

COVER PAGE

Report of the Metro Funding Panel

DRAFT

November 29, 2004

List of Panel Members

(to come)

Introduction

The Panel on Metro Funding (Panel) was formed by the Metropolitan Washington Council of Governments (COG), the Greater Washington Board of Trade (BOT) and the Federal City Council to examine dedicated funding for the Washington Metropolitan Area Transit Authority (WMATA). It operates under a charter from the Board of Directors of COG with a mission to research funding options for the region's major public transit operator and report to its sponsors and to the elected officials of the District of Columbia, Maryland and Virginia.¹ This report is intended to fulfill the Panel's responsibility to review underlying financial and legal assumptions, catalog and analyze potential dedicated revenue sources, and provide findings and recommendations on their legal and financial feasibility.

This effort was taken in response to the substantial ongoing operating and capital funding shortfalls experience by WMATA as it operates, maintains, renews and expands the region's major public transportation assets, including the MetroRail and MetroBus systems. The panel's 13 voting members and 2 Federal liaison members provide expertise in economics, political science, public finance and regional transit.² The Panel's work included review of already published studies³, collection of data from WMATA and preparation of specific analyses by the Panel staff. Particular focus was put on the comparison of WMATA's financial structure with those of comparable transit agencies around the country. Much of this work is reflected in this report, including

¹ See Appendix A for the Panel charter

² See Appendix B for the list of Panel members

³ See Appendix C for a list of prior studies

copies of key material provided for the Panel. The Panel held [TK] public meetings, including one with opportunity for public comment.⁴

As described in this report, the Panel concludes that WMATA's transportation services play a vital role in the economic and social life of the region. Continued success in this role could be put at risk by failure to invest adequately in the system's capital needs and to provide funding for critical operating requirements with a resulting decline in the system's condition and unacceptable levels of performance. WMATA's current style of financing, focused on annual commitments by participating jurisdictions for funding needs, could be a factor in such decline. Thus, the Panel recommends that elected officials in the region take steps to provide a significant degree of dedicated funding for WMATA. Such dedicated funding will allow a greater degree of advance planning for system needs and support the management actions needed to turn these plans into reality. While maintenance of current local and federal effort will be needed, new sources of dedicated funding will assure that the system can continue to maintain a state of good repair while meeting growing demand for its services. In addition, the Panel believes that the Federal government should play a stronger role in the ongoing support of WMATA, given the substantial benefits it receives from Metro service.

This report outlines the case for these recommendations as well as the Panel's recommendations on appropriate sources of dedicated funding.

⁴ See Appendix D for a summary of public comments received.

Defining WMATA's Needs

In support of the Panel's work, WMATA was asked to provide multi-year forecasts of its capital and operating needs. These forecasts, summarized below, were the basis for the Panel's considerations, although in line with its charter, the Panel did review the underlying assumptions in the WMATA forecasts and offered alternative views on certain key issues. Looking forward, the responsibility for setting financial policies and budgets for WMATA will, of course, rest with its Board, but the Panel wishes to be certain that decisions about future resources are consistent with a broader view of the region's demands for services and fiscal resources to meet those demands.

Built over twenty-five years on the scale of a national monument, the Metro system is soon to be 106 miles and is transitioning into a mature system. The funding challenges currently facing WMATA are in many ways greater than those posed by the construction of the system. Over the next twenty years, the cost of renewing and maintaining WMATA will approach the original cost of construction. In addition, operating costs will continue to grow as inflation pushes cost higher and demand for WMATA service increases.

As WMATA faces these requirements, it does so in a funding environment nearly unique in the transit industry (see discussion below for comparative data). Each year, WMATA appeals to two states, the District of Columbia, eight local jurisdictions, and the Federal government for funding and support. Because WMATA does not have a dedicated

revenue source for its non-Federal support it must compete at every level for scarce funds with schools, roads, health care and other priorities on an annual basis. While other transit properties throughout the country also compete for some of their funding, no other system has the unique demands put upon it that come with being located in the nation's capital. The federal government is highly dependent on the Metro system, yet the burden of operating the system falls on state and local governments and the customer.

WMATA's capital budget is no less difficult to fund. The development of the recently agreed to "Metro Matters" Funding Agreement brought many of WMATA's capital funding issues to light. WMATA's operating and capital budgets are basically limited to the amount supportable by the jurisdiction with the greatest financial limitations, i.e., the lowest common denominator. This dictates the amount of service provided to the region and the level of capital investment in the Metro system. The Metro Matters Funding Agreement meets WMATA's 6-year basic capital funding requirements, but WMATA's funding partners were unable to commit to WMATA's long-term capital needs. Without dedicated funding and a regional basis to operate and maintain the current system, WMATA's level of service will inevitably decline each year as critical maintenance work will have to be deferred.

Operating Needs

WMATA's operating needs are broken into three components: Metrorail, Metrobus, and MetroAccess, WMATA's paratransit service. In FY2005, the operating expenses of each

of these services comprised 56%, 38%, and 6% of the annual budget respectively. By 2015 they will constitute an estimated 50%, 38%, and 12% of the total annual budget. The Table 1 shows WMATA's operating requirement from 2005 through 2015. MetroAccess funding needs are not included in when calculating the funding shortfall and should be met with a different funding solution.

Operating Funding

WMATA's operating budget is funded through four sources: passenger revenue (fares and parking fees), state and local funding, non-passenger revenue (advertising and joint development), and federal funding.

The level and ability of passenger fares to cover operating costs is dictated by two competing political decisions, the desire to provide comprehensive service and the desire to limit fare increases. Because of these two factors, WMATA frequently must increase service, thus costs, and not raise fares. The result is a farebox that covers a declining percentage of its costs. Non-passenger revenues are also dictated by political decision-making. For example, advertising revenues are dictated by the amount of advertising permitted in the Metrorail and Metrobus system. As WMATA's public hearings on the FY2005 Fare Increase and Advertising Proposal showed, WMATA's stakeholders are sensitive to the over-commercialization of the Metrorail system. Likewise, WMATA's joint-development revenues are limited not by market demand, but by local zoning

decisions and community acceptance of joint development proposals. For these and other reasons WMATA is constrained in maximizing its non-passenger revenue.

State and local funding, or subsidy, is provided on an annual basis by WMATA's contributing jurisdictions. Between FY1997 and FY2005 WMATA's subsidy grew by approximately 3.5% per year. Federal funding provides about 2% of WMATA's operating budget and is used for capitalized maintenance. Any expansion of this funding source will take money away from WMATA's capital budget, transferring the shortfall from the operating budget to the capital budget.

Table 1 shows the projected growth in WMATA's funding sources and needs from 2005 to 2015. It assumes that WMATA will maintain a 57% cost recovery. The portion entitled fare action shows the amount of fare revenue, above that provided under the current fare structure, that must be raised to meet the 57% cost recovery goal. Assuming an annual growth in state and local subsidies of 4.1%, WMATA faces an average annual shortfall of \$72 million revenue shortfall beginning in FY2006 at \$3.5 million and growing to \$192 million in FY2015.

State and local subsidies are also assumed to grow. At a 3.8% rate of growth—slightly above inflation but not unlike the rate of growth in governmental resources—**[Is the Panel comfortable with the subsidy growth estimate?]** WMATA would face an average annual shortfall of \$112 million revenue shortfall. This shortfall would begin with \$3.5 million in FY2006 and grow to \$192 million in FY2015. The operating

requirements of extensions, such as the Dulles Line, are included in these baseline operating requirements. The Panel expects that these operating requirements will be allocated according to the compact formula, which could have the effect of reducing the operating shortfall further. **[Note: does the Panel want to take this reduction as well?]**

Table 1: Projected Operating Requirements Through 2015

| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>Total</u> |
|--------------------------|-----------------|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Revenue | | | | | | | | | | | | |
| Base System | \$ 534.5 | \$ 552.5 | \$ 567.0 | \$ 581.3 | \$ 596.1 | \$ 611.2 | \$ 622.4 | \$ 633.6 | \$ 645.1 | \$ 656.9 | \$ 668.8 | \$ 6,669.5 |
| Capacity Enhancement | \$ - | \$ 2.0 | \$ 4.1 | \$ 6.5 | \$ 9.8 | \$ 15.2 | \$ 15.3 | \$ 20.3 | \$ 25.3 | \$ 31.6 | \$ 38.3 | \$ 168.5 |
| Extensions | \$ - | \$ - | \$ 0.3 | \$ 0.4 | \$ 0.4 | \$ 0.4 | \$ 24.9 | \$ 25.5 | \$ 26.4 | \$ 27.2 | \$ 54.4 | \$ 159.8 |
| Fare Action | \$ - | \$ - | \$ 4.0 | \$ 26.8 | \$ 43.4 | \$ 56.9 | \$ 81.6 | \$ 101.3 | \$ 122.0 | \$ 161.5 | \$ 192.9 | \$ 790.4 |
| Subsidy | \$ 354.5 | \$ 397.7 | \$ 420.5 | \$ 439.6 | \$ 457.4 | \$ 473.6 | \$ 483.4 | \$ 499.8 | \$ 517.4 | \$ 517.7 | \$ 527.9 | \$ 5,089.6 |
| Total | \$ 889.0 | \$ 952.3 | \$ 995.9 | \$ 1,054.6 | \$ 1,107.1 | \$ 1,157.3 | \$ 1,227.5 | \$ 1,280.6 | \$ 1,336.3 | \$ 1,394.8 | \$ 1,482.4 | \$ 12,877.8 |
| Expense | | | | | | | | | | | | |
| Base System | \$ 889.0 | \$ 950.3 | \$ 991.5 | \$ 1,047.7 | \$ 1,096.9 | \$ 1,141.7 | \$ 1,187.3 | \$ 1,234.8 | \$ 1,284.5 | \$ 1,336.1 | \$ 1,389.7 | \$ 12,549.5 |
| Capacity Enhancement | \$ - | \$ 5.2 | \$ 16.0 | \$ 29.0 | \$ 40.5 | \$ 55.4 | \$ 57.1 | \$ 73.7 | \$ 89.9 | \$ 140.2 | \$ 162.4 | \$ 669.3 |
| Extensions | \$ - | \$ 0.3 | \$ 2.0 | \$ 2.3 | \$ 2.4 | \$ 2.4 | \$ 61.1 | \$ 61.3 | \$ 62.2 | \$ 62.5 | \$ 122.4 | \$ 378.9 |
| Total | \$ 889.0 | \$ 955.8 | \$ 1,009.5 | \$ 1,079.0 | \$ 1,139.8 | \$ 1,199.5 | \$ 1,305.5 | \$ 1,369.8 | \$ 1,436.6 | \$ 1,538.8 | \$ 1,674.5 | \$ 13,597.7 |
| Funding Shortfall | | | | | | | | | | | | |
| Total | \$ - | \$ 3.5 | \$ 13.6 | \$ 24.4 | \$ 32.7 | \$ 42.2 | \$ 78.0 | \$ 89.2 | \$ 100.3 | \$ 144.0 | \$ 192.1 | \$ 719.9 |

Capital Needs

WMATA’s 10-Year Capital Improvement Plan (CIP) identifies \$12.2 billion in projects to: maintain the existing system, expand access to the existing Metrobus and Metrorail system, and to build extensions to the existing Metrorail system and other fixed guideway investments. WMATA’s Board of Directors identified a \$3.3 billion, 6-year program (“Metro Matters”) to address WMATA’s most pressing needs. The remaining \$9.9 billion was composed of \$6.0 billion in expansion projects and \$2.9 billion in important, but less urgent projects.

On October 21, the WMATA Board of Directors signed the Metro Matters Funding Agreement. This \$3.3 billion agreement funds WMATA’s three most urgent capital needs for the next six years. It provides for the rehabilitation of WMATA’s existing infrastructure, eliminating past maintenance deferrals, and sufficient capacity increases

(120 rail cars and 185 buses) to meet demand for existing services. The Metro Matters Funding Agreement does not fund solutions to WMATA's capacity problems beyond 2012 and does not fund basic infrastructure renewal for the 17 miles of the Metro system not included in the 10-Year CIP. Table 2 shows WMATA's capital funding needs through 2015, including the Metro Matters program, ongoing rehabilitation needs, and additional capacity enhancements. These capital requirements are the minimum needed to stave off unmanageable congestion on Metrorail and satisfy unmet demand on Metrobus.

Capital Funding Sources

WMATA's receives capital funding from two primary sources, state and local governments and the Federal government. WMATA has used small amounts of funding from the joint development program to fund capital projects for the jurisdiction in which the funding was generated and has issued small amounts of debt secured and repaid with fare revenue. Table 2 compares the capital needs with projected capital sources.

Table 2: Projected Capital Capital Requirements

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Capital Revenue | | | | | | | | | | | | |
| State/Local | \$ 102.5 | \$ 132.0 | \$ 141.7 | \$ 164.8 | \$ 178.7 | \$ 198.0 | \$ 203.5 | \$ 209.1 | \$ 214.8 | \$ 220.7 | \$ 226.8 | \$ 1,992.4 |
| Federal Formula | \$ 159.4 | \$ 173.3 | \$ 183.6 | \$ 195.1 | \$ 210.2 | \$ 227.3 | \$ 233.5 | \$ 240.0 | \$ 246.6 | \$ 253.3 | \$ 260.3 | \$ 2,382.4 |
| Federal Discretionary | \$ - | \$ - | \$ 65.0 | \$ 65.0 | \$ 65.0 | \$ 65.0 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 260.0 |
| IGF | \$ 31.3 | \$ 13.7 | \$ 19.7 | \$ 6.0 | \$ 6.0 | \$ 6.0 | \$ 6.0 | \$ 1.3 | \$ 1.3 | \$ 1.3 | \$ 1.3 | \$ 93.9 |
| Debt Issuance | \$ 48.2 | \$ 154.6 | \$ 201.4 | \$ 115.4 | \$ 56.6 | \$ 34.6 | \$ 0.0 | \$ 8.3 | \$ 78.8 | \$ 52.3 | \$ 30.1 | \$ 780.5 |
| Total | \$ 341.3 | \$ 473.7 | \$ 611.3 | \$ 546.2 | \$ 516.5 | \$ 530.9 | \$ 443.0 | \$ 458.6 | \$ 541.5 | \$ 527.6 | \$ 518.5 | \$ 5,509.2 |
| Capital Expense | | | | | | | | | | | | |
| Metro Matters | \$ 341.3 | \$ 473.7 | \$ 611.3 | \$ 546.2 | \$ 516.5 | \$ 530.9 | \$ 252.4 | \$ 184.2 | \$ 131.8 | \$ 81.1 | \$ 70.0 | \$ 3,739.4 |
| Infrastructure Renewal Program | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 435.0 | \$ 435.0 | \$ 435.0 | \$ 435.0 | \$ 435.0 | \$ 2,175.0 |
| Capacity Expansion | \$ - | \$ - | \$ - | \$ 84.2 | \$ 84.2 | \$ 84.2 | \$ 84.2 | \$ 278.4 | \$ 278.4 | \$ 278.4 | \$ 278.4 | \$ 1,450.5 |
| Total | \$ 341.3 | \$ 473.7 | \$ 611.3 | \$ 630.4 | \$ 600.6 | \$ 615.1 | \$ 771.5 | \$ 897.6 | \$ 845.2 | \$ 794.6 | \$ 783.4 | \$ 7,364.8 |
| Shortfall | \$ - | \$ - | \$ - | \$ 84.2 | \$ 84.2 | \$ 84.2 | \$ 328.5 | \$ 439.0 | \$ 303.7 | \$ 266.9 | \$ 264.9 | \$ 1,855.6 |
| IRP Shortfall | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 244.3 | \$ 160.5 | \$ 25.3 | \$ (11.5) | \$ (13.5) | \$ 405.1 |
| Capacity Shortfall | \$ - | \$ - | \$ - | \$ 84.2 | \$ 84.2 | \$ 84.2 | \$ 84.2 | \$ 278.4 | \$ 278.4 | \$ 278.4 | \$ 278.4 | \$ 1,450.5 |
| Total | \$ - | \$ - | \$ - | \$ 84.2 | \$ 84.2 | \$ 84.2 | \$ 328.5 | \$ 439.0 | \$ 303.7 | \$ 266.9 | \$ 264.9 | \$ 1,855.6 |

Even with modest growth (2.75%) in state and local funding (a “maintenance of effort”), equally modest growth in federal formula funding (2.75%) expected with reauthorization of the Transportation Equity Act for the 21st Century (TEA-21), funding, and a one-time, \$260 million discretionary Federal grant for 120 new rail cars; WMATA faces a capital shortfall of approximately \$1.9 billion between FY2008 and FY2015. This shortfall will result in deferrals to needed rehabilitation projects and attendant operating cost increases. Severe overcrowding will re-emerge as WMATA will be unable to meet increasing demand.

Funding Shortfall

WMATA faces an average annual operating and capital shortfall of approximately \$304 million between FY2006 and FY2015. In FY2006 100% of the \$3.5 million shortfall is in the operating budget. In FY2007 \$14 million of the projected \$99 million shortfall (14%) will be in the operating budget and the remainder (\$98 million) in the capital budget. By FY 2015, the shortfall is projected to be split 42% and 58% between the operating and the capital budget, \$192 and \$265 respectively. Overall 38% of the FY06 to FY2015 shortfall is anticipated to be in the operating budget and 62% in the capital budget.

The Case for Metro Support

The funding needed to close WMATA's operating and capital gap are moderate sums in comparison to the total already invested in the systems or even to the annual funds currently provided. But simply stating the need is insufficient justification for the application of public funds, whether from governmental budgets or dedicated revenues, towards gap closing. The key issue is whether the benefits of WMATA, including those which would be enabled by new funding, are sufficient to warrant the expense. A review by the Panel of the public benefits derived from WMATA's operations supports the case for public investment. These benefits to the region's citizens, businesses, governments and to the Federal government are summarized below.⁵

MetroRail service in particular has become an important transportation resource to the region over a period of nearly thirty years, but the growth has been gradual and almost imperceptible over this period. A review of the current situation is needed in order to put the question of increased and dedicated resources in perspective.

The Washington Metropolitan Transit Authority (WMATA) benefits the \$290 billion Washington regional economy in a number of tangible and intangible ways. Improving the local tax base, stimulating high-value, transit-oriented development, improving regional productivity, and the overall quality of life. A brief summary of these benefits is provided below.

⁵ See Appendix E for a more detailed paper outlining WMATA's public benefits

Impacts on State and Local Governments:

- WMATA services expand the state and local tax base with both recurring and non-recurring taxes.
- Capital budgets reflect reduced need for highway construction.

Impacts on the Business Community

- WMATA, particularly MetroRail, promotes high-value, transit-oriented development, attracting jobs and housing to Metro station areas.
- MetroRail and MetroBus services expand the workforce available for jobs.
- WMATA substantially reduces congestion, saving businesses and employees over \$1.2 billion per year.

Impacts on the Federal Government

- WMATA provides an affordable commute for a substantial share of federal workers.
- WMATA access supports federal policy in locating facilities in urban settings.
- WMATA's continued development has fulfilled the mandate for a system in character with the nation's capital.
- MetroRail and MetroBus are critical links in the national capital region's security network and provide a model for the country on new transit security initiatives.

Impacts on the Citizens and Visitors to the Region

- WMATA reduces congestion on the region's highways, saving drivers approximately 35 hours in travel time per year and approximately 75 million gallons of gas per year.
- MetroRail and MetroBus improve regional air quality; reducing smog and ozone, volatile organic compounds (VOCs) and nitrogen oxides (NOx) facilitating compliance with national air quality standards.
- WMATA improves the health of the region by reducing sprawl and promoting transit-oriented development, which studies have shown to improve health.

WMATA In Comparison with Others

The Brookings Institution's June 2004 Report on WMATA, *Washington's Metro: Deficits by Design*⁶, drew attention to the lack of dedicated revenues in the WMATA resource base. It found "that the agency's serious budgetary challenges owe in large part to its problematic revenue base. Most notably, the brief finds that WMATA's extraordinary lack of dedicated funding sources has necessitated an over-reliance on annually appropriated support that makes the agency vulnerable to recurring financial crises." The report did recognize some of the setbacks and issues raised about WMATA's management and operations, but identified the financial and budgetary challenges as the issue that must be overcome if WMATA is to avoid the crippling problems that have beset transit agencies in other large cities like Boston, New York and Philadelphia.

Work by the Panel staff, reviewing updated information from Federal government data bases, confirms the Brookings Institution findings. Looking at two dozen large U.S. transit agencies, including all those with multi-modal responsibilities similar to WMATA's, the staff found that an average 34.7% of combined capital and operating budgets of these agencies are met through the use of dedicated funding sources.⁷ WMATA, by contrast, derives only 1.6% of its funding in this way. Sales taxes are the predominant source of transit support in these other metropolitan areas, but other

⁶ Authored by Robert Puentes, Brookings Institution Center on Urban and Metropolitan Policy

⁷ See Appendix F for data on Revenue Sources for Major US Transit Agencies

revenues include petroleum or motor fuel taxes, tolls and fees on motor vehicles, property taxes, and payroll taxes.

Another comparative consideration is WMATA's relative efficiency and effectiveness as measured against its peers. The Panel requested information that would allow a benchmarking of how well WMATA performs in use of available resources and productivity in achieving results with those resources. This benchmarking review was drawn from the Federal Transit Administration's National Transit Data Base. With some caveats, this source allows one to analyze critical agency performance areas against national norms. A detailed set of comparisons is contained in an appendix to this report.⁸

The analyses in the report compare WMATA to other transit agencies in the commonly-used performance measures of fare recovery, operating costs per passenger trip and passenger trips per vehicle mile. In the rail comparisons the national average is computed both with and without New York's statistics. This is because New York's extensive, dense, and heavily used subway service accounts for about half of the national average figure. The comparison of WMATA to other transit agencies shows that WMATA is above average on practically all measures, and an industry leader in many areas.

In productivity both MetroBus and MetroRail are above national norms. Passenger trips per vehicle mile measures how much use the system gets for the service provided. Even including New York, MetroRail is above the national average, and when New York

⁸ See Appendix G "Benchmarking Data for WMATA Rail and Bus Operations"

transit is excluded, MetroRail productivity is 25% above the norm. MetroBus performs even more effectively, at 40% above the national average. Metro provides service effectively to its ridership.

MetroBus costs less than the national average and MetroRail just above average on a measure of efficiency: operating cost per passenger trip, or how much does it cost to carry each passenger. Thus MetroBus is cost effective compared to the national norm. Although MetroRail is above the average, when compared to similar systems it come out well. Compared to MetroRail at \$1.90 per passenger trip, BART in San Francisco costs \$3.41 per passenger trip, the Miami rail system is at \$4.47, the New York-New Jersey Port Authority Trans Hudson (PATH) line costs \$3.38, and Chicago is \$1.99. Metro provides substantial service to a growing ridership at a low cost, relative to its peers.

Fare recovery measures how much of the cost of providing service is paid for by the passengers, and in that measure, MetroRail is second only to New York City, with its exceptionally heavily used rail transit service. MetroBus is lower than the national average because as the rail system has expanded MetroBus has increasingly become a feeder service to rail, and as a policy decision fares have been kept low. What this measure shows is that overall the taxpayers contribute less to subsidizing Metro, compared to what the passengers contribute, than is the case nationally.

Need for Revenue Dedication

Consideration of these other agencies and the comparison to WMATA does raise the question of what constitutes a dedicated tax and why this is important to WMATA. As spelled out in the Brookings Report, the need to revisit the sources of revenue, the means of capital and operating support, the contribution of farebox and other revenues and other budgetary matters each year puts a considerable strain on the process. While there always remains a need for an effective budgetary review, the current system tends to peg costs to a level driven by the jurisdiction least willing or able to contribute. Arguably, this process is at the expense of other important oversight and policy functions that the WMATA Board and participating jurisdictions should be performing. The provision of truly dedicated revenues (i.e., revenues available through the tax system without intervening actions and appropriations) has permitted other transit agencies around with country with greater latitude to plan on a multi-year basis consistent with the nature of a major capital asset.

The need for WMATA to receive dedicated funding has been recognized in the past. Federal legislation enacted as part of the provision of MetroRail construction funding called for the region to adopt a source of “stable and reliable” revenues. However, as spelled out in a briefing paper developed for the Panel, this requirement turned out to be impossible to execute and the Federal requirement was not truly enforced.⁹

⁹ See Appendix H Briefing Paper on “Stable and Reliable” Revenues for WMATA

The Panel finds that a means of providing new dedicated revenues to WMATA would be beneficial, but only if such revenues, whatever their source and amount, are truly dedicated. Actions to provide such revenues should ensure that payments flow to WMATA in the most direct fashion possible, enabling WMATA to plan for its future and potentially to pledge such revenue as support for debt issued in connection with the capital needs of the system.

Panel Considerations

A key consideration for the Panel was the definition of the funding problem for which recommendations were to be offered. There were various potential options for the scope of Panel recommendations as described below:

- *Capital Needs for Renewal and Capacity:* The most limited definition would be that related to meeting WMATA's capital needs exclusive of the cost of new system extensions. As noted above, extension costs, such as those contemplate to run service to Dulles Airport and beyond, are handled through special arrangement put together by the jurisdictions most directly involved. While such extensions would ultimately become part of the system, their capital financing was not considered part of the Panel's scope. What remains are the capital needs for renewing the aging components of the system and for adding system capacity to meet growing demands, such as increasing the car fleet or capacity of existing stations. Partial funding for these needs is identified in WMATA projections, including an assumed ongoing Federal transit program and the provision of consistent amounts of local funds for renewal of the current system.
- *Operating Needs Not Included in Current Projections:* Going a step beyond the capital needs, the Panel identified a class of operating expenditures related to capital investment that could arguably be included in its scope of

consideration. These operating costs are the unfunded gap in the WMATA budget projections, largely related to new services and new capacity as these come on line. As this occurs, expenses grow faster than revenues, creating an unfunded gap. While these costs will likely be put back directly to jurisdictions through the subsidy formulas, an alternative approach would involve providing some resources on a dedicated basis while redistributing the residual operating need among the jurisdictions under the formula.

- *Operating Needs Related to MetroAccess:* Another source of WMATA's increased subsidy requirements, as noted above, is the deficit relating to the provision of specialized paratransit services to elderly and disabled residents of the region. A substantial portion—as much as half—of WMATA's projected operating gap relates to these services. This growing deficit is brought about by rapidly increasing demand for the service for which each ride incurs a very large subsidized cost. Some portion of this service is required as by the Americans with Disabilities Act, but much of it is being provided over and above minimum ADA requirements. The panel did not view their scope as including the development of revenue sources to meet this gap, and urge WMATA, the region, and the Federal government to continue efforts to provide for this necessary social service through non transportation resources. More effective use of current or potential resources in a variety of medical and social service programs could mitigate this problem.

- *Replacement of Current Subsidies with Dedicated Revenues:* A further step, which the Panel did not see as within its scope [**Note: does the Panel agree that this is not in its scope?**] , would be the provision of new dedicated revenues as a partial, or even a total, substitution for the subsidy payments now made by the local jurisdictions. Such a decision would require substantially greater resources and as such would be within the purview of the elected officials in the three jurisdictions.

Based on these assumptions as to the task of the Panel, the residual need for funding is as shown in the table below, totaling \$718.9 million in operating shortfall and \$1,866.8 million in capital over the period through 2015.

Table 3: WMATA Total Shortfall Through 2016

| <i>WMATA Projected Shortfall Assuming No Special Federal Participation</i> | | | | | | | | | | | |
|--|--------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| | 2006 (\$M) | 2007 (\$M) | 2008 (\$M) | 2009 (\$M) | 2010 (\$M) | 2011 (\$M) | 2012 (\$M) | 2013 (\$M) | 2014 (\$M) | 2015 (\$M) | Total |
| Operating Shortfall | \$3.5 | \$13.6 | \$24.4 | \$32.7 | \$42.2 | \$78.0 | \$89.2 | \$100.3 | \$144.0 | \$192.1 | \$719.9 |
| Capital Shortfall | \$0.0 | \$0.0 | \$84.2 | \$84.2 | \$84.2 | \$328.5 | \$439.0 | \$303.7 | \$266.9 | \$264.9 | \$1,855.6 |
| Total Shortfall | \$3.5 | \$13.6 | \$108.6 | \$116.9 | \$126.4 | \$406.5 | \$528.2 | \$404.0 | \$410.9 | \$457.0 | \$2,575.5 |

Notes: Excludes MetroAccess costs and includes operating costs for the Dulles Extension and Anacostia Light Rail. Operating shortfall data ties to the Dedicated Funding Requirements table in WMATA Requests For Information document.

Excluding the early years in which the gaps are small, the average need during the period 2008-2016 is approximately \$320 million. This amount would be reduced somewhat if a more aggressive fare policy assumption were used. [**Note—see question about fare policy assumptions on an earlier page.**] To summarize, this shortfall takes into account the unfunded need for capital to renew and increase capacity on the system, as well as the net operating shortfall of the expanded system. It does not include the unfunded costs of MetroAccess or the specially funded capital extension programs.

Review of Potential Revenue Sources

As part of its deliberations, the Panel considered a number of potential revenue sources to close the funding shortfall. These sources included both Federal and local measures, and the Panel evaluated the feasibility and revenue productivity of each.

Federal Contribution

The Panel believes that the case is strong for a special Federal contribution towards the WMATA revenue gap. As noted above, the Federal government derives a substantial benefit from the existence of the system. With almost one-half of the system's peak hour riders consisting of Federal workers, it is clear that continued Metro service is critical to the smooth functioning of the government. Other federal benefits include the contribution of Metro to the region's homeland security capability. Based on these benefits, the Panel concludes that it would be appropriate to seek Federal support for 50% of the identified shortfall in WMATA capital and operating funding, and has reduced the requirement for state/local funding accordingly.

To be of use in closing the WMATA gap, any new Federal funds need to be a special commitment, incremental to current Federal contributions. At present, Federal WMATA funding is made available on the same basis as funding to all other transit systems in the country, through a combination of formula grants based largely on system size and regional population, and discretionary grants provided for system extensions based on the

merit of the expansion proposals against Federally defined criteria. The Federal government also provides subsidies to its workers for transit fares in the same way that subsidies are provided at employer discretion in the private sector. Neither of these funding streams could be described as a unique contribution to WMATA's needs. What is needed now is a contribution similar to that made and renewed by the Federal government during the original construction of the system.

Some potential sources for Federal contributions mirror those considered for state/local revenue as well. Recognizing this fact, the estimates for certain of the revenue sources noted below have been adjusted to exclude collections directly from, or managed by, the Federal government.

Regional Contribution

The Panel evaluated 8 potential mechanisms for funding to meet the WMATA shortfall from regional sources. The evaluation included estimates of the tax or fee rate needed to produce the desired revenues, as well as an analysis of potential impacts and problems or opportunities arising from the use of such a revenue source.

The revenue sources that were evaluated included the following:

- *Access Fee*—A per square foot charge against commercial and Federal government property benefiting from the existence of WMATA serve,

particularly MetroRail. As noted above, the amounts attributable to Federal property would be allocated against the Federal 50% contribution.

- *Congestion charging*—a system, similar to that now in place in London, for charging fees to vehicles entering the region’s core area. Alternatively, consideration was given to a system of area-wide road pricing.
- *Gas Tax*—an add-on to existing gas taxes, collected on all fuel sold in the WMATA compact area.
- *Land-Value Capture*—a tax scheme under which incremental growth in property values in the MetroRail served areas in the compact area would contribute a share of the property taxes generated by that growth to WMATA.
- *Property Tax*—an incremental region-wide tax on all taxable property in the compact area.
- *Parking Tax*—A direct charge to those parking on a daily basis at work and business locations in the compact area. The portion of this tax collected from Federal workers would be allocated to the federal contribution.
- *Payroll Tax*—an incremental level of taxation on all payrolls in the compact area. The portion of this tax collected on Federal payrolls would be allocated to the federal contribution.
- *Sales Tax*—an incremental sales tax added onto the existing sales taxes within the compact area.

In the Panel’s evaluation of these sources, two were excluded from further consideration on the basis that their implementation would be complex and the availability of revenue

during the time period covered in the analysis. These two sources were congestion charging and land-value capture. In each case, the Panel feels these sources have merit from a public policy point of view but that the shortcomings are too great to overcome in the immediate future. In the case of congestion charging or road pricing, an entire system of technology and enforcement would have to be created, and once in place, revenues might be more appropriately dedicated to highway needs. The land-value capture tax was more directly connected with Metro-related benefits, but revenues would grow slowly and there would be implementation issues as to which properties would be covered. Thus, the further analyses and revenue estimates were made only for the remaining six sources.

Revenue estimates for these six sources were based on the productivity of existing taxes in the case of gas taxes, property taxes, payroll taxes and sales taxes. The access fee estimates were based on a review of commercial property within the region, and the parking fees on an estimate of auto travel origins and destinations. All of these estimates are preliminary and will require additional work to validate, especially the latter two. In each case, the estimates are based on activities within the historic WMATA compact area that includes the District of Columbia, Montgomery and Prince Georges Counties, Arlington, Alexandria, Fairfax, Falls Church and Fairfax City. The compact area has now been expanded to include Loudoun County, but since service to Loudoun will not be implemented until the very last year of the analytical period, no revenues were included from Loudoun at this time.

The table below uses these revenue estimates to establish the levels of taxation required on a uniform basis across the region in order to meet the \$160 million average annual shortfall allocated to the state/local participants. Further analysis will be required to translate these average revenues into the amounts available each year of the forecast period. It may be necessary to develop a mechanism to carry revenues forward from the earlier to the later years.

It is not the Panel's assumption that these dedications of taxes will automatically drive tax increases. If economic forecasts are correct, the jurisdictions should be in much better fiscal shape over the next few years and may be able to dedicate a portion of an existing tax rather than raising one.

In general, the fee levels are relatively small, given the fact that only \$160 million a year is being raised. For example, if a sales tax were chosen, the rate would approximate 0.25%. The table also shows the amounts that would be needed if only the capital shortfalls of \$115 million were to be closed by the new revenue source, and the levies would be proportionally lower. On the other hand, as noted above, if a policy decision were reached that not only covered the shortfalls but replaced the present local operating contributions; the rate would be much higher. On average, the taxes would have to raise about \$700 million a year and the rates needed to do so would be 4 to 5 times greater than those shown in the table.

**Table 4: Local Revenue Sources Needed to Close WMATA Shortfall Assuming
50% Federal Contribution**

| <i>Preliminary Estimates of Potential WMATA Dedicated Revenue Sources Assuming 50% Special Federal Participation (Current WMATA Compact Area)</i> | | |
|---|---|---|
| | Region-Wide Fee Level Required to Meet the Average Total Shortfall of \$160M | Region-Wide Fee Level Required to Meet the Average Capital Shortfall of \$115M |
| Access Fee ¹ | \$0.56/square foot/year | \$0.41/square foot/year |
| Gas Tax ² | \$0.120/gallon | \$0.086/gallon |
| Property Tax ³ | \$0.0372 per \$100 of assessed value | \$0.0267 per \$100 of assessed value |
| Parking Tax ⁴ | \$0.63/day (\$158/year) | \$0.47/day (\$118/year) |
| Payroll Tax ⁵ | 0.20% (\$73/employee/year) | 0.15% (\$53/employee/year) |
| Sales Tax ⁶ | 0.28% | 0.20% |

Notes: Average calculation based on years 2008 to 2015. 2006 and 2007 are considered outliers due to significantly lower shortfall requirements. By including 2006 and 2007 in the calculation the average total shortfall would be \$130M and the average capital shortfall would be \$90M. Excludes MetroAccess costs and includes operating costs for the Dulles Extension and Anacostia Light Rail. Loudoun County, while in the WMATA Compact, has been excluded from the analysis due to lack of rail service until at least 2015.

¹ Includes 395M square feet of federal (170M sf) and commercial (209M sf) space and hotels (16M sf) in areas that are broadly served by the Metrorail system. Fees are estimated to grow 2.88% annually based on historical inflation. New building equivalent to 1% annual growth assumed.

² Based upon a 2010 forecast of the annual vehicle miles of travel in the area and applying the estimated fuel economy for cars/light trucks of 24 mpg, an estimated 1.3 billion gallons will be consumed. Assumes 325 days of vehicle use per year.

³ Property Tax (rate per \$100 of assessed value) in addition to and collected on parity with existing property taxes on residential and commercial real estate. Tax assessed on entire compact area, assumes 2.7% average annual growth of property values, based on historical assessed value growth.

⁴ It is assumed that users will pay the fee. Based upon an analysis using the regional travel model, is estimated that about 1.15 million commuter parking spaces will be utilized and pay the fee. The costs of increased transit service to accommodate the additional demand was estimated at about \$40 million per year, which reduces the net revenues. Additional revenue from increased transit service is estimated to be half of the associated cost, or \$20 million. Fees are estimated to grow 2.88% annually based on historical inflation.

⁵ Based on COG Round 6.3 total employment forecast for 2000 to 2015 for the Compact Area, averaging 1.4% annual growth. Employment is stratified into income categories based on median household income data for the Compact Area, obtained from the US Census. Individual's annual income below \$15,000 and above \$100,000 is not taxed. Annual income growth of 2.88% is assumed based on historical inflation.

⁶ Taxable sales base estimates based on historical tax revenue and tax base data from counties and cities in the WMATA Compact Area.

As noted above, the Panel also reviewed these revenue sources in terms of their feasibility and their impacts on key policy issues within the region. The criteria applied included the following:

- *Ease of Implementation*

Is there an existing mechanism for collection of this revenue source? What would be the level of administrative costs associated with the implementation/

- *Revenue Yield and Adequacy*

How much the proposed revenue source will yield and is the level commensurate with the funding problem facing WMATA? Will the existing revenues together with the alternative sources be adequate for current and projected needs?

- *Stability and Sustainability*

It is important that the new revenues track the funding needs over time and not fluctuate unpredictably. Some revenue options may produce high levels initially and diminish over time due to economic, technological or other forces. For example, the gas tax does not track the growing highway needs very well because the effects of increased fuel efficiency and alternative fuels continue to reduce its yield. Associated with the question of stability is the issue of maintenance of effort. In this analysis, it has been assumed that new revenues would be incremental, not substituted for existing contributions.

- *Fairness and Equity*

It is useful to identify the groups that are going to be economically impacted by a new revenue source and to assess whether the impacts are commensurate with the benefits of transit. Some new taxes will impact residents but not visitors while others impact only employers and businesses. Broad-based revenue options such as sale taxes, gas taxes, payroll and income taxes impact lower income persons differently than those with higher incomes. A consideration in this situation is also how the revenue source will distribute itself across the jurisdictions? Will there be a sufficient regional balance relative to the benefits of Metro service?

- *Economic Efficiency*

Consideration of the impacts tax changes could have on economic behavior is another important consideration. The impacts of new revenue options may be difficult to fully anticipate. It is important to identify any impact of an option that is significant and important to people that could have unintended consequences. For example, in the short-term most of the owners and residents located near transit stations could accept increased proximity taxes for the benefit of improvements in transit service and reliability. However, in the longer term the higher costs to live or work in the area could influence some people and businesses to relocate outside of the taxed areas. The greater the differential with taxes outside the region, the greater such impacts might be.

- *Federal Role*

WMATA and other transit agencies across the country receive capital funding under the existing federal transit program. However, an additional federal role in transit funding for this region could be considered because in this region the federal government is a major employer and tax-exempt property owner. All of the federal agencies near MetroRail stations and the numerous federal workers throughout the region receive large benefits from the transit system. New revenue sources related to these benefits could be considered and applied to an overall federal/local cost sharing arrangement.

- *Accountability*

For all revenue sources, the public needs to have assurances that the money will be spent in ways that will meet the identified needs. It is important to ensure that the funding mechanisms are administered in ways that are fully audited and transparent for the public to see how the funds address the needs.

- *Specificity*

What the new funding will be used for and how and when it will be spent relative to the needs should be made as specific and clear as possible to ensure understanding and support for the funding package by the public.

- *Political Acceptability*

Finally, there is the issue of political acceptability. Any new revenue source will have to be adopted by a variety of jurisdictions, preferably in a uniform way. This could rule out certain proposals on the basis that they would never be accepted by elected officials.

Each of the revenue sources remaining in consideration by the Panel was evaluated according to these criteria. A summary table showing the evaluation is included on the next page of the report.

Table 5: WMATA Revenue Source Evaluation

| MATRIX FOR REVENUE SOURCE EVALUATION | | | | | | |
|---|--|--|--|--|---|--|
| Source Specific | Access Fee | Gas Tax | Parking Tax | Payroll Tax | Sales Tax | Property Tax |
| Ease of Implementation | (-) New revenue collection mechanism required, with controversy over boundaries of tax district. | (-) Will require a basis to allocate or a new mechanism | (-)New mechanisms to levy tax on both public and private facilities, enforcement problems in a cash business | (+)Ability to piggyback on existing mechanisms | (+)Ability to piggyback on existing mechanisms | (?)Ability to piggyback on existing mechanisms, but potential problems with different property assessment schemes. |
| Revenue Yield | (+)Substantial revenue generated at a reasonable tax level | (-)Substantial increase to existing Federal and state taxes needed to generate needed revenue | (+) Assuming collectibility, a moderate level would generate significant revenues | (+) Relatively low rate would provide significant revenues | (+) Rates comparable to transit taxes in other metro areas would generate significant revenues. | (+) Rates low relative to existing property taxes |
| Stability/Sustainability | (+) Once in place, would be very stable year-to-year | (-) Long term future of the gas tax is uncertain as fuel systems change and fuel economy improves | (+) Likely to be stable once introduced--recognize that transit success will reduce revenues | (+) Relatively stable year-to-year although some impact of business cycles | (+) Relatively stable year-to-year, some impact of business cycles | (+) Very stable and predictable year to year |
| Fairness/Equity | (?) Not clear where the impact of this source would fall | (?) Motorists are beneficiaries of good transit to reduce congestion, but will still object to paying. | (?) Similar to the gas tax, the issue of motorist benefit will arise | (+) All those who work in the region benefit from WMATA service, equity will depend on design of the tax | (-) Connection to sales tax less clear, general concern about the regressive nature of the tax | (?) Mixed fairness in terms of property owner benefits throughout the region |
| Economic Efficiency | (-) Could be a negative factor for business location | (-) Higher tax rates in the area could divert purchase locations | (?) Possible positive consequences in reducing auto use, congestion, air pollution offset by possible shifts in work locations | (?) Possible encouragement to locate business elsewhere | (?) Possible redirection of purchases outside region, on-line, etc. | (?) Possible impact on real estate values and investment decisions |
| Federal Coverage | (+) Fee could be made applicable to federal owned or occupied space | (-) No strong connection to Federal Government | (+) Federal workers would be among those to pay | (+)Federal workers would pay the payroll tax | (?)No strong connection to Federal Government | (-) Not applicable to Federal Government properties |

General

Accountability Any successful program will need to show how WMATA will be accountable for positive results

Specificity Any successful program will have to have specific content as to committed projects and initiatives

Political Acceptance Each feasible source will have to be analyzed as to the political issues and barriers to adoption.

- (-) Negative implications
- (?) Mixed or unknown
- (+) Positive implications

Panel Findings With Respect to Revenue Sources

Based on revenue production and the rating criteria, the Panel concludes that four revenue sources would be most appropriate for consideration by regional elected officials. These are:

- Regional Property Access Fee
- Regional Ad Valorem Property Tax
- Regional Payroll Tax
- Regional Sales Tax

Each of these four proposed sources could be implemented relatively easily, would produce adequate revenue to close WMATA's shortfall, and would have limited impact on regional productivity and competitiveness.

Two of these sources could also be adopted to provide the proposed 50% Federal share of the gap-closing need, which is also an annual average \$160 million. The access fee would provide \$160 million per year at a rate of \$0.77 per square foot on all Federal owned or leased space, as compared to the local fee of \$0.56 per square foot. The payroll tax, at the same 0.20% proposed for non-Federal employees, would produce a Federal contribution of \$28 million per year.

Two other sources are more problematic and are not being recommended by the Panel.

These are:

- Regional Gas Tax
- Regional Parking Tax

These two measures would have to be at a relatively high amount to produce the needed revenues, and would have significant to severe problems in implementation. While they would be appropriate from a public policy standpoint, encouraging transit use rather than use of the automobile, there would be very negative reaction from motorist interests.

As noted above, two sources—congestion charging and value capture—were eliminated in the Panel’s consideration.

Region Wide vs. Local Implementation

In the Panel’s charter, it was also asked to consider whether the revenue sources contemplated would be appropriate for local enactment on a “mix and match” basis, with each jurisdiction selecting its own preferred options. The Panel’s view is that this would clearly be a less attractive outcome, possibly leading to results similar to the “stable and reliable” initiative in the early 1980’s. It would be preferable, from the Panel’s view to treat WMATA as a truly regional entity and provide for its needs as much as possible on a regional basis. To allow each jurisdiction to enact its own set of taxes requires that a “quota” of funding for each be established, rather than allowing the incidence of the

activity being taxed across the region to drive the contributions. It would mean continued negotiation of the cost allocation formulas as the basis for revenue collection, recognizing that these formulas are likely to change as the system grows and matures (e.g., inclusion of additional mileage and stations as the Dulles extension comes on line.).

However, to facilitate the discussion of the issue, the Panel did review the implications of such a local choice approach. As shown in the tables below, the location where these revenues would be raised (District of Columbia, Maryland, and Virginia) as compared with the current allocation of operating subsidies under the current formula does vary on a tax-by-tax basis. With the exception of the access fee, each of the proposed taxes would shift the burden away from the District of Columbia towards the Maryland and Virginia suburbs. A separate table shows the allocation of the payroll tax from the point of view of employee work place as contrasted with employee residence.

Table 6: Estimated Geographic Distribution of Region-Wide Taxes

| <i>Preliminary Estimates of the Geographic and Federal Distribution of Potential WMATA Dedicated Revenue Sources (Current WMATA Compact Area)</i> | | | |
|---|----------------------|--------------|--------------|
| | District of Columbia | Maryland | Virginia |
| Access Fee | 53% | 27% | 20% |
| Gas Tax | 9% | 49% | 42% |
| Property Tax | 16% | 37% | 47% |
| Parking Tax | 16% | 39% | 45% |
| Payroll Tax | 24% | 36% | 40% |
| Sales Tax | 20% | 32% | 48% |
| <i>WMATA FY05 Budget Allocation</i> | <i>38.1%</i> | <i>37.4%</i> | <i>24.5%</i> |

Notes: Loudoun County, while in the WMATA Compact, has been excluded from the analysis due to lack of rail service until at least 2015. Parking tax federal distribution based on employment data.

Table 7: Geographic Distribution of Payroll Tax by Work Place and Residence

[Place of Residence includes Federal employees and will be revised.]

| | DC | MD | VA | Total |
|---|-----|-----|-----|-------|
| Employee Place of Work ¹ | 24% | 36% | 40% | 100% |
| Est. Employee Place of Residence ² | 15% | 45% | 40% | 100% |

Note: Loudoun County, while in the WMATA Compact, has been excluded from the analysis due to lack of rail service until at least 2015.

¹ Based on MWCOG and Bureau of Labor Statistics data.

² Based on US Census data.

An alternative perspective on regional distribution is provided by looking at the tax rates required within each jurisdiction to provide an allocated share of the WMATA shortfall. To undertake this analysis, it was assumed that the current distribution of subsidies, i.e., 38.1% to the District of Columbia, 37.4% to Maryland and 24.5% to Virginia would be the allocation, although that would likely change in the future. Based on those percentages, the share of the \$160 million annual average shortfall to be funded locally translates to \$61 million from the District, \$60 million from Maryland, and \$39 million from Virginia. The various potential revenue sources were then calculated in terms of the tax rate required in each area in order to meet the respective funding requirement. As shown in the table below, these rates vary substantially. The District would need a 48¢ gas tax in contrast to a rate of 7¢ in Virginia. A similar differential would exist for the sales tax—0.52% for the District vs. 0.14% in Virginia. In contrast, the access fee in the District would be 41¢ a square foot vs. 79¢ in Maryland. Presumably, in a “mix and

match” case, each area would choose the tax most attractive from its own local consideration, although there then would be intra-regional competitiveness considerations created.

Table 8: Local Revenue Sources Needed to Close WMATA Shortfall Assuming 50% Federal Contribution and Current WMATA Subsidy Allocation

| <i>Preliminary Estimates of Potential WMATA Dedicated Revenue Sources Assuming 50% Special Federal Participation Level Required to Meet the Average Total Shortfall of \$160M (Current WMATA Compact Area)</i> | | | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|
| \$160M Shortfall | District of Columbia | Maryland | Virginia |
| <i>Current WMATA Subsidy Allocation</i> | 38.1% | 37.4% | 24.5% |
| Access Fee ¹ | \$0.41/square foot/year | \$0.79/square foot/year | \$0.67/square foot/year |
| Gas Tax ² | \$0.483/gallon | \$0.092/gallon | \$0.070/gallon |
| Property Tax ³ | \$0.0867 per \$100 of assessed value | \$0.0379 per \$100 of assessed value | \$0.0192 per \$100 of assessed value |
| Parking Tax ⁴ | \$1.45/day (\$363/year) | \$0.58/day (\$145/year) | \$0.34/day (\$85/year) |
| Payroll Tax ⁵ | 0.33% (\$100/employee/year) | 0.20% (\$76/employee/year) | 0.13% (\$50/employee/year) |
| Sales Tax ⁶ | 0.52% | 0.32% | 0.14% |

Notes: Average calculation based on years 2008 to 2015. 2006 and 2007 are considered outliers due to significantly lower shortfall requirements. By including 2006 and 2007 in the calculation the average total shortfall would be \$130M. Excludes MetroAccess costs and includes operating costs for the Dulles Extension and Anacostia Light Rail. Loudoun County, while in the WMATA Compact, has been excluded from the analysis due to lack of rail service until at least 2015.

¹ Includes 395M square feet of federal (170M sf) and commercial (209M sf) space and hotels (16M sf) in areas that are broadly served by the Metrorail system. Fees are estimated to grow 2.88% annually based on historical inflation. New building equivalent to 1% annual growth assumed.

² Based upon a 2010 forecast of the annual vehicle miles of travel in the area and applying the estimated fuel economy for cars/light trucks of 24 mpg, an estimated 1.3 billion gallons will be consumed. Assumes 325 days of vehicle use per year.

³ Property Tax (rate per \$100 of assessed value) in addition to and collected on parity with existing property taxes on residential and commercial real estate. Tax assessed on entire compact area, assumes 2.7% average annual growth of property values, based on historical assessed value growth.

⁴ It is assumed that users will pay the fee. Based upon an analysis using the regional travel model, is estimated that about 1.15 million commuter parking spaces will be utilized and pay the fee. The costs of increased transit service to accommodate the additional demand was estimated at about \$40 million per year, which reduces the net revenues. Additional revenue from increased transit service is estimated to be half of the associated cost, or \$20 million. Fees are estimated to grow 2.88% annually based on historical inflation.

⁵ Based on COG Round 6.3 total employment forecast for 2000 to 2015 for the Compact Area, averaging 1.4% annual growth. Employment is stratified into income categories based on median household income data for the Compact Area, obtained from the US Census. Individual's annual income below \$15,000 and above \$100,000 is not taxed. Annual income growth of 2.88% is assumed based on historical inflation.

Other Considerations

As noted in the section on analytical criteria, there are some general considerations that would apply to whatever revenue source or mix of sources that was selected. The Panel did not attempt a full evaluation of these criteria, which include accountability, specificity and political acceptability, but did discuss them and offers the following comments:

- *Accountability*—The Panel notes the concerns that have been raised in recent months about WMATA’s management and governance practices in light of several widely-reported incidents. It is aware of the steps that management is

taking to get better control of operations and achieve a higher standard of results. These steps are timely and commendable. Progress in this regard will be critical in achieving public acceptance for new revenues. Depending on the source of the future revenues, the basis of WMATA governance may also be appropriately questioned. The Panel did not reach conclusions on governance, but notes that if revenues are provided on a region-wide basis and if the Federal government becomes a funding partner through special contributions, the existing arrangements come up for consideration.

- *Specificity*—Experience in other parts of the country, as well as in this region, show the importance of specific commitments in gaining acceptance for tax contributions to transportation investment. In the past year, a substantial number of transportation referenda have passed in areas all across the United States, showing that voters are sympathetic to additional taxes when they can measure what they will receive for their payments.¹⁰ Since much of the WMATA shortfall is intended to close their capital funding shortfall, there will need to be a clear indication of expected capital investments, their cost and schedule, and a tracking mechanism to assure that promises made are promises kept.
- *Political Acceptability*—this will be tested by the response of elected officials, Federal and local, to the Panel recommendations. The Panel believes that with adequate information about the benefits to be gained and the risks to be reduced

¹⁰ See Appendix I “Public Transportation Ballot Initiatives-2004” prepared by the Center for Transportation Excellence.

by meeting the WMATA needs, that a case can be made for these revenue measures, although it will not be a simple case in light of general concern over tax levels nationally and locally.

Summary of Key Findings

To Be Prepared Following Panel Discussions

List of Appendices

- A. Charter for the Metro Funding Panel
- B. Biographical Information on Panel Members and Participant Staff
- C. List of Prior Studies Provided to the Panel
- D. Summary of Public Comment Received by the Panel
- E. Public Benefits Provided by WMATA Rail and Bus Services
- F. Summary of Revenue Sources for Major U.S. Transit Agencies
- G. Benchmarking Data for WMATA Operations
- H. Briefing Paper on “Stable and Reliable” Revenues for WMATA
- I. Public Transportation Ballot Initiatives-2004