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WMATA’s Funding Needs

The Magnitude and the Effect

Updated to Reflect WMATA’s Proposed FY 2018 Budget

Presentation to the

DC Building Industry Association

May 8, 2017

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Overview

- Development of a reasonable basis to estimate the total WMATA funding gap
  - ✓ *Realistic State of Good Repairs (SGR) capital needs*
  - ✓ *Operating and maintenance gap*

- The models initially developed for this analysis have been updated based on WMATA's Proposed FY 2018 operating and capital budgets

- Potential impact of the Capital Needs Inventory (CNI) versus the CIP

- Need for additional contributions to fill the gap, and the impact on jurisdictions

- Determine the needed level of a dedicated funding source

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Assumptions to Address the Funding Gap

Data

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

Funding Assumptions

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

Analysis

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

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Key Assumptions – Operating and Maintenance

Operating and Maintenance Budget

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

(Dollars in Thousands)

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

See the full Pro Forma for greater details

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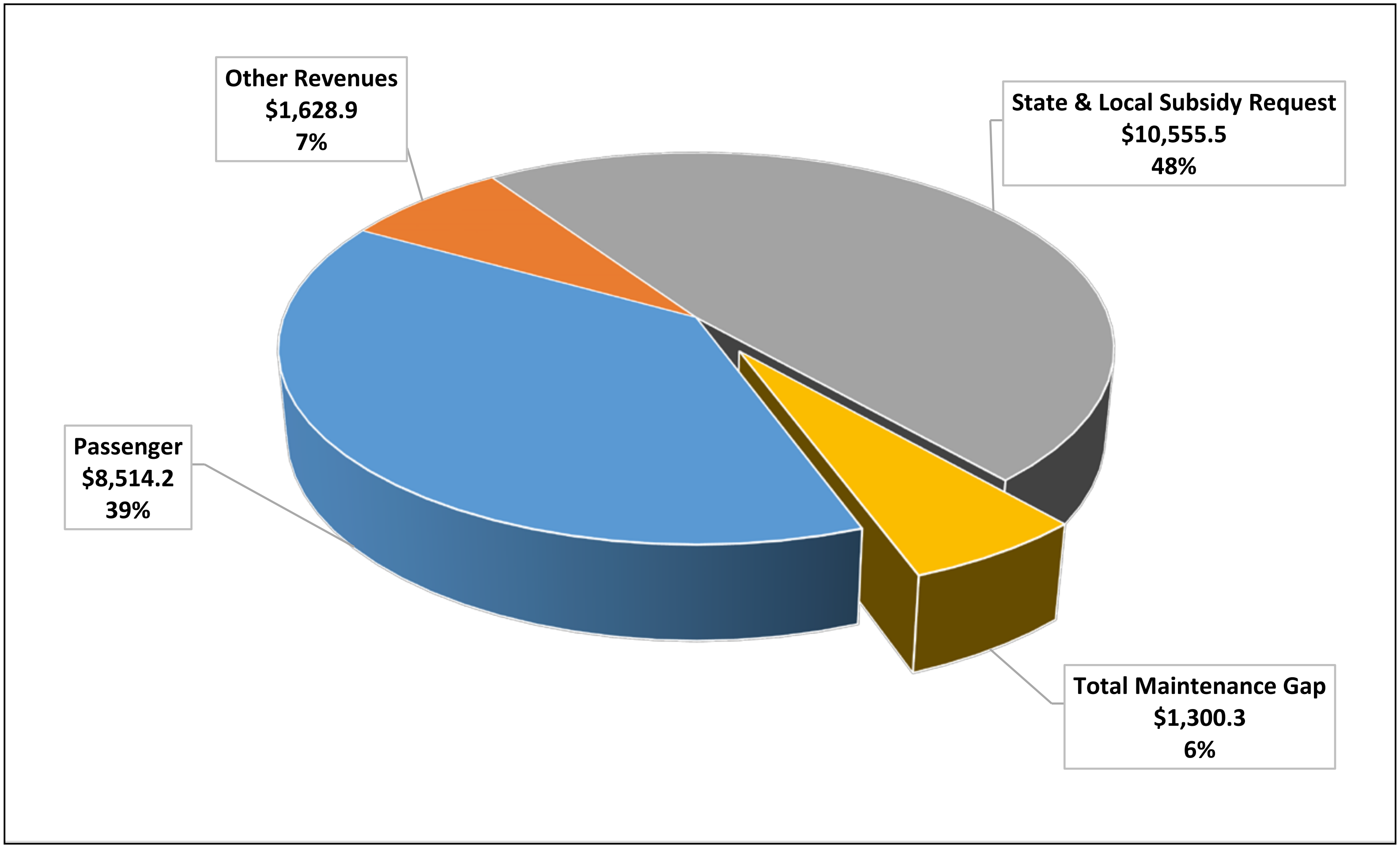
Operating Revenue & Maintenance Funding Gap
(in $millions)



Total is approx. $21 Billion

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Key Assumptions - CIP

Capital Improvements Program

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

(Dollars in Thousands)

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

See the full Pro Forma for greater details

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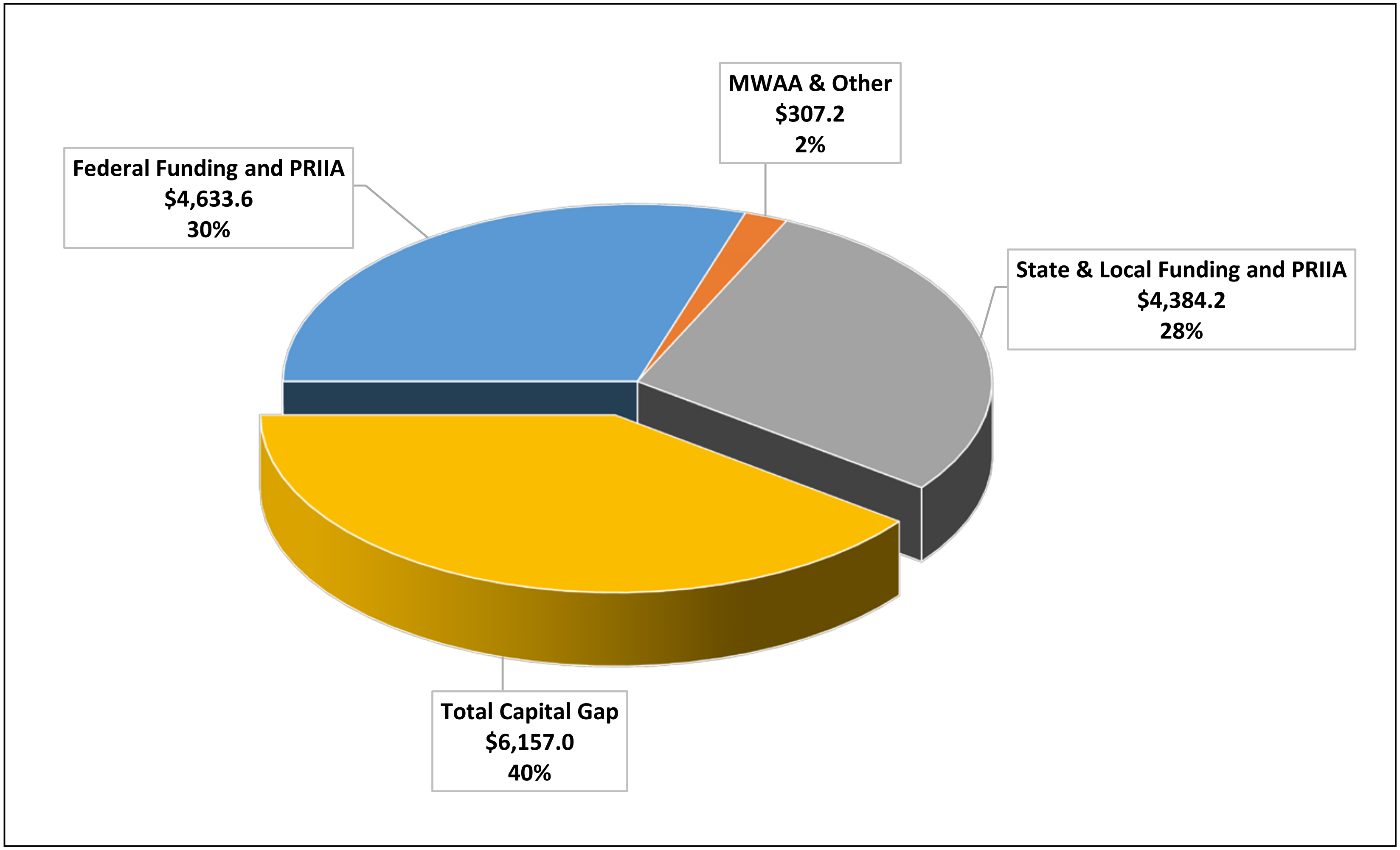
Capital Budget Revenue & Funding Gap

(in $millions)



Total is approx. $15.6 Billion

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Total 10-Year Funding Gap Summary

($ Millions)

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

(Dollars in Thousands)

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

See the full Pro Forma for greater details

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Recommendations to Fund Gap

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

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Criteria for a Dedicated Funding Source

- Ease of Implementation (Can it be done through existing systems and what are administrative costs?)

- Predictable and Sustainable (Does the source of funding allow it to be pledged for debt financing?)

- Revenue Yield (Will the source provide enough revenue to meet funding gaps without excess increases above current levels?)

- Fair and Equitable (Does the tax or fee paid reflect the commensurate benefits from the transit system funded?)

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Dedicated Funding Source Options

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

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

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Benefits of a Uniform Regional Sales Tax

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

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

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Dedicated Tax to Fund Capital Gap

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

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

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

Est. Costs of Other Critical Capital Projects Beyond SGR (from Metro's published CNI):
1. New Rosslyn Connection – $2 billion or more
2. Major station capacity increases - $260M
3. Heavy overhaul facility (Rail) - $375M
4. Relining of Red Line tunnels – *cost TBD*

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Summary of Issues

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

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Key Take-Aways

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

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Impacts of No Additional Funding

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

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Estimate of Tax Losses in Metro Compact Area

(Income, Property, Sales & Use)

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

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Other Issues

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

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Questions ?