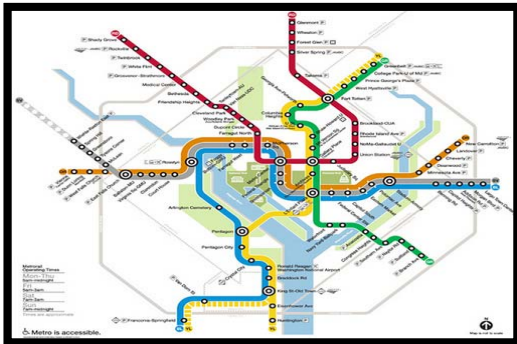




Metropolitan Washington
Council of Governments



WMATA's Funding Needs

The Magnitude and the Effect

Updated to Reflect WMATA's Proposed FY 2018 Budget

Presentation to the COG Board

April 26, 2017



Overview

- Development of a reasonable basis to estimate the total WMATA funding gap
 - ✓ *Realistic State of Good Repairs (SGR) capital needs*
 - ✓ *Operating and maintenance gap*
- The models initially developed for this analysis have been updated based on WMATA's Proposed FY 2018 operating and capital budgets
- Potential impact of the Capital Needs Inventory (CNI) versus the CIP
- Need for additional contributions to fill the gap, and the impact on jurisdictions
- Determine the needed level of a dedicated funding source



Assumptions to Address the Funding Gap

Data

- Created “out-year” funding based on WMATA’s FY 2018 proposed budget for expenses.
- Used WMATA’s 6-year CIP (FY 2018-FY 2023) as basis for capital needs analysis.
- Developed key forecasting assumptions (inflation, growth, etc.).
- Included Loudoun County and Metropolitan Washington Airports Authority (MWAA) impacts (beginning in FY 2020).

Funding Assumptions

- Federal PRIIA contributions will continue at present levels through FY 2026
- Jurisdictional contribution changes:
 - ✓ *Operating and Maintenance - 3% annual increases using FY 2018 as the base*
 - ✓ *Capital – Assumes we will meet the FY 2018 WMATA need, and then beginning in FY 2019 applied a 3% annual increase - using FY 2017 as the base year*
- Assumes dedicated funding source (beginning in January of 2019), escalated at 3% per year

Analysis

- Determine operating and maintenance gap
- Determine capital gap
- Determine impact of a dedicated regional tax to fund shortfall



Key Assumptions – Operating and Maintenance

Operating and Maintenance Budget

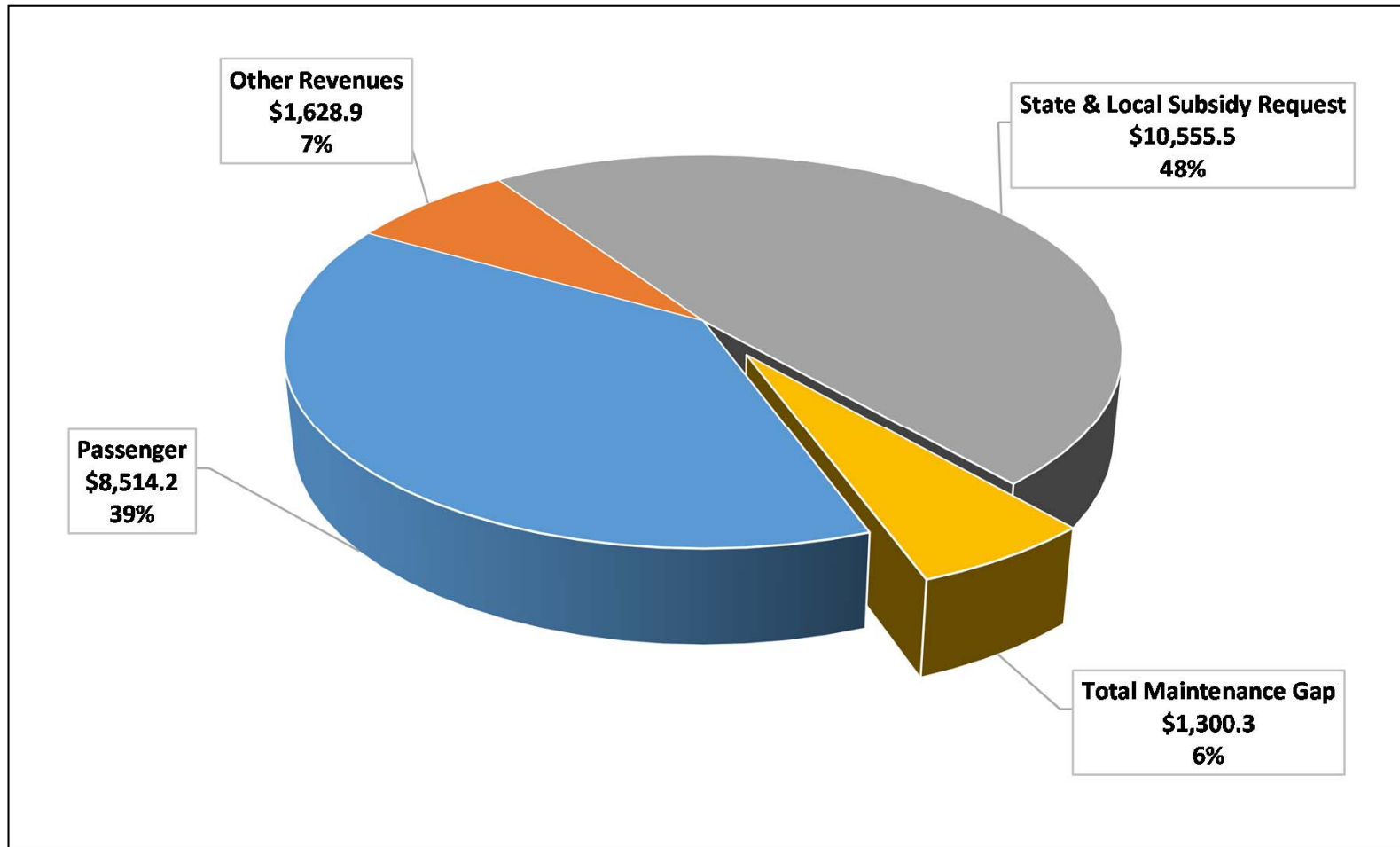
- Required State of Good Repair maintenance (Safe-Track) is built into the WMATA proposed budgets.
- Assumed WMATA’s FY 2018-2020 operating budget, then escalated after that at 3% annually.
- Passenger revenues track WMATA estimates through FY 2020, and then are escalated at 3% annually to reflect either ridership and/or fee increases, beginning in FY 2021.
- Assumes Jurisdictions will contribute to meet the FY 2018 need.
- Assumes State and local operating subsidies grow at a 3% annually compounded rate (FY 2018 as the base year). Personnel, services, materials and supplies are inflated at a 3% compounded annual rate.
- Fuel, propulsion power and utilities are inflated at a 2% annual compounded rate.
- Reflects additional operating expenses of Silver Line coming online in FY 2020.
- OPEB contributions are increased per the FY 2017 assessment recommendation – starting in FY 2019.
- Funding gap does not reflect any potential impacts of a new collective bargaining agreement.

(Dollars in Thousands)	
	10 Year Total
Revenues:	
Passenger	\$ 7,710,909
Other Passenger	\$ 209,154
Parking	\$ 468,667
Advertising	\$ 263,456
Joint Development	\$ 86,027
Fiber Optics	\$ 162,023
Other	\$ 118,967
Jurisdictional Reimbursements	\$ 320,584
Total Direct Revenues	\$ 9,339,788
State & Local Subsidy Request	10,757,967
Total Revenues	\$ 20,097,755
Expenses:	
Personnel	\$ 14,986,925
Services	\$ 3,320,006
Materials and Supplies	\$ 1,386,991
Utilities - Fuel	\$ 368,075
Fuel and Propulsion Power	\$ 943,349
Casualty and Liability	\$ 330,620
Leases and Rentals	\$ 95,090
Miscellaneous	\$ 60,364
Capital Allocation	\$ (472,609)
OPEB - Additional Need based on FY 2017 Assessment	\$ 180,000
Total Expenses	\$ 21,198,810
Operating and Maint Gap (Expense minus Revenue)	\$ (1,101,056)
State and Local Debt Service (Metro Matters)	\$ (199,232)
Total Funding Gap	\$ (1,300,288)

See the full Pro Forma for greater details



Operating Revenue & Maintenance Funding Gap (in \$millions)



Total is approx. \$21 Billion



Key Assumptions - CIP

Capital Improvements Program

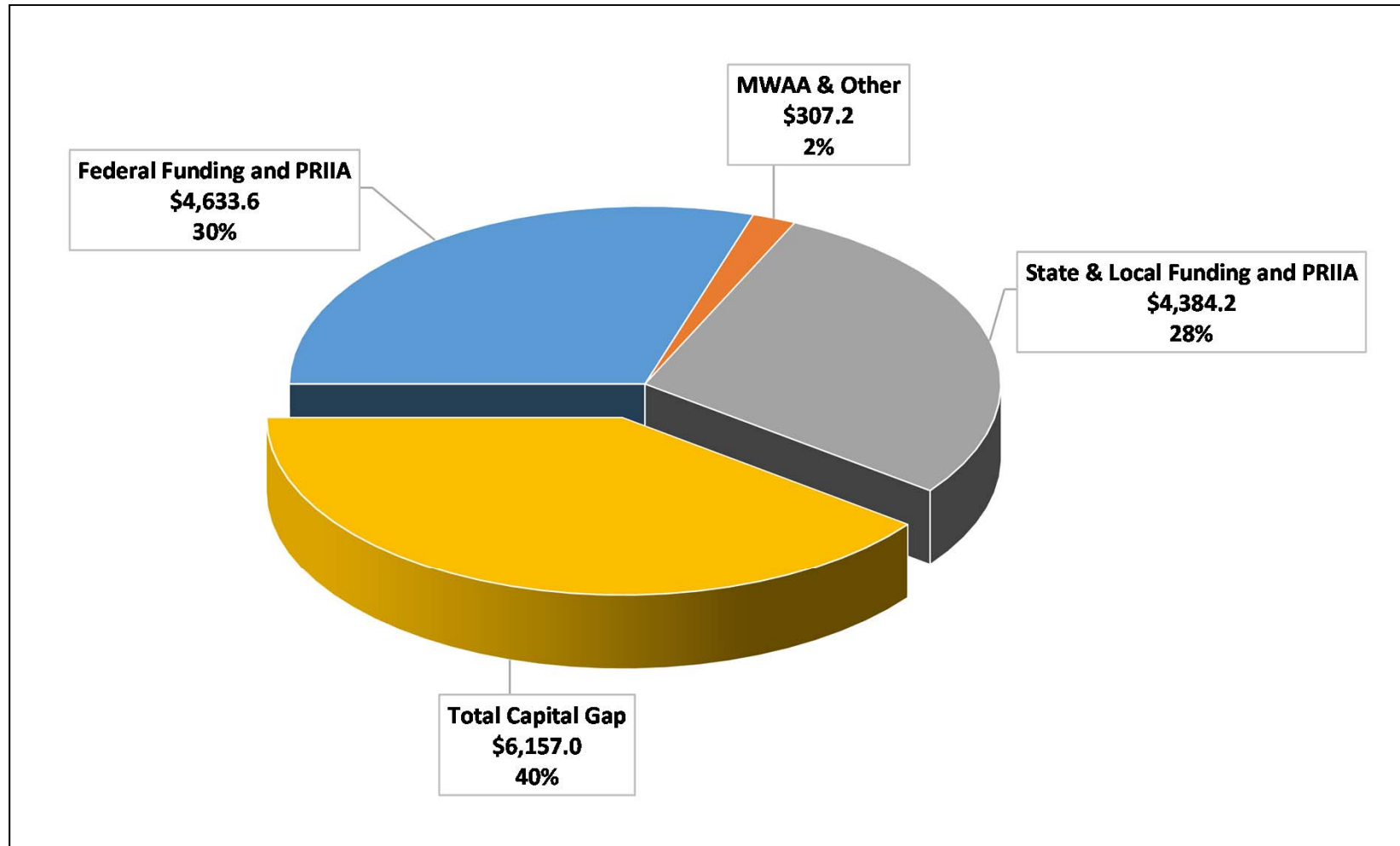
- Assumes PRIIA funding is continued at current levels beyond FY 2019, and assumes Federal Formula Grants remain flat.
- The 6-year CIP is from WMATA's "FY 2018 Proposed Budget – December 1, 2016".
- Assumes the jurisdictions meet the WMATA requested budget for FY 2018.
- Assumes 3% annual escalation on jurisdictional contributions for the remainder of the 10 year period (above FY 2017 base).
- Used the WMATA proposed 6-year CIP of \$7.2B – the additional \$8.4B was assumed to occur beyond the CIP planning period, and within the 10 year plan, for a total of \$15.6B total CIP.
- Based on CNI SGR adjusted to reflect safety and reliability totaling approx. \$15.6 billion.

(Dollars in Thousands)	
	10 Year Total
Sources:	
Federal Formula Grants	3,053,350
Other Federal Grants	58,200
Federal PRIIA	1,522,000
Federal Subtotal	4,633,550
MWAA	292,000
Other	15,200
State and Local PRIIA Match	1,522,000
Local Match to Federal Formula	764,650
System Performance - Local ('Regular' CIP)	1,885,452
State and Local Subtotal (per WMATA proposed budget through FY2023)	4,172,102
Other State and Local	62,100
<i>Additional Short-Term Borrowing Required for Capital</i>	150,000
Total Sources	\$ 9,474,952
Uses:	
Rail Vehicles/Vehicle Parts	3,301,000
Rail Systems	3,036,000
Track, Structures, and Systems	2,050,000
Passenger Facilities and Stations	2,559,000
Bus and Paratransit Investments	2,572,000
Business Support	1,964,000
Repayment of Short-Term Borrowing	150,000
Total Uses	\$ 15,632,000
Capital Funding Gap	\$ (6,157,048)

See the full Pro Forma for greater details



Capital Budget Revenue & Funding Gap (in \$millions)



Total is approx. \$15.6 Billion



Total 10-Year Funding Gap Summary

(\$ Millions)

CIP Funding Gap	\$ 6,157.05
Maintenance Budget Gap	\$ 1,300.29
Total	\$ 7,457.34
Annual Average (10 Years - FY 2017-FY 2026)	\$ 745.73

(Dollars in Thousands)

		FY 2017		FY 2020	FY 2023	FY 2026	Total
Jurisdictional Share	%	Current Year	%	Add-on Needed for Gap - Above Current Year			Gap Need
District of Columbia	37.2%	\$ 416,700	35.7%	\$ 232,305	\$ 108,099	\$ 633,556	\$ 2,671,543
Montgomery County	17.1%	193,050	16.4%	106,652	49,630	290,872	1,226,604
Prince George's	17.7%	235,550	17.0%	110,394	51,371	301,078	1,269,643
Maryland Subtotal	34.8%	\$ 428,600	33.4%	\$ 217,086	\$ 101,021	\$ 592,071	\$ 2,496,786
Alexandria	4.5%	33,000	4.3%	27,761	12,918	75,712	319,276
Arlington	8.2%	77,100	7.9%	51,143	23,799	139,483	588,196
City of Fairfax	0.3%	2,550	0.3%	1,871	871	5,103	21,519
Fairfax County	14.7%	155,450	14.1%	91,683	42,664	250,048	1,054,449
Falls Church	0.3%	3,150	0.3%	1,871	871	5,103	21,519
Loudoun County	0.0%	-	4.1%	26,600	12,378	72,546	283,520
Virginia Subtotal	28.0%	\$ 271,250	30.9%	\$ 200,969	\$ 93,521	\$ 548,104	\$ 2,289,007
Unfunded	100.0%	-	100.0%	\$ 650,360	\$ 302,641	\$ 1,773,731	\$ 7,457,336

See the full Pro Forma for greater details



Recommendations to Fund Gap

- Recommend that annual capital funding gaps be debt financed (*requires a stable, predictable and truly dedicated regional funding source*)
- This would allow for a lower annual impact on jurisdictions through debt service versus pay-as-you-go capital
- Dedicated tax revenues are estimated to comfortably cover debt service payments
- There should also be sufficient remaining dedicated tax revenues to fund the gap related to maintenance funding in the budget
- There is also estimated to be revenues remaining after funding the maintenance gap for additional critical capital projects beyond the SGR, such as expansion



Criteria for a Dedicated Funding Source

- Ease of Implementation (Can it be done through existing systems and what are administrative costs?)
- Predictable and Sustainable (Does the source of funding allow it to be pledged for debt financing?)
- Revenue Yield (Will the source provide enough revenue to meet funding gaps without excess increases above current levels?)
- Fair and Equitable (Does the tax or fee paid reflect the commensurate benefits from the transit system funded?)



Dedicated Funding Source Options

Type of Tax	Tax Increase	Dollars Collected
Sales Tax	1% on taxable sales	\$650 Million
Property Tax (All Property)	8 cents per \$100	\$650 Million
Property Tax (1/2 mi. from Metro)	43 cents per \$100	\$650 Million
Gas Tax	16.3% Increase	\$650 Million

Other options considered include Value Added Tax (VAT), Commuter Tax and Income Tax



Benefits of a Uniform Regional Sales Tax

- Easily understood by the public and easy to administer
- All residents in the Metro compact area pay the same
- Maintains the relative competitiveness of jurisdictions within the compact
- Provides a stable funding source well understood by investors to debt finance substantial capital infrastructure needs at low interest rates
- Grows as the economy grows to fund future needs
- Captures revenues of tourists, visitors and commuters from outside of the compact area
- A dedicated sales tax is a source of funding for most of the large transit systems in the nation, including: New York (MTA), Chicago (CTA), Massachusetts (MBTA), San Francisco (BART), Los Angeles County (LACMTA), and numerous others.

Note: In 2016 sales tax referendums for transit funding passed in San Francisco, Los Angeles and Atlanta.



Dedicated Tax to Fund Capital Gap

- ✓ For example, a 1% dedicated regional sales tax can fund all of Metro’s revised SGR capital needs in a 10-year period
- ✓ Remaining tax revenues can be used to fund additional critical capital needs beyond SGR (capacity expansion or other improvements)

Fiscal Year	Capital Funding Gap ¹	Est. Debt Service to Cover Capital Gap ²	Dedicated Tax Revenues ³	Remaining Tax Revenues prior to Funding Maintenance Gap	Annual Maintenance Funding Gap ⁴	Funds Available for other Critical Capital Projects Beyond SGR
2017	-	-	-	-	-	-
2018	-	-	-	-	(21,360)	-
2019	433,857	(31,519)	325,000	293,481	(70,089)	223,391
2020	494,263	(67,427)	669,500	602,073	(156,097)	445,976
2021	402,249	(96,650)	689,585	592,935	(164,952)	427,984
2022	149,911	(107,541)	710,273	602,732	(174,003)	428,729
2023	119,496	(116,222)	731,581	615,358	(183,144)	432,214
2024	1,450,608	(221,608)	753,528	531,920	(168,279)	363,641
2025	1,518,413	(331,918)	776,134	444,216	(176,884)	267,332
2026	1,588,251	(447,303)	799,418	352,115	(185,480)	166,636
Total	\$6,157,048	(\$1,420,188)	\$5,455,018	\$4,034,831	(\$1,300,288)	\$2,755,903

Notes:

1. Estimate. Represents the annual capital funding gap for \$15.4 billion revised SGR CIP as identified by WMATA.
2. Assumes debt funding of all annual capital gap amounts; 30-year amortization and 6% cost of borrowing.
3. Conservative estimate of revenues from a 1% regional sales tax on all jurisdictions in the compact area escalated at 3% annually for growth. First year estimated to collect only 50% of revenues due to timing of implementation.
4. Estimate. FY 2018 shortfall represents Metro Matters debt service.

Est. Costs of Other Critical Capital Projects Beyond SGR (from Metro’s published CNI):

1. New Rosslyn Connection – \$2 billion or more
2. Major station capacity increases - \$260M
3. Heavy overhaul facility (Rail) - \$375M
4. Relining of Red Line tunnels – cost TBD



Summary of Issues

- Allows WMATA to reach a State of Good Repair in 10 years
 - ✓ *SGR total capital needs are estimated by WMATA at \$15.6 Billion*
- Effort will require metro to execute approx. \$1.5B CIP annually over 10 years
- Represents a maintenance gap of \$1.3 billion and a capital gap of \$6.2 Billion (total 10-year combined gap of \$7.5B)
 - ✓ *Far exceeds reasonable capacity of the compact jurisdictions*
- A dedicated regional funding source is essential to achieve a State of Good Repair
 - ✓ A dedicated funding source collecting approx. \$650M annually, beginning in January 2019, can cover both the maintenance and capital funding gaps, as well as additional critical capital needs
- ***Without a dedicated funding source in place by January 2019, jurisdictions will not be able to fund WMATA's capital needs***



Key Take-Aways

- ***At this funding level the following are required:***
 - ✓ Federal funding beyond 2019 must be continued at \$150M per year with continued matching from the jurisdictions (PRIIA)
 - ✓ Local jurisdictions must meet the FY 2018 operating need, and increase operating contributions by 3% annually (over FY 2018 base year) to cover cost inflation
 - ✓ Local jurisdictions must meet the FY 2018 capital need, and increase capital contributions by 3% annually (over FY 2017 base year) to cover cost inflation
 - ✓ WMATA's non-utility costs limited to 3% annual growth
 - ✓ A regional dedicated funding source (i.e. regional sales tax) must be created to allow for sufficient debt funding of the capital gap



Impacts of No Additional Funding

- ❑ Safe Track type delays will continue indefinitely
 - ✓ Estimated cost of rush hour (only) trip delays are estimated at between \$153M and \$235M annually
- ❑ Passenger safety risks will continue to increase
- ❑ Traffic congestion will continue and worsen
- ❑ Approx. \$25 billion of development has occurred near metro stations over the past 8 years
- ❑ Economic growth in the region will likely slow
- ❑ MWCOCG economic forecast implies regional state and local government tax revenue growth from 2.5% to 4% annually, depending on per capita income growth



Estimate of Tax Losses in Metro Compact Area *(Income, Property, Sales & Use)*

- Reducing the economic forecast by 0.25% to 0.50% results in annual losses to compact area taxes, collectively, ranging from \$1 billion to \$2.3 billion, respectively, after ten years.
- Areas with expected growth or redevelopment near Metro stations, or where traffic congestion can impede planned growth, can be expected to be impacted particularly hard.
- Reasonable estimates of losses for a poorly functioning transportation system will easily exceed the required new taxes collected to achieve a state of good repair.



Other Issues

- Financial oversight of WMATA for use of dedicated funding source
- Increased monitoring to ensure control of WMATA costs escalation
- Regional efforts to continue, and increase, federal financial support
- Address any potential jurisdictional issues with a uniform regional sales tax
- Coordination of regional process for adoption of dedicated regional sales tax



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Questions ?