MEMORANDUM

TO: COG Metro Funding Strategy Group

FROM: Clark Mercer, COG Executive Director

SUBJECT: Chief Administrative Officers Workgroup on WMATA Cost Structure – Interim Report

DATE: December 19, 2023

Since the COG Leadership Retreat this July, area officials have been coordinating on a path forward on Metro. Attached you will find a product of that work— an interim report from our Chief Administrative Officers Workgroup on WMATA Cost Structure. This workgroup is comprised of a dynamic group of leaders from the District of Columbia, Maryland, and Virginia, and we are grateful for their hard work.

In the last few weeks, important developments in the region, and specific to Metro, have occurred that are worth noting. Metro passed a clean financial audit for the ninth year in a row, saw its highest rail ridership numbers since pre-pandemic, and its General Manager proposed a budget for Fiscal Year 2025. Given the budget timelines of the multiple jurisdictions and states that fund Metro, its budget process involves risk. That is to say, Metro presents a prospective budget that is contingent on multiple legislatures and elected officials at the local, state, and federal levels agreeing to and committing funding. In some years, that degree of risk is lower because there is more confidence that Metro's members will fund the system at a certain level. For FY 2025, the gap between the funding needed and that is currently provided is substantial. As such the proposed FY 2025 budget reflects that there is more risk next year than is typical, and shows the funding that Metro is confident— as opposed to hopeful— that it will receive. A funding process with such a high degree of uncertainty should cause concern, and as we look to sustainable, long-term solutions for Metro, we must prioritize how to arrive at stable, predictable funding for the system.

The proposed Metro budget includes severe service cuts across the board. You will find the CAO Workgroup's report to be more nuanced— there are actions that can be taken that fall somewhere in between maintaining current service levels and making drastic cuts that result in a transit "death spiral." The region's elected and appointed officials are committed to working with Metro to find a reasonable balance given current budgetary constraints and demand for transit services. The report also highlights the serious impacts that high levels of teleworking, particularly by the region's largest employer, the federal government, is having on our economy and transit system. Irrespective of what one thinks about the merits of telework, the region needs much deeper engagement with our federal partners to remedy these impacts. Additionally, there have been significant economic development deals discussed regionally involving the future locations of major government agencies or our region's sports teams. Without question, a well-funded and supported Metro system will be essential to their success.

Governor Moore and his Administration have recently made a strong initial commitment to fund Metro over the next several years. While this proposal still needs to work its way through the

777 NORTH CAPITOL STREET NE, SUITE 300, WASHINGTON, DC 20002
MWCOG.ORG (202) 962-3200

legislative process, we commend Governor Moore for recognizing the importance of Metro to the region, and as an economic engine that supports the entire state of Maryland. We look forward to working with Metro on actions that will lead the District of Columbia and Virginia administrations to make similar financial commitments.

Lastly, while the FY 2025 budget is the near-term concern, this is not just about the next fiscal year. This is a structural issue that we need to solve once and for all, which means we need to work on the near-term and long-term challenges simultaneously. To that end, COG is committed in the year ahead to convening government officials at the local, state, and federal levels, business and nonprofit leaders, and WMATA in an even more comprehensive, regional examination of Metro's funding model for operating and capital expenses, as well as its governance, to ensure a long-term, sustainable solution.

CHIEF ADMINISTRATIVE OFFICERS WORKGROUP ON WMATA COST STRUCTURE - INTERIM REPORT

December 2023

Metropolitan Washington
Council of Governments

CHIEF ADMINISTRATIVE OFFICERS WORKGROUP ON WMATA COST STRUCTURE - INTERIM REPORT
Prepared by the COG Chief Administrative Officers WMATA Cost Structure Workgroup for the COG Metro Funding Strategy Group
December 19, 2023

ABOUT COG
The Metropolitan Washington Council of Governments (COG) is an independent, nonprofit association that brings area leaders together to address major regional issues in the District of Columbia, suburban Maryland, and Northern Virginia. COG's membership is comprised of 300 elected officials from 24 local governments, the Maryland and Virginia state legislatures, and U.S. Congress.

ACCOMMODATIONS POLICY
Alternative formats of this document are available upon request. Visit www.mwcog.org/accommodations or call (202) 962-3300 or (202) 962-3213 (TDD).

TITLE VI NONDISCRIMINATION POLICY
The Metropolitan Washington Council of Governments (COG) operates its programs without regard to race, color, and national origin and fully complies with Title VI of the Civil Rights Act of 1964 and related statutes and regulations prohibiting discrimination in all programs and activities. For more information, to file a Title VI related complaint, or to obtain information in another language, visit www.mwcog.org/nondiscrimination or call (202) 962-3300.

El Consejo de Gobiernos del Área Metropolitana de Washington (COG) opera sus programas sin tener en cuenta la raza, el color, y el origen nacional y cumple con el Título VI de la Ley de Derechos Civiles de 1964 y los estatutos y reglamentos relacionados que prohíben la discriminación en todos los programas y actividades. Para más información, presentar una queja relacionada con el Título VI, u obtener información en otro idioma, visite www.mwcog.org/nondiscrimination o llame al (202) 962-3300.

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE

In this interim report, the Metropolitan Washington Council of Governments (COG) Chief Administrative Officers (CAO) Workgroup on the Washington Metropolitan Area Transit Authority (WMATA or Metro) Cost Structure presents information and analysis on WMATA's costs and revenues ahead of the upcoming Fiscal Year (FY) 2025 budget as well as longer term needs to support WMATA's continuing ability to provide safe, reliable service to our region.

The COG Board of Directors at its July 2023 Leadership Retreat discussed the matter of a deficit of potentially $750 million to fund the operations of the WMATA services (Metrorail, Metrobus and Metro Access) in FY 2025 as one of the major issues facing the region. The leadership agreed to immediately convene regional and state leaders to collectively work on understanding the nature and magnitude of the fiscal challenge faced by WMATA and to identify a path forward to address this issue both in the immediate and longer terms. Accordingly, in August 2023, the COG Board established the Metro Funding Strategy Group consisting of elected officials and senior administrative representatives, and State Departments of Transportation (DOTs), to work on the issue. The COG Board also charged its Chief Administrative Officers (CAO) Committee to work with WMATA staff to conduct a thorough review of WMATA's cost structure to independently analyze and verify the magnitude of the system's budget deficit, identify ways to optimize the funding needed for FY 2025 and to identify factors to focus on to provide stability and predictability for WMATA's operating costs into the future.

The COG CAO WMATA Cost Structure Workgroup has been meeting regularly since August 2023 and, with the close cooperation of WMATA staff, completed the preliminary task of identifying actions that would reduce the funding deficit for WMATA's FY 2025 operations budget. This Interim Report describes these actions including a description of the developments that have led to the current financial situation facing WMATA and the key factors affecting continued financial stability for WMATA. Also included is an assessment of longer-term considerations of funding gaps in capital needs versus forecast revenues.

Focus of this Report

This Interim Report is focused on WMATA's FY 2025 (July 1, 2024 – June 30, 2025) operating budget, for which initial projections forecast an unfunded deficit of $750 million. It is important to note that this is not a one-time deficit but rather a structural issue and that WMATA anticipates the $750 million shortfall for FY 2025 to grow annually into the future. WMATA has identified a set of financial management and internal efficiency actions that it could take which would reduce the forecast FY 2025 operating fund deficit. One of these actions — moving a sizable amount of preventive maintenance dollars from the capital budget into operating funds for FY 2025 (and potentially FY 2026) — is a one-time, non-recurring, budget action that could significantly reduce this deficit for the next one or possibly two fiscal years, but which would accelerate capital budget shortfalls soon after.

Additional actions WMATA has identified to further reduce the forecast operating deficit include changes to fare and service levels. This report summarizes the collective sense of the CAO

Workgroup on these actions both to reduce the forecast FY 2025 operating budget deficit and means to stabilize WMATA's operating costs into the future as well.

This report is focused on finances and is intended to inform discussions and actions of the COG Metro Funding Strategy Group. It does not include any discussion of WMATA governance or other potential reforms. These are important issues, but to date have not been a focus of the CAO Workgroup.

The stark reality of WMATA's deficit necessitates a short-term and long-term set of solutions for the region. Simply put, the stakeholders that fund WMATA cannot currently absorb an additional $750 million-plus annual payment for the system above and beyond current subsidies. In response to this reality, the CAO Workgroup and WMATA identified several factors that could be used to reduce the short-term operating costs, and this report focuses on the important task of funding WMATA through the next one to two fiscal years. The CAO Workgroup and elected leadership across the region are committed to addressing a long-term and wide set of solutions that will result in WMATA having sustainable governance, operations, and funding so that it will thrive into the future.

CAO Workgroup Members

<u>Local Government Chief Administrative Officers</u>

Jim Parajon	City of Alexandria (CAO Workgroup Chair)
Kevin Donahue	District of Columbia
Glen Lee	District of Columbia (CFO)
Richard Madaleno	Montgomery County
Tara Jackson	Prince George's County
Kenneth Young	City of College Park
Barack Matite	City of Rockville
David Eubanks	City of Takoma Park
John Peterson	Frederick County
Mark Schwartz	Arlington County
Robert Stalzer	City of Fairfax
Wyatt Shields	City of Falls Church
Bryan Hill	Fairfax County
Tim Hemstreet	Loudoun County

<u>State Representatives</u>

Sarah LeBarron	Maryland Department of Transportation
Drew Morrison	Maryland Department of Transportation
Jennifer Debruhl	Virginia Department of Rail and Public Transportation
Todd Horsley	Virginia Department of Rail and Public Transportation
Andrew D'huyvetter	Northern Virginia Transportation Commission
Scott Kalkwarf	Northern Virginia Transportation Commission

EXECUTIVE SUMMARY

Metropolitan Washington is a diverse and dynamic region, home to almost 6 million residents and forecast to grow by an additional 1.5 million people by 2050. The region's economy features Fortune 500 companies, federal agencies and contractors, and a wide array of local businesses. A robust transportation network connects this region, and WMATA is the largest single provider of public transportation. It accounts for over 80 percent of all public transportation trips in the region through its high-capacity Metrorail system, expansive Metrobus system (complemented by local jurisdictional bus services), and Metro Access paratransit system. Without Metro, the transportation network of downtown D.C. and the broader region could not function. Additionally, meeting the mobility needs of low-income and economically-disadvantaged residents and populations that rely on public transportation, including seniors, students, and new residents, can only be accomplished with WMATA's services.

The region's economy is intertwined with Metro—60 percent of the population, 70 percent of the jobs, and half of all employers are within one-half mile of a Metrorail station. Also, the one-half mile around Metro stations constitutes three percent of the region's land yet contains 65 percent of new office and 50 percent of new apartment developments, a quarter of all affordable housing and 30 percent of the region's total property value – estimated at about $328 billion. The areas around Metrorail stations are the focus of billions of dollars of business investments and activity, in turn generating significant tax revenues. For example, the Northern Virginia Transportation Commission (NVTC) estimates Northern Virginia's transit network generates $1.5 billion in annual personal income and sales tax revenue for Virginia. Approximately $1 billion of it can be attributed to the Metro.

The Metro system is how servicemen and servicewomen get to and from the Pentagon and other military installations, how the region is able to host Presidential inaugurations, support First Amendment demonstrations, and million-person marches, how secondary and university students get to school, and why businesses strategically locate here. In addition to mobility, Metro helps the region advance several interconnected priorities, such as COG's housing, equity, and climate goals. Metro anchors numerous transit-oriented communities across the DMV where jurisdictions are looking to increase the amount of housing at all income levels. It expands economic opportunities for employees and employers. It also provides environmentally friendly travel options, which contributed to the region meeting its 2020 climate goal and will be instrumental to meeting a 2030 goal to reduce greenhouse gas emissions by 50 percent below 2005 levels.

The Pandemic and Its Continued Impacts

The COVID-19 pandemic, affecting the United States starting in March 2020, took lives, disrupted economic activity, and impacted travel demand throughout the region. The sudden, significant, and sustained decline in transit ridership led to a major decline in fare revenues, even as health protocols required intense sanitary precautions at a personal level and for the public transportation systems that were recognized as a critical lifeline service. Many bus systems nationally and regionally discontinued fare collection altogether. By the end of the year though, public transportation system providers were grappling with questions over the sustainability of this practice.

Federal aid came to the rescue, with three tranches of funding that enabled continued public transportation operations by WMATA and the region's other providers. The federal aid funds supported WMATA's operations in the face of significant reduction in fare revenues and increased costs (due to several reasons including inflation) through the duration of the COVID-19 pandemic. But federal operating assistance has drawn to a close and the remainder of the relief funds will be exhausted in WMATA's FY 2024.

Since 2021 with vaccines available, the region has gradually re-opened and the end of the COVID-19 public health emergency in May 2023 has witnessed by-and-large the return of typical activity. However, the COVID-19 pandemic has led to a notable change in travel demand and travel patterns, as significant numbers of the region's workforce continue to telework at much greater levels than before. In particular, the federal workforce, which historically made up about 40 percent of Metrorail's ridership, is working remotely at much higher levels than before, even as President Biden, other political leaders, and federal agency heads call for a greater return to the office.

As a consequence, rail transit ridership across the region is down significantly from pre-COVID-19 pandemic levels, even as highway traffic has rebounded. Bus ridership, which did not decline as drastically as that of rail, has rebounded yet also remains below pre-COVID-19 pandemic levels. These changes in commuting have led to a mismatch between transit service and ridership thus further impacting financial sustainability.

The disruption to national and global supply chains at the peak of the COVID-19 pandemic for extended periods of time affected people's work and living arrangements, impacting the labor force. The impacts of these changes continue to be felt at present and reflected in inflated costs of material and labor. The decline in rider revenues at the same time as heightened inflation across the nation has placed WMATA and other transit operators in a precarious financial situation, known nationally as the "transit fiscal cliff". During the height of the COVID-19 pandemic in 2020, WMATA issued a one-time subsidy credit to its funding partners of $135 million, given the federal aid that WMATA had received. However, this reduction in subsidy levels during 2020 was not reset in subsequent years and led to lower levels of subsidy. These primary factors have resulted in WMATA's FY 2025 operating budget challenge and the gap between traditional revenues and identified needs, leading to the intensive discussions on how to address this situation.

COG CAO Workgroup Recommendations

The COG CAO Workgroup has spent the second half of 2023 discussing options for cost management and optimization for WMATA services and concurs with WMATA that additional funding is needed to provide an acceptable level of service during FY 2025. Without any additional funding, beyond the agreed annual three percent increase in subsidies by WMATA funding partners above the FY 2024 level, there will have to be drastic and unacceptable levels of service cuts which could seriously affect the viability of WMATA and its service.

To ensure WMATA is in a strong position to serve the region, the CAO Workgroup recommends the following actions:

1. <u>Re-baseline WMATA's Subsidy</u>. ***Subsidy payments from WMATA members should be reset to account for the impacts of the COVID-19 pandemic on operating costs and should serve as the baseline subsidy for future calculations.*** Beginning with the operating budget for FY2020, WMATA started applying the Maryland and Virginia legislative caps of allowable annual increase in operating subsidy to three percent relative to the previous year's amounts. During the height of the COVID-19 pandemic in 2020, WMATA issued a one-time

subsidy credit to its funding partners of $135 million, given the federal aid that WMATA had received. This made good sense at the time given the drastic drop in ridership and revenues experienced by all of the region's transit operators, the general uncertainty in the economic outlook of the WMATA funding partners, and the substantial federal dollars coming to WMATA and the region.

However, WMATA did not receive authorization from Maryland and Virginia to reset the operating subsidy levels for its FY 2022 operating budget to account for the subsidy credit provided in FY 2021. With no explicit authorization from Maryland and Virginia to reset the subsidy levels, the reduced subsidy levels from FY2021 became the base amount for applying the annual three percent increase. Additionally, in 2021 WMATA did not increase the subsidy by the allowable three percent. WMATA estimates that the combined effect of this one-time subsidy credit, the forgone six percent annual increase over a two year period, and the reduced baseline subsidy levels for subsequent budgets is that the operating subsidy for FY 2025 is lower than what it would have been by about $196 million. Additionally, historic levels of inflation, binding labor agreements related to the increase in labor costs during this period, have created an additional deficit of about $266 million. The result is that WMATA's base budget reflects where the system was several years ago. As such, WMATA funding partners must take legislative action to authorize WMATA to reset the operating subsidy baseline to account for the impacts of the COVID-19 pandemic on operating costs. WMATA funding partners should be prepared to provide the additional subsidy amounts resulting from the re-baselining. Given the existing shared funding responsibilities in Virginia, the state should play a large role in contributing to the re-baselining.

2. <u>Keep the Operating Cost Increase Cap in Place</u>. ***While WMATA's baseline budget must be adjusted upwards, the current cap in year over year operating subsidy increases to its funding partners should stay in place.*** In 2018, the region came together with support from COG and other partners to establish $500 million-a-year in dedicated funding to help Metro to implement its $15.5 billion, 10-year capital improvement program. As part of that commitment, a 3 percent cap was put in place to provide room for WMATA's budget to increase year over year, in a responsible and predictable manner. While future work will look at whether this 3 percent cap is the most effective tool at addressing rises in cost (i.e. should it be a different percentage, or should it be tied to a metric like the Consumer Price Index for Urban Wage Earners given today's inflation rates), the bottom line is that WMATA's year over year cost increases must be predictable and manageable.

3. <u>Reduce Administrative Costs</u>. The CAO Workgroup applauds management actions WMATA has identified to date and recommends they be retained for FY 2025. One-time cost savings predicted for FY 2025 total nearly $100 million and will be carried over into FY 2025. WMATA has also identified $50 million in recurring costs that impact FY 2025 and beyond. Given that 70 percent of WMATA's costs are tied directly to personnel, management will need to continue to thoroughly pursue all opportunities to reduce its administrative and management costs to be best in class. Such actions should be taken in a manner that is equitable and ensures WMATA remains competitive in a very tight labor market.

4. <u>Increase Fares, Improve Participation of Metro Lift, and Decrease Evasion</u>. While it is important to keep fares affordable to encourage ridership and provide accessibility, the CAO Workgroup recommends an increase in fares to help narrow the funding gap and ensure

riders are also contributing to the shortfall. Although any proposed increase in fares must be accompanied by – with the support of the region – new strategies to increase participation in Metro Lift, WMATA's new low-income fare product. While over 5,000 people have been signed up for Metro Lift, an estimated 400,000 area residents are believed to be eligible. And, while the CAO Workgroup recognizes that some amount of fare evasion is typical in any major transit system, it encourages WMATA to continue to take steps to curb this practice. The CAO Workgroup applauds the installation of faregate barriers and notes that this is resulting in substantial decreases in evasion.

5. **<u>Transfer Capital Preventive Maintenance Funds to Operating Costs</u>.** The CAO Workgroup recognizes the importance of maintaining the WMATA system in a state of good repair by fully funding its capital program; accordingly, it considers a sizable transfer of capital funds as an interim measure to help the region secure the significant additional funding needed for WMATA's operations in FY 2025 and potentially in FY 2026. Determining the amount of capital fund transfer must be balanced with the targeted service and fare changes. It is acknowledged that WMATA, as well as many other transit agencies, often transfer some capital funds (e.g., $30 million, $60 million) to cover preventive maintenance costs in the operating budgets, but not at the amount called for in FY 2025 budget discussions. Other major transit agencies do this as well, some in proportionately larger amounts as a share of the budget, but such transfers are based upon the size and requirements of their service as well as their unique funding arrangements. More importantly, any sizable increase in transfers in FY 2025 and beyond would accelerate the impending deficit in WMATA's capital funding program.

6. **<u>Implement Targeted Service Reductions</u>.** While the CAO Workgroup understands that WMATA is currently engaged in a larger exercise to reexamine its service offerings to better match demand, it believes that targeted service reductions for FY 2025 should be thoroughly examined and implemented. The CAO Workgroup feels strongly that any drastic service cuts should be avoided while working with funding partners and local jurisdictions to identify and implement targeted reductions that both better balance service and demand and minimize the impact on the transit dependent population, while providing enough service to maintain the ridership recovery and accommodate a greater return of the workforce commuting to and from the office. It is important that local elected and executive officials are part of these discussions when reductions are being considered, and clearly understand what specific services would be reduced, so that they can weigh the impacts to their communities.

7. **<u>Continue Advocating for a Greater Return of In-Office Participation by the Federal Government</u>.** While the CAO Workgroup recognizes that the way people work has changed over the last few years, it also notes that the federal government remains an outlier when compared to local and state governments, and the private sector. This affects productivity first and foremost, though it also has significant impacts on the way the region's economy is structured, including on WMATA. The CAO Workgroup echoes the call for a greater return to office participation by the federal government that the region's Chief Administrative Officers made earlier this year.

8. **<u>Increase Federal Contributions to WMATA</u>.** WMATA services are extensively used by the federal workforce and as such they form the system's largest group of customers. Pre-COVID-19 pandemic, it was estimated that approximately 40 percent of federal workers were

regular users of Metrorail and about 17 percent of all Metrorail riders were federal workers. Many federal agency offices are within close proximity of a Metrorail station and station proximity is an important factor in locating federal agency offices in this region. While the federal government contributes to WMATA's operating costs, it does so only through transit benefits provided to its employees. As these employees are using the Metro system significantly less, due to current teleworking practices, the federal transit benefit funds are not reaching WMATA. The criticality of Metro services for federal government employees and the impact of the current teleworking practices of the federal agencies in the region are compelling reasons for WMATA to directly receive these federal transit benefit funds.

If these eight recommendations are implemented, the CAO Workgroup is confident that WMATA will have the tools necessary to serve the region over the next one to two fiscal years. However, at the end of this period, the ability for WMATA to shift sizeable preventive maintenance funds to operating costs will no longer be a viable option, and WMATA — and the region— will face serious consequences. As such, the CAO Workgroup makes a ninth and final recommendation to this interim report:

9. **Undertake a Comprehensive, Regional Examination of WMATA.** The issues that WMATA faces have been discussed for years and have been accelerated by the effects of COVID-19. It is time that the region came together to offer— and implement— solutions. Over the next year, the CAO Workgroup is prepared to engage WMATA, the Metro Funding Strategy Group, and private and nonprofit partners to do just that. WMATA's operating and funding model and its governance will be examined to develop actionable recommendations that will ensure a safe and reliable system with sustainable and predictable funding over the long term.

The CAO Workgroup believes its engagement over the past few months with WMATA has helped develop a better shared regional understanding of the financial situation and inform and support initial actions to rein in costs and present various options. The CAO Workgroup remains committed to engaging with WMATA, the Strategy Group, and regional stakeholders on the operating cost factors as the budget process moves forward over the next several weeks and months.

The CAO Workgroup's engagement with WMATA over the past months has also highlighted that in future years, WMATA will be facing a significant shortfall in its capital funding, used to maintain the system in a state of good repair (SGR). This shortfall is anticipated by FY 2029 – or sooner in the event of sizable transfers to cover preventive maintenance costs – and also requires urgent attention. The 2018 regional agreement that currently provides $500 million annually in dedicated capital funding did not account or allow for inflation related increases in SGR costs. WMATA estimates that the current stream of dedicated capital funds will fall short of being able to support new work activities and will mostly be dedicated to debt service costs by FY 2029.

Any capital funds transferred to meet the immediate term operating budget shortfall in FY 2025 – and possibly FY 2026 – by funding preventive maintenance costs (above the levels that WMATA periodically does, about $60 million), something which the CAO Workgroup reluctantly recommends, will accelerate the date by when WMATA's dedicated capital funds will be unable to adequately fund its SGR program. The date by which this situation is accelerated depends on the amount of capital funds that are transferred for operations in FY 2025 and beyond. For example, WMATA has estimated that if the maximum allowable (by the FTA) amount of $345 million is transferred from capital to operating programs, the capital fund deficit will begin in FY 2028 instead of FY 2029. And uncertainty over inflation and major rehabilitation project costs continues, which could also affect the sustainability and effectiveness of the SGR program. Accordingly, a regional funding solution is needed to meet Metro's capital and maintenance needs as soon as 2026. Any regional effort that develops a long-term funding strategy for WMATA operations must also include the capital needs as well. The CAO Workgroup remains committed to examining the system's capital needs as part of a comprehensive, regional examination of WMATA's operating and funding model and its governance to ensure a safe and reliable system with sustainable and predictable funding over the long term.

INTERIM REPORT

Metro's Value to the Region

Metropolitan Washington is a diverse and dynamic region, home to almost 6 million residents and forecast to grow by an additional 1.5 million people by 2050. The region's economy features Fortune 500 companies, federal agencies and contractors, and a wide array of local businesses. A robust transportation network connects this region, and WMATA is the largest single provider of public transportation. It accounts for over 80 percent of all public transportation trips in the region through its high-capacity Metrorail system, expansive Metrobus system (complemented by local jurisdictional bus services), and Metro Access paratransit system. Without Metro, the transportation network of downtown D.C. and the broader region could not function. Additionally, meeting the mobility needs of low-income and economically-disadvantaged residents and populations that rely on public transportation, including seniors, students, and new residents, can only be accomplished with WMATA's services.

The region's economy is intertwined with Metro—60 percent of the population, 70 percent of the jobs, and half of all employers are within one-half mile of a Metrorail station. Also, the one-half mile around Metro stations constitutes three percent of the region's land yet contains 65 percent of new office and 50 percent of new apartment developments, a quarter of all affordable housing and 30 percent of the region's total property value – estimated at about $328 billion. The areas around Metrorail stations are the focus of billions of dollars of business investments and activity, in turn generating significant tax revenues. For example, the Northern Virginia Transportation Commission (NVTC) estimates Northern Virginia's transit network generates $1.5 billion in annual personal income and sales tax revenue for Virginia. Approximately $1 billion of it can be attributed to the Metro.

The Metro system is how servicemen and servicewomen get to and from the Pentagon and other military installations, how the region is able to host Presidential inaugurations, support First Amendment demonstrations, and million-person marches, how secondary and university students get to school, and why businesses strategically locate here. In addition to mobility, Metro helps the region advance several interconnected priorities, such as COG's housing, equity, and climate goals. Metro anchors numerous transit-oriented communities across the DMV where jurisdictions are looking to increase the amount of housing at all income levels. It expands economic opportunities for employees and employers. It also provides environmentally friendly travel options, which contributed to the region meeting its 2020 climate goal and will be instrumental to meeting a 2030 goal to reduce greenhouse gas emissions by 50 percent below 2005 levels.

Developments since 2008

In June 2008, WMATA recorded its highest regular ridership on the Metrorail system. The onset of the Great Recession later that year had a multi-year effect on ridership, which has yet to recover to the same level fifteen years later. In addition, several tragic safety incidents, notably in 2009 and 2015, brought to light deficiencies in the system's operations and state of good repair which required considerable action, including complete closures of the system and disruptions during the SafeTrack work program and successive rehabilitation projects. However, ridership trends were positive as the decade of the 2010s drew to a close with the opening of the first phase of the Silver

Line and as the backlog of state of good repair projects was completed. The onset of the COVID-19 pandemic in 2020 changed the trajectory, with a huge negative impact on transit ridership, and which more importantly has led to an apparent lasting negative change in the demand for commuter travel, especially on the rail system and into the downtown core of the District of Columbia. Greatly increased telework, particularly by federal employees but across many white-collar jobs, has led to this reduced ridership. Three-and-a-half years since the COVID-19 pandemic began, rail ridership is barely sixty percent of the 2019 level. Metrobus has done better, serving as it does as the only means of transportation for many less affluent persons, with ridership approaching ninety percent of pre- COVID-19 pandemic at times.

The COVID-19 pandemic not only led to significant reductions in ridership and a related loss of passenger revenues. A sharp increase in fare evasion, due to several factors, also impacted revenues, which has led to WMATA instituting new physical and technological measures to combat this issue. At the same time, interest in equity and in promoting public transportation as a climate-friendly mode of transportation led to several fare initiatives which also impacted revenue by reducing average fares paid, such as the introduction of free rail-bus transfers and reductions in the price of weekly bus passes.

COG and WMATA

COG has a long history of involvement in WMATA funding and governance given its role as a regional forum. Working with regional leaders and other regional organizations, especially the Greater Washington Board of Trade (BOT), COG has studied WMATA governance and funding several times in the past decade. COG also stood up the Washington Metrorail Safety Commission on behalf of the states and has coordinated with WMATA and area fire departments to develop safety protocols and improved emergency communications.

In 2016, COG and BOT supported a regional series of *Metro at 40* forums to discuss ongoing issues of performance and funding. Previously in 2010, COG and BOT created the Joint WMATA Governance Review Task Force to assess and provide recommendations to improve WMATA's performance and reliability, including through improved governance.

More recently, in 2017, COG's Chief Administrative Officers (CAO) met to develop a technical report on a comprehensive-long-term approach to funding Metro's capital needs for state of good repair. This directly contributed to the 2018 agreement by the District of Columbia, Maryland, and Virginia to provide dedicated capital funds of $500 million annually to WMATA for use in leveraging borrowing to fund a backlog of SGR needs in their capital program to maintain system safety and reliability.

COG Retreat, July 14, 2023

During the early part of 2023, as part of the development and adoption of its FY 2024 operations budget, WMATA staff indicated that the federal COVID-19 pandemic aid funding WMATA was using for its annual operations would soon be fully drawn down and that WMATA would have to find a way to restore this funding in order to maintain its service levels in the following fiscal year, 2025. Later in the year, around July 2023, WMATA released its preliminary estimate of operating funding for FY 2025 depicting a potential deficit of $750M attributable to the loss of federal aid funding, higher than usual inflation impacts and the cumulative impact of a subsidy credit WMATA had provided its member jurisdictions during the peak COVID-19 pandemic period (2020). WMATA staff informed the board that they would have to examine and outline an approach on how best to address this potential operating funding deficit by the end of the year to allow staff to develop its FY 2025 operating budget for timely adoption by the board.

Metro's operating funding deficit for FY 2025, was one of the major topics discussed at the COG's annual Leadership Retreat of local elected officials on July 14, 2023. During the retreat, following an overview briefing by COG staff, WMATA General Manager & CEO Randy Clarke provided a detailed briefing on the matter of operating budget and the deficit for FY 2025 and the breakdown of the forecast $750M in potential funding deficit in FY 2025. Clarke's briefing was followed by a panel of speakers including Charles Allen, District of Columbia Council member; Paul Wiedefeld, Maryland Secretary of Transportation; Jenny Reed, District of Columbia Director of the Office of Budget and Performance Management; and Jennifer DeBruhl, Virginia Department of Rail and Public Transportation Director. Each panelist discussed their agency/administration's own fiscal situations in the context of assisting the region in addressing the WMATA operating budget deficit. There was a discussion among all retreat participants on the matter.

The consensus from the discussion was that WMATA was the most significant provider of public transportation in the region; WMATA is critical to the aspirations for an equitable, sustainable, and prosperous region with safe and reliable mobility and accessibility to all. The leadership agreed to immediately convene regional and state leaders to collectively work on understanding the nature and magnitude of fiscal challenge faced by WMATA and identify a path forward to addressing this issue both in the immediate and longer terms.

In August 2023, the COG Board established the Metro Funding Strategy Group consisting of elected officials and senior state administrative representatives to work on the issue. The COG Board also charged its Chief Administrative Officers (CAO) Committee to work with WMATA staff to conduct a thorough review of WMATA's cost structure, identify ways to optimize the funding needed for FY 2025 and identify factors to focus on to optimize WMATA's operating costs that the region could fund into the future. Members of the CAO Workgroup include the CAO of the COG member jurisdictions, representative of the Transportation Secretaries of Maryland and Virgnia, the District of Columbia Chief Financial Officer (DC OCFO), the Northern Virgnia Transportation Commission and the Washington Suburban Transit Commission. The DC OCFO agreed to support the COG CAO Workgroup by working directly with WMATA's office of the CFO and other staff to better understand the operating cost structure of WMATA.

Workgroup Focus and Discussions

The CAO WMATA Cost Structure Workgroup met regularly starting in August 2023 and was greatly assisted by the participation of WMATA staff and the staff from the DC CFO's office. Representatives of executives of Maryland and Virginia and the Mayor of the District of Columbia also participated in the detailed review and discussions.

A key outcome of the CAO Workgroup's initial discussions was the identification of the operating cost elements that WMATA and the jurisdictions have available to manage the costs. These are: administrative and management costs, the subsidy payments including federal contributions, fares, service levels, and the budgetary exercise of shifting of capital preventive maintenance funds to operations.

The consensus of the CAO Workgroup was that no action in just one of these areas would be able to address the fiscal challenge of FY 2025. To be able to address the significant fiscal deficit forecast for WMATA's FY 2025 and the longer term, the CAO Workgroup believes action would be needed on all of the above elements. Relying too heavily on one of the above solutions risks an inadequate outcome to address the problem and placing an undue burden on a limited stakeholder. A balanced and longer-lasting approach would tap into each option identified, at varying levels, that would allow for a solution for FY 2025 and set the stage for a longer-term agreement for FY 2026 and beyond. The CAO Workgroup also recognized that working on these cost elements will need a thoughtful, collaborative, and coordinated approach to design and implement. Additionally, the CAO Workgroup recognized that most any action on these cost elements will be challenging and will not be free of some consequence which will have to be minimized and cannot be eliminated.

During the CAO Workgroup's meetings, WMATA was also working, under the direction of its board, as part of its own process examining many of the above cost elements to determine what potential actions could be taken to reduce the forecast deficit in operating funds for FY 2025.

Metro Financial Update

FY2025 Potential Scenarios

PRELIMINARY

	$ in Millions	Scenario A Historic PM	Scenario B FY2024 PM	Scenario C Max PM
	FY2025 Deficit	**$750**	**$750**	**$750**
FY2024 Forecast	Operational Efficiency FY23 – FY24 (one-time)	- $95	- $95	- $95
	FY2024 Revenue Forecast Adjustment*	+ $45	+ $45	+ $45
FY2025 Initiatives	Cost Efficiency Task Force (recurring)**	- $50	- $50	- $50
	Preventive Maintenance Transfer Options	- $0	- $139	- $285
	Total Preventive Maintenance	[$60]	[$199]	[$345]
	Revised FY2025 Deficit Forecast*	**$650**	**$510**	**$365**
October Discussion	Potential Service Cuts	TBD	TBD	TBD
	Potential Fare Increases	TBD	TBD	TBD
	Potential Inflation Reduction	- $23	- $23	- $23
	Potential Federal SmartBenefits Replacement	- $50	- $50	- $50
	Potential Deficit w/ Federal Replacement	**$577**	**$437**	**$292**

* $45M Revenue Forecast Adjustment - includes $65M average fare and trip adjustment (rev. decrease) offset by $20M fare evasion recovery (rev. increase)
** Amount above annual 3 percent growth cap from FY2024-2025
Note: Totals may not sum due to independent rounding

25 of 67

WMATA staff shared the results of its work in two sets; in the first set of findings WMATA shared its estimates of potential reduction in FY 2025 operating costs through some financial management and internal efficiency actions it could take. These actions were estimated to reduce FY 2025 operating costs by a net of about $100M. As part of this analysis WMATA also identified a range for potential transfer of capital funds to the operating budget to fund preventive maintenance costs above and beyond the $60M in such transfers WMATA has already assumed for its FY 2025 budget. WMATA also identified potential actions it would have to take to realize these capital funds depending upon the amount transferred. This analysis also showed how such a transfer would accelerate the shortfall in capital funds that WMATA currently estimates it will have to contend with starting in FY 2029 if not earlier. Lastly, this analysis also showed that with some federal action the deficit could be further reduced by about $25M. For example, re-allocating budgeted federal agency funds for SmartTrip Benefits that have been unused but designated for WMATA. While the CAO

Workgroup supports a federal contribution to WMATA operations and believes this should be explored as part of the longer term WMATA funding model, the group was not confident that such a contribution would be reasonable to expect for WMATS's FY 2025 budget.

In the second set of findings WMATA staff shared_additional work it had done with its board, that examined the potential of additional actions that could impact the operating funding needs in FY 2025. These actions include changes in fares and service levels. The WMATA analysis addressed the competing impacts of these two actions – fare increases would bring in more revenue per person, yet it could also lose riders. Similarly, service reductions, if not designed appropriately, could lose riders- emphasizing the need for a thoughtful and thorough approach to service changes.

FY2025 Scenarios

FY2025 Potential Scenarios

	Operating Budget: Illustrative Concepts				
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
$ in Millions	Standard PM No service cuts Most add'l Subsidy	Max PM No service cuts Some add'l Subsidy	Max PM Targeted service cuts Least add'l Subsidy	Max PM[C] Major (~33%) svc. cuts No add'l subsidy	Standard PM Severe (~60%) svc. cuts No add'l subsidy
FY2025 Deficit	**$750**	**$750**	**$750**	**$750**	**$750**
One-Time Savings + Cost Efficiencies	- $145	- $145	- $145	- $145	- $145
FY24 Revenue Adjustment[A]	+ $45	+ $45	+ $45	+ $45	+ $45
Preventive Maintenance Transfer Options[B]	- $0	- $285	- $285	- $220	- $0
Fare Increase[D]	- $0	- $0	- $25	- $25	- $25
Service Cuts[D]	- $0	- $0	- $25	- $405	- $625
Additional Subsidy to Balance Budget[E]	**$650**	**$365**	**$315**	**$0**	**$0**
Potential Inflation Reduction	- $23	- $23	- $23	- $23	- $23
Potential Federal SmartBenefits Replacement	- $50	- $50	- $50	- $50	- $50
	$577	$292	$242	Service cut relief	
FTE Impact[D]	-	-	-175	-2,900	-4,700

A. $45M Revenue Forecast Adjustment - includes $65M average fare and trip adjustment (rev. decrease) offset by $20M fare evasion recovery (rev. increase)
B. Additional PM transfer above $60M annual base amount
C. Maximum PM transfer reduced due to cuts to eligible maintenance activity
D. 10 to 12.5% increase; does not include parking.
E. Amount above annual 3 percent growth cap from FY2024-2025

Note: Totals may not sum due to independent rounding

38 WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY 48 of 67

District of Columbia Office of the Chief Financial Officer Analysis

In support of the CAO Workgroup discussions, the District of Columbia Office of the Chief Financial Officer's (DC OCFO) took the lead in evaluating recent operating costs and revenues for WMATA to provide independent analysis and assurance to the CAO Workgroup on key topics. The DC OCFO staff worked with WMATA to examine several factors including a review of the preliminary FY 2025 operating budget gap, state contributions, FY 2025 operating costs and cash flow. The review also included the cost savings WMATA had identified from the financial management and internal efficiency actions WMATA could take to reduce the FY 2025 operating budget deficit.

The DC OCFO staff confirmed the preliminary estimates of annual operating gap of $750 million for WMATA's FY 2025 to continue operations at the current levels. The review also confirmed the key factors leading to this deficit including: the end of the federal COVID-19 pandemic relief, which had been used to offset the decline in fare revenue, the increase in operating expenses over the years, and the subsidy credit provided to its members during the COVID-19 pandemic. Pre- COVID-19 pandemic in FY 2018, WMATA fare revenue covered 45 percent of operating expenses while the forecast for FY 2025 is that revenues will cover just 20 percent of operating expenses; During the FY 2018 to FY 2024 period, operating expenses grew at a rate of 4.5 percent while operating revenues declined annually by 6.5 percent. Importantly. WMATA did not increase its subsidy requests in 2021 and 2022 after having provided subsidy credit to its members when federal relief fund was first made available to WMATA. The OCFO review determined that without this subsidy credit, member subsidy amounts would have increased annually at 6 percent.

Workgroup Recommendations

The COG CAO Workgroup has spent the second half of 2023 discussing options for cost management and optimization for WMATA services and concurs with WMATA that additional funding is needed to provide an acceptable level of service during FY 2025. Without any additional funding, beyond the agreed annual three percent increase in subsidies by WMATA funding partners above the FY 2024 level, there will have to be drastic and unacceptable levels of service cuts which could seriously affect the viability of WMATA and its service.

To ensure WMATA is in a strong position to serve the region, the CAO Workgroup recommends the following actions:

1. **Re-baseline WMATA's Subsidy**. ***Subsidy payments from WMATA members should be reset to account for the impacts of the COVID-19 pandemic on operating costs and should serve as the baseline subsidy for future calculations.*** Beginning with the operating budget for FY2020, WMATA started applying the Maryland and Virginia legislative caps of allowable annual increase in operating subsidy to three percent relative to the previous year's amounts. During the height of the COVID-19 pandemic in 2020, WMATA issued a one-time subsidy credit to its funding partners of $135 million, given the federal aid that WMATA had received. This made good sense at the time given the drastic drop in ridership and revenues experienced by all of the region's transit operators, the general uncertainty in the economic outlook of the WMATA funding partners, and the substantial federal dollars coming to WMATA and the region.

   However, WMATA did not receive authorization from Maryland and Virginia to reset the operating subsidy levels for its FY 2022 operating budget to account for the subsidy credit provided in FY 2021. With no explicit authorization from Maryland and Virginia to reset the subsidy levels, the reduced subsidy levels from FY2021 became the base amount for applying the annual three percent increase. Additionally, in 2021 WMATA did not increase the subsidy by the allowable three percent. WMATA estimates that the combined effect of this one-time subsidy credit, the forgone six percent annual increase over a two year period, and the reduced baseline subsidy levels for subsequent budgets is that the operating subsidy for FY 2025 is lower than what it would have been by about $196 million. Additionally, historic levels of inflation, binding labor agreements related to the increase in labor costs during this period, have created an additional deficit of about $266 million. The result is that WMATA's base budget reflects where the system was several years ago. As such, WMATA funding partners must take legislative action to authorize WMATA to reset the operating subsidy baseline to account for the impacts of the COVID-19 pandemic on operating costs. WMATA funding partners should be prepared to provide the additional subsidy amounts resulting from the re-baselining. Given the existing shared funding responsibilities in Virginia, the state should play a large role in contributing to the re-baselining.

2. **<u>Keep the Operating Cost Increase Cap in Place</u>**. ***While WMATA's baseline budget must be adjusted upwards, the current cap in year over year operating subsidy increases to its funding partners should stay in place.*** In 2018, the region came together with support from COG and other partners to establish $500 million-a-year in dedicated funding to help Metro to implement its $15.5 billion, 10-year capital improvement program. As part of that commitment, a 3 percent cap was put in place to provide room for WMATA's budget to increase year over year, in a responsible and predictable manner. While future work will look at whether this 3 percent cap is the most effective tool at addressing rises in cost (i.e. should it be a different percentage, or should it be tied to a metric like the Consumer Price Index for Urban Wage Earners given today's inflation rates), the bottom line is that WMATA's year over year cost increases must be predictable and manageable.

3. **<u>Reduce Administrative Costs</u>.** The CAO Workgroup applauds management actions WMATA has identified to date and recommends they be retained for FY 2025. One-time cost savings predicted for FY 2025 total nearly $100 million and will be carried over into FY 2025. WMATA has also identified $50 million in recurring costs that impact FY 2025 and beyond. Given that 70 percent of WMATA's costs are tied directly to personnel, management will need to continue to thoroughly pursue all opportunities to reduce its administrative and management costs to be best in class. Such actions should be taken in a manner that is equitable and ensures WMATA remains competitive in a very tight labor market.

4. **<u>Increase Fares, Improve Participation of Metro Lift, and Decrease Evasion</u>.** While it is important to keep fares affordable to encourage ridership and provide accessibility, the CAO Workgroup recommends an increase in fares to help narrow the funding gap and ensure riders are also contributing to the shortfall. Although any proposed increase in fares must be accompanied by – with the support of the region – new strategies to increase participation in Metro Lift, WMATA's new low-income fare product. While over 5,000 people have been signed up for Metro Lift, an estimated 400,000 area residents are believed to be eligible. And, while the CAO Workgroup recognizes that some amount of fare evasion is typical in any major transit system, it encourages WMATA to continue to take steps to curb this practice. The CAO Workgroup applauds the installation of faregate barriers and notes that this is resulting in substantial decreases in evasion.

5. **<u>Transfer Capital Preventive Maintenance Funds to Operating Costs</u>.** The CAO Workgroup recognizes the importance of maintaining the WMATA system in a state of good repair by fully funding its capital program; accordingly, it considers a sizable transfer of capital funds as an interim measure to help the region secure the significant additional funding needed for WMATA's operations in FY 2025 and potentially in FY 2026. Determining the amount of capital fund transfer must be balanced with the targeted service and fare changes. It is acknowledged that WMATA, as well as many other transit agencies, often transfer some capital funds (e.g., $30 million, $60 million) to cover preventive maintenance costs in the operating budgets, but not at the amount called for in FY 2025 budget discussions. Other major transit agencies do this as well, some in proportionately larger amounts as a share of the budget, but such transfers are based upon the size and requirements of their service as well as their unique funding arrangements. More importantly, any sizable increase in transfers in FY 2025 and beyond would accelerate the impending deficit in WMATA's capital funding program.

6. **<u>Implement Targeted Service Reductions</u>.** While the CAO Workgroup understands that WMATA is currently engaged in a larger exercise to reexamine its service offerings to better match demand, it believes that targeted service reductions for FY 2025 should be thoroughly examined and implemented. The CAO Workgroup feels strongly that any drastic service cuts should be avoided while working with funding partners and local jurisdictions to identify and implement targeted reductions that both better balance service and demand and minimize the impact on the transit dependent population, while providing enough service to maintain the ridership recovery and accommodate a greater return of the workforce commuting to and from the office. It is important that local elected and executive officials are part of these discussions when reductions are being considered, and clearly understand what specific services would be reduced, so that they can weigh the impacts to their communities.

7. **<u>Continue Advocating for a Greater Return of In-Office Participation by the Federal Government</u>.** While the CAO Workgroup recognizes that the way people work has changed over the last few years, it also notes that the federal government remains an outlier when compared to local and state governments, and the private sector. This affects productivity first and foremost, though it also has significant impacts on the way the region's economy is structured, including on WMATA. The CAO Workgroup echoes the call for a greater return to office participation by the federal government that the region's Chief Administrative Officers made earlier this year.

8. **<u>Increase Federal Contributions to WMATA</u>.** WMATA services are extensively used by the federal workforce and as such they form the system's largest group of customers. Pre-COVID-19 pandemic, it was estimated that approximately 40 percent of federal workers were regular users of Metrorail and about 17 percent of all Metrorail riders were federal workers. Many federal agency offices are within close proximity of a Metrorail station and station proximity is an important factor in locating federal agency offices in this region. While the federal government contributes to WMATA's operating costs, it does so only through transit benefits provided to its employees. As these employees are using the Metro system significantly less, due to current teleworking practices, the federal transit benefit funds are not reaching WMATA. The criticality of Metro services for federal government employees and the impact of the current teleworking practices of the federal agencies in the region are compelling reasons for WMATA to directly receive these federal transit benefit funds.

LARGER TOPICS TIED TO WMATA'S OPERATING PROGRAM

The following section summarizes the analysis primarily by the DC OCFO and CAO Workgroup discussions and sentiments on a few larger topics tied to WMATA's operating program.

JURISDICTIONAL SUBSIDIES

In an effort to better understand how the 3 precent cap on annual increase in operating subsidy had worked, the OCFO analysis determined that jurisdictional subsidies were increasing by four percent annually. While state subsidy contributions are constrained by Maryland and Virginia laws that limit annual operating subsidy increases to 3 percent, various exclusions to this three precent "cap" on growth in the base operating subsidy have been negotiated or determined that have resulted in an average annual increase of 4 percent. The exclusions include:

- Costs as a result of changes in law
- Costs arising from legal disputes
- Service increases (Most notably the opening of the Silver Line extension to Dulles Airport and Loudoun County.)
- Additional capital expenses from service increases

The OCFO found that since 2018 the cost of "exclusions" has equaled about $250 million annually, leading to the annual growth of four percent in the regional operating subsidy.

COVID-19 PANDEMIC FEDERAL RELIEF

The COVID-19 pandemic started in March 2020 and immediately impacted ridership and service needs, as well as rider revenues with bus operators suspending fare collection completely. Late that month the federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided financial assistance to public transportation agencies across the nation. At the end of 2020, WMATA was discussing possible actions to significantly reduce service in the upcoming year when the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act with additional assistance was passed in December 2020. Finally, ahead of the WMATA FY 2022 budget approval the federal government passed the American Rescue Plan Act of 2021 (ARP) in March 2022. The three tranches of federal assistance enabled WMATA to continue operating service at levels which were gradually restored to near pre- COVID-19 pandemic levels. The remaining federal funds have been used to cover the budget into the current fiscal year, FY 2024, but have been exhausted.

It should be noted that funds from the federal assistance acts were distributed or credited to other public transportation providers in the region, including local jurisdiction bus operators that did not normally take or receive federal funds.

Given the federal aid, WMATA did not increase jurisdictional study contribution requests in 2021 and 2022 even at the legislatively permitted three percent per year. Instead, federal relief revenues were used in place of increasing jurisdictional contributions. If those annual increases had not been suspended, funding partners would have subsidized WMATA with an additional $195 million. This would have led to partners' contributions increasing approximately six percent annually. In contrast, the OCFO noted that the District's General Fund revenue growth in the same period was 4.0 percent annually; in other words, WMATA's subsidies were growing faster than the District's revenues.

LABOR COSTS

An important factor in WMATA's operating costs is the cost of labor, which makes up over seventy percent of costs. This is consistent with labor's share of operating costs at other major public transportation providers. The DC OCFO worked with WMATA staff to review the recent experience in labor costs increases and found:

WMATA has Collective Bargaining Agreements (CBAs) with five unions, with the largest of these Local 689 of the Amalgamated Transit Union (AFL-CIO/CLC). Wages are only part of compensation and employee costs, which also include health care, pension benefits, etc.

However, the negotiated wage rate with Local 689 has drawn attention to the more than ten percent increase in FY 2023 in accordance with the CBA. Annual increases are shown in the table below.

Table 1: Local 689 CBA Annual Increases (Source: DC OCFO)

Year	GWI	COLA	PBP	Annual Increase
FY2021*	2.00%	N.A.	N.A.	2.00%
FY2022	2.50%	3.15%	0.00%	5.65%
FY2023	2.50%	6.76%	1.00%	10.26%
FY2024	2.50%	1.10%	1.00%	4.60%

**FY2021 annual increase was a flat 2.00% per the CBA*

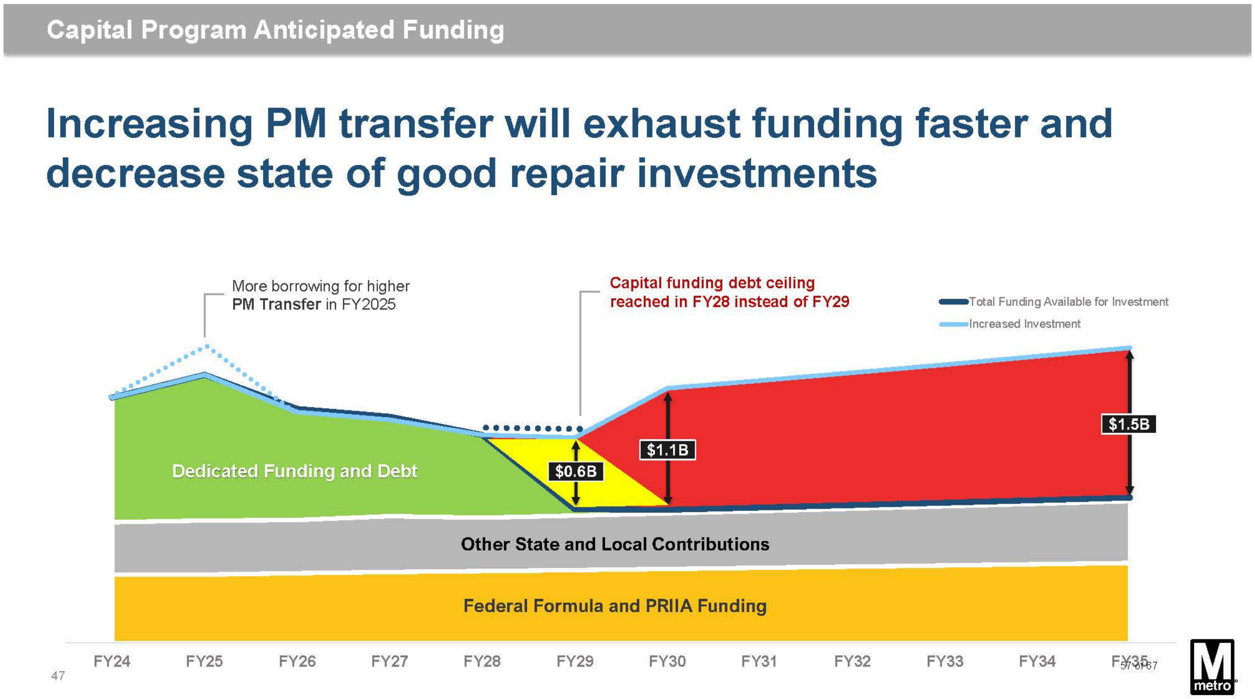
The compensation factors included:

- General Wage Increase (GWI) of 2.5 percent per year;
- Cost-of-Living Adjustment (COLA) equal to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) minus GWI;
- Performance Base Pay (PBP) adjustment that provides a 1 percent wage increase when combined Metrorail and Metrobus systemwide ridership increases by an average of 2 percent or more from the prior fiscal year.

The CBA agreement did not foresee a situation in which ridership decreased significantly for a year as occurred during the COVID-19 pandemic, and then increased in subsequent years as ridership returned leading to the agreed increases, even though ridership continues to remain substantially below pre- COVID-19 pandemic levels.

WMATA LONGER TERM SUBSIDY

The DC OCFO reviewed the scenarios put forward by WMATA in their second set of briefings to the CAO Workgroup in October and November 2023 regarding potential operating and capital expenses in FY 2025. The finding was that scenarios 2 through 4 would help address the operating budget gap for one year. But these scenarios would also accelerate the upcoming "fiscal cliff" for WMATA's capital budget, which based on WMATA's stated needs will require need an additional $500 million annually from funding partners beginning with FY 2029 if not sooner.



While FY 2025 is the immediate issue, there is a structural problem with WMATA's fiscal model. WMATA's operating revenue declined by roughly $350 to $400 million a year due to the COVID-19 pandemic and its impact to date on travel demand. The operating budget gap of $650 million currently forecast for FY2025 will grow by up to $40M or more annually (to account for 3% inflation thereafter). In addition, forecasts indicate that WMATA's capital spending will outpace resources available for capital projects by roughly $500 million annually beginning no later than FY 2029.

In conclusion, the WMATA fiscal model is unsustainable, with the future gap in operating and capital costs, more than current revenues and subsidies, totaling more than $1.25 billion annually. This growth rate in demand for subsidy far outpaces the forecast growth rate of funding partner economies and available revenues. A more prudent financial practice and stricter limits on jurisdictional subsidy growth must simultaneously be adopted to prevent another financial crisis from occurring and begin to affect the reliable, safe, and effective regional public transportation service.

The work to develop a long-term solution to the WMATA financial model must begin as soon as the FY 2025 solution is developed. Given the significant impact to jurisdictional budgets as well as implications for raising dedicated revenue, this work cannot be left solely to the WMATA board, as they have neither the authority to appropriate funding nor raise revenues.

<u>Therefore, the CAO Workgroup also recommends a regional convening of all decision makers and stakeholders of the transit service provided by WMATA to undertake a comprehensive regional examination of WMATA</u>. Over the next year, the CAO Workgroup is prepared to engage WMATA, the Metro Funding Strategy Group, and private and nonprofit partners to do just that. WMATA's operating and funding model and its governance will be examined to develop actionable recommendations that will ensure a safe and reliable system with sustainable and predictable funding over the long term. Part of the considerations for such a detailed examination include:

- **<u>Increased federal contributions.</u>** Moving the federal workforce has been at the front and center of WMATA planning and decision making since its inception. Yet with the change in remote work, federal workforce ridership has dropped substantially, being a large driver of continued low revenues for WMATA. The region must continue its work to seek additional assistance for the nation's Metro system. This could either be through an increase to a direct contribution like PRIIA or by shifting the federal employee transit benefits contribution to be a direct subsidy to WMATA.

- **<u>New Regional Dedicated Funding Source</u>** – The region needs to determine what a new dedicated funding source means. What would be the likely source of such revenue, how the revenue interacts with existing sources, how would it be designed and implemented in the "tri state" region and how will this impact the current jurisdictional subsidies. Further, the revenue source(s) will require close monitoring, and the WMATA budgets adjusted accordingly, to ensure that changes to the dedicated revenue/funding source(s), for any variety of economic driven impacts, will be accounted for without creating additional unplanned and unnecessary budget gaps for WMATA in the future.

- **<u>Cost Controls / Prudent Financial Practices</u>** - The region should also explore all means through which WMATA is able to control escalation in operating costs to an amount that is within the total funding provided by the region. Topics to explore under this item include removal of uncertain cost escalations in collective bargaining agreements, predictable funding requests year over year for the region and / or the WMATA members; multi-year revenue and expenditure forecasting that shows a balanced program to help avoid sudden fiscal cliffs, and for WMATA to provide clearer insight into changes that may need to be made soon because of certain revenue or expenditure considerations.

APPENDIX A: PREVIOUS STUDIES AND BRIEFINGS

This appendix contains links to recent presentations, current agreements, and previous reports and studies of the funding and governance of the Washington Metropolitan Area Transit Authority (WMATA or Metro). It includes WMATA presentations and items, as well as previous work by COG (in several cases in conjunction with the Greater Washington Board of Trade).

WMATA FINANCIAL INFORMATION

COG Retreat, July 14, 2023

Metro Funding was one of the two topics discussed at the COG Retreat on July 14, 2023. Following an overview briefing by COG staff, WMATA GM & CEO Randy Clarke gave a presentation. He was followed by a panel of speakers including Charles Allen, District of Columbia Councilmember; Jenny Reed, District of Columbia Director of the Office of Budget and Performance Management; Jennifer DeBruhl, Virginia Department of Rail and Public Transportation Director; and Paul Wiedefeld, Maryland Secretary of Transportation.

WMATA's Compact Agreement And Funding Sources (COG)

WMATA Immediate Term Fiscal Challenge (GM Clarke)

WMATA Board Presentations

The WMATA Board of Directors and its Finance and Capital Committee have discussed the funding situation several times in 2023.

Future Funding Planning, June 22, 2023

https://www.youtube.com/watch?v=hhJ2EkCXKxk (recording of meeting, beginning at time 33:30)

Metro Financial Update, September 28, 2023

Future Financial Planning - FY2025 Service, Fares and Capital Planning Update, October 26, 2023

WMATA Public Records: Labor and Employee Relations

The following Collective Bargaining Agreements (CBAs) are located on WMATA's Public Records website.

- Union Contract FOP (formerly L639/246, IBT) Metro Transit Police
- Union Contract Local 2, OPEIU
- Union Contract Local 639/246, IBT (Metro Special Police)
- Union Contract Local 689, ATU
- Union Contract Local 922, IBT

REPORTS AND STUDIES

COG

White paper and supporting slides prepared under contract by ICF and Foursquare ITP to evaluate the funding situation and solutions for major transit systems across the US.

National Transit Funding White Paper, June 2023

National Transit Funding, Supporting Slide Deck, June 2023

COG Technical Panel Report on Metro Funding (2017)

https://www.mwcog.org/documents/2017/04/26/cog-technical-panel-report-on-metro-metro/

Metro at 40 Forums – a COG/BOT joint effort (2016)

https://www.mwcog.org/about-us/newsroom/2016/03/31/leaders-focus-on-restoring-metros-world-class-reputation-at-regional-summit-/

https://www.mwcog.org/about-us/newsroom/2016/06/21/at-second-metro-forum-the-heads-of-5-major-north-american-transit-systems-shared-their-insights/

Moving Metro Forward: Report of the Joint WMATA Governance Review Task Force – a COG/BOT joint effort (2010)

https://www.mwcog.org/documents/2010/11/17/moving-metro-forward-report-of-the-joint-wmata-governance-review-task-force-wmata-metro/

WMATA

FY 2024 Budget

https://www.wmata.com/about/records/upload/FY2024-Approved-Budget-FINAL-20231006.pdf (budget book)

https://www.wmata.com/initiatives/budget/ (supporting documents, short explanatory videos)

Why Metro Matters (webpage)

https://www.wmata.com/initiatives/case-for-transit/

Previous Regional Initiatives

Secretary LaHood Report (December 2017)

https://www.novatransit.org/uploads/LinkedDocs/2017/LaHood%20Report%20Final.pdf

Regional Mobility Panel (1997)

http://www.dcwatch.com/govern/regmob6.htm

https://planitmetro.com/wp-content/uploads/2011/03/RegionalMobilityPanel97.pdf

WMATA Riders' Advisory Council Report on Governance (2010)

https://www.wmata.com/about/riders-advisory-council/upload/ApprvdGovRptFinal01Dec10.pdf

Government Accountability Office (GAO)

Report: Washington Metro Could Benefit from Clarified Board Roles and Responsibilities, Improved Strategic Planning (2011)

https://www.gao.gov/products/gao-11-660

Metropolitan Washington
Council of Governments

777 North Capitol Street NE, Suite 300
Washington, DC 20002

mwcog.org