



Board Report

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REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
JANUARY 20, 2021

SUBJECT: FISCAL YEAR 2021 (FY21) MID-YEAR BUDGET

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

- A. AMENDING the FY21 Budget by \$765 million from \$6.23 billion annual consolidated expenditures to \$6.99 billion to achieve goals and objectives set forth by the Board adopted Metro Vision 2028 strategic plan; and
- B. AMENDING an increase of 5 Non-Represented FTEs from FY21 Adopted Budget authorized levels: 3 for Equity and Race and 2 for Customer Experience

ISSUE

This report provides an update for revenues and expenses related to the FY21 Budget and request board approval to amend the FY21 Budget to the eligible Metro programs while maximizing the available financial resources. The increase to the FY21 Budget, during this mid-year update, is the result of our current economic conditions, reforecast of sales tax revenues, and effective cost control practices.

DISCUSSION

Revenue Reforecast Update

Staff have been closely monitoring Metro's revenues as they relate to, and deviate from, historical patterns. We have been tracking current social and economic trends for potential impacts to Metro's revenue sources. The FY21 Mid-Year reforecast resource summary by type is in the following table.

FY21 Reforecast Resources

Resources (\$ in millions)	FY21 Budget	FY21 Reforecast	\$ Change	% Change
1 Sales Tax, TDA and STA	\$ 3,895.0	\$ 4,177.2	\$ 282.2	7.2%
2 CARES Act	569.6	569.6	-	0.0%
3 Passenger Fares	60.3	22.2	(38.1)	-63.2%
4 ExpressLanes, Advertising and Other Revenues	138.6	109.6	(29.0)	-20.9%
5 Grants and TIFIA	1,138.9	1,138.9	-	0.0%
6 Debt and Additional Debt Proceeds if necessary*	424.9	974.8	549.9	129.4%
Total Resources	\$ 6,227.3	\$ 6,992.3	\$ 765.0	12.3%

* Debt will be issued based on need, subject to Board Approval

NOTE: Totals may not add up because of rounding

To date, sales tax revenues have not declined as much as projected in the Adopted Budget. There was a significant bounce back in the Spring quarter, largely due to the broad economic stimulus of the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. The Federal legislation helped Metro two ways: First, directly through the transportation allocations in the law; Second, indirectly through individual and business stimulus payments and loans, which created additional sales tax receipts in Los Angeles (LA) County.

This recovery stalled over the summer. Actual sales tax receipts for the first quarter of FY21 are over budget but have stopped increasing. Looking forward, there are both positive and negative indicators for taxable sales. On the positive side, the consensus economic projection is for tepid and uneven but continued growth. The National Retail Federation projects holiday spending increased 4%-5% compared to 2019. Also, LA County's economy will receive a boost from the Supplemental stimulus package recently approved by Congress just as it did from the CARES Act (The direct transportation allocations are expected to be received in Q4 and will be programmed in the FY22 Budget).

On the negative side, the COVID-19 pandemic continues to ravage the county and efforts to combat it will have continuing economic impacts. While it is apparent a full economic recovery will take longer than originally expected, overall, we are cautiously optimistic that sales tax receipts will continue slightly above budgeted amounts, generating an additional \$282 million in sales tax revenues, or a 7.7% increase, above the FY21 Adopted Budget level.

The revenue picture is not as optimistic within Operations. The reduction in travel continues to have a negative impact on Metro's system-generated revenues which are projected to be even lower than Adopted Budget levels. Farebox revenues are only a fraction of prior year levels and have fallen much farther than ridership due to rear door boarding. The advertising contract has been temporarily modified to provide relief to the vendor by reducing their payments. ExpressLanes tolls, parking, and bikeshare revenues have all fallen due to reduced usage. These losses in operating-eligible funding sources will have to be covered by operating-eligible sales tax revenues, offsetting many of those gains. The table below shows the overall changes in terms of fund eligibility.

Mid-Year Changes in Sales Tax and Other Resources by Funding Eligibility

Resources (\$ in millions)	Funding Eligibility				
	Metro Transit Ops/SGR	Flex Funding Eligible for Ops/SGR/TID	Transit Expansion	Other Dedicated	Total Funding Gain/(Loss)
1 Sales Tax, TDA and STA	\$ 14.7	\$ 97.7	\$ 43.2	\$ 126.5	\$ 282.2
2 Passenger Fares	-	(38.1)	-	-	(38.1)
3 ExpressLanes, Advertising and Other Revenues*	(0.7)	(15.0)	-	(13.3)	(28.9)
Total Additional FY21 Funding	\$ 14.0	\$ 44.6	\$ 43.2	\$ 113.2	\$ 215.1
Total Funding Eligible for Operations	\$ 58.6				

* Other Revenues include Green Fund, HOV Fines, Transit Court, Parking, Bikeshare and Lease Revenues.

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In total, \$215 million is projected to be available for the FY21 Budget. Out of \$67 million of combined operating income declines, consisting of -\$38.1 million from Passenger Fares and -\$28.9 from other revenues, \$53 million are operating-eligible revenues, primarily Passenger Fares and the Green Fund. These losses offset some of the sales tax gains, resulting in an increase of \$58.6 million in funding eligible for Operations. Proposed allocations of these funds will be discussed later in this report, but it is important to note that all additional funding that is eligible for Operations is allocated to Operations. Gains and losses in dedicated revenue sources like Regional Rail, General Planning and Programs, Congestion Management, and Subsidies fall into those specific programs.

Every eligible transit dollar has been made available to seize opportunities in increasing operating projects to further enhance the speed and efficiency from the NextGen implementation and initiate the Customer Experience plan.

Transit Expansion, Highway, and Regional Rail Projects

Metro is leveraging the additional \$43.2 million of Transit Expansion eligible funds and net savings of \$34.3 from refinancing existing debt to advance the drawdown of approved grants in current fiscal year. Metro’s \$741.4 million cashflow increase will be funded with additional sales tax, advancement of FFGA and other grants, and debt proceeds within Board authorized Life of Project (LOP) budget. All new debt issuance will be in accordance with previously approved Board Approved policies and requires separate Board Action.

Table below depicts those projects with midyear cashflow adjustments for the remainder of FY21. These increases are within Board authorized LOP budget.

Projects with Midyear Adjustment	FY21 Adapted	Midyear Increase	Adopted + Midyear	Activities
TRANSPORTATION INFRASTRUCTURE DEVELOPMENT (TID)				
Transit Expansion				
Crenshaw/LAX	\$ 73.0	\$ 15.2	\$ 88.2	•Project is 97% complete •Focused on systems integration testing prior to putting it into revenue service
Regional Connector	136.0	82.8	218.8	•Project is 71% complete; revenue service dates summer/fall 2022 •Focused on completed structural concrete and track work installation
Westside Purple Line Section 1	170.7	144.4	315.1	•Project is 66% complete; revenue service date in summer of 2023 •Focus on TBM tunnel drive completion – 8 of the 12 cross passages excavated, and concrete placements occurring at station sites
Westside Purple Line Section 2	113.1	170.1	283.1	•Project is 39% complete; revenue service date in 2025 •Focused on final design completion; construction activities in Century City and Beverly Hills
Westside Purple Line Section 3	213.2	213.3	426.5	•Project is 16% complete; revenue service date in 2027 •Focus on third party utility relocations, continue with final design on one contract, and prepare for tunneling operation
Division 20 Portal Widening & Turnback	88.1	53.2	141.3	•Much of adopted budget spent on mobilization costs •Additional funds for construction as staging area and preparatory work finalizes
East San Fernando Valley Transit Corridor	12.8	18.1	30.9	•NEPA environmental cleared in Dec-20 •Utility conflict investigation consisting of potholing and slot trenching
Eastside Extension Phase 2	2.9	1.5	4.4	•Allow for engineering and EIR work to be back on schedule
Transit Expansion Subtotal	\$ 809.8	\$ 698.5	\$ 1,508.3	
Highway				
Soundwall Package 10	\$ 1.2	\$ 0.9	\$ 2.1	•Caltrans expected to finish design by Q3 and Metro to lead soundwall construction
Soundwall Package 11	11.3	12.0	23.3	•Re-design due to differing site conditions from as-built drawings •Continue with permeation grouting
SR-57/SR-60 Interchange Improvements	6.5	3.2	9.7	•Advance project through design phase using the TCEP grant
SR-91 Improvements	6.7	2.0	8.7	•Progress through environmental phase for shovel readiness.
Highway Total	\$ 25.7	\$ 18.1	\$ 43.8	
REGIONAL RAIL				
Link US	\$ 53.8	\$ 24.8	\$ 78.6	•Right-of-way acquisitions anticipated in Q4
TID & Regional Rail Total	\$ 889.3	\$ 741.4	\$ 1,630.7	
Savings From Debt Refinancing	509.2	(34.3)	475	
Total Project Adjustment in TID, Regional Rail and Debt Services	\$ 1,398.5	\$ 707.1	\$ 2,105.6	

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Metro Transit Program Recommended Options

Applying all operating eligible funding of \$58.6 million to Bus/Rail Operations and State of Good Repair, Metro staff has recommended a list of prioritized initiatives to improve the customer experience, continue rollout of NextGen/Mobility on Demand, Capital State of Good Repair, staffing recruitment for Regional Connector, and implementation of other operational needs. Service-related criteria, as well as other criteria including Equity, Grant Funding Consideration, Project Readiness, Project Interdependency, and Safety/Reliability have been evaluated to implement the initiatives and to optimize the additional revenues.

Initiative (\$ in millions)	FY21 Mid-Year Budget Adjustment
1 Customer Experience	\$ 4.9
2 NextGen Infrastructure Study/Mobility on Demand	10.0
3 Capital State of Good Repair	24.3
4 Regional Connector Staffing	4.3
5 Other Operational Needs	15.1
Total Initiatives	\$ 58.6

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- **Customer Experience initiatives** include real-time identification of customer impacts of pass-ups, deployment of elevator attendants at various stations, reducing homelessness on the system by 50%, flexible dispatching of various people with expertise for quick problem response, advertising campaigns to increase TransitWatch use, Better Bus engagement tool/Metro.net website overhaul, and increasing customer experience surveys
- **NextGen/Mobility on Demand initiatives** relate to continued NextGen infrastructure studies and incorporating Mobility on Demand into Microtransit
- **Capital State of Good Repair initiatives** will re-establish scheduled fleet and infrastructure scheduling priorities that were delayed. Projects include new bus engine procurement, bus vehicle delivery, rail vehicle mid-life and component overhaul programs, and rail infrastructure improvements
- **Regional Connector staffing recruitment** will initiate maintenance training to gear up for the upcoming Rail Operations Date (ROD)
- **Other Operational Needs** include Bus/ Rail fleet maintenance campaigns, backfilling expenses to cover Purchased Transportation revenue service hour increases, and additional budget to complete the build out of lactation rooms at various facilities

Five (5) Non-Represented FTEs - Equity & Race and Customer Experience

Metro believes that access to opportunity should be at the center of decision-making around public investments and services. Accordingly, led by the Office of Equity and Race, Metro continues to take steps to operationalize and institutionalize equity under the four pillars of the Board-adopted Equity Platform. The Office of Equity and Race is requesting Board approval for three (3) Non-Represented FTEs to increase capacity to lead this work and improve efforts to expand access for historically and currently marginalized, underserved, and vulnerable communities, to contribute to a more inclusive and equitable LA County.

Additionally, Metro seeks to improve mobility in LA County by doubling the number of people who travel by modes other than single occupancy vehicles in the next ten years. In order to achieve this goal, the Customer Experience department has requested Board approval for two (2) Non-Represented FTEs to improve the customer experience across all Metro products and services to deliver customers with an outstanding, reliable, safe, and comfortable journey.

EQUITY ASSESSMENT

Metro staff developed and applied the Metro Budget Equity Assessment Tool (MBEAT) to the budgetary requests in this board action to understand the potential benefits and burdens for historically and currently marginalized communities and determine how budgetary requests might support more equitable outcomes. Overall, application of the MBEAT highlighted budgetary requests with a wide range of benefits for marginalized and/or vulnerable communities, helped staff identify potential barriers or harms to address, and helped staff consider adjustments to improve access and reduce potential barriers or harms. It also highlighted a need for broader training to not only answer MBEAT questions, but to help staff think through how investment, projects, programs, and policies might cause harm or not benefit all as intended, given historic and current disparities and systemic inequities.

Please see the Mid-Year FY20-21 Budget Equity Assessment - Receive and File Report for a summary of highlights on the findings, new process and next steps.

DETERMINATION OF SAFETY IMPACT

Approval of this item will not impact safety.

FINANCIAL IMPACT

The FY21 Proposed Mid-Year Budget at \$6.99 billion is balanced and appropriates the resources necessary to fund them. The proposed mid-year budget demonstrates Metro's ongoing commitment to meeting its capital and operating obligations, which is essential in receiving subsidies from the state and federal governments and to administer regional transportation funding to local cities and municipal operators.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports Metro Vision 2028 Strategic Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

NEXT STEPS

Upon Board amendment of the FY21 Budget, Metro will make funds available for the planned transit and transportation programs outlined in this document.

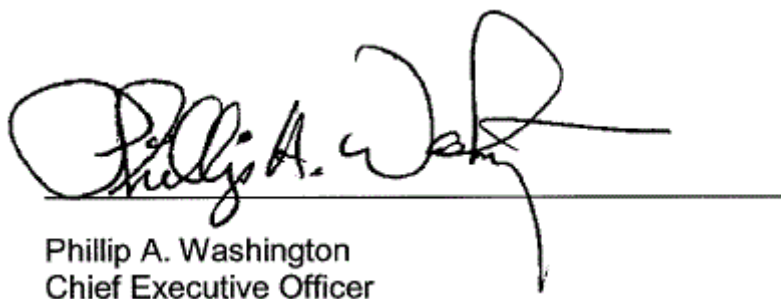
Metro staff will continue to monitor the financial situation considering the COVID-19 pandemic and

reassess resources, expenditures, and economic recovery which may result in returning to the Board for another amendment in FY21, if necessary.

With the allocation and application of the recently approved additional stimulus package yet to be determined by the federal government, Metro will assess the financial impact of the amount available for all transit agencies in the County and integrate the information into the FY22 Budget Development process.

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