel recommends that a sales tax increase of 0.50% (½ of one percent) applicable to goods and services sold within the Compact area would be sufficient to meet the projected shortfall. This amount would be reduced to as little as 0.25% (¼ of one percent) if the federal government participates as strongly as the Panel believes it should. Jurisdictions would have the option of reducing their current sales tax level so as not to generate a net tax increase if their fiscal circumstances permitted. There is also the option of enacting a higher level of tax to substitute for increased local contributions necessary under the current allocation formulas. The Panel offers that option as one which local elected officials might consider. Localities are also urged to take whatever actions they deem appropriate to reduce the impact of such increases on those less able to pay. In this regard, the Panel notes that the provision of good transit service is a policy with strong positive outcomes for lower income and other transit dependent residents.

3. **Fare increases should be implemented in a way that maintains the current farebox operating ratio averaging 57%,** while taking into account the need to maintain healthy ridership levels.

4 **The federal government should participate significantly in addressing the projected shortfall for capital maintenance and system enhancement,** since Metro service is a critical service for effective federal operations. A significant portion of the federal workforce uses the service to and from work at locations convenient to Metro stations. Metro is a critical component of the homeland security response system for our nation’s capital, as well as a service to the capital’s many visitors. For purposes of financial projections and analyses, the Panel identified a federal participation level of up to fifty percent of the projected shortfall, subject to future negotiations as to appropriate shares and sources.

5. **If the Compact jurisdictions conclude that a regional sales tax is not the most financially and politically viable dedicated revenue source, the Panel recommends that the compact jurisdictions mutually select, authorize, and implement a regional payroll tax, mutual and equivalent increases in ad valorem property taxes, or a**

special real property assessment based upon accessibility to mass transit in sufficient amount, together with federal contributions, to meet the WMATA shortfall.

6. **With respect to MetroAccess, the Panel recommends a concerted effort, perhaps involving the formation of a new panel with expertise on this issue to focus on existing federal, state and local social service funding.** The Panel agrees with the importance of this service but not with the premise that its financing is solely a WMATA burden The Panel views this as a societal expense that should be borne through social service funding rather than as a transportation cost.