

Metro Transit's finances: an overview

Metro relies on sales tax for about half of its operating funds, and the economic slump has caused a drop in revenue to support bus service. Since 2009 we have avoided systemwide service reductions by taking a range of actions to cut costs, boost revenue, and improve operational efficiency. However, after temporary funding runs out in mid-2014, Metro will not have the resources to maintain the current level of service—even with recent economic growth in King County.

This paper provides context about Metro's financial situation. It explains where Metro's funding comes from, how the money is spent, what we've done to preserve service so far, and the process of planning service reductions in case no new funding becomes available.

Where does Metro's funding come from?

Metro's primary revenue source is local sales tax. Washington State law allows for a local sales tax of up to 0.9 percent for transit agencies. This tax must be approved by the voters.

Before 2000, Metro relied on the state's motor vehicle excise tax (MVET) for nearly one-third of its revenue. In 2000, following voter approval of Initiative 695, the state legislature eliminated the MVET for transit agencies. Today, Metro receives less than 1 percent of its funding from the state.

After the MVET was eliminated, King County voters approved a 0.2 percent sales tax increase, from 0.6 percent to 0.8 percent, replacing a portion of the lost MVET revenue. The remainder of the lost revenue was offset by administrative cuts and a fare increase. In 2006, voters approved an additional 0.1 percent sales tax increase for the Transit Now program, which was intended to expand the system and create RapidRide. As a result of this increase, Metro is one of a handful of transit agencies in the state that are at the maximum allowable 0.9 percent sales tax level.

Metro's increased reliance on sales tax made our ability to provide bus service more dependent on economic conditions. Sales tax is volatile; receipts can vary substantially with the ups and downs of the region's economy.

As shown in Fig. 1, other significant revenue sources for Metro are fares and federal grants. Grants can also fluctuate significantly depending on reimbursement activities and regional guidelines for project selections.

Metro operates Sound Transit's Link light rail and Regional Express Bus service, and receives contract payments from Sound Transit to cover the operating costs.

Smaller revenue sources include property tax and the temporary Congestion Reduction Charge, which expires in June 2014.

Total Metro revenue in 2012 was approximately \$837 million, of which sales tax was the source of nearly 50 percent.

Note: This paper uses 2012 data, the most recent audited data available, unless otherwise noted.

Fig. 1
2012 Revenue by Source
Total: Approx. \$837 million

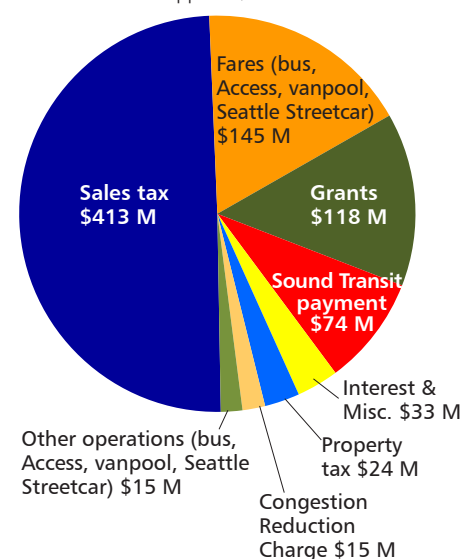
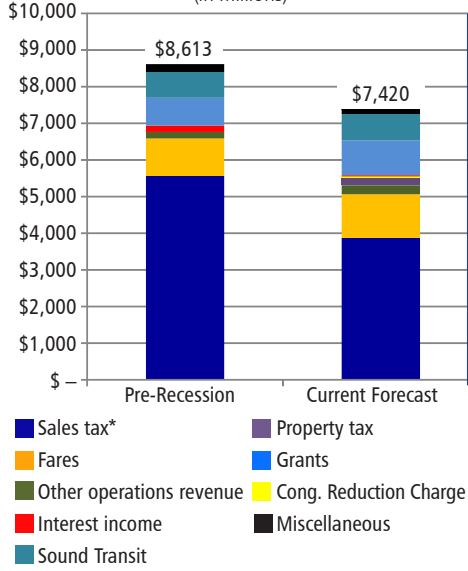


Fig. 2

Metro Revenue 2009-2017
(in millions)



*Based on August 2013 OEFA forecast

Metro’s revenues from various sources have changed as a result of the recession (see Fig. 2). Sales tax receipts fell from \$442 million in 2007 to \$375 million in 2010, and have not yet returned to pre-recession levels. Just before the economic downturn, Metro had embarked on the Transit Now service expansion program. Sales tax was projected to make up 64 percent of this program’s funding between 2009 and 2017. As a result of the recession, sales tax contributions declined to 52 percent.

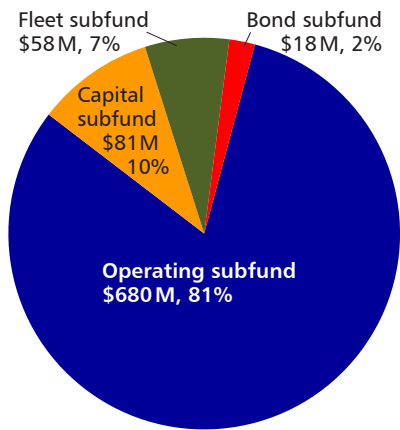
The proportion of revenue from fares grew during this period as fares were increased four times; Metro’s financial plan assumes future fare increases. Revenue from grants fluctuated based on the timing of competitive awards from the Federal Transit Administration.

How are Metro’s funds spent?

Metro’s management follows adopted fund management policies which ensure that sufficient resources are set aside to operate services, replace the bus fleet, maintain facilities in a state of good repair, and pay for debt service. The budget is separated into subfunds that have designated purposes: fleet replacement, bond payments, capital infrastructure, and day-to-day operations.

Fig. 3

2012 Revenue Distribution by Subfund
(M=million)



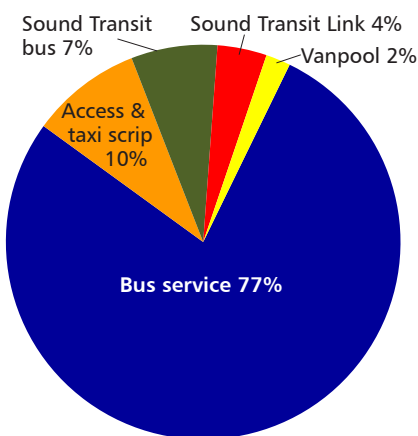
As shown in Fig. 3, the largest share (81 percent) of Metro’s funds are disbursed for operations, including bus, paratransit, vanpool and contracted service. The balance is used for the capital program (10 percent), fleet replacement (7 percent), and debt service (2 percent). In total, Metro spends about \$777 million per year based on the current estimates for 2009-2017.

Metro’s operating budget: the largest share of expenditures

In 2012, Metro’s total annual operating cost was approximately \$635 million. The majority of the funds went toward operating and maintaining bus service and related facilities. Metro provided about 3.5 million annual hours of bus service. In addition, Metro operates Sound Transit Regional Express Bus and Link service, for which we are reimbursed.

Fig. 4

2012 Operating Expense by Program



The operating budget provides for labor, fuel, and maintenance of about 1,400 buses, 1,300 vanpool vans, 340 Access vehicles, and 570 support vehicles. It supports the maintenance of 130 park-and-ride lots and about 8,500 bus stops, including 1,900 with shelters. This budget also covers maintenance and operation of the Downtown Seattle Transit Tunnel, seven transit bases and other facilities.

Fig. 4 shows the percentages of Metro’s 2012 operating costs by major program. The largest expenditure, 77 percent, is for Metro’s fixed-route bus service, which cost nearly \$500 million in 2012.

Factors that influence Metro’s bus operating costs include inflation and a transition to larger vehicles. By moving to larger vehicles, Metro has increased seat capacity by 12 percent since 2007; this extra capacity is helping Metro serve growing ridership. Another factor is Metro’s contracted service with Sound Transit Link light rail, which began in 2009 and grew to more than \$30 million in 2013. Sound Transit (Link light rail and Regional Express Bus service) now accounts for 11 percent of Metro’s operating budget, up from 7 percent in 2007.

Metro also operates Access paratransit service for people with disabilities who are unable to use regular buses. Paratransit service is required by the Americans with Disabilities Act. Its operating cost per ride is much higher than regular bus service.

Other services in the operating program are dial-a-ride transit (DART), Seattle Streetcar, and the vanpool and rideshare programs. Metro operates one of the largest publicly owned vanpool programs in the nation.

Fig. 5 shows the percentage of Metro’s operating budget that goes toward wages and benefits, materials and fuel, services, and purchased transportation. Over two-thirds of Metro’s operating expenditures are for wages and benefits for approximately 4,500 employees, including 2,700 part- and full-time bus drivers. Changes in benefit programs and labor agreements have saved Metro \$36 million since 2009 and are forecast to save \$17 million annually (in wages) in the future.

Services include items such as the Metro Transit Police provided under contract by the King County Sheriff, security guards, and central government services and overhead functions. Purchased transportation includes services such as Access paratransit and DART.

How Metro’s operations measure up

Metro’s and King County’s strategic plans emphasize performance and accountability. Metro uses a number of industry performance measures to evaluate bus service productivity and cost efficiency, including:

- Cost per hour
- Total ridership (measured by number of annual boardings)
- Boardings per hour
- Cost per mile
- Cost per rider
- Farebox recovery (percent of bus operating costs recovered through fares)

Average cost per hour is one measure Metro uses to monitor how much is spent on operating bus service. Most of the total cost (about 70 percent) comes from the direct costs of putting buses on the road: wages and benefits for bus drivers, vehicle maintenance, fuel or power, and insurance. These costs vary directly with the operation of bus service.



In addition to direct costs, there are costs for support functions that are critical to the successful delivery of service. These include information technology, safety, and security; management and administrative services including human resources, payroll,

accounting, budget, and planning; and maintenance of bases and passenger facilities. Because Metro is part of a large, general-purpose government, support is also provided by the county council and executive offices.

Fig. 6 illustrates all of these component costs and shows how the average cost per hour of providing Metro bus service has changed since 2007.

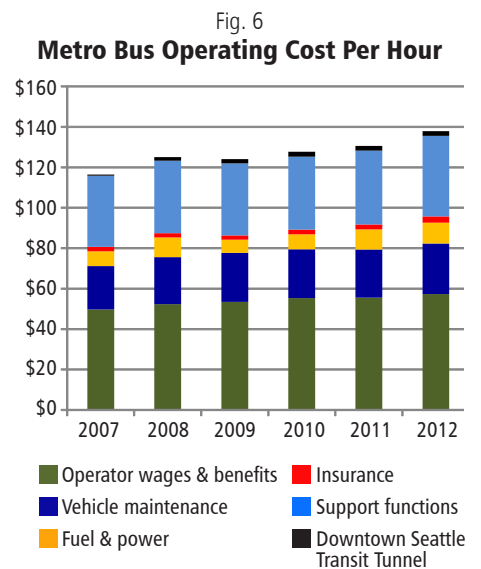
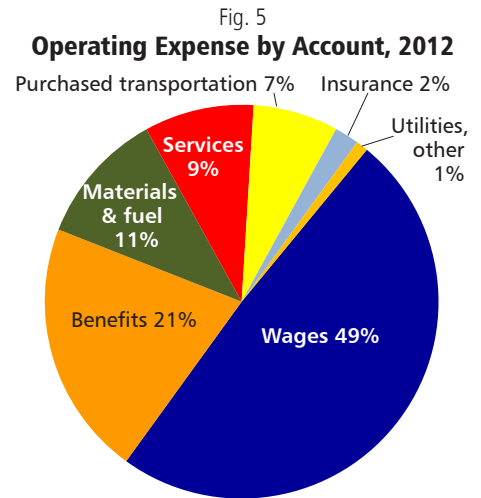


Fig. 7

Metro Farebox Recovery Rate

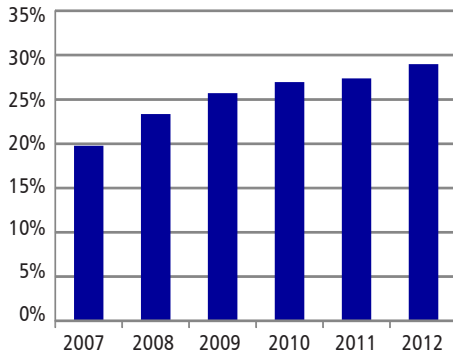


Fig. 8

Annual Boardings (millions)

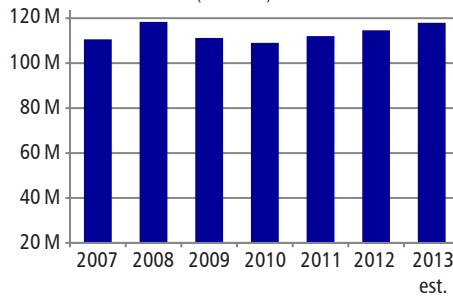
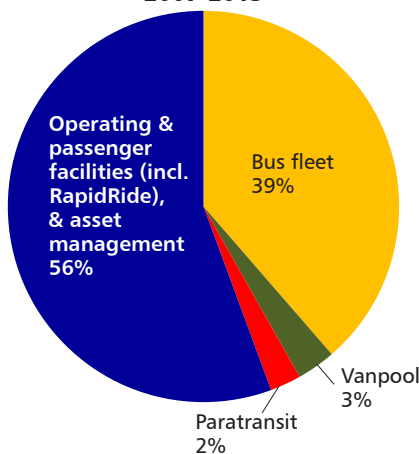


Fig. 9

Capital Project Expense by Category 2007-2013



Compared to its peers—the other 29 largest bus transit agencies in the United States—Metro ranked eighth highest in operating cost per hour in 2012, at around \$136 per hour. The average cost per hour for the peer group was about \$123. However, Metro ranked 19th for the average annual percentage growth in operating cost between 2007 and 2012. Compared to the peer group, Metro’s operating cost per hour reflects relatively heavy reliance on large articulated coaches, which are more expensive than smaller coaches but provide operating efficiencies. A unique cost for Metro is the maintenance and operation of the Downtown Seattle Transit Tunnel, which supports efficient operation and quality service in the busy Seattle core.

On other performance measures, Metro’s rank among its peers varied. Metro was 14th highest in operating cost per passenger mile at \$.99. The peer group average is \$.98 per passenger mile.

On cost recovery from fares, Metro ranked 13th among peers at about 29 percent, above the average cost recovery of 27.8 percent. Fig. 7 illustrates how Metro’s farebox recovery as a percentage of operating costs has gone up in recent years. This is due in large part to four successive fare increases from 2008 through 2011 that led to the highest farebox recovery rate Metro has had.

In 2012, Metro ranked 10th in total ridership with around 115 million total boardings, and 15th in boardings per hour. Fig. 8 illustrates Metro’s annual ridership from 2007 to 2012 and the 2013 estimated ridership, which is very close to the record ridership that occurred in 2008, before the recession.

On the measure of cost per rider, Metro ranked eighth at \$4.25 per boarding; the peer average is \$3.72. This performance measure varies among peer agencies depending on factors such as population density and land use, which contribute to trip length for passengers.

Metro’s capital program

In addition to operating expenses, Metro spends money on its capital program for vehicles, facilities and technology systems.

As part of Metro’s effort to manage during the recession, the capital program has been reduced since 2008. In 2009, we canceled projects to improve speed and reliability, bus layover space in downtown Seattle, a new maintenance facility for the Waterfront Streetcars, and trolley wire upgrades. We have also replaced fewer buses and shelters, delayed computer replacements, and reduced the scope of changes to the RapidRide corridor improvement projects, lighting upgrades at park-and-rides, and accessibility improvements at bus zones.

Fig. 9 illustrates where Metro spent its capital dollars between 2007 and 2013. In recent years, the capital program has been focused on replacing aging infrastructure and elements of the fleet, such as the electric trolley buses. A significant amount of capital program funding comes from federal grants. Large amounts of grant funding were spent on the RapidRide program in 2011 and 2012. In general, bus replacements have been scaled back to match the reduction in service that is currently projected, while bus life cycles have also been extended

beyond federal minimums. The “other” category represents programs such as operating and passenger facilities, general asset maintenance, and RapidRide facilities. Much smaller amounts are typically spent on paratransit and vanpool capital needs.

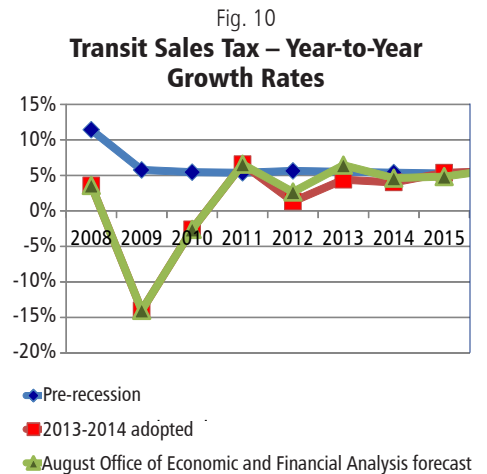
Metro’s funding situation today

The effects of the recession and Metro’s heavy reliance on sales tax have affected our ability to sustain service. For the period 2009 through 2015, Metro is expected to collect \$1.2 billion less sales tax than was projected before the recession. Fig. 10 shows the year-to-year changes in the sales tax growth rates. In 2009 and 2010, the decline represented actual year-to-year reductions in the amount of sales tax collected.

As the economic downturn began, Metro, the King County Council, and the King County Executive took actions to compensate for the declining sales tax and preserve service. Altogether these actions saved or gained \$798 million in 2009 through 2013 and resulted in ongoing annual revenue and lower expense totaling \$148 million. See page 7 for details about the actions taken and the results.

While sales tax collections are expected to return to the 2008 levels in 2014, the purchasing power of those funds in 2014 is not the same as it was in 2008. An analysis prepared by King County’s Office of Economics and Financial Analysis (OEFA) shows that using 2013 dollars, sales tax collected in 2013 is \$58 million lower than 2007. Operating cost projections in the adopted budget for 2014 are higher than experienced in 2008. A number of factors have contributed to the increased cost, including:

- **Higher levels of bus service.** Since 2008, bus service has grown by 4 percent, largely from the addition of RapidRide, SR-520 and Alaskan Way Viaduct Mitigation services. These higher service levels increase program costs and support ridership growth.
- **Increase in the costs of the federally mandated paratransit program.** Costs for paratransit services, which are mandated by the Americans with Disabilities Act, have grown by 25 percent since 2008. Metro contracts out all paratransit services via competitive bids.
- **Security costs have grown by more than 80 percent since 2008.** These include the costs of enhanced security in the tunnel, increased policing, and fare enforcement activities.
- **Insurance and risk management costs have increased by more than 60 percent since 2008.**
- **Older buses.** We have extended the life of our fleet and deferred some bus replacements until service reductions occur or sustainable funding is available to support replacement. Older vehicles are more expensive to operate and maintain.
- **Inflationary increases to materials and utilities** have increased costs since 2008.
- **Changes in the way vendors provide systems.** Where previously we purchased systems as a capital cost, vendors have shifted to models that include



more annual costs such as licenses and maintenance fees. While operating costs have increased, capital program costs have declined.

- **Wages and benefits (adjusted for the changes listed on previous page) have grown by 10 percent since 2008.** Metro and the County have taken actions to reduce the rate of growth. For example, we negotiated agreements with employees to waive a cost of living increase in 2011 and reduce the future rate of wage growth by setting a 0 percent COLA floor. We saved \$10 million in health care costs for 2007-2011 from our employees' participation in the Healthy Incentives program, which has decreased the growth rate of the County's health care cost from 9.8 percent to 5.8 percent. The projected future health care cost growth rate is 4 percent.
- **Pension costs have increased by more than 40 percent.** Pension contribution rates are set by the Washington State Legislature.



Metro's ridership has rebounded faster than sales tax, nearly reaching the 2008 peak level with an estimated 118 million passenger boardings in 2013— leading to many routes being overcrowded.

Other revenue-backed activities have also increased Metro's total costs, most notably the start of Link light rail service in 2009. This service is provided under contract with Sound Transit. Although Sound Transit reimburses Metro for the costs, Metro's program expenses include these costs.

The funding gap today

Metro is continuing to implement cost controls and new efficiency measures. However, after available cash savings have been depleted and the Congestion Reduction Charge expires in mid-2014, Metro's adopted 2013-2014 budget assumes that annual revenues will fall \$75 million short of what is needed to maintain the current level of service into the future.

In the absence of a new funding source, Metro is planning to make major service cuts in 2014 and 2015. To close a \$75 million gap, Metro would have to eliminate approximately 600,000 hours of bus service—about 17 percent of the 3.5 million service hours in the system. The actual amount could change depending on our financial situation at the time reductions are approved. After OEFA's March sales tax forecast is released, the King County Executive will consider making revisions to the service reduction proposal. However, indications are that annual sales tax may be approximately \$10 to \$12 million better than projected—not enough to close the \$75 million gap.

We used our service guidelines to develop our service reduction proposal. The guidelines were recommended by the Regional Transit Task Force and adopted by the King County Council as part of Metro's Strategic Plan for Public Transportation 2011-2021.

The guidelines set priorities for making cuts or changes. For example, the first priority is to cut the lowest-performing service that duplicates other service, doesn't carry enough riders as a peak-period service, and operates in a corridor where service is above or at the target service level.

Actions taken to reduce costs, boost revenue, and preserve bus service, 2009-2013

Ongoing productivity/efficiency actions – Saved \$204 million (\$93 million ongoing annual savings)

- Took efficiency actions recommended by 2009 Performance Audit of Transit, including changing bus schedules to reduce bus downtime.
- Negotiated agreements with employees that reduced the growth of pay through furloughs and pay freezes.
- Cut more than 100 staff positions that did not directly affect service.
- Eliminated 75,000 hours of less-used bus service and adopted new service guidelines as part of Metro’s strategic plan.
- Deferred 350,000 hours of service expansion.

Revenue-related actions – Increased revenue by \$145 million (\$55 million ongoing annual revenue)

- Raised fares four times in four years, a total 80 percent increase, contributing to 29 percent farebox recovery rate in 2012.
- County Council used tools provided by the legislature, permanently allocating a portion of the property tax levy to Metro (while reducing other property taxes so taxpayers don’t pay more), and adopting two-year Congestion Reduction Charge.
- Eliminated Ride Free area in downtown Seattle.

One-time actions (cash savings) to sustain service pending longer-term solutions – Saved \$344 million

- Reduced the capital program
- Reduced the bus replacement reserve fund by \$100 million, as recommended by the 2009 Performance Audit.
- Used half of the operating reserve fund to support service.
- Realized benefits from the County’s employee health program.

Altogether, these actions have realized \$798 million, including \$93 million in ongoing annual cost reductions and \$55 million in increased revenue.

Fig. 12

Summary of Actions and Results

Actions	Cumulative Total through 2013	Ongoing Annual Savings
I. Ongoing productivity/efficiency actions		
• Transit program efficiencies		
Scheduling efficiencies	\$34 million	\$13 million
Non-service and staff reductions	\$55 million	\$14 million
Other program efficiencies	\$15 million	\$ 5 million
• Bus service reductions	\$23 million	\$ 8 million
• Labor cost savings	\$36 million	\$17 million
• Service deferrals	\$41 million	\$36 million
II. Revenue-related actions		
• Fare increases	\$145 million	\$35 million
• Property tax	\$66 million	\$18 million
• Congestion Reduction Charge (temporary)	\$39 million	
• Ride Free Area elimination		\$ 2 million
III. One-time actions (cash savings)		
• Capital program cuts	\$180 million	
• Fleet replacement reserves	\$ 93 million	
• Operating reserves	\$ 41 million	
• 2009 savings, i.e. hiring freeze	\$ 20 million	
• Healthy Incentives program	\$ 10 million	
TOTAL	\$798 million	\$148 million



Metro Transit facts

- Metro provided 118 million passenger trips in 2013 (est.).
- 1,300 vanpools provided nearly 3.5 million passenger trips.
- Paratransit service provided 1.5 million trips for riders who are elderly or have disabilities.
- Total annual operating budget: approx. \$680 million (2012).
- Number of employees: 4,500
- Number of buses: 1,400. More than half are electric trolleys or hybrids.
- More than half of Metro's regular riders are commuters.
- Metro service keeps an estimated 175,000 cars off local roads every weekday.
- Nearly 1,600 business and institutions participate in Metro's pass program.
- Metro has 214 bus routes county-wide, including four RapidRide lines with two more starting in 2014.
- Metro operates Sound Transit Link light rail and express bus service as well as the South Lake Union Streetcars.

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