Report of the Metro Funding Panel

FINAL DRAFT FOR PUBLIC RELEASE AND COMMENT

Key Findings

December 17, 2004

Sponsors: **Metropolitan Washington Council of Governments**
Federal City Council
Greater Washington Board of Trade

Key Findings, Recommendations and Conclusions

The Panel finds that the development of Metro and implementation of its rail and bus services have had positive measurable effects the Washington Metropolitan Region—development, economic growth and environmental enhancement. A variety of benefits are enjoyed by all those have helped pay WMATA's costs over the years, including the federal, state and local governments, regional businesses and the region's citizens. All those beneficiaries have shared in the development and operation of the system, with those costs divided fairly equally among the federal government, the riders and the state and local jurisdictions (see chart on page 36). Sustaining this progress will be important to the region's future.

Commitments of new resources will be required if this progress is to continue. The Panel finds that, even with reasonable assumptions about maintenance of effort by the federal, state and local governments, and a continued level of farebox support that exceeds that in most metropolitan areas, WMATA's finances are insufficient to insure continued effective Metrorail and Metrobus service. Particularly disturbing is the lack of sufficient capital funding to sustain the existing system and support an enhancement of services to meet growing demand. There is also a need for additional operating support, dependent in part on the level to which the region maintains the subsidy formulas now in place.

In addition to needs of an expanding Metro system, the Panel concludes that the expenses for MetroAccess the door-to-door transportation service operated by WMATA for the benefit of the region's disabled population are a significant and rapidly growing portion of the projected gap in Metro's operating results. The Panel finds that MetroAccess is an essential service to its users, but that the needs of this service should be met from other than transportation system revenues. It has therefore not included these needs in its consideration for uses of dedicated revenue, but views the projected $1.1 billion project shortfall in MetroAccess funding through 2015 as an urgent matter that requires the attention of the federal government, WMATA and the entire region. To include the MetroAccess subsidy as part of the gap to be met from WMATA resources would unduly burden riders of the core system with this added expense.

Compounding the need for resources is the fact that very little of the WMATA budget has any level of year-to-year assurance. Most regional transportation agencies around the country derive a significant level of their support from regionally dedicated revenue sources. As shown in Appendix G, 22 of the nation's largest transit systems have a greater degree of dedicated tax revenue than does Metro. Western cities such as Los Angeles, Houston or Seattle derive more than half their budget in that way. Comparable Eastern cities such as New York, Boston, and Chicago have tax support in the 20% to 30% range. The Panel finds that WMATA would benefit significantly from similar treatment.

The mix of sources and shares for future WMATA support has been and will continue to be the subject of discussion by elected officials and the public in the region, but the time for definitive action is now. Present operating and capital arrangements have created a short period of stability, but more permanent arrangements should be put in place soon if Metro is to avoid a downward spiral in its condition and performance. Transit systems that have entered into such a spiral find it difficult and expensive to recover. The failure to act promptly would have severe consequences on the region's economy and security.

The many parties who benefit from the existence of quality Metro service should share in those costs. The Panel identifies a number of revenue measures which could meet these needs. It finds that the federal government, whose workforce is the mainstay of Metro ridership, is the largest single beneficiary of this service and should continue to share in the costs of the system. State and local governments and riders (both residents and visitors) will contribute to meeting the system's needs, but the Panel finds the need for some dedicated revenues to assure that the projected WMATA gaps are closed, whether through new taxes or dedication of existing ones.

In light of the regional nature of Metro service and wide distribution of benefits received from that service, the Panel believes that revenue measures would most appropriately be enacted at a regional level rather than allocated among the jurisdictions.

Ultimate consideration of these revenue measures is the province of federal, state and local elected officials, and successful execution of a plan in the interests of the region will fall to the WMATA Board. The Panel notes that similar efforts around the country have succeeded, especially when there is clarity as to what will be accomplished and a rational basis of management accountability to the public for service and results. The passage of referenda to fund transportation improvements in areas as diverse as Phoenix, Denver, San Diego or Austin, as well as the overwhelming support for Metro bond financing in Arlington and Fairfax shows the degree of voter support when tangible results are offered. (See Appendix L). The Panel also notes the concerns that have been raised in recent months about WMATA's management culture and effectiveness, as is aware of steps management is taking to achieve a higher standard of results. These steps are timely and necessary. Progress in this regard will be critical in achieving public acceptance of the need for new revenues.

Based on these findings, the Panel concludes and recommends as follows:

1. **The Compact jurisdictions of Maryland, Virginia, and the District of Columbia should mutually select, authorize, and implement a regional dedicated revenue source sufficient to address the projected shortfall for capital maintenance and system enhancement** necessary to service the public transit needs of those persons living in, working in, and visiting the area of the WMATA Compact. This regional dedicated revenue source would be significantly less if the federal government participates in proportion to the benefit it receives.

2. **The most desirable, workable, and acceptable dedicated revenue source that the compact jurisdictions can utilize, particularly since it captures funds not only from regional residents but from visitors to the area, is an increase of the sales taxes applicable to the area covered by the compact.** The Panel recommends that a sales tax increase of 0.50% (½ of one percent) applicable to goods and services sold within the Compact area would be sufficient to meet the projected shortfall. This amount would be reduced to as little as 0.25% (¼ of one percent) if the federal government participates as strongly as the Panel believes it should. Jurisdictions would have the option of reducing their current sales tax level so as not to generate a net tax increase if their fiscal circumstances permitted. There is also the option of enacting a higher level of tax to substitute for increased local contributions necessary under the current allocation formulas. The Panel offers that option as one which local elected officials might consider. Localities are also urged to take whatever actions they deem appropriate to reduce the impact of such increases on those less able to pay. In this regard, the Panel notes that the provision of good transit service is a policy with strong positive outcomes for lower income and other transit dependent residents.

3. **Fare increases should be implemented in a way that maintains the current farebox operating ratio averaging 57%,** while taking into account the need to maintain healthy ridership levels.

4 **The federal government should participate significantly in addressing the projected shortfall for capital maintenance and system enhancement,** since Metro service is a critical service for effective federal operations. A significant portion of the federal workforce uses the service to and from work at locations convenient to Metro stations. Metro is a critical component of the homeland security response system for our nation's capital, as well as a service to the capital's many visitors. For purposes of financial projections and analyses, the Panel identified a federal participation level of up to fifty percent of the projected shortfall, subject to future negotiations as to appropriate shares and sources.

5. **If the Compact jurisdictions conclude that a regional sales tax is not the most financially and politically viable dedicated revenue source, the Panel recommends that the compact jurisdictions mutually select, authorize, and implement a regional payroll tax, mutual and equivalent increases in ad valorum property taxes, or a**

special real property assessment based upon accessibility to mass transit in sufficient amount, together with federal contributions, to meet the WMATA shortfall.

6. **With respect to MetroAccess, the Panel recommends a concerted effort, perhaps involving the formation of a new panel with expertise on this issue to focus on existing federal, state and local social service funding.** The Panel agrees with the importance of this service but not with the premise that its financing is solely a WMATA burden The Panel views this as a societal expense that should be borne through social service funding rather than as a transportation cost.