



**Finance, Administration and Oversight Committee**

**Information Item IV-C**

**March 13, 2008**

**Review FY09 Operating Expenses**

**Washington Metropolitan Area Transportation Authority  
Board Action/Information Summary**

<input type="checkbox"/> Action <input checked="" type="checkbox"/> Information	MEAD Number:	Resolution: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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**PURPOSE**

To present the Board of Directors with a review of the proposed FY09 operating budget.

**DESCRIPTION**

The proposed FY09 operating budget is \$1.3 billion. It furthers our vision of providing “the Best Ride in the Nation” by including funding for service improvements spread across rail, bus and paratransit. It also contains funding to improve on-time performance of buses, increase rail service by expanding the use of eight-car trains, continue maintenance of the rail system and escalators, and provide door-to-door service to our MetroAccess customers while striving to strengthen our employees’ and customers’ safety.

**NEXT STEPS**

Continue to provide information on the proposed FY09 operating budget.



# Review FY09 Operating Expenses

*Presented to the Board of Directors:*

**Finance, Administration and Oversight Committee**

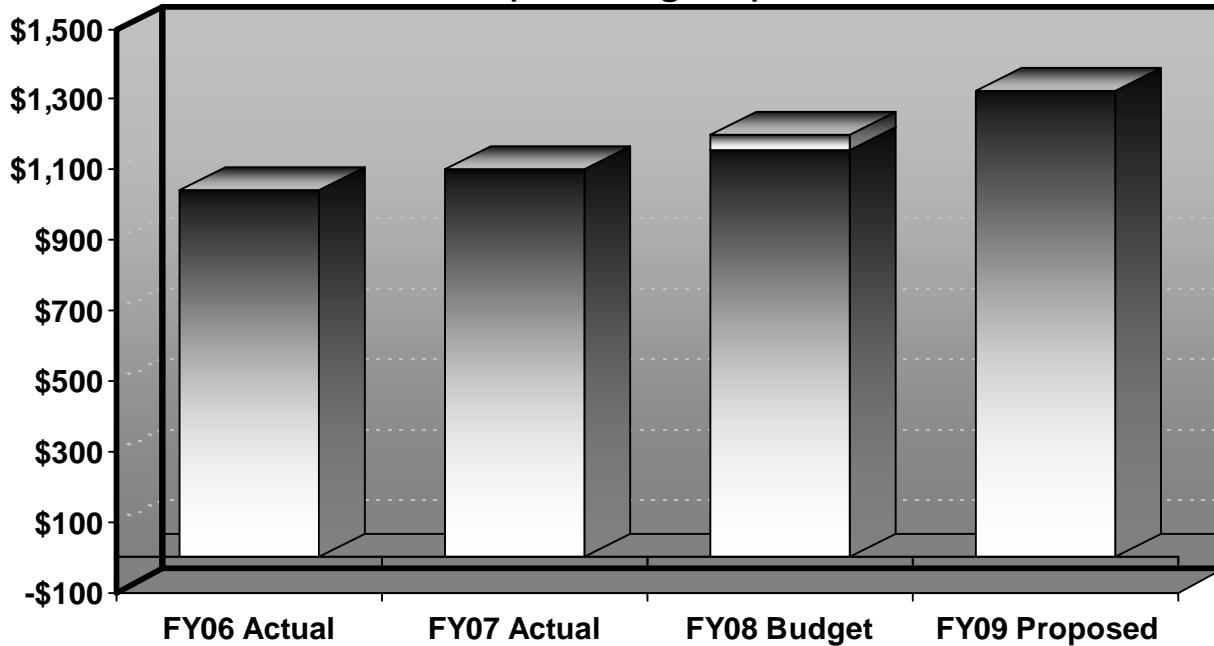
March 13, 2007



# FY09 Proposed Operating Expense

## Trends and Cost Drivers

Operating Expense



**\$171 Million**  
Expense Increase

**15%**  
FY08 vs FY09



## FY09 Proposed Operating Expense Elements of Cost Increase

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- \$84M Inflation, 7%
  - Combines normal CPI increases with energy, health, claims
- \$44M Depletion of one-time-only savings
  - \$40M Litigation judgment
  - \$4M Health insurance rebate
- \$31M Service Improvements
  - \$3M Bus Service
  - \$14M Rail Operations
  - \$4M MetroAccess
  - \$4M Southeastern Garage (subsidy neutral)
  - \$1M West Ox Garage
  - \$5M Reimbursable Routes (subsidy neutral)
- \$12M Program Initiatives
  - \$5M GASB 45
  - \$6M IT Maintenance Contracts
  - \$1M Safety Program

**\$171 Million**  
Expense Increase



## *FY09 Proposed Operating Expense*

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### Multi-Year Expense Trends

<b>Expense Line Items</b> (in Millions)	<b>FY06</b> <b>Actual</b>	<b>FY07</b> <b>Actual</b>	<b>FY08</b> <b>Budget</b>	<b>FY09</b> <b>Proposed</b>
1. <b>Labor</b>	\$ 587	\$ 610	\$ 638	\$ 682
2. <b>Fringes</b>	179	201	225	243
3. <b>Contract-Out</b>	102	107	125	146
4. <b>Supplies *</b>	47	44	48	56
5. <b>Energy/Utilities</b>	100	106	115	135
6. <b>Insurance</b>	18	26	37	52
7. <b>Leases/Other **</b>	9	10	(34)	10
<b>TOTAL</b>	<b>\$ 1,042</b>	<b>\$ 1,103</b>	<b>\$ 1,154</b>	<b>\$ 1,325</b>
<b>Annual Change</b>		<b>\$ 61</b>	<b>\$ 51</b>	<b>\$ 171</b>

\* Includes reimbursement for preventive maintenance

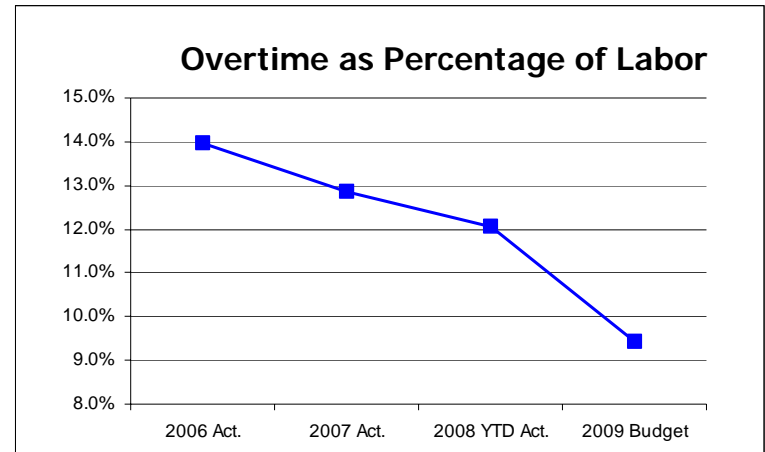
\*\* Includes \$44 M one-time savings



## FY09 Proposed Operating Expense

\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>1. Labor</b>	<b>\$587</b>	<b>\$610</b>	<b>\$638</b>	<b>\$682</b>
<i>Annual Change</i>		<b>\$23</b>	<b>\$28</b>	<b>\$44</b>
<i>Percentage Change</i>		<b>4%</b>	<b>5%</b>	<b>7%</b>

- All union contracts are being negotiated; budget funds fair and affordable settlements
- Non-Union increases budgeted at 3% across-the-board tied to performance measures and goals
- An additional 2% budgeted for salary adjustments and special recognitions
- 105 FTE to support service improvements
- Vacancy rate assumed 5%
- Overtime as percentage of labor reflects downward trend

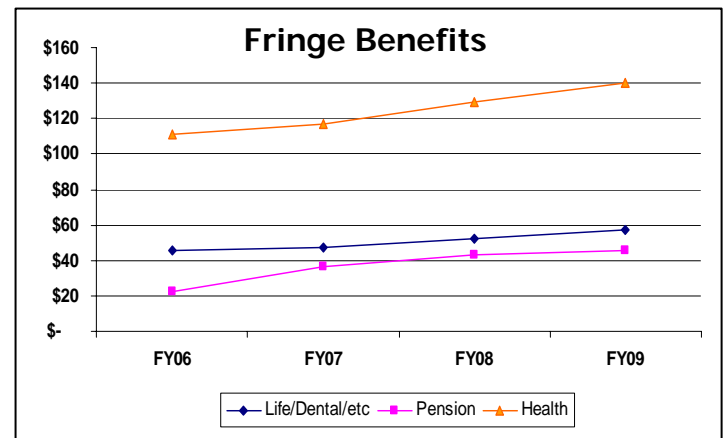




## FY09 Proposed Operating Expense

\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>2. Fringe Benefits</b>	<b>\$179</b>	<b>\$201</b>	<b>\$225</b>	<b>\$243</b>
<i>Annual Change</i>		<i>\$22</i>	<i>\$25</i>	<i>\$18</i>
<i>Percentage Change</i>		<i>12%</i>	<i>12%</i>	<i>8%</i>

- Inflation on health insurance costs are moderating
  - Overall healthcare cost is up 4.8%
  - Additional \$4.5M for Government Accounting Standards Board 45 (GASB45)
- Pensions affected by market forces.  
Budgets include actuarial analysis
- Other fringes have low inflation  
assumptions based on recent trends and  
market conditions. Examples include:  
Dental, Life insurance, Long-Term-Disability



\* Worker's compensation discussed with other insurance





## *FY09 Proposed Operating Expense*

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\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>3. Contract-Out</b>	<b>\$102</b>	<b>\$107</b>	<b>\$125</b>	<b>\$146</b>
<b>Annual Change</b>		<b>\$5</b>	<b>\$19</b>	<b>\$21</b>
<b>Percentage Change</b>		<b>5%</b>	<b>17%</b>	<b>17%</b>

- Contract-Out is services purchased by Metro for specialized areas
  - **Examples:**
    - Escalator maintenance \$5M
    - MetroAccess operations \$63M
    - Parking lot operation \$5M
    - Claims adjusters / Risk Management \$5M
    - Credit card service fees \$5M
    - SmarTrip® customer call center \$4M
    - Consulting / Professional / Technical \$22M
      - Auditing, Engineering, Legal
- Increase over FY08 due to volume in ADA service, increased IT consulting and software licenses, and contract maintenance



## *FY09 Proposed Operating Expense*

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\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>4. Supplies*</b>	<b>\$47</b>	<b>\$44</b>	<b>\$48</b>	<b>\$56</b>
<b>Annual Change</b>		<b>(\$3)</b>	<b>\$4</b>	<b>\$9</b>
<b>Percentage Change</b>		<b>-6%</b>	<b>9%</b>	<b>18%</b>

- Mostly parts to repair and maintain the bus and rail fleets:
  - \$23M bus parts, \$32M rail parts and \$4M elevator/escalator parts
  - Large increase in rail parts to due to expiration of warranty on rehabilitated cars
- Fuel & Lubricants forecast to increase: 850k gallons gasoline per year, motor oil, grease
- Tires – multiyear contract just executed. Cost increase for steel (belts), carbon, environmental fees

\* Reimbursements – FTA funding for preventive maintenance \$18.0M Bus, \$2.7M Rail



## *FY09 Proposed Operating Expense*

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\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>5. Energy/Utilities</b>	<b>\$100</b>	<b>\$106</b>	<b>\$115</b>	<b>\$135</b>
<b>Annual Change</b>		<b>\$6</b>	<b>\$9</b>	<b>\$20</b>
<b>Percentage Change</b>		<b>6%</b>	<b>9%</b>	<b>17%</b>

- Increases based on economic trends and service levels
- 3/4 of amount represents fuel/power for buses and trains
  - 12.1 million gallons low-sulfur diesel fuel at \$2.68/gallon
  - 6.7 million btu's of CNG (natural gas) at \$1.308/therm
  - 542 million kw for traction power at \$0.1042/Kwh
- New contract rate on propulsion (electricity) / long term contracted expired



## *FY09 Proposed Operating Expense*

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\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>6. Insurance</b>	<b>\$18</b>	<b>\$26</b>	<b>\$37</b>	<b>\$52</b>
<b>Annual Change</b>		<b>\$8</b>	<b>\$11</b>	<b>\$15</b>
<b>Percentage Change</b>		<b>42%</b>	<b>41%</b>	<b>41%</b>

- Workers compensation and third party claims represent the majority of this line item
- Metro is self-insured for most claims arising from accidents, workers' compensation incidents and law suits, which are paid from a reserve fund
- The increase reflects recent history and the replenishment of the depleted reserve
- The remainder covers a number of different policies such as professional liability, \$5M cap on claims, pollution liability, etc.



## *FY09 Proposed Operating Expense*

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\$ Millions	FY06 Actual	FY07 Actual	FY08 Budget	FY09 Proposed
<b>7. Leases/Other**</b>	<b>\$9</b>	<b>\$10</b>	<b>(\$34)</b>	<b>\$10</b>
<b>Annual Change</b>		<b>\$1</b>	<b>(\$44)</b>	<b>\$44</b>
<b>Percentage Change</b>		<b>8%</b>	<b>-440%</b>	<b>-130%</b>

- Leases: \$2M property & heavy equipment, \$1.2M copiers/printing equipment, \$0.7M call center, remainder miscellaneous computer and office equipment
- Miscellaneous: various small line items, \$2.7M advertising and marketing, \$1.2M in meetings/travel, remainder misc. office and organizational expense
- FY08: there was a one-time \$40M litigation credit and a \$4M healthcare rate stabilization credit

\*\* Includes \$44M one-time savings



# FY09 Proposed Operating Expenses

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## Summary

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- \$811 million (61 percent) of the budget is controlled by union contracts and service levels
- \$65 million (5 percent) Federal mandate for MetroAccess services
- \$134 million (10 percent) for energy, controlled by service levels and economic trends
- Remainder of controllable costs provide for support functions such as safety, reserves, management and administration



# FY09 Proposed Operating Expense

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## Issues

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- Growing economic pressure of inflation
- General economic slowdown
- Operating contingency = \$0
- Significant budget cuts / savings have been taken in FY08
  - 254 administrative positions totaling \$11M
  - Cut \$16M for non-personnel administrative costs
  - Fuel credits / swaps and health insurance rebates totaling \$7M
- Public need for additional service increases