MINUTES
NVTC COMMISSION MEETING – JUNE 1, 2017
NAVY LEAGUE BUILDING – FIRST FLOOR CONFERENCE ROOM
ARLINGTON, VIRGINIA

The meeting of the Northern Virginia Transportation Commission was called to order by Chairman McKay at 7:42 P.M.

Members Present
Sharon Bulova
John Cook
Katie Cristol
Christian Dorsey
Adam Ebbin
John Foust
Jeff Greenfield
Catherine Hudgins
James LeMunyon
Matt Letourneau
Tim Lovain
Jeff McKay
Ron A. Meyer
J. Randall Minchew
Jennifer Mitchell (Alternate, Commonwealth of Virginia)
Paul Smedberg
Jennifer Wexton

Members Absent
David Albo
Jim Corcoran
Libby Garvey
David LaRock
David Snyder

Staff Present
Karen Finucan Clarkson
Andrew D'huyvetter
Nobuhiko Daito
Rhonda Gilchrest
Dan Goldfarb
Patricia Happ
Scott Kalkwarf
Kate Mattice
Zachary McCoy
Aimee Perron Siebert
Doug Allen (VRE)
Paul Dean (VRE)
Joe Swartz (VRE)

Opening Remarks

Chairman McKay welcomed WMATA General Manager/CEO Paul Wiedefeld and his staff and thanked him for coming to update the Commission on his proposed action plan of initial WMATA reforms. While NVTC is engaged with the Commonwealth relating to the WMATA Compact and other reforms, the General Manager's action plan documents opportunities to address immediate operational and fiscal challenges without changes to the WMATA Compact. Chairman McKay suggested moving the General Manager's presentation to the beginning of the Agenda and there were no objections.

Presentation by WMATA General Manager/CEO Paul Wiedefeld

Mr. Wiedefeld thanked the Commission for inviting him to come speak about his action plan. The last time he spoke at NVTC he gave an update on WMATA's top priorities, including safety, service reliability and fiscal management. Since that time WMATA has approved its FY2018 Budget and continued to make progress, such as the SafeTrack program, which is coming to completion.

Mr. Wiedefeld stated that Metro is a $40 billion asset to the National Capital Region and WMATA has generated returns on regional investments through enhanced mobility, congestion relief, improved air quality, and economic development. WMATA is at a critical juncture as the organization faces structural funding challenges, which put these benefits at risk. There are $25 billion in unfunded capital needs from years of deferred maintenance and under investment. Local, state and federal budgets are unpredictable year-to-year with only one more year of committed capital funding (PRIIA). WMATA also has an unstable operating budget model in which costs are rising at nearly twice the rate of Metro fares and commercial revenues. Unless resolved, this will lead to more fare increases, subsidy increases, and cuts in service.

Mr. Wiedefeld stated that to respond to these challenges and to provide a safe and reliable system, his proposed action plan calls for investing $15.5 billion over 10 years for critical capital projects; increasing the average annual investment in Metro's capital program to $1.5 billion a year; establishing a multi-year, stable revenue sources generating $500 million per year for a new Capital Trust Fund (dedicated to capital-only investments); increasing jurisdictional capital contributions at three percent annual growth; and securing Congressional reauthorization of the federal capital investment (PRIIA) at least at the current level of $1.5 billion over 10 years.

Mr. Wiedefeld then reviewed his five-point plan to improve WMATA's operating business model, including:

- Capping current jurisdictional operating subsidies at three percent maximum annual growth;
- Creating a "Rainy Day Fund" accumulating to 10 percent of the operating budget to help manage unexpected events;
- Maintaining WMATA's pension commitment to active employees and retirees, but defined contribution retirement plans going forward for new hires;

- Leaving binding arbitration intact and seek Congressional amendments to the National Capital Area Interest Arbitration Standards Act (Wolfe Act) to require an arbitration process that more meaningful considers the financial condition of WMATA; and
- Supporting enhanced flexibility at WMATA to reduce costs with innovative approaches including competitive contracting of targeted functions, where permitted.

Mr. Wiedefeld asked for NVTC's continued support. He acknowledged the path ahead will not be easy, but the alternative is unacceptable. On behalf of the Commission, Chairman McKay expressed appreciation of the reforms already happening at WMATA and for all Mr. Wiedefeld's efforts. The Commission will consider a resolution of support later in the Agenda.

Mr. Foust asked a question about the proposed Capital Trust Fund and asked if all sources of capital funding will be put into a "lock box" or will WMATA still have access to the federal formula grants. Mr. Wiedefeld clarified that federal funds can only be used for capital costs and not for operating. The intent is to use the Capital Trust Fund to sell debt. Federal funds will not be co-mingled in the trust fund.

In response to a question from Delegate LeMunyon, Mr. Wiedefeld stated that it is estimated there would be $1 billion in savings in WMATA's operating budget over a 10-year period if his action plan is completely implemented. Delegate LeMunyon suggested creating a chart showing this. He observed that if operating costs continues to rise faster than ridership, then no matter what kind of dedicated funding sources are contemplated, at some point WMATA will run out of funds to continue operations. He stated that this needs to be part of the discussion of a dedicated funding source.

Mr. Letourneau asked how WMATA can keep the local subsidies at an annual three percent growth without major reforms to the Compact. Mr. Wiedefeld explained currently jurisdictional subsidy increases are at the 6-7 percent level. Capping it at a predictable three percent annually is good for the jurisdictions to keep it in line with what the jurisdictions can afford. Mr. Wiedefeld stated that it is a combination of initiatives that reduce costs, some of which WMATA has already begun to implement, such as right-sizing the organization and addressing absenteeism issues. It will also be important to seek an amendment to the Wolfe Act.

Ms. Bulova stated that she is supportive of Mr. Wiedefeld's strategy and appreciates the initiatives already started. She observed that the region is noticing the improvements. She stated that one of the labor issues she feels needs to be addressed is that overtime is being calculated into retirement. She also observed that Virginia has a bigger picture to focus on as it looks at Metro funding issues as well as state transit funding in light of the fiscal cliff. She hopes each WMATA jurisdictions can put equitable revenue into the "lock box" with the understanding that they should not be bound by a certain revenue source. Each jurisdiction could choose different revenue options.

Chairman McKay explained that the statewide transit capital funding cliff will be on the magnitude of a $130 million gap per year. The Revenue Advisory Board (RAB) is working on solutions to present to the General Assembly by August 1st. Fixing both problems—WMATA funding and the statewide fiscal cliff— at the same time will be important.

Following a question from Senator Wexton, Mr. Wiedefeld explained some of his cost savings measures and he provided examples of several financial best management practices. Mr. Meyer asked if WMATA is looking at "outside the box" solutions, including what other transit systems are doing. He observed that Tokyo, Japan has a world class transit system that is partly privatized. Mr. Wiedefeld stated he has formed a group to look at what other systems are doing, but it is difficult to make "apples to apples" comparisons because the Metro system is unique. Potential outsourcing is a step in that direction.

Mr. Meyer asked about how to encourage Silver Line riders to come back and use Metro and what the message should be to gain their confidence. Mr. Wiedefeld stated WMATA is working on a message and the region should celebrate recent improvements, such as SafeTrack and new railcars. Delegate LeMunyon stated that as part of the overall picture of what it will take to make Metro a success, there needs to be a reason to believe ridership will go up. He asked what would happen if fares were cut in half to encourage riders to come back. This type of analysis would be helpful. He would also like to see the dollars per passenger mile be broken out by heavy rail, bus and paratransit, instead of combined. Mr. Wiedefeld stated Secretary LaHood's study is looking at these types of metrics.

Chairman McKay stated that all Commissioners have a role to play in the region to promote ridership and encourage people to come back to Metro. There needs to be a dramatic and robust marketing strategy as WMATA moves forward. He stated looking at parking utilization with long-distance riders should be part of the strategy. Mr. Dorsey cautioned that even if every lost rider returned to Metro, it does not change the order of magnitude of the need.

Delegate LeMunyon suggested that in future discussions on how to spend toll revenues from the I-66 Transform Multimodal Program, NVTC should discuss how revenues could be used to get people to use existing Metro assets as opposed to spending it on new assets.

Mr. Meyer asked about potential express service for the Silver, Orange and Blue lines. If riders could get to work as fast as driving, it would be a compelling incentive to get them to use Metro. Mr. Wiedefeld stated it is important to remember that Metro is two systems in one—an urban system as well as a VRE-like commuter rail service. Chairman McKay noted that there are winners and losers in that type of express service but agreed that it is important to look for ways to expedite people's commute.

Chairman McKay thanked Mr. Wiedefeld for his comments and for all he is doing for the region. NVTC supports his efforts to make Metro a world-class transit system. He reminded Commissioners that there will be discussion later in the Agenda on a resolution of support for the General Manager's action plan.

Minutes of the May 4, 2017 NVTC Commission Meeting

Ms. Bulova moved, with a second by Mr. Smedberg, to approve the minutes. The vote in favor was cast by Commissioners Bulova, Cook, Cristol, Dorsey, Ebbin, Foust, Greenfield, Hudgins, Lovain, McKay, Meyer, Minchew, Mitchell, Smedberg and Wexton. Commissioners LeMunyon and Letourneau abstained.

Consent Agenda

On a motion by Ms. Bulova and a second by Mr. Smedberg, the Commission unanimously approved the following Consent Agenda Item:

- Approve the Regional Fare Collection Program Memorandum of Agreement (MOA) and Authorize NVTC's Executive Director to Sign the MOA on Behalf of Commission

The vote in favor was cast by Commissioners Bulova, Cook, Cristol, Dorsey, Ebbin, Foust, Greenfield, Hudgins, LeMunyon, Letourneau, McKay, Meyer, Minchew, Mitchell, Smedberg and Wexton.

Washington Metropolitan Area Transit Authority

Chairman McKay stated that Resolution #2339 would support the initial reform actions proposed by WMATA's General Manager. The resolution articulates the importance of WMATA to Northern Virginia and the Commonwealth, states NVTC's interest in the fiscal and operational health of WMATA, and expresses support for the direction and spirit of the General Manager's proposal. He expressed his opinion that it is important to send a message of support for the General Manager's action plan while other reform discussions continue.

Ms. Hudgins moved, with a second by Mr. Smedberg, to approve Resolution #2339.

Ms. Bulova suggested removing "…and encourages him to immediately begin implementation" so that it reads "Now, therefore, be is resolved that, as a first step in the effort to reform WMATA, NVTC endorses the direction and spirit of Mr. Wiedefeld's proposal." The maker and seconder of the motion agreed to this friendly amendment.

Mr. Foust noted the resolution refers to the General Manager's action plan and suggested the plan be included with the resolution as an attachment. There were no objections.

In response to a question from Mr. Meyer, Chairman McKay stated that by design, the GM's action plan does not tie the hands of the region in terms of a governance solution, a Compact solution, or how to resolve the funding solution. He encouraged Commissioners to attend the next NVTC Governance and Personnel Committee meeting on June 21st at 7:30 P.M. in NVTC's Conference Room (Suite #620). The committee will be discussing WMATA governance issues.

Delegate Minchew observed that the use of "as a first step" implies there will be additional steps, so he is comfortable with supporting the resolution. He believes that there will need to be Compact changes as a following step. Mr. Cook observed that the GM's action plan does not solve all WMATA's problems, but does address those things that can be done now without Compact changes. He explained that the work of NVTC's Governance and Personnel Committee will build on the foundation of the work the General Manager is doing. Delegate Minchew stated that he would not like to see the completion of the action plan interpreted that the mission is accomplished.

Mr. Letourneau asked a question about how much can be done under WMATA's existing collective bargaining agreement. He stated that Loudoun County Executive, Tim Hemstreet, has done some initial analysis on potential concerns to Loudoun County. Mr. Letourneau stated that his staff analysis indicates that changes in the collective bargaining agreement might address some issues that might convince some that Compact changes may not be needed to address labor reforms.

Chairman McKay stated Dave Snyder was unable to attend tonight's meeting but requested his statement be read into the record:

> *"I am out of the country in connection with my work and unfortunately there are no other City Council Members who can attend, so I provide this short statement. If present, I would vote against the resolution. The primary reason is that the current level of Metro subsidy is unsustainable for the City of Falls Church, let alone any future increases."*

The Commission then voted on the amended resolution and it passed. The vote in favor was cast by Commissioners Bulova, Cook, Cristol, Dorsey, Ebbin, Foust, Greenfield, Hudgins, LeMunyon, Letourneau, McKay, Meyer, Minchew, Mitchell and Smedberg. Senator Wexton abstained. (A copy of the resolution is attached.)

Mr. Foust observed that the parking utilization rates are over 100 percent at the East Falls Church and Van Dorn Street stations. Chairman McKay stated that there is only short-term parking at Van Dorn, so there could be multiple people using the same space in one day. Ms. Mattice agreed to request more information from WMATA staff on how parking utilization is counted.

Virginia Railway Express

Extension of the Existing Amended and Restated Operating/Access Agreement with CSX Transportation. Ms. Bulova stated the Operations Board recommends Commission approval of Resolution #2340, which would authorize the VRE CEO to execute a one-year extension of the existing Amended and Restated Operating/Access Agreement with CSX Transportation (CSXT) through June 30, 2018.

Ms. Bulova moved, with a second by Ms. Cristol, to approve Resolution #2340 (copy attached). The vote in favor was cast by Commissioners Bulova, Cook, Cristol, Dorsey, Ebbin, Foust, Greenfield, Hudgins, LeMunyon, Letourneau, McKay, Meyer, Minchew, Mitchell, Smedberg and Wexton.

Mr. Greenfield left the meeting at 8:37 P.M. and did not return.

VRE CEO Report. Mr. Allen announced that VRE will be celebrating its 25th Anniversary on June 16th. The VRE Operations Board will hold its meeting in Fredericksburg in the City Hall Chambers, followed by the anniversary event at the Fredericksburg VRE station. Senator Kaine will be the keynote speaker. Commissioners should have already received an invitation to the luncheon.

Mr. Allen stated that safety is a top priority for VRE. He reported on recent safety and security activities, including a Baseline Security Enhancement (BASE) assessment by the Transportation Security Administration (TSA). VRE scored 100 percent and is the first agency in the nation to receive a perfect score.

Mr. Allen reported ridership remains strong at over 19,000 average daily riders for the month of May. On May 8, 2017, VRE served its 80 millionth rider. Overall on-time performance (OTP) for the month of April was 88 percent.

Mr. Allen gave a brief update on VRE's Meet the Management events throughout the month of May. The next event is scheduled for June 7th at the Franconia-Springfield station.

VRE System Plan 2040 Update. Mr. Cook stated that VRE staff briefed the Operations Board at its May 19th meeting on current staff efforts to evaluate possible updates to the System Plan 2040. These revisions to the System Plan 2040 could reduce costs and make operations more efficient. VRE staff will continue to develop a revision to the System Plan 2040 and determine its potential impact on financial and capital plans. VRE staff will return to the VRE Operations Board later this year with recommended revised service levels for discussion and approval. Any revision to the System Plan 2040 will be brought to NVTC and PRTC for approval.

NVTC's Regional High Capacity Transit Economic Impact Study

Chairman McKay stated that staff has completed the preliminary findings of NVTC's Regional High Capacity Transit Economic Impact Study. The final report will be provided to the Commission in September. Ms. Mattice stated this study is to quantify the value and worth that high capacity transit modes (Metrorail and VRE) operating in Northern Virginia bring to the Commonwealth. This effort focuses on quantifying the contribution of the state income tax and state retail sales and use tax to the state General Fund, as these two sources represent the vast majority of General Funds. NVTC is looking beyond property tax revenues to local governments and focusing on those types of revenue that would be assessed at the state level and impact the Commonwealth's General Fund. NVTC staff is working closely with WMATA and Transportation Planning Board staff.

Ms. Mattice stated that based on preliminary analysis, NVTC has found that the General Fund of the Commonwealth receives at least $600 million per year in revenue from the households and jobs supported by the high capacity rail network in Northern Virginia.

Department of Rail and Public Transportation

DRPT Director Mitchell directed Commissioners to her written report. Ms. Mitchell reported that the draft SYIP was presented to the CTB at its May meeting. It is expected that the CTB will be vote on it at its June meeting. She explained that in order to maintain some consistency in operating funding, DRPT has drawn $5 million from the capital reserve fund to be used as assistance across the Commonwealth. DRPT expects that the funds will be replenished next year.

Ms. Mitchell stated that DRPT has been busy working with the Revenue Advisory Board to look at revenue options to address the heavy drop in transit capital revenues. A gap of $130 million per year is expected. The report that is being prepared will include a prioritization process, which will be linked to a recommendation for additional funding. Without new revenue, transit funding will not even meet the needs today under the current allocation and would be exacerbated even more with a new prioritization process. The RAB plans to meet in Fredericksburg on June 16th and present its report to the CTB at the July CTB meeting in order to meet the August 1st deadline to present it to the General Assembly.

Ms. Mitchell stated that DRPT is continuing its benchmarking analysis for Secretary LaHood's efforts. DRPT expects to have some preliminary analysis completed in June, which will be introduced at NVTC's Governance and Personnel Committee meeting in July. The report is due to the General Assembly in November and Governor McAuliffe has asked Secretary LaHood to provide preliminary recommendations in September.

Delegate Minchew asked about the five percent withholding from FTA because the Metro Safety Commission is not mobilized. Ms. Mitchell gave an update on the mobilization process. The MSC legislation was passed in the Senate and is awaiting passage in the House. FTA has been clear that funds will be withheld until the MSC is certified, which means hiring an executive director and staff, appointing commissioners, and being ready to assume oversight duties from FTA. In response to a question from Mr. Letourneau, Ms. Mitchell stated that there have been discussions with the jurisdictions on how far the region can proceed with hiring an executive director and staff without Congressional ratification. Mr. Letourneau suggested at some point NVTC may want to consider sending a letter to FTA if Congress does not act.

Report of the Chairs of NVTC Committees

Mr. Cook, chair of the Governance and Personnel Committee, gave a brief update on recent committee activities. He stated that the plan is to discuss at the next committee meeting WMATA Board issues (number of members and alternates; meeting frequency, and roles and responsibilities as well as qualifications of the Board members). Chairman McKay noted that the next Governance and Personnel Committee meeting is scheduled for June 21st at NVTC at 7:30 P.M.

Ms. Cristol stated the Legislative and Policy Committee met earlier tonight and discussed the Revenue Advisory Board's work. Because the Commonwealth Transportation Board will receive the RAB presentation prior to NVTC's next meeting, she asked the

Commission to discuss some of the key issues and concerns and then empower the Executive Director to make comments at the June 20th CTB meeting. The Commission would then approve a formal letter at the July meeting.

Chairman McKay stated Northern Virginia is a winner on state transit funding, so any changes will impact the region. He expressed his concern that the RAB is a state-wide board and there is a big push for a recommended regional funding scenario as well as a state funding scenario. If the recommendation becomes overly regional it will result in significant fiscal strain on Northern Virginia. NVTC needs to recognize that when formulas move to a metric driven scenario to evaluate application for transit funding, this makes funding less predictable. He stated that the June 16th RAB meeting will be an important meeting. As a member of the RAB, representing VACO, Chairman McKay stated it would be helpful for NVTC to weigh in on some of these concerns. He also noted that there is public comment period at all the RAB meetings.

Ms. Cristol reviewed some of the topics the Legislative and Policy Committee discussed that are proposed to be included in NVTC's comments. There is a concern about replacing state funding in a state program with regional funding. Northern Virginia already spends a significant amount of local funds on transit (one-fifth compared to other parts of the Commonwealth as little as four percent). There is also a concern about making State of Good Repair (SOG) funding competitive when there is already a prioritization process. This is a particular problem for VRE and the regional bus systems. It is also important to remind the Revenue Advisory Board that the fiscal cliff issue is distinct from new dedicated funding needs for WMATA and VRE.

Ms. Mitchell explained that the RAB is looking at a recommendation to direct funds to SOGR needs before expansion needs. That is different than current process where SOGR needs are not protected. Ms. Cristol stated that the Legislative and Policy Committee has no concerns with the 80/20 spilt for funding SOGR versus expansion needs. Chairman McKay stated he publicly supports this especially since CTB has latitude to transfer expansion funding to SOGR funding. Ms. Bulova expressed her opinion that NVTC should include supports the 80/20 split in its comments.

Chairman McKay stated that it is important for NVTC to weigh in before the CTB meets in June. The Commission then will have another opportunity to comment by authorizing a letter at the July meeting. Ms. Mattice stated that the draft RAB report will be available prior to the July meeting.

In response to a question about procedure, Ms. Cristol stated no motion is need. The Executive Director will provide comments to CTB at its June meeting based on this discussion and then NVTC will authorize a letter in July. There were no objections.

Ms. Hudgins left the meeting at 9:17 P.M. and did not return.

Executive Director Report

Ms. Mattice encouraged Commissioners to read the Executive Director Newsletter. She reminded Commissioners about NVTC's 2nd WMATA public forum on June 15th in Alexandria. At the July 1st meeting, NVTC will hear an update from VDOT on toll revenue estimates and next steps for the I-66 Transform Multimodal Project.

Ms. Mattice asked Mr. Kalkwarf to give a brief update on the draft Six-Year Improvement Program (SYIP). Mr. Kalkwarf stated that DRPT presented the draft FY2018 SYIP at the May 17th CTB meeting. The final SYIP is scheduled to be approved by the CTB in June. The draft SYIP includes state transit assistance applied for through NVTC totaling $197.8 million for the NVTC member jurisdictions' share of WMATA capital and operating subsidies, and the capital and operating needs of the WMATA jurisdictions' local systems. This is an increase of $9.3 million (4.9%) from the FY2017 approved program, made up of a $13.7 million (24.4%) increase in capital assistance offset in part by a $4.5 million (3.4%) decrease in operating assistance.

Mr. Kalkwarf stated the draft SYIP also includes the Commonwealth's $50 million annual commitment to match a third of the federal PRIIA funding for WMATA. This assistance is not applied for through NVTC, and will be contracted directly by DRPT with WMATA.

Mr. Kalkwarf stated that state transit and rail assistance for VRE is also applied for through NVTC. The draft SYIP includes state transit operating and capital assistance for VRE totaling $36.7 million of FY2018 funds. This is a decrease of $3.9 million (9.7%) from the FY2017 approved program, made up of a $3.0 million (9.9%) decrease.in capital assistance combined with a $0.9 million (9%) decrease in operating assistance. Ms. Mitchell noted that the SYIP does not include the $92 million VRE will receive in Smart Scale funding.

The Financial Report for April 2017 was provided to Commissioners. Delegate LeMunyon observed that as of April one-third of NVTC's budget has yet to be spent. Mr. Kalkwarf explained that this is mostly payroll costs. Ms. Mattice noted that there is staff position currently vacant, but it is hoped to be filled soon. Delegate LeMunyon stated he will be impressed if unused funds can be carried over into next year's budget.

Adjournment

Mr. Letourneau moved, with a second by Mr. Smedberg, to adjourn the meeting. Without objection, Chairman McKay adjourned the meeting at 9:23 P.M.

Approved this 6th day of July 2017.

Jeffrey C. McKay
Chairman

Matthew F. Letourneau
Secretary-Treasurer

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 (MWCOG) 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.