RAY LAHOOD

December 5, 2017

The Honorable Terence R. McAuliffe
Governor, Commonwealth of Virginia
Patrick Henry Building, 3rd Floor
1111 East Broad Street
Richmond VA 23219

Dear Governor McAuliffe:

In March, 2017 you asked me to undertake an independent review of the finances, management and operations of the Washington Metropolitan Area Transit Authority (WMATA). To carry this out, I spent the last eight months reviewing information about WMATA and meeting with regional stakeholders. This letter describes what I found and contains my recommendations.

In performing this review, I worked closely with a team from the global engineering firm WSP. They collected data on WMATA's costs, revenues and other key indicators to compare it to other large U.S. transit agencies. WSP's benchmarking and other analysis is presented in a report being released in conjunction with this letter.

My findings and recommendations are as follows.

- ***Finding #1: WMATA General Manager Paul Wiedefeld is performing well.*** Turning around a major organization of any kind, whether a public agency or a private business, begins with the leadership team. Since coming on board in late 2015, Mr. Wiedefeld has not shied away from taking on the problems that have plagued WMATA for years. When lines needed to be temporarily closed to assure they were safe and reliable, they were closed. When employees failed to perform up to expectations, they were terminated. When service needed to be reduced to manage costs and assure maintenance could be performed, it was reduced. He is the right person for the job at hand.

- ***Finding #2: The WMATA board structure is not what the agency needs.*** The agency's board is too large, too fractious, and too oriented toward interests of the region's individual jurisdictions rather than the needs of the region as a whole. This is not the fault of the people currently holding seats on the board; these issues pre-date them and will persist after they leave unless something is done. Perhaps a poorly-functioning board could be tolerated if everything else was going well, but that is not our situation. For the next several years the board will need to focus on one thing: making the system safe and reliable. This will require tough decisions, and jockeying for position among the region's jurisdictions will need to take a back seat.

- ***Finding #3: WMATA's costs are mostly average.*** Much attention has been paid to the cost of running WMATA. This is as it should be; the agency provides a public service and it needs to be cost-effective. Our review found that WMATA's cost to deliver a unit of service is average for a large transit agency, and its wages are in line with the region's cost of living. Opportunities for improvement exist, several of which are pointed out in the report accompanying this letter. I hope WMATA's board and management will aggressively pursue them. WMATA has cost issues it can address, but they are similar to those at other agencies of its kind.

- ***Finding #4: Ridership has fallen, and this has financial consequences.*** The years of steady ridership growth came to an end after 2015. Transit ridership is down modestly nationwide, but the decline at WMATA is far greater. Lost ridership means lost revenue, and the decline in patronage has put a major hole in WMATA's operating budget that state and local funders have had to fill. WMATA's biggest funder is its customers, and doing what it takes to bring them back is vital.

- ***Finding #5: WMATA offers more service per rider than other large transit agencies.*** Even as ridership declined, WMATA continued to add service – more and longer trains, more early-morning and late-night hours, and new Silver Line service. This was convenient for riders, but it came with a cost. For both bus and rail, WMATA has offered at least twenty percent more service per rider than the average large transit agency, which leads to higher costs than in other metro areas.

- ***Finding #6. WMATA has no capital funds of its own, and the jurisdictions that fund its capital needs have not provided enough to keep the system in acceptable condition.*** The Metrorail system opened in 1976, and for many years it performed well because the tracks, stations and other key systems were mostly new. But the system is now 40 years old and much of it needs renewal or replacement. Unfortunately, the funders that pay for WMATA's capital program have grown accustomed to contributing at a level adequate for a new system, but far too low for an aging system.

- ***Finding #7: WMATA can be improved without opening the Interstate Compact that governs it.*** WMATA is unusual among transit agencies because it operates in multiple states. For this reason, it is governed by an Interstate Compact between D.C., Maryland and Virginia. Any changes to this agreement require legislative approval in all three jurisdictions and an Act of Congress signed by the President. This process can take years. I do not believe we can wait to reform WMATA, and so the recommendations I am offering can all be carried out without waiting for a change to the Compact.

Based on these findings, I propose the following actions to improve WMATA.

- ***Recommendation #1: Install a temporary Reform Board.*** For WMATA to succeed, its board needs to change. I propose the current 16-member board be temporarily replaced by a five-member Reform Board. One member each would be appointed from D.C., Maryland, Virginia and the federal government, and the four appointing authorities would jointly agree on a fifth person to serve as Chair. These new appointees would be given a very clear mandate: bring WMATA back to what it once was, the best transit system in America. The findings in this letter and the accompanying report provide a roadmap to follow. I estimate it will take three years of sustained effort to assure WMATA is on the right path, and during this time the Reform Board would develop a recommendation for a transition to a new permanent board.

– ***Recommendation #2: Offer service that matches actual demand.*** For both bus and rail, WMATA has offered more service – more buses and train cars running more hours on more routes – than its peer transit agencies. With Metrorail, this mostly emerged over the last decade as ridership fell and service kept expanding. Mr. Wiedefeld has trimmed rail service for FY2018, and if rail ridership begins to grow again, a major re-think of rail service levels may not be needed. If rail ridership does not grow, more painful choices will need to be considered. The situation with Metrobus is different. Service levels have been high going back at least 15 years, and there is no indication bus ridership will grow to match the current level and pattern of service. For these and other reasons a major reset of the WMATA bus system is needed. This is discussed in further detail in the accompanying report. The idea is not simply to curtail low performing bus routes. Something much more comprehensive is needed. By re-examining the entire system of bus routes, schedules and operating practices, we can find opportunities for things like more efficient routing that save money and improve service. Other cities have reset their bus systems in this way in recent years, most notably Houston.

– ***Recommendation #3: Manage costs and increase productivity in the next labor contract.*** Although WMATA's pay, benefits and employment policies are similar to those at other large transit agencies, improvement is still possible. On average, WMATA's unionized workers contribute about three percent of pay toward pension, well below the national average for workers with similar pensions. WMATA workers count overtime earnings toward retirement pay with no cap; many other agencies either cap or prohibit this. The freedom for WMATA workers to pick their shifts should not extend to working excessive hours consecutively beyond what is safe. The next labor contract is an opportunity for reform in these and other areas.

– ***Recommendation #4: Reliably deliver a large capital program.*** WMATA needs to increase the pace of repairing aging infrastructure. This is beyond question. But those who are asked to fund this will hesitate if they doubt WMATA is capable of actually spending new money. Unfortunately, this has been a major shortfall in the past. For much of the last decade, WMATA was rarely able to spend more than 80 percent of the capital funds it budgeted for a given year. Performance has improved markedly under Mr. Wiedefeld; in FY2017 WMATA carried out more capital work than it had budgeted – a first – and invested significantly more than in any previous year. This is welcome news, but annual investment levels will need to continue rising for WMATA to have any hope of tackling its backlog of deteriorated assets.

- ***Recommendation #5: Give WMATA new, dedicated capital funding.*** WMATA's infrastructure is aging and needs renewal, and the funding it receives today is not enough to get this done. Not even close. Mr. Wiedefeld has estimated a need for $500 million per year in new capital funding; WSP's analysis produced a slightly higher estimate, $540 million per year, although it also identified areas for operating cost savings that could make up the difference. I think $500 million per year should be our target. WMATA's problems will never be solved without this new money.

  That said, the amount is not the only thing that matters. The major surge in capital spending that is needed will not be possible without WMATA taking on new debt, and this will be possible only if new funding is dedicated in a way that is accepted by the capital markets.

  The final question is how to raise these funds. I am not proposing a specific method because many different arrangements would work. A single uniform source across the region, such as a sales tax, has been used with success in other places. However, the complex jurisdictional structure in our region makes this very challenging. Each of WMATA's funding partners will need to play a role, and each can generate its share in a way that makes sense for them. The methods can be different so long as the key criteria are met: the total is sufficient, the funds are dedicated, and they arrive soon.

- ***Recommendation #6: Create a new dedicated source of capital funding for WMATA at the federal level.*** WMATA is unique among U.S. transit systems because of its relationship with the federal government. Nearly 40 percent of rush hour Metrorail riders are federal employees, and this gives the federal government a special responsibility to help WMATA succeed. In 2008, Congress authorized $1.5 billion in special WMATA funding over 10 years as part of the PRIIA legislation, to be matched by an equal amount of state and local funding. This raised the level of capital commitments to WMATA from all sources from roughly $500 million per year to around $800 million per year. It was a huge help, but $800 million per year is not nearly enough. More troubling still, PRIIA funding is set to expire and it is not clear if it will be renewed.

  Congress and the administration should create a successor program of dedicated WMATA funding to take over once PRIIA funding expires. If the state and local governments in the region increase their contributions to WMATA, so should the federal government. And just like any new state and local funds, if possible these federal funds should be legally dedicated to WMATA so they can be used to back bonds. In my discussions with members of the region's Congressional delegations I found essentially universal support for WMATA. They know it needs to succeed, and they're willing to help. Achieving an increase in federal funds will be difficult, but I trust that the members of the House and Senate that represent this region will do all they can to make it happen.

If these recommendations are followed, I am optimistic about WMATA's future. The Washington D.C. region is vibrant and growing, in part because of its transit infrastructure. Riders may not come back immediately, but if we make the system safe, reliable and convenient, they will come back eventually. However, if these recommendations are not followed, I cannot be optimistic about the future. The last decade has not been a good time for WMATA, and we need to make major changes to its leadership, operations and funding to turn this around.

These changes will happen only if the region's leaders and the federal government take the difficult steps needed to put WMATA back on the right path. On this point, I would like to commend you, Governor McAuliffe, for the leadership you have shown in bringing attention to this issue. I am honored that you asked me to offer my perspective, and I hope you and others in Virginia will find it useful, just as I hope that leaders in Maryland, the District of Columbia and at the federal level will as well.

I look forward to seeing WMATA return to what it once was – America's number one transit system.

Sincerely,

Ray LaHood