# WMATA Vision and Need For Dedicated Funding

## EXECUTIVE SUMMARY

**Operating Costs**

Current funding arrangements will be used to pay for current service levels, including inflationary adjustments

New revenue source will pay for additional capacity enhancements that come from Metro Matters Program (FY 2005-2010, with first capacity additions arriving in FY 2006), and from capital funding that is generated under dedicated funding program for post FY 2010 capacity enhancements

WMATA should establish an official passenger revenue recovery ration to guide future actions (currently proposed at 57%)

The federal government has a responsibility to participated in paying for their fair share of operating costs attributable to capacity enhancements (not to current service levels)

The average annual operating shortfall for a new revenue source between FY2006 and FY2015 is approximately $72 million.

$36 million - Dedicated Funding Source

$36 million - New Federal Funding Source

**Capital Costs**

The Metro Matters Program is now formally approved by WMATA's funding partners. However, we still have one silent funding partner; that is being the federal government. We still need to secure the baseline assumption of $260 million in federal discretionary funding under the TEA-21 Reauthorization Bill, and $144 million in 100% security funding.

The Metro Matters Program supports our Infrastructure Renewal Program only through FY 2010, and a finite set of additional capacity that should carry us through FY 2012. A new source of revenue (dedicated funding) is required to permanently sustain the Infrastructure Renewal Program funding requirements and to deliver additional capacity beyond 2010. (Note: This does **not** include major new guideway expansions, such as the Tysons/Dulles/Loudoun extension, etc. Those projects will be advanced by sponsoring jurisdictions with discretionary funds.)

The average annual capital funding shortfall for a new revenue source is shown as follows:

$51 million - Infrastructure Renewal Program

$181 - Capacity Enhancements

The federal government also has a responsibility to fund their fair share of future capacity enhancements.

## Background

The Washington Metropolitan Area Transit Authority is at the precipice of a funding crisis. Built over twenty-five years on the scale of a national monument, the Metro system is soon to be 106 miles and 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 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.

Not only does WMATA face daunting funding requirements, it must do so through the most challenging funding environment in the transit industry. 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 it must compete for scarce local funds with schools, roads, health care and other local priorities on an annual basis. While other transit properties throughout the country also compete for 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 Metro Matters Funding Agreement brought many of WMATA’s capital funding issues to light. WMATA’s operating and capital budget is limited to the amount supportable by the jurisdiction with the greatest financial limitations, 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 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 commitment to operate and maintain the current system, WMATA’s level of service will decline each year as critical maintenance work goes undone.

## Operating Budget

### 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.

**Table 1.  Projected Operating Requirements Through 2015**

## Capital Budget

### Capital Funding 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**

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.