PUBLIC HEARING ON
BILL 22-568, THE WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY DEDICATED FUNDING ACT OF 2017

Before the
Committee on Finance & Revenue
Council of the District

The Honorable Jack Evans, Chairman

February 7, 2018, 10:00 AM
Room 120
John A. Wilson Building

Testimony of
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Good afternoon, Chairman Evans and members of the Committee on Finance and Revenue. I am Jeffrey S. DeWitt, Chief Financial Officer of the District of Columbia government. I am pleased to testify on Bill 22-568, the "Washington Metropolitan Area Transit Authority Dedicated Funding Act of 2017".

Over the past year and a half, my staff and I have worked with the Washington Metropolitan Area Transit Authority (WMATA) leadership team as well as other jurisdictions in the WMATA compact to ascertain the needs and financing alternatives available to restore the transit agency's infrastructure to a state of good repair over the next ten-years. WMATA's recently completed Capital Needs Inventory (CNI) provides extensive detail of their infrastructure needs and the associated costs, which total approximately $25 billion, $15.5 billion of which are related to the safety and reliability of the system. Assuming current contribution levels continue from compact members and the federal government, the additional funding needs require an additional collective contribution by the compact members of $500 million each year that can be leveraged or used to issue bonds of high credit quality.

The Funding GAP

The following charts provide a visual representation of the current contributions to WMATA from the local jurisdictions and the federal government and the remaining significant funding gap of $15.5 billion, total deferred capital maintenance, needed to achieve a state of good repair. This analysis is based on the most recent 5-year capital improvement request from WMATA, with the years outside of the current CIP request escalated to complete the state of good repair capital funding program over a ten-year period. Please refer to Figure 1 on page 6 of the testimony. The tan-colored portions of the bars represent the funding gap, which far exceeds the $500 million contributions beginning in FY 2022, which is why leveraging, or bond funding, is required to provide the necessary financial resources. Even with leveraging, the first-year contribution of $500 million must increase by at least 3.0% annually to cover inflation and grow adequately to provide the necessary funding. Figure 2 shows how substantially the gap will increase if the federal PRIIA funding of $150 million per year and the jurisdictional match are removed after 2020 when the funding agreement is scheduled to expire. [Recently federal officials have argued that PRIIA expired with the fiscal year that began in July 2017, even though that would leave WMATA $150 million short of the total amount pledged under the law. If this interpretation is maintained, it would further exacerbate WMATA's funding shortfall a year earlier than previously anticipated.]

Allocating the Additional Funding

Over the last year, there has been considerable discussion on the “fair” way to determine each jurisdiction’s share of the $500 million of needed additional resources. A regional dedicated sales tax was widely discussed, but is currently not supported in Virginia or Maryland. Currently, members are pursuing their own individual dedicated funding sources to meet the bondable, high-quality credit requirement. However, in order to pursue this approach, each jurisdictions’ share of the $500 million of additional funding must be determined.

During extensive conversations between the various jurisdictions at the Metropolitan Washington Council of Governments, three different approaches emerged that were closely analyzed. The first approach was to split the $500 million equally between Virginia, Maryland and the District, which would require an additional contribution of $166.7 million from each. The second approach was to assume that the federal government would share equally in this cost-sharing arrangement, particularly since federal employees are a major user of WMATA services. This would split the cost of the additional $500 million of funding equally at $125 million each for the states of Maryland and Virginia, the District and the Federal government. The third approach discussed was to use the current WMATA compact funding formula as the method to determine each member jurisdiction’s share of the additional funding needed. The District's share, based largely on its use of the various rail, bus, and Metro Access systems, will be 35.7% of the total compact contributions beginning in fiscal year 2020, once Loudoun County joins the compact. This would make the District's share of the additional annual $500 million approximately $178.5 million in Fiscal Year 2020. Table 1, shown on page 7, illustrates the estimated distribution of the additional $500 million contribution by jurisdiction for the three different approaches that were discussed.

The proposed legislation dedicates a new 0.75% sales tax to WMATA for the purpose of funding the District's share of this additional capital funding. Much of the allocation funding discussed with the other compact members over the last two years has largely relied upon 2015 data. Updating the analysis to reflect the District's sales tax data from December 2017 indicates an additional sales tax of 0.75% would generate approximately $123.5 million, roughly the amount needed under the cost-sharing ($1/4^{th}$) option that included the federal government's participation, which can be seen in Table 2, shown on page 7. However, it is important to note that the amounts projected to be generated from the proposed new sales tax in the District would fall well short of generating the amounts needed under either of the other two approaches that were discussed by the WMATA compact members.

This concludes my remarks. I would be pleased to answer any questions you may have.

Figure 1

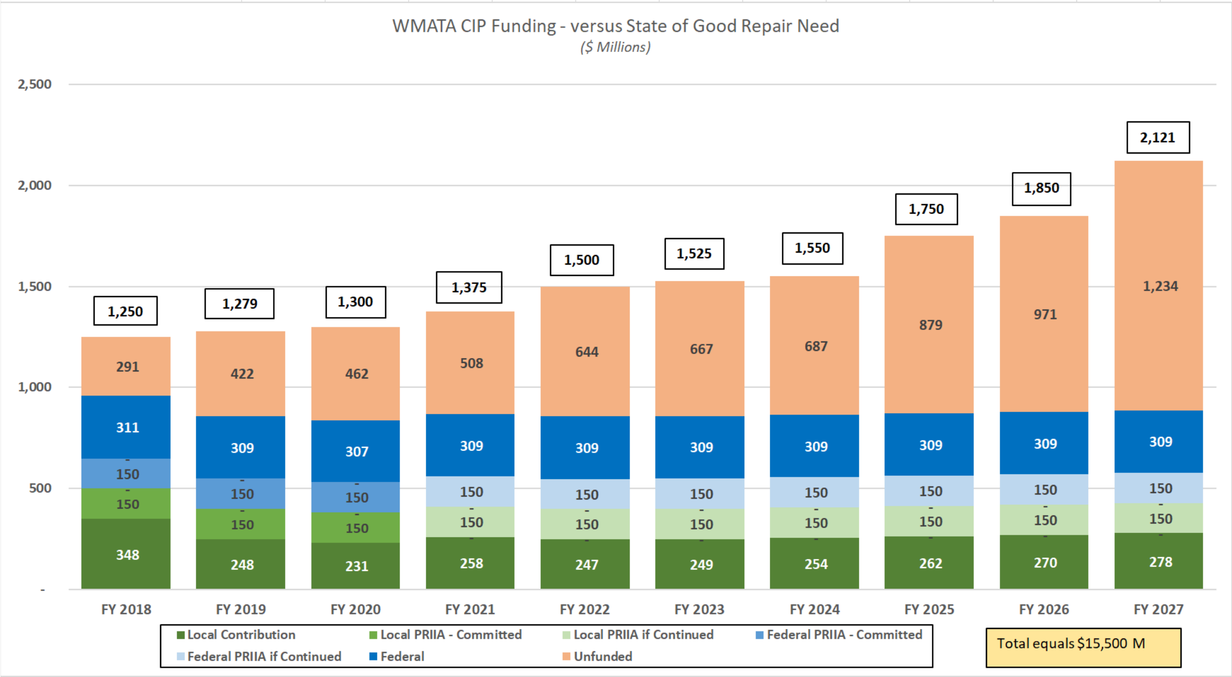

Figure 2

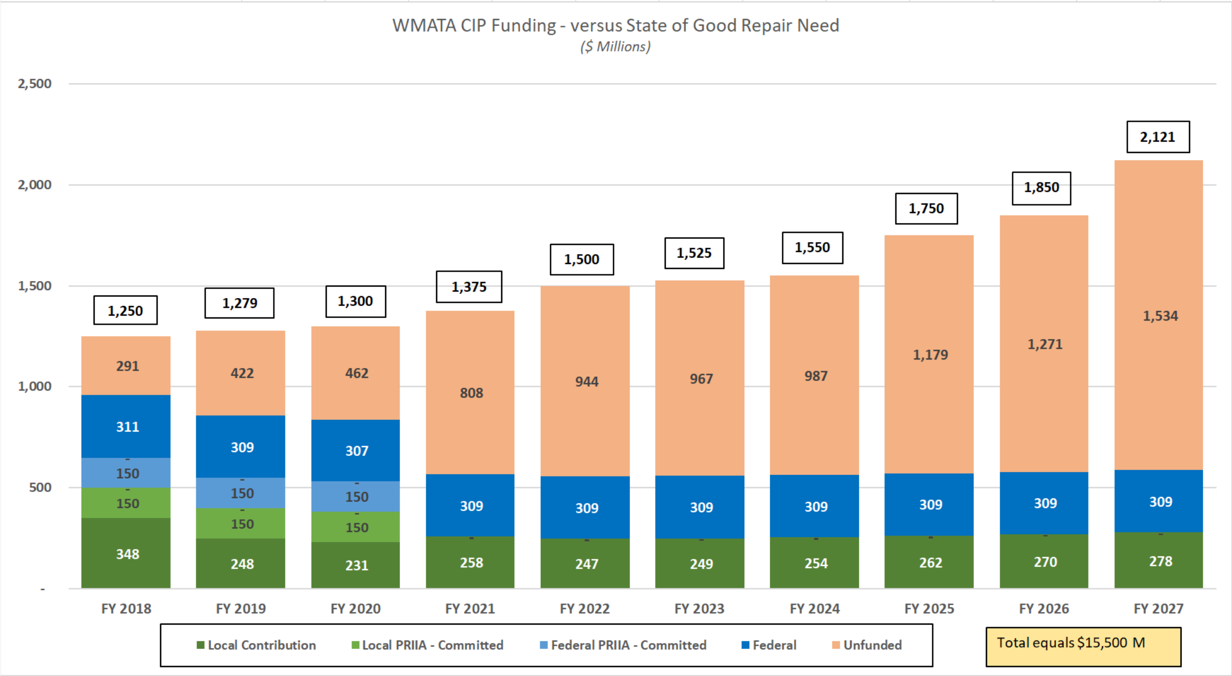

Table 1

(Dollars in Millions)

Jurisdiction	WMATA Capital Funding Formula % FY 2020	Allocation Using Compact Formula	Sales Tax for Compact Share[1]	Contributions Equally Apportioned at 1/3	Share of Total (%)	Sales Tax for 1/3 Share[1]	Contributions Equally Apportioned at 1/4	Share of Total (%)	Sales Tax for 1/4 Share[1]
DISTRICT OF COLUMBIA	35.70%	$178.50	1.08%	$166.67	33.33%	1.01%	$125.00	25.00%	0.76%
Montgomery County	16.40%	$82.00		$82.00	16.40%		$61.50	12.30%	
Prince George's County	17.00%	$85.00		$85.00	17.00%		$63.50	12.70%	
MARYLAND SUBTOTAL	33.40%	$167.00		$166.67	33.33%		$125.00	25.00%	
City of Alexandria	4.30%	$21.50		$23.00	4.60%		$17.50	3.50%	
Arlington County	7.90%	$39.50		$42.50	8.50%		$32.00	6.40%	
City of Fairfax	0.30%	$1.50		$1.50	0.30%		$1.00	0.20%	
Fairfax County	14.10%	$70.50		$76.00	15.20%		$57.00	11.40%	
City of Falls Church	0.30%	$1.50		$1.50	0.30%		$1.00	0.20%	
Loudoun County	4.10%	$20.50		$22.00	4.40%		$16.50	3.30%	
VIRGINIA SUBTOTAL	31.00%	$155.00		$166.67	33.33%		$125.00	25.00%	
WMATA COMPACT AREA TOTAL	100.00%	$500.00		$500.00	100.00%		$375.00	75.00%	

Note

1. District sales tax rates are based on December 2017 sales tax base figures.

Table 2

(Dollars in Millions)

District of Columbia Sales Tax Base (2017)	Proposed Additional Sales Tax Rate	Amount Generated from New Tax
$16,462.00	0.75%	$123.47