



FEDERAL CITY  
COUNCIL

# Metro's Path Forward

A comprehensive approach toward reform

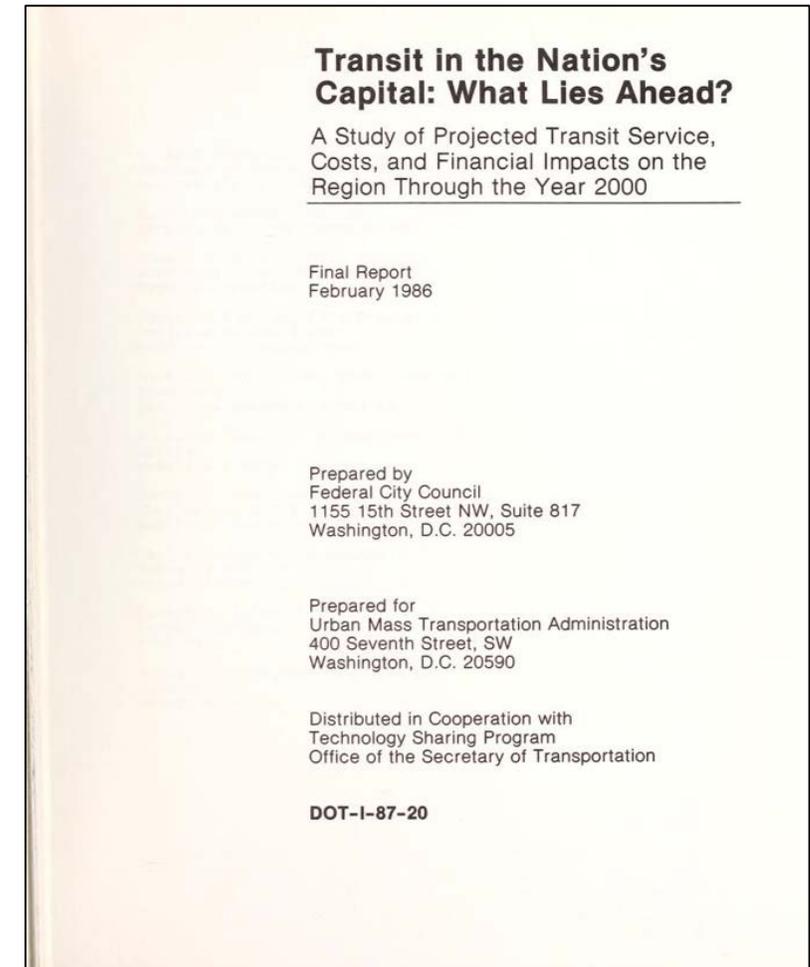
April 17, 2017

- Metro is not living up to the promise of public transit: to be a safe, affordable and reliable means of transportation.
- Its challenges are rooted in governance, operations and funding, all of which are guided by the WMATA Compact.
- Metro reform will require a new or amended compact which:
  - Provides for governance by industry experts, with sole fiduciary obligation to Metro rather than its constituent political jurisdictions
  - Facilitates long-term operational and capital planning that emphasizes safety, efficiency and reducing deferred maintenance
  - Provides long-term financial support for both operations and capital needs
- The Metro Compact should be amended by its signatories – but if they cannot move quickly to accomplish that goal, then a control board should be appointed to transition from the current state to the future.
- The situation is dire and the time to act is now.

## Metro Reform: Background

The Federal City Council has played an instrumental role in the planning, funding, development and financing of the Metro system from the outset. Specifically, FC2 was:

- Integral to the work of the National Capital Transportation Agency to develop the system's plan
- As early as 1965, a key leader in the development of a mass transit system for the nation's capital
- Instrumental in the completion of a 1986 report highlighting concerns about long-term maintenance costs
- A co-leader of efforts to secure \$3.3B Metro Matters agreement to address system capital needs
- A co-chair of a 2005 Metro Funding Panel to identify long-term funding options



Metro provides a key competitive advantage for the region by providing access to jobs and opportunities for residents. The region cannot survive without this critical piece of transportation infrastructure – our regional transit system, which is regarded by many as America's Subway.

- Metro (rail, bus, and paratransit) [delivers 1 million trips](#) on an average weekday
- [54% of all jobs in the region are located within a half mile radius](#) of Metrorail or Metrobus stops
- Metro removes [more than one million](#) car trips from our region's roads each day
- Without Metro, [commuters in the region would experience commutes 25% longer than they do today](#)

*Metro connects our major transportation hubs, creates walkable urban places, enhances both bicycling and walking as commuting options, and has been the region's best example of inter-jurisdictional cooperation*

## Metro Reform: Diagnosis

## *Ridership is Falling*

- Metrorail ridership [declined 12% between Q42015 and Q42016](#)
- Service is unreliable (actual on-time performance for Metrorail was [70% in CY2016](#) vs. [84% in CY2015 and 91% in CY2014](#))
- Safety issues have shaken passenger confidence (i.e., L'Enfant Plaza fire)
- Maintenance activities are inefficient (i.e., escalators and train offloads)

## *Financial Challenges*

- [\\$17 billion in "state-of-good-repair" capital needs over the next 10 years](#)
- [\\$2.8 billion in unfunded pension liabilities](#) and other retiree benefits
- [\\$290 million shortfall in FY2018 operating budget](#)
- Unstable cash reserves

***The Status Quo is Unsustainable – The Time to Act is Now!***

Challenges of governance, operations, and funding have plagued Metro, resulting in systemic dysfunction.

## Governance

- *The board has dual fiduciary responsibilities:* Local interests and operational priorities are not aligned with the safety and functionality of the system. This results in stalled efforts to make improvements.
- *The board is large and unwieldy:* Eight (8) principal, voting directors and eight (8) alternate non-voting directors.
- *Board-members transition on and off frequently:* High turnover reduces the consistency and stability of fiduciary oversight.

***Failures related to WMATA's governance structure are central to other issues plaguing the system. Absent significant reforms to Metro's governance, other reform efforts will be unsuccessful.***

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## Operations

- *The system is unsafe:* Aging, crumbling infrastructure and deferred maintenance have led to an increasing number of safety incidents.
- *The system's performance is hindered by inefficient operations:* Metro has evaluated options for delivering transit services differently. It should implement the best of those options.
- *Under the current operating environment, WMATA is unable to take advantage of innovative solutions that would increase efficiency and flexibility.*
- *Performance Metrics:* The use of metrics to monitor performance should be in the Compact.

***Metro must embrace innovation to allow for a more balanced approach to operations. This includes changes in the use of technology and of personnel. Performance metrics must be introduced for greater accountability and used to measure and reward worker and system performance.***

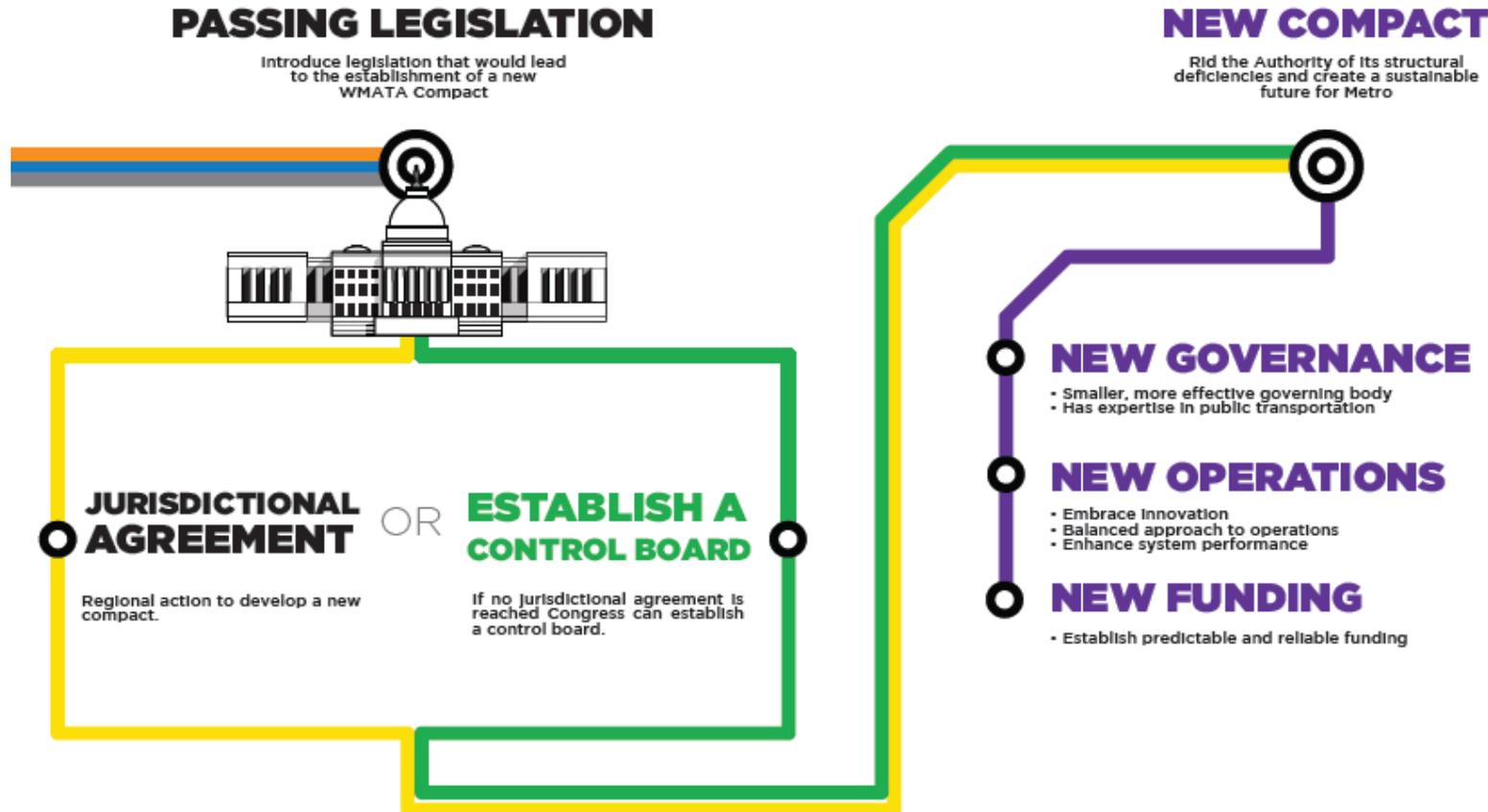
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## Funding

- *There is a structural problem producing the budget gap:* Metro has lost significant ridership revenue and does not fully leverage its assets to generate operating revenue.
- *There is no dedicated funding for Metro operations:* Metro funding comes from both rider fares and direct subsidies from the jurisdictions it serves.
- *Existing sources of capital funding are insufficient :* Metro's PRIIA funding expires in the fall of 2018, and its reauthorization is essential. New sources of capital funding are needed, but there is skepticism among decision-makers about putting "good money after bad."

***Metro needs dedicated and sufficient funding for both operations and capital. However, Metro must commit to rebuilding credibility and accountability (through governance reforms) in exchange for such funding.***

**Compact Reform:** Congressional legislation to establish a **Control Board** can stabilize Metro while addressing the issues of governance, funding and operations that are inhibiting the functionality and safety of the system.



## Proposal Details: Control Board

<u>Objective</u>	<ul style="list-style-type: none"><li>▪ To stabilize Metro's operations</li><li>▪ To establish a baseline of facts, costs and solutions for a more efficient Metro</li><li>▪ To re-establish a level of trust and confidence in Metro</li></ul>
<u>Timing</u>	<ul style="list-style-type: none"><li>▪ Within 3 months of passed federal legislation</li></ul>
<u>Members, Term and Compensation</u>	<ul style="list-style-type: none"><li>▪ 5 members (1 appointment each – MD, VA, DC, federal, and WMATA GM/CEO)</li><li>▪ Members must have transit, large-cap company, or financial executive experience</li><li>▪ Three-year term (maximum) or until the achievement of financial &amp; operational goals</li><li>▪ Adequate compensation</li></ul>
<u>Authority and Powers</u>	<ul style="list-style-type: none"><li>▪ Approve budgets</li><li>▪ Approve, void and renegotiate contracts</li><li>▪ Renegotiate existing liabilities</li><li>▪ Access to US Treasury for credit or credit enhancement</li><li>▪ Conduct studies to inform actions to use powers</li></ul>
<u>Oversight</u>	<ul style="list-style-type: none"><li>▪ Annual Report/Oversight hearings<ul style="list-style-type: none"><li>▪ Congressional committee</li><li>▪ Compact signatories</li><li>▪ Funding jurisdictions</li></ul></li><li>▪ Public meetings (to be stipulated)</li></ul>

	<u>District of Columbia Financial Responsibility and Management Assistance Authority (Local)</u>	<u>Massachusetts Bay Transportation Authority (MBTA) (State Transit)</u>
<u>Need</u>	<ul style="list-style-type: none"> <li>▪ Crumbling finances and operational oversight</li> <li>▪ \$722M budget gap (out of \$3.2B budget) in 1995</li> </ul>	<ul style="list-style-type: none"> <li>▪ Severe financial distress</li> <li>▪ Ineffective governance</li> <li>▪ Lack of performance management and accountability</li> </ul>
<u>Governance</u>	<ul style="list-style-type: none"> <li>▪ Five-member body established by the Congress</li> <li>▪ Board members appointed by President</li> </ul>	<ul style="list-style-type: none"> <li>▪ Five-member Fiscal and Management Control Board appointed by the Senate President and Speaker of the House by final approval of Governor.</li> </ul>
<u>Purpose</u>	<ul style="list-style-type: none"> <li>▪ Oversee all fiscal operations of the city government</li> <li>▪ Streamlined government, improve services and balance the budget</li> </ul>	<ul style="list-style-type: none"> <li>▪ Make MBTA financially self-sufficient by creating a dedicated state funded capital program</li> </ul>
<u>Powers</u>	<ul style="list-style-type: none"> <li>▪ Could override decisions by Mayor and DC Council</li> <li>▪ Could void and renegotiate contracts</li> <li>▪ Access to the US Treasury rates and credit enhancement</li> <li>▪ Pensions liabilities were assumed by the federal government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Oversight and management support to reform governance, finance, and agency structure</li> <li>▪ Approval authority over arbitrated agreements</li> <li>▪ Access to state's tax revenue</li> </ul>
<u>Oversight</u>	<ul style="list-style-type: none"> <li>▪ Congressional sub-committee provided oversight</li> <li>▪ Suspended after the achievement of performance benchmarks.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reports to the Secretary of Transportation</li> <li>▪ Required to establish a "rigorous" performance management system</li> </ul>
<u>Outcomes</u>	<ul style="list-style-type: none"> <li>▪ Consecutive balanced budgets since Control Board's dissolve</li> <li>▪ Institutionalized accountability through creation of OCFO</li> </ul>	<ul style="list-style-type: none"> <li>▪ TBD, MBTA Control Board established in 2015 for period of 3-5 years</li> </ul>

## Proposal Principles: New Metro Compact

## GOVERNANCE

Key Terms	New Compact Proposal
<u>Board of Directors (number and term)</u>	<ul style="list-style-type: none"> <li>▪ Nine (9) total directors, 2 each for DC, MD, VA, and federal government, and the WMATA GM/CEO. Four-year terms with staggered starts. There will be a term limit of two.</li> </ul>
<u>Board of Directors (appointment criteria)</u>	<ul style="list-style-type: none"> <li>▪ Does not currently hold or, in the four years prior, held elected political office</li> <li>▪ Has demonstrable experience in the fields of engineering, mass transit management, large-cap publicly traded Board of Directors, CEO or CFO, or public sector financial management or oversight</li> <li>▪ A majority of the Directors must be residents of any Metro compact jurisdictions</li> </ul>
<u>Board of Directors (Chairmanship)</u>	<ul style="list-style-type: none"> <li>▪ The board will elect its own chairman with no less than a two-year term (three is ideal).</li> </ul>
<u>Board of Directors (Compensation)</u>	<ul style="list-style-type: none"> <li>▪ Board members will be compensated at a uniform rate by WMATA</li> </ul>
<u>Labor Relations</u>	<ul style="list-style-type: none"> <li>▪ All Collective Bargaining Agreements (CBA) should reflect the fiscal and operating realities of WMATA.</li> </ul>

## FUNDING: OPERATING AND CAPITAL

Key Terms	New Compact Proposal
<u>Operating Revenue</u>	<ul style="list-style-type: none"> <li>▪ Earned Revenue: Fares, Advertising and Other Revenue</li> <li>▪ Federal Contribution: Increase Metro’s capture of federal employee transit reimbursement</li> <li>▪ Operating Subsidies: Signatories commit to a five-year rolling subsidy level</li> </ul>
<u>Operating Budget</u>	<ul style="list-style-type: none"> <li>▪ Once operating revenue estimates are fixed, Board can create an operating budget/plan. The plan will be constructed on a full cost accounting basis.</li> <li>▪ No Capital funds used for operations and vice versa.</li> </ul>
<u>Capital Funding</u>	<ul style="list-style-type: none"> <li>▪ Either (or both) of the approaches presented below could generate sufficient funding for Metro’s 10-year State-of-Good-Repair (SGR) capital needs via bond issuances, with federal and jurisdictional credit enhancement.                             <ul style="list-style-type: none"> <li>▪ A 1% dedicated regional sales tax.</li> <li>▪ An annual fee could be assessed on property owners within a ½ mile radius of a WMATA station entrance, including properties owned by feds and/or Compact signatories.</li> </ul> </li> </ul>
<u>Capital Budget</u>	<ul style="list-style-type: none"> <li>▪ Board responsible for creating a 10-year capital improvement plan for every annual budget</li> </ul>
<u>Major Investment Program</u>	<ul style="list-style-type: none"> <li>▪ Board must create and annually update a package of proposals for major infrastructure investment needs (for system expansion or large-cost State of Good Repair). These proposals will include project descriptions, a plan of finance, and endorsement(s) from key stakeholders.</li> </ul>

# Comparison: Control Board vs. Future Compact Board



April 17, 2017

Key Terms	Control Board	New Compact Board
<u>Purpose</u>	<ul style="list-style-type: none"> <li>To stabilize Metro operations, finances and governance</li> </ul>	<ul style="list-style-type: none"> <li>To govern Metro in a operationally reliable, fiscally sustainable and accountable manner</li> </ul>
<u>Members*</u>	<ul style="list-style-type: none"> <li>Five-members adhering to qualification requirements</li> <li>One (1) appointment each for DC, MD, VA, federal and Metro GM/CEO</li> <li>No Alternates</li> </ul>	<ul style="list-style-type: none"> <li>Nine members adhering to qualification requirements</li> <li>Two (2) appointments each for DC, MD, VA</li> <li>Two (2) appointments for the federal government</li> <li>GM occupies remaining board seat</li> <li>No Alternates</li> </ul>
<u>Powers</u>	<ul style="list-style-type: none"> <li>Oversight and management support to increase accountability over a 2-3 year time frame</li> <li>Can approve, void and renegotiate contracts</li> <li>Approve budgets</li> <li>Develop corporate-wide performance metrics (i.e., operations, finance and safety)</li> </ul>	<ul style="list-style-type: none"> <li>Prepare Regional Transit Plan (capital &amp; operating plan)</li> <li>Approve Budgets and Contracts (thresholds TBD)</li> <li>Borrow funds required to build and operate system</li> <li>Implement a Performance Management plan</li> <li>Conduct R&amp;D to identify innovation</li> </ul>
<u>Financing</u>	<ul style="list-style-type: none"> <li>Maintain current jurisdictional funding structure</li> <li>Access US Treasury for long-term financing</li> </ul>	<ul style="list-style-type: none"> <li>An adequate, predictable and reliable funding agreement will be developed by the jurisdictions</li> </ul>
<u>Oversight</u>	<ul style="list-style-type: none"> <li>Congressional committees of jurisdiction</li> <li>Hearings with DC, MD and VA legislative bodies</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget and performance hearings with DC, MD and VA</li> </ul>

\* Qualified members may include: Executives with organizational restructuring, CEO from large-scale enterprise with specific public domain expertise, CEO from large-scale transportation organization, GC from transportation industry, Senior Partner at Big Four Public Accounting firm, HR/labor relations expert from transportation, business, defense industry

The Federal City Council has been working to develop a position and strategy on Metro reform. In November 2016, FC2 publicly launched an effort to provide thought leadership on opportunities to restructure WMATA and to advocate for a sustainable future for Metro. Over the past several months, FC2 has worked to provide Metro stakeholders with thoughtful rationale and ideas for how to address the complex challenges plaguing WMATA.

We believe there is a path towards a safe, reliable, affordable Metro, and are relying on local leaders to take action. We are building a coalition of regional stakeholders to demonstrate public support of Metro reform, and invite you to endorse our efforts by signing on through our [website](#).

As a region, we must recognize that we are at a critical junction in the life of our regional transit system. Together, we must move toward reform.

