

FY23 Budget Development

- 1. Opportunities**
- 2. Resources**
- 3. Budget Process**

Finance & Budget Committee

February 16, 2022

Look Ahead: Opportunities and Challenges

OPPORTUNITIES

- Slightly better sales tax receipts in FY21 is available for FY23 allocation
- Golden Opportunities: Federal infrastructure bill and State budget surplus may allow us to pick up the pace, alleviate some funding gaps to continue the most ambitious transit expansion in the nation
- Federal IIJA Bill reauthorized FAST ACT adds more Formula Funding and competitive grants; \$108 billion for Transit and \$365 billion for Highway nationwide
- State Transit funding \$9.1 billion, including \$3.7 billion of IIJA for capital and infrastructure

CHALLENGES

Capital:

- New Fed IIJA and State funding are mostly for capital; leaving operating needs unaddressed and not fully closing the funding gap
- Most new funding are **one-time** only; not for sustainable operations
- New Grant funding comes with additional program, operational and local funding requirements
- Anticipating higher bid price and cost increase

Operating:

- Full ridership has not come back; Fare revenues will not reach pre pandemic level
- Higher cost escalation to deliver transit service, infrastructure programs, Access Services, Metrolink and etc. than previous estimates
- Staffing shortages and labor negotiation in progress
- Pandemic caused cost additions and new procedures continue
- Scheduled to operate two new rail lines
- Board adopted motions and initiatives have fiscal impacts to FY23 and beyond

**FY23 Equitable
Zero-Based
Budgeting (EZBB)**
to address
opportunities and
challenges



Equitable Zero-Based Budgeting



WHAT & HOW

- A budget development process and cost control tool while applying an equity lens; optimize Transparent Investment in Equity
- Starting from a zero base and not based on prior history; consider the scalability and efficiency of each deliverable and activity
- Prioritize the allocation of available resources based on Metro’s mission, CEO core focuses, agency key initiatives, and by outcomes

WHY

- Recovery from COVID is transforming our Agency and we need to adapt
- New CEO and leadership of realigned organization structure calls for a comprehensive budget review
- Develop accountability and affordability for program and project initiatives
 - ✓ Identify and attempt to close the affordability gap due to anticipated higher operating cost escalation in the near term
 - ✓ Provide and review trade-off opportunities to foster long-term financial sustainability
- Position projects in the best form to compete for fair share of the “golden opportunity” funding



Sales Tax Revenues & Other Resource Assumptions

FY23 Resource Summary - Preliminary Estimate

- FY22 sales tax reforecast to \$995M per ordinance; a 15% increase from adopted budget of \$865 million
- FY23 Sales tax revenue is anticipated to increase 3.7% from the FY22 reforecast of \$4.47 billion to \$4.64 billion in FY23
- Total reflects a 19.3% increase over FY22 adopted budget

	FY22 Adopted	FY23 Assumption	% Change
Resources (\$ in Millions)			
1 Sales Tax and TDA Revenues ⁽¹⁾	\$ 3,892.5	\$ 4,643.1	19.3%
2 CRRSAA/ARPA ⁽²⁾	776.4	1,097.0	41.3%
3 Subtotal Resources	\$ 4,668.9	\$ 5,740.1	22.9%
4 Bond Proceeds and Prior Year Carryover	1,660.1	TBD	
5 Grant Resources	1,330.4	TBD	
6 Toll, Advertising and Other	179.9	TBD	
7 STA and SB1 Revenues	127.8	TBD	
8 Passenger Fares	73.2	TBD	
9 Total Resources	\$ 8,040.2		



Key Considerations:

- Bond Proceeds and prior year carryover: Debt will be used as a last resort to mitigate the shortfalls in SGR, Transit Construction and Highway activities, and will be determined as the FY23 budget is developed. Prior year carryover will adhere to funding eligibility
- Grant Resources: IIJA, Governor Newsom's proposed budget (FY23 estimates are TBD)
- Toll, Advertising and Other: advertising revenues – Minimum Annual Guarantee (MAG) restored Jan. 2022
- STA and SB1: State Controllers' Office (SCO) estimates expected mid February
- Passenger Fares: closely monitoring current boardings and fare collection



Metro and Leading Forecasts in LA County

- The economic sector model was updated to project sales tax revenues in FY23 using the following assumptions:
 - Growth is projected to slow to pre-pandemic rates
 - Production and supply chain issues gradually ease
 - Stimulus funds from the American Recovery Plan Act (ARPA) will indirectly increase consumption
 - Remaining COVID-19 restrictions will have a minimal impact
- Staff also ran a multiple regression analysis of Metro sales tax receipts
- Both sets of results were compared with leading local economic forecasts

FY23 Sales Tax Revenue Projection by Economic Sector by Quarter, based on Year-over-Year Quarterly Growth

	Q1Δ	Q2Δ	Q3Δ	Q4Δ	AnnualΔ
General Retail	3.1%	2.6%	3.6%	3.0%	3.1%
Food Products	4.5%	5.2%	4.8%	3.6%	4.4%
Transportation	3.2%	4.1%	5.0%	2.6%	3.6%
Construction	5.6%	4.0%	4.0%	4.3%	4.4%
Business To Business	4.1%	3.4%	3.2%	3.7%	3.6%
Miscellaneous	4.2%	3.9%	3.8%	3.7%	3.9%
Total	3.8%	3.7%	3.9%	3.3%	3.7%

Regression Analysis Result

Fiscal Year	Estimated Unemployment Rate (in %)	Estimated CPI	Estimated LA County Population (in Thousand)	Estimated Sales Tax per Ordinance <u>before</u> Wayfair Impact (\$ in Million)	Estimated Wayfair Impact (\$ in Million)	Total Estimated Sales Tax per Ordinance <u>with</u> Wayfair Impact (\$ in Million)
FY23	8	306	10,138	\$ 888	\$ 144	\$ 1,032

Metro and Leading Forecasts in LA County

- Economists agree growth is anticipated to slow and stabilize
- Sales tax revenue is anticipated to increase moderately at 3.7% from the FY22 Reforecast of \$995 million to \$1.03 billion per ordinance in FY23
- Metro’s estimate falls within the range of the leading local economic forecasts

	(\$ in Millions)		FY20 Actual	FY21 Actual	FY22 Reforecast	FY23 Assumption
1	Sales Tax Revenue per Ordinance ⁽¹⁾		\$ 824.7	\$ 911.7	\$ 995.0 ⁽²⁾	\$ 1,031.8
2	% Change		-2.6%	10.5%	9.1%	3.7%

⁽¹⁾ Proposition A , Proposition C, Measure R and Measure M. Transportation Development Act (TDA) sales tax revenue is approximately 50% of the other ordinances.

⁽²⁾ The FY22 Reforecast of \$995 million per ordinance is 15% above the FY22 Adopted Budget of \$865 million per ordinance.

Sales Tax Revenue per Ordinance Forecast Comparison

(\$ in Millions)

	Forecast Source	FY17	FY18	FY19	FY20	FY21	FY22	FY23
1	Actual	\$ 789.4	\$ 836.7	\$ 846.8	\$ 824.7	\$ 911.7	\$ 995.0 ⁽¹⁾	\$ -
2	Metro- Adopted	795.7	802.0	844.0	873.0	778.1	865.0	1,031.8 ⁽²⁾
3	UCLA	807.4	810.0	863.6	838.1	770.2	794.4	1,058.1
4	Beacon Economics	806.2	816.9	835.4	843.5	892.3	896.7	1,013.4
5	Muni Services	806.2	803.6	827.7	868.1	737.3	881.7	1,017.1

⁽¹⁾ FY22 Sales Tax Revenue per Ordinance Reforecast as shown in Figure 1.

⁽²⁾ FY23 Assumption.

Labor & Other Expenses

Collective bargaining agreements (CBAs)

- Metro's labor and fringe benefit costs will adhere to CBAs
- AFSCME, ATU, TCU, and Teamsters have valid CBAs for FY23 budget
- Collective bargaining for SMART new contract to begin in FY23 is in progress

Escalated costs in projects and services in FY23

- Inflation is currently at the highest levels since 1982
- It is expected to moderate to 3.3% in FY23, but still be higher than pre-pandemic levels
- Key risks for cost increases: Tight labor market, construction cost increases, demand for products exceeding supply and continued supply chain disruptions

FY23 Budget Considerations

- Carry out Board adopted motions
- Operate new rail lines – Crenshaw and Regional Connector
- New service will strain Metro operations, workforce and finances
- Continued uncertainties related to the pandemic
- Rising construction costs leading to higher bid prices



One-Time Relief Funding



Metro only: \$1.097B

- ✓ Board approved: Jul 2021
- ✓ Grant approved: Jan 2022
- ✓ Sept 2022: Anticipate 100% draw down

Board Approved ARPA Allocations

	Distribution %	CARES	CRRSAA	ARPA
Metro	74.8794%	\$ 747,358,876	\$ 682,544,845	\$ 1,096,948,845
Municipal Operators	12.4366%	120,967,484	113,363,187	182,191,130
Eligible Operators	2.3892%	27,007,107	21,778,440	35,001,120
Tier 2 Operators	0.4543%	4,534,038	4,140,828	6,654,912
Metrolink	5.6540%	56,432,000	51,537,985	82,829,039
Access Services	3.3465%	33,500,000	30,594,742	49,170,201
Regional Paratransit/Vol. Reporters	0.8300%	8,284,094	7,565,663	12,159,121
TOTAL	100.0000%	\$998,083,598	\$ 911,525,690	\$ 1,464,954,368

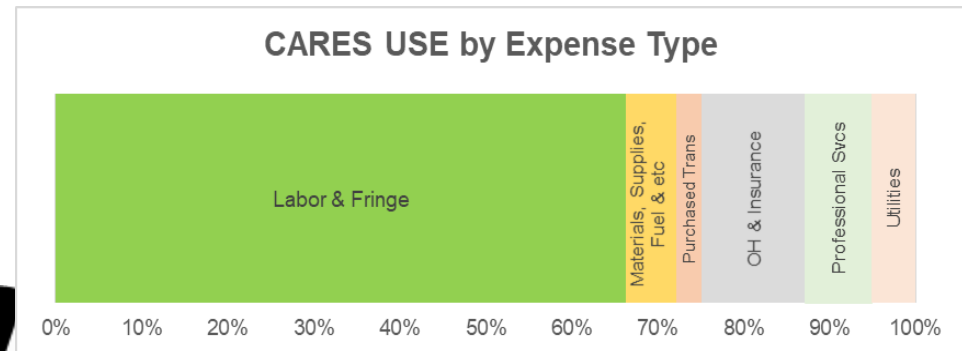
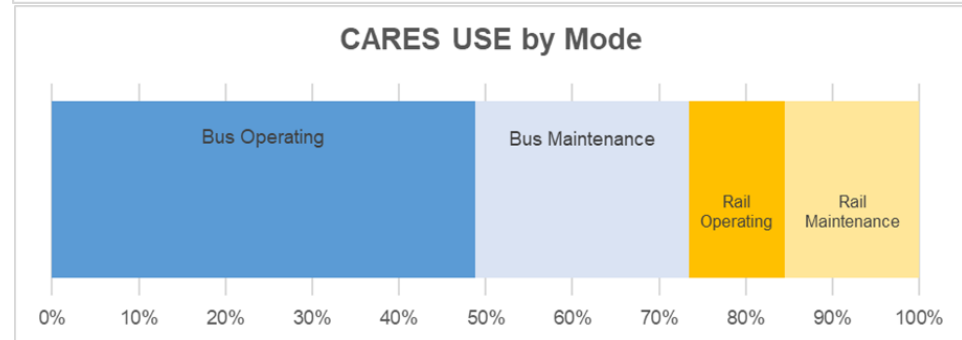
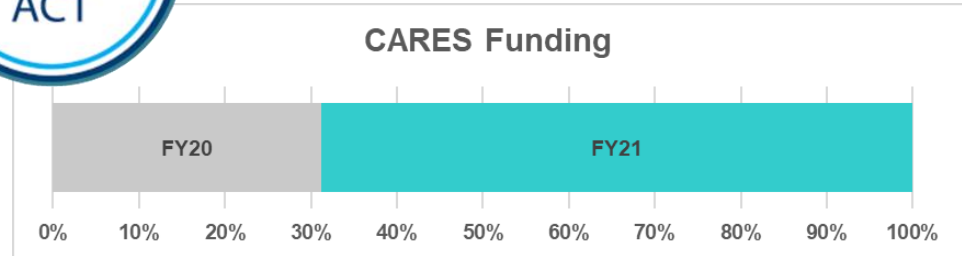
Note: For comparison, the CARES Act Allocation excludes funds appropriated directly to agencies in the amount of \$69,924,688.

- One-time replacement of loss in fares and other revenues to support transit operations
- Restoring bus and rail
- Enhanced Cleaning
- Preserving jobs

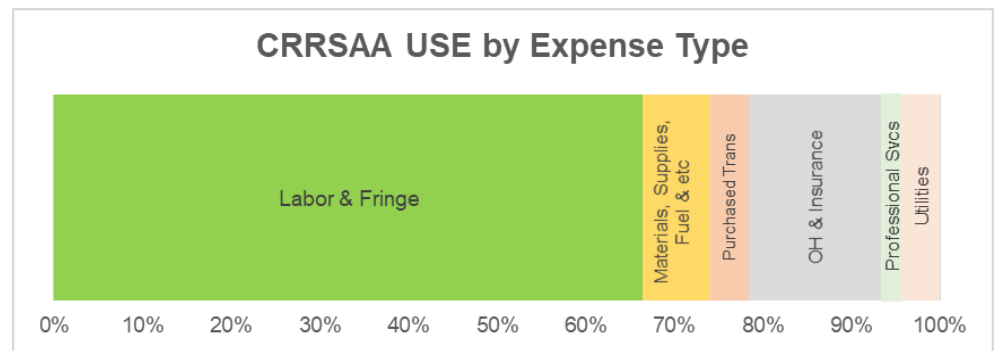
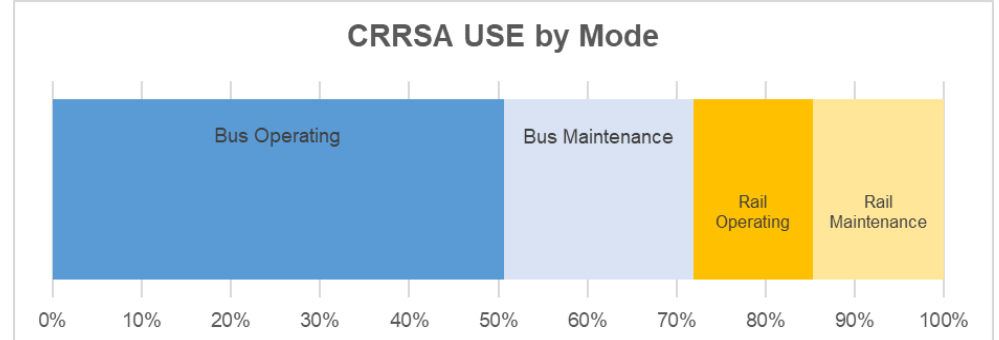
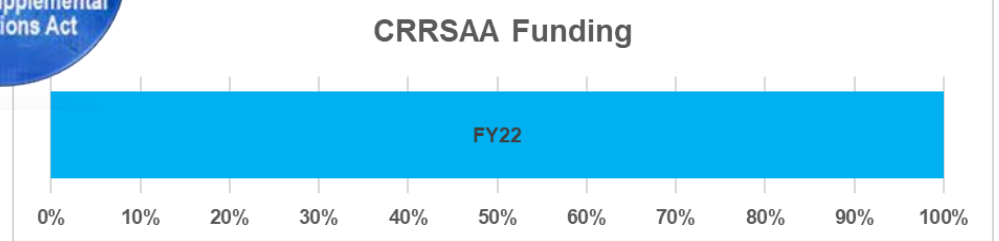
USE of CARES/CRRSA Funding



Metro only: \$747.4M
 Sept 2020: Metro 100% drawn



Metro only: \$682.5M
 Sept 2021: Metro 100% drawn





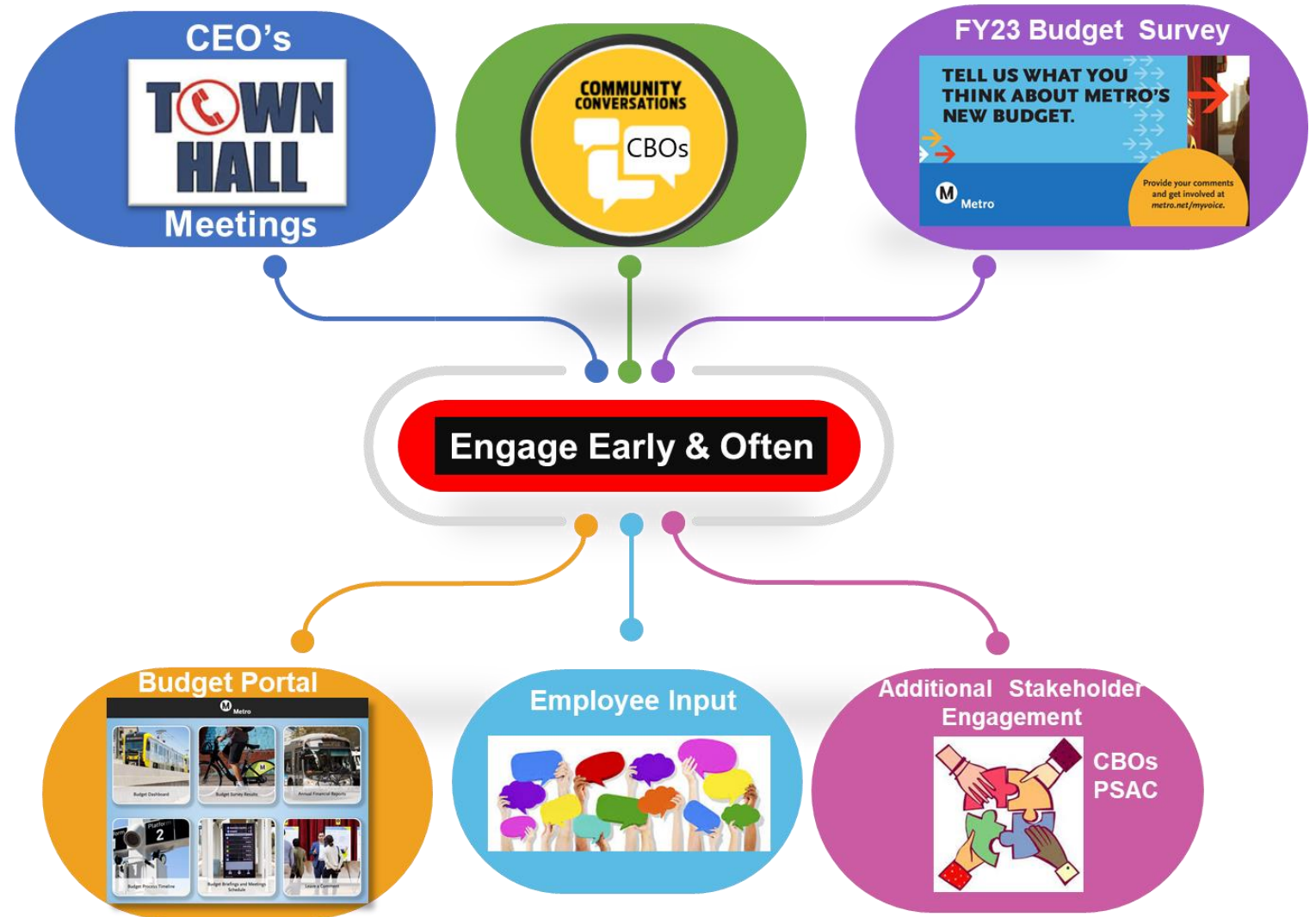
FY23 Budget Process

- Outreach
 - Schedule
 - Next Steps
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NEW Budget Outreach Launched Sept 2021

- Board and CEO hosted TTH (Sept & Oct 2021)
- Public Interest Group Briefing of Fund Allocation (Sept 2021)
- Employee survey (Dec 2021 – Feb 2022)
- Equity led budget outreach survey (Jan 2022)
- PSAC engagement (Feb 2022)
- Budget Comments sent to Dept to develop FY23 Budget



Schedule & Next Steps

