PUBLIC HEARING ON

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY FISCAL YEAR 2005 BUDGET SPENDING AND FISCAL YEAR 2006 STATUS

Before the
Committee on Public Works and the Environment
Council of the District of Columbia

The Honorable Carol Schwartz, Chairman

February 22, 2006, 4:30 PM
Hearing Room 412
John A. Wilson Building

Testimony of
Dan Tangherlini, Interim General Manager
Washington Metropolitan Area Transit Authority

Good afternoon Chairman Schwartz, Councilmember Graham, and other members of the Committee and staff. I am Dan Tangherlini and it is indeed a pleasure for me to appear before the Committee today as the Interim General Manager (GM) of the Washington Metropolitan Area Transit Authority (WMATA). I am honored to serve as the Interim GM of the best transit system in America.

Before I present our testimony on WMATA's final fiscal year (FY) 2005 budget spending and the status of our FY 2006 spending, if I may, let me spend a few moments to share with the committee, and the citizens of the District of Columbia who are watching this hearing, some of my priorities for improving our transit operations and customer service.

As I shared with the employees at WMATA on my first day, I believe that our customers – riders of Metrorail, Metrobus and MetroAccess, are our chief priority. I would like for my tenure at WMATA to be characterized by an unrelenting focus on improving the reliability of our service, the quality of our interactions with our customers and thereby, the public's impressions of WMATA.

In that regard, one area of immediate focus is MetroAccess. The last several months have seen increased attention directed towards the challenges we have had with this program. MetroAccess is one of our core services and it is imperative that the problems our riders have faced be corrected. That being said, WMATA will be focused upon looking forward and working with the MetroAccess ridership base, local jurisdictions, and other stakeholders to improve the service in the immediate term.

I believe that as we begin pursuing these priorities, they will result in the optimal return on investment for the region and will improve the financial performance of WMATA. It is incumbent upon us, in our role as the stewards of the region's transit system, that we continue to find opportunities to maximize the region's investment in WMATA, and discharge our responsibilities in the most prudent and cost-effective manner.

With that, I would like to share with you the highlights of WMATA's FY 2005 budget.

<u>FISCAL YEAR 2005 SUMMARY</u>

I am happy to report that Metro finished FY 2005 under budget and achieved record setting ridership levels. Metro achieved its highest yearly ridership ever with 195 million trips on rail, the highest yearly ridership in Metrorail's history and the ninth consecutive year of Metrorail ridership growth. Metrobus ridership also hit a record high by carrying almost 128 million people, five percent growth over the previous year. By the end of FY 2005, Metrorail was carrying more than

700,000 people on an average day and Metrobus ridership was approaching 600,000 per day.

Three new stations opened on the rail system in FY 2005. In November 2004, WMATA opened the New York Avenue-Gallaudet University station on the Red Line and in December 2004, the Morgan Boulevard and Largo Town Center stations on the Blue Line (extension from Addison Road). Together, these three stations were expected to eventually generate 11,000 average weekday trips—9,500 for the Blue Line stations and 1,500 for the New York Avenue-Gallaudet University Station. By the end of FY 2005, these three stations were averaging 16,200 weekday trips, well surpassing projections by over 5,200 trips (47 percent).

In terms of performance measures, both our on-time service and customer satisfaction indicators for the year are up, suggesting that we are correcting many of the operational problems that began to plague the system in FY 2004. Although WMATA is dealing with a number of challenges, we continue to grow ridership and revenue, and are committed to an increased focus on customer service. In FY 2007, I plan to build upon these positives and address our challenges.

OPERATING BUDGET

Revenue

Ridership growth and a healthy economy translated into revenue that came in $31 million (six percent) higher than budgeted. Of that amount, $19 million came through the bus and rail fareboxes in spite of the fact that this was the second year in a row of fare increases. The old assumption that fare increases would drive customers away did not materialize in FY 2005.

Both Metrorail and Metrobus revenue came in higher than budgeted for FY 2005. Metrorail passenger revenue exceeded the budget by $16 million, or five percent. Metrobus passenger revenue exceeded the budget by $4 million, or 4 percent. While MetroAccess passenger revenue ended the year $1 million below budget, healthy growth in ridership continued. FY 2005 MetroAccess ridership was up 13 percent over the previous year.

Besides passenger revenue, Metro earns revenue from its parking lots, advertising, joint development, and other programs. These programs generated the remaining $12 million of better-than-budget revenue results for FY 2005.

Expense

Metro's total FY 2005 operating budget of $940 million had expense overruns of 1.8 percent, or $17 million. Handling the ever growing crowds of customers required additional materials and supplies for day-to-day operations, resulting in $5 million in additional expenses. Furthermore, rapidly escalating diesel fuel prices and other energy costs generated $11 million in additional expenses.

There were significant operational challenges in FY 2005 that resulted in $21 million in extra labor costs. Examples include the rail accident at Woodley Park on the Red Line, a significant flood at a Silver Spring communications building, and ongoing responses to security alerts and the threat of terrorism. This labor cost was partially offset by savings in health insurance premiums which grew less than expected, and costs for MetroAccess service that came in under budget due to lower than expected demand.

Given the extraordinary increase in the number of customers being served, the extreme growth of diesel and energy costs, and the growing demands being placed on the Metro Transit Police, WMATA views a year end budget variance of less than two percent in expenses as a great success. In other words, our budget forecasts were 98 percent accurate.

Cost Recovery and State/Local Contributions

WMATA calculates its cost recovery by determining how much of the annual operating cost is paid for by passenger fares and other revenues.

The overall cost recovery ratio for FY 2005 was 59.7 percent, the second highest in the country for a bus and rail system. On rail, the rate was 80.7 percent and reached a high point of 91.5 percent in April. The cost recovery rate on Metrobus was 34.8 percent, which was slightly higher than budget.

For FY 2005, the need for state and local contributions at year end was $14 million, or 3.5 percent, less than the $385 million budgeted. Keeping with the WMATA Board of Directors' policy, this amount is credited back to each of the states and local jurisdictions. The amount can either be applied against future state/local contributions or refunded for other needs.

CAPITAL BUDGET

While the operating budget pays for the day-to-day running of Metrorail, Metrobus, and MetroAcess, the Capital Improvement Program (CIP) funds the longer-term rehabilitation and maintenance needs of the transit system.

FY 2005 was the first year for the Metro Matters program, which was established to assure short-term capital funding while longer-term capital financing discussions take place. Metro Matters made significant progress during FY 2005 to increase the size of the rail fleet, buy replacement buses, rebuild escalators and elevators, improve security, build parking garages, and enhance maintenance facilities. All of these capital projects exist to do one thing: improve the delivery of transit service.

Added rail cars will result in less crowding and more reliable train service. New buses will lower the average age of the bus fleet and reduce breakdowns and delays associated with older equipment. Escalators and elevators will be rebuilt with the goal of keeping them in service longer. Safety and security improvements will decrease the likelihood of a successful terrorist act and increase the ability to respond and recover if such an event occurs. Added parking garages make it easier to use Metrorail. Improved maintenance facilities allow Metro's mechanics to maintain and then improve both bus and rail reliability.

The entire region has signed on to the Metro Matters funding program and year one was a success. However, Metro Matters only provides funding relief until FY 2010. A new capital funding agreement is needed by FY 2008 to begin a long-term planning process to ensure sufficient reinvestment is made into WMATA facilities and equipment.

FISCAL YEAR 2006 SPENDING STATUS

At the half-way point in FY 2006, the very positive trends WMATA has enjoyed over the last several years of increasing system ridership, increasing system revenue, and limited growth in state and local contributions is continuing.

Total system ridership is up 5 percent over the same period last year, rising from 159 million to 167 million. Metrorail ridership is up almost seven percent, with trip totals rising from 95 million to 101 million. Metrobus ridership is up more than 2 percent, rising from 64 million to 65 million.

Ridership has increased in all time periods when compared to last year. Interestingly, evening ridership has grown faster than early morning ridership. We believe this is partially a result of the resumption of play of the National Hockey League at the MCI Center. Last year the season was canceled due to the hockey strike. The resumption of play this year has generated more evening travel to and from the MCI Center. Major League Baseball games have also contributed to increased ridership in both the evening and the off-peak time periods.

At mid-year, the actual need for state/local contributions is approximately $6 million, or 3 percent, less than budgeted. The good news is that growing ridership is continuing to generate favorable revenue results. The bad news is that extreme volatility in the energy markets continues to cause diesel fuel and natural gas prices to escalate wildly. However, at this time there is no indication that Metro will overrun its budget to the point of needing additional state and local contributions.

CONCLUSION

Metro has made a number of improvements in its budget process. The clear intention is to increase accountability and transparency.

- The new CFO is meeting with his counterparts in all the jurisdictions.
- Metro staff is meeting regularly with jurisdictional staff.
- The newly-formed Riders Advisory Council is now holding regularly scheduled meetings and will receive budget briefings.
- For the first time ever, Metro will be holding a public session for citizens, customers, and organizations to provide their input into the budget process.
- A new budget information flyer is being widely distributed as well as a new budget executive summary publication.
- Budget information is published on Metro's web site.
- Board Budget Committee meetings are now broadcast live on the web.
- Metro staff is engaged in a process to update Metro's strategic plan and re-engineer the budget process to move to performance based budgeting by FY 2008. This will include benchmarks, performance measures, and best practices and workload indicators.

FY 2005 was a year marked by extraordinary revenue and ridership growth, a new commitment to capital investment, and an increased focus on transparency and the public process. In the current budget year of FY 2006, we have continued to experience and build on these positive trends. We must maintain the momentum but also work to improve budget planning, development, and accountability.

Appendix 1

Operating Budget

FY2005
Final Results

	FY2005		Favorable/	
	Budget	Actual	(Unfavorable)	
Budget Summary:				
Revenue	$540	$571	$31	6%
Expense	939	956	(17)	-2%
Subsidy	$399	$385	$14	4%
$ Millions				
Performance Measures:				
Cost Recovery Ratio	58%	60%		2%
Ridership (millions)	322	324	2	1%
Subsidy Per Rider	$1.24	$1.19	$0.05	4%

- **Revenue Exceeded Budget by 6%**
- **Ridership was 1% Better Than Budget And 4% Better Than Prior Year**
- **Expenses Over Budget- Diesel / Energy Costs**
- **Final Subsidy 4% Better Than Budget**
- **Cost Recovery Increasing**
- **Subsidy Per Rider Decreasing**

Appendix 2

Operating Budget

FY2006
Mid-Year Results

	FY2006 Mid-Year		Favorable/	
	Budget	Actual	(Unfavorable)	
Budget Summary:				
Revenue	**$287**	**$303**	**$16**	**6%**
Expense	**505**	**515**	**(10)**	**-2%**
Subsidy	**$218**	**$212**	**$6**	**3%**
$ Millions				
Performance Measures:				
Cost Recovery Ratio	**57%**	**59%**		**2%**
Ridership (millions)	**163**	**167**	**4**	**2%**
Subsidy Per Rider	**$1.34**	**$1.27**	**$0.07**	**5%**

- **Favorable Revenue Trends Continue**
- **Ridership Growth:**
  +2% vs. budget
  +5% vs prior year
- **Energy Costs Worsening - Blip Due to Katrina?**
- **Subsidy Running 6% Better Than Budget**
- **Cost Recovery Increasing**
- **Subsidy Per Rider Decreasing**