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Metro's Path Forward

A comprehensive approach toward reform

July 26, 2017

Metro Reform: Executive Summary

- Metro is not living up to the promise of public transit: to be a safe, affordable and reliable means of transportation.
- Its challenges are rooted in governance, operations and funding, all of which are guided by the WMATA Compact.
- Compact reform could be an effective means towards reform. An amended WMATA Compact could:
  - Provide for governance by industry experts who have a sole fiduciary obligation to Metro, rather than to its constituent political jurisdictions
  - Allow for long-term operational and capital planning, emphasizing safety, efficiency and reducing deferred maintenance
  - Provide long-term financial support for both operations and capital needs

The situation is dire and the time to act is now.

Metro Reform: Background

History: Regional Business Community and Metro

The region's business community has played a instrumental role in the planning, funding, development and financing of the Metro system from the outset. Specifically, the business community was:

- Integral to the work of the National Capital Transportation Agency to develop the system's plan
- As early as 1965, a key leader in the development of a mass transit system for the nation's capital
- Instrumental in the completion of a 1986 report highlighting concerns about long-term maintenance costs
- Supportive of efforts to secure $3.3B Metro Matters agreement to address system capital needs
- Participants in 2005 Metro Funding Panel to identify long-term funding options

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Metro's Value to the DC region

Metro provides a key competitive advantage for the region by providing access to jobs and opportunities for residents. The region cannot survive without this critical piece of transportation infrastructure – our regional transit system, which is regarded by many as America's Subway.

- Metro (rail, bus, and paratransit) delivers 1 million trips on an average weekday
- 54% of all jobs in the region are located within a half mile radius of Metrorail or Metrobus stops
- Metro removes more than one million car trips from our region's roads each day
- Without Metro, commuters in the region would experience commutes 25% longer than they do today
- Real estate located within ½ mile of a Metrorail station represents 27.9% of the area's tax base on just 4% of its land, including 68.1% for DC, 15.3% for Virginia, and 9.9% for Maryland.
- 39% of Metrorail's peak period commuters are federal employees

Metro connects our major transportation hubs, creates walkable urban places, enhances both bicycling and walking as commuting options, and has been the region's best example of inter-jurisdictional cooperation.

Metro Reform: Diagnosis

Metro: A System in Crisis

*Ridership is Falling**

- Metrorail ridership declined 12% between Q42015 and Q42016
- Service is unreliable (actual on-time performance for Metrorail was 70% in CY2016 vs. 84% in CY2015 and 91% in CY2014)
- Safety issues have shaken passenger confidence (i.e., L'Enfant Plaza fire)
- Maintenance activities are inefficient (i.e., escalators and train offloads)

*Financial Challenges**

- $17 billion in "state-of-good-repair" capital needs over the next 10 years
- $2.8 billion in unfunded pension liabilities and other retiree benefits
- $290 million shortfall in FY2018 operating budget
- Unstable cash reserves

The Status Quo is Unsustainable – The Time to Act is Now!

*Figures represent data available as of April 2017

Metro: What is the Problem?

Challenges of governance, operations, and funding have plagued Metro, resulting in systemic dysfunction.

Governance

- *The board has dual fiduciary responsibilities:* Local interests and operational priorities are not aligned with the safety and functionality of the system. This results in stalled efforts to make improvements.
- *The board is large and unwieldy:* Eight (8) principal, voting directors and eight (8) alternate non-voting directors.
- *Board-members transition on and off frequently:* High turnover reduces the consistency and stability of fiduciary oversight.

Failures related to WMATA's governance structure are central to other issues plaguing the system. Absent significant reforms to Metro's governance, other reform efforts will be unsuccessful.

Metro: What is the Problem?

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Operations

- *The system is perceived as being unsafe:* Aging, crumbling infrastructure and deferred maintenance have led to an increasing number of safety incidents.
- *The system's performance is hindered by inefficient operations:* Metro has evaluated options for delivering transit services differently. It should implement the best of those options.
- *Under the current operating environment, WMATA is unable to take advantage of innovative solutions that would increase efficiency and flexibility.*
- *Performance Metrics:* The use of metrics should be expanded to more effectively monitor performance and accountability.

Metro must embrace innovation to allow for a more balanced approach to operations. This includes changes in the use of technology and of personnel. Performance metrics must be introduced for greater accountability and used to measure and reward worker and system performance.

Metro: What is the Problem?

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Funding

- *There is a structural problem producing the budget gap:* Metro has lost significant ridership revenue and does not fully leverage its assets to generate operating revenue.
- *There is no dedicated funding for Metro operations:* Metro funding comes from both rider fares and direct subsidies from the jurisdictions it serves.
- *Existing sources of capital funding are insufficient :* Metro's PRIIA funding expires in the fall of 2018, and its reauthorization is essential. New sources of capital funding are needed, but there is skepticism among decision-makers about putting "good money after bad."

Metro needs dedicated and sufficient funding for both operations and capital. However, Metro must commit to rebuilding credibility and accountability (through governance reforms) in exchange for such funding.

Proposal Principles: New Metro Compact

Metro Reform: What Should a New Compact Look Like?[1]

GOVERNANCE

Key Terms	New Compact Proposal
Board of Directors (number and term)	▪ Nine (9) total directors, 2 each for DC, MD, VA, and federal government, and the WMATA GM/CEO. Four-year terms with staggered starts. There will be a term limit of two.
Board of Directors (appointment criteria)	▪ Does not currently hold or, in the four years prior, held elected political office ▪ Has demonstrable experience in the fields of engineering, mass transit management, large-cap publicly traded Board of Directors, CEO or CFO, or public sector financial management or oversight ▪ A majority of the Directors must be residents of any Metro compact jurisdictions
Board of Directors (Chairmanship)	▪ The board will elect its own chairman with no less than a two-year term (three is ideal).
Board of Directors (Compensation)	▪ Board members will be compensated at a uniform rate by WMATA
Labor Relations	▪ All Collective Bargaining Agreements (CBA) should reflect the fiscal and operating realities of WMATA.[2]

[1] Recommendations taken from FC2 proposal originally published in April 2017
[2] See recommendation for amendment to Wolf Act by GM Wiedefeld

Metro Reform: What Should a New Compact Look Like?[1]

FUNDING: OPERATING AND CAPITAL

Key Terms	New Compact Proposal
Operating Revenue	▪ Earned Revenue: Fares, Advertising and Other Revenue ▪ Federal Contribution: Increase Metro's capture of federal employee transit reimbursement ▪ Operating Subsidies: Signatories commit to a five-year rolling subsidy level
Operating Budget	▪ Once operating revenue estimates are fixed, Board can create an operating budget/plan. The plan will be constructed on a full cost accounting basis. ▪ No Capital funds used for operations and vice versa.

Capital Funding	▪ Either (or both) of the approaches presented below could generate sufficient funding for Metro's 10-year State-of-Good-Repair (SGR) capital needs via bond issuances, with federal and jurisdictional credit enhancement.
	    ▪ A 1% dedicated regional sales tax
	    ▪ An annual fee could be assessed on property owners within a ½ mile radius of a WMATA station entrance, including properties owned by feds and/or Compact signatories.

Capital Budget	▪ Board responsible for creating a 10-year capital improvement plan for every annual budget
Major Investment Program	▪ Board must create and annually update a package of proposals for major infrastructure investment needs (for system expansion or large-cost State of Good Repair). These proposals will include project descriptions, a plan of finance, and endorsement(s) from key stakeholders.

[1] Recommendations taken from FC2 proposal originally published in April 2017

Next Steps

The region's business community has been working to develop a position and strategy on Metro reform. In 2016, several groups publicly launched efforts to provide thought leadership on opportunities to restructure WMATA and to advocate for a sustainable future for Metro. Over the past several months, the business community has reached a consensus on effective steps towards reform and has built a coalition to address the complex challenges plaguing WMATA.

We believe there is a path towards a safe, reliable, affordable Metro, and are relying on local leaders and the federal government to take action.

As a region, we must recognize that we are at a critical junction in the life of our regional transit system. Together, we must move toward reform.

We ask for your consideration of the following:

- Changes in governance structure
  - Smaller Board with relevant experience
  - Sole fiduciary responsibility
- Funding
  - Reauthorization of PRIIA
  - Funding prioritization of large scale transit projects in Infrastructure Bill (e.g., VA Transit Tunnels)
- Operations

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