

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis

MDOT should comment on the variance between the allowance for the WMATA operating subsidy and the Maryland subsidy assumed in the WMATA fiscal 2019 proposed budget and indicate MDOT’s expectations for how the difference will be resolved. (page 11)

MDOT Response:

Of the \$366 million programmed for the Washington Metropolitan Area Transit Authority (WMATA) in the fiscal 2019 operating budget, \$1 million is intended to fund the Metrorail Safety Commission (MSC). This leaves a balance of \$365 million in operating funds for WMATA, the same amount as programmed for the prior year.

WMATA’s budget as presented is not yet final. It is anticipated that the proposed budget will be approved by WMATA’s Board of Directors by the end of March. Once the budget is final, MDOT will then work to resolve any difference between the currently programmed allowance and WMATA’s requested operating subsidy from the State.

MDOT should comment on the variance between the allowance for the WMATA capital contribution and the Maryland contribution assumed in the WMATA fiscal 2019 proposed budget and indicate MDOT’s expectations for how the difference will be resolved. (page 15)

MDOT Response:

Governor Hogan proposed to provide WMATA with an additional \$125 million annually over the next four years, contingent on equivalent funds being provided by Virginia, the District of Columbia, and the federal government.

Additionally, proposed legislation has been introduced in both the Maryland Senate and the House of Delegates to create dedicated funding for WMATA. In the event this legislation passes, it will mandate the funding toward WMATA’s capital budget.

As with the operating budget, WMATA’s capital budget is not yet final. Once the budget is final, MDOT will then work to resolve any difference between the currently programmed allowance and WMATA’s requested capital subsidy from the State.

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DLS Budget Analysis Issues

1. WMATA General Manager Proposes Changes to Capital Funding and Business Model (page 16)

WMATA should discuss the Keeping Metro Safe, Reliable and Affordable initiative with the committees and indicate what additional changes would be required if the PRIIA is not re-authorized.

WMATA Response:

WMATA’s Keeping Metro Safe, Reliable and Affordable initiative is a comprehensive plan to address long-term challenges for both operating and capital. While implementation of the plan does not require any amendments to the WMATA Compact, some points of the plan will require action at the state and federal levels. Overall, the plan identifies essential reforms to Metro’s capital and operating business models.

For the capital program:

- Invest \$15.5 billion over ten years for critical capital projects, increasing the average annual investment in Metro’s capital program to \$1.5 billion per year.
- Establish a multi-year, stable revenue source generating \$500 million per year for a new Capital Trust Fund.
- Dedicate the Capital Trust Fund strictly to capital investments.
- Increase jurisdictional capital contributions at 3% annual growth.
- Secure Congressional reauthorization of federal capital investment (PRIIA) at least at the current level of \$150M per year.

For the operating budget:

- Cap current jurisdictional operating subsidies at 3% annual growth, achieved through aggressive cost containment that will save the region \$1 billion over 10 years.
- Create a “Rainy Day Fund” accumulating to 10% of the operating budget to help manage against unexpected events.
- Maintain Metro’s pension commitment to active employees and retirees, but provide defined contribution retirement plans going forward for all new hires.
- Leaving binding arbitration intact, seek Congressional amendments to National Capital Area Interest Arbitration Standards Act (Wolf Act) to require an arbitration process that more meaningfully considers the financial condition of Metro and the funding jurisdictions.
- Support enhanced flexibility at Metro to reduce costs with innovative approaches including competitive contracting of targeted functions, where permitted.

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If PRIIA is not re-authorized, the safety and state of good repair projects funded by PRIIA will still need to be funded. WMATA could seek further increased capital contributions from the state and local funding jurisdictions to make up for any lack of federal funding. Also, extended closures for portions of the system yield increased efficiency for repairing and replacing critical infrastructure. Such extended closures could increase in frequency if adequate funding is not available.

2. Consultant Report Recommends Management, Funding, and Operations Changes (page 17)

MDOT should comment on these recommendations and indicate which ones Maryland could support and the circumstances necessary to do so. WMATA should also comment on the recommendations to match service levels with demand, manage costs and increase productivity, and reliably deliver a large capital program and indicate if/how it intends to implement those recommendations.

WMATA Response:

WMATA agrees with the recommendation to align service levels with demand for both Metrorail and Metrobus. For Metrorail, the current FY 2018 service plan was adjusted to widen the rail headways and adjust timetables to improve reliability and better match the service to current ridership.

Aligning Metrobus service will require more comprehensive analysis. Many Metrobus routes have been largely unchanged for decades, while development patterns have changed where many people live and work. Also, the addition of Metrorail has changed where bus routes are a necessity. WMATA seeks to learn from similar efforts in Houston and Baltimore and will actively engage with riders and potential riders as it implements this recommendation.

Many of the recommendations for managing costs and increasing productivity in the next labor contract have been part of the management position during previous contract negotiations. WMATA and Amalgamated Transit Union Local 689 are currently negotiating a new contract.

For WMATA's capital budget, WMATA remains on track to again deliver over \$1 billion in capital investment during the current fiscal year. Additionally, WMATA continues to implement a development and evaluation program similar to that used in Maryland to further improve the budgeting, cost estimates and timelines for major capital projects.

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MDOT Response:

In August 2017, at the request of Governor of Virginia Terry McAuliffe, former U.S. Transportation Secretary Ray LaHood conducted an independent study of WMATA's finances and operation, including governance and management. On December 5, 2017, Governor McAuliffe formally released Secretary LaHood's report, which contained a number of recommendations for changes to WMATA, including:

- Installing a temporary five-person Reform Board to replace the current 16-member WMATA Board of Directors for a period of three years.

After consulting with MDOT's Assistant Attorney General, it was determined that the voluntary adoption of a temporary Reform Board would not create lasting change. At the end of the three-year period during which the temporary Board would operate, permanent substantive change could still not be accomplished without making changes to the WMATA Compact, which requires unilateral agreement between and co-adoption of changes by the State of Maryland, the Commonwealth of Virginia, the District of Columbia, and the United States Congress. Only then would changes to WMATA's operations and financial management have the binding power of law.

- Offering bus and rail service that actually matches ridership demands.

Beginning in spring 2018, WMATA is scheduled to initiate a comprehensive bus service study to identify potential efficiencies for the transit system. The study is intended to offer comprehensive system-wide recommendations.

- Managing costs and increasing productivity in the next labor contract.

Amalgamated Transit Unit 689 (ATU 689) is in the second year of operating with an expired collective bargaining agreement. The contract negotiation process is in arbitration. Salary and benefit proposals introduced by ATU 689 could require significant retroactive salary and benefit outlays.

- Reliably delivering a large capital program.

It was reported on February 8, 2018 to WMATA's Safety and Service Delivery Committee that the Authority had spent 40 percent of its capital budget to date. While WMATA reported that it expected to increase its level of capital spending in Quarters 3 and 4, the current pace of spending is on par with past years in which 80 percent or less of the budgeted capital funds were actually expended. In Fiscal Year 2019, WMATA has requested \$271 million in capital funds from Maryland, an increase of \$115 million over the amount programmed for Fiscal Year 2018.

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- Creating a new, dedicated revenue stream to fund WMATA’s capital program.

In response to the General Manager’s request for an additional \$500 million annually, Governor Hogan offered \$125 million annually over the next four years provided that Virginia, the District of Columbia, and the federal government participate in kind. This proposal would provide WMATA with \$2 billion over four years while affording the funding jurisdictions time to develop a thoughtful, sustainable funding strategy to accomplish the General Manager’s long-term goal. This process would include a review of WMATA’s financial planning and needs, as well as the Authority’s management and governance.

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) expires at the end of Federal Fiscal Year 2019, making WMATA’s Fiscal Year 2020 the last year eligible to receive funding under the current PRIIA grant program. In light of the Authority’s articulated need for additional capital funds, and considering that nearly 40 percent of peak hour Metrorail riders are federal employees, it is important that the federal government contribute to the system in an equitable fashion. One of the contingencies prescribed in Governor Hogan’s \$125 million offer was the participation of the federal government. This is in addition to the funds already being provided through the PRIIA program.

3. Metrorail Safety Commission Staffing Undetermined – Certification Required by April 2019 (page 19)

MDOT should update the committees on the efforts to hire an executive director for MSC and any response it has received to its request for the release of withheld funds.

MDOT Response:

The State of Maryland is working diligently toward FTA certification. All three members of the Maryland delegation have been named, and two of those three have already been confirmed by the Maryland Senate. Maryland’s members of the MSC are:

- Ms. Debra Farrar-Dyke – Principle member (Senate confirmed)
- Mr. Howard Roberts – Principle member (scheduled to appear before the Senate Executive Nominations Committee on Monday, March 5, 2018)
- Mr. John Contestible – Alternate member (Senate confirmed)

The MSC held an initial meet & greet meeting on Wednesday, February 7, 2018. At this time, resumes for the Executive Director position have been collected, but the Commissioners have not yet reviewed nor discussed the candidates.

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Once the Executive Director has been selected, they will work with the Commissioners to staff the new agency. The composition of the staff that will support the Commissioners of the MSC and the Executive Director has not yet been identified. That will be a decision made by the Commission once they have had a chance to review the various options that will be available. At that time, the determination will be made as to the number of permanent staff vs. contractors that will be hired.

The deadline for submitting the State's application for certification to the FTA is September 30, 2018. This application must include an organizational chart as one of its requisite documents. The certification process must be completed by no later than April 2019.

Maryland Transportation Secretary Rahn submitted a letter to U.S. Transportation Secretary Chao requesting the release of withheld funds in recognition of the work that has been accomplished already in creating a functional MSC.

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Operating Budget Recommended Actions

1. Concur with the Governor's allowance (Page 1)

MDOT Response:

The Department concurs with the recommendation.

Paygo Capital Budget Recommended Actions

1. Concur with the Governor's allowance (Page 1)

MDOT Response:

The Department concurs with the recommendation.