



Metro

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TO: BOARD OF DIRECTORS

FROM: PHILLIP A. WASHINGTON *PAW*
CHIEF EXECUTIVE OFFICER

SUBJECT: CEO'S CALL TO ACTION TO CONTROL COSTS

ISSUE

This memo outlines the CEO's Call to Action to immediately reduce costs as one of the mitigation strategies to help the agency financially manage through COVID-19. This is intended to be informational and will not require a Board Action, however, staff will consider any feedback as provided thereafter.

BACKGROUND

With the implementation of the "Safer at Home" order in March, nonessential businesses closed, and all residents were directed to leave their homes only for essential activities. Consumer spending has plummeted. The revenues received from local and state derived sales tax measures, majority of Metro's resources, are estimated to decline by a total of \$1.060 billion over FY20 adopted budget and FY21 pre-COVID levels.

Transit ridership, fare revenues, tolls, advertising and other system generated revenues have dropped dramatically while Metro has incurred increased costs in response to the coronavirus. Combined with sales tax, this results in an estimated \$1.8 billion total loss affecting each one of Metro's programs.

While the CARES Act will provide relief funding it is not enough to offset the total losses. The timing of the reimbursement is also uncertain and in the coming months, presents a risk to cashflow.

DISCUSSION

More than ever, Metro is enforcing strong fiscal discipline in order to maintain financial stability through the COVID-19 crisis and specifically to ensure we retain enough cash

to keep operating, hence the saying, “cash is king.” As a result, I have ordered a Call to Action to conserve resources and to immediately reduce expenses.

All projects and programs are grouped into two buckets. Bucket 1 is defined as “work to continue” and includes the following types of items:

- COVID-19 high priority tasks such as PPE and cleaning
- Operating and maintaining bus and rail service per Transit Operations Plan
- Major infrastructure projects and projects under executed contracts
- Legally required payments as contractually obligated
- Federal and State regulatory required activities

Bucket 2 is defined as all other projects and programs not listed under Bucket 1 and are being evaluated to be deferred three to six months with the objective of staying on the original Measure M schedule. This bucket includes projects that may have partial grant funding, projects in various phases of Planning, Construction and Operating, Measure M, Non-Measure M and Pillar projects. Attachment A provides a selective list of such projects for reference.

This project list is ever-changing and does not imply a permanent deferral of projects. Metro will be regularly assessing projects that have been temporarily deferred and continue to move projects expeditiously as the opportunities arise and as state or federal stimulus funds become available. There are many variables at play as we monitor the circumstances surrounding the revenue losses and the timing of reimbursement from the CARES Act. Over the next few months, staff will also be developing the FY21 Budget which will incorporate a thorough review and twelve-month outlook across all projects.

The projects that are proceeding also need to identify potential cost reductions to reduce cash needs and free up funds for other important needs at Metro. Consultants are an important part of our projects and a significant element of project costs.

Therefore, Metro has requested the following contributions from our consultants:

- A freeze on pay raises;
- An evaluation by Metro as to whether consultant staffing levels can be reduced;
- A voluntary reduction of 2% in the fee (profit)

Metro will be flexible in its approach and will only apply these measures temporarily until the financial outlook improves. We recognize that this is an extraordinary request, however, these are extraordinary times and we are looking at all opportunities.

In addition to these measures, I have also instructed a freeze on all hiring of Metro employees at this time. Any changes will be managed on an individual basis in order to ensure proper cost savings from a labor perspective.

NEXT STEPS

Staff will be monitoring the agency's expenditures and report to the board regularly between now and September leading up to the FY21 budget proposal.

ATTACHMENTS

Attachment A – Bucket Project List

Bucket Project List

Bucket 1: Work to Continue

<i>Health and safety for customers and employees</i>
<ul style="list-style-type: none"> ▪ PPE ▪ Cleaning services ▪ Additional expenses directly related to COVID-19
<i>Operating and maintaining bus and rail services per Transit Operations Plan</i>
<i>Federal and State regulatory required activities</i>
<i>Legally required payments (contractual obligations)</i>
<ul style="list-style-type: none"> ▪ Debt service ▪ Subsidies ▪ Licenses, utilities, rental, etc.
<i>Major infrastructure and projects under executed contracts</i>
<ul style="list-style-type: none"> ▪ Airport Metro Connector ⁽¹⁾ ▪ Crenshaw/LAX ⁽¹⁾ ▪ Division 20 Portal Widening and Turnback ▪ Gold Line Foothill Extension ⁽¹⁾ ▪ I-5 North HOV (along SR-134 to Buena Vista area) ⁽¹⁾ ▪ I-5 South HOV (I-605 to Orange County line) ⁽¹⁾ ▪ Light Rail Vehicle Acquisition Program ▪ Link US (Phase 1 only) ▪ Metro Bus Fleet Replacement (incl. electrification for buses and infrastructure for Orange Line) ▪ Patsaouras Bus Station ▪ Purple Line Extension ⁽¹⁾ ▪ Regional Connector ⁽¹⁾ ▪ Soundwall Package 11 ⁽¹⁾ ▪ SR-138 Corridor project in construction ⁽¹⁾ ▪ Willowbrook/Rosa Parks Station Upgrade & Mezzanine

Bucket Project List

Bucket 2: Work Evaluated to Defer with the Objective of Staying on the Original Measure M Schedule (*selective list*)

<i>Metro Transit Expansion</i>
<ul style="list-style-type: none"> ▪ Arts District / 6th Street Station ▪ Center Street Facility / ESOC ▪ Countywide BRT Program (incl NSFV BRT, NoHo to Pasadena BRT) ⁽¹⁾ ▪ Crenshaw Northern Extension ⁽¹⁾ ▪ East San Fernando Valley LRT ⁽¹⁾ ▪ Eastside Extension Phase 2 ^{(1) (2)} ▪ Green Line to Torrance ^{(1) (2)} ▪ San Gabriel Valley Transit Feasibility Study ⁽¹⁾ ▪ Sepulveda Transit Corridor ^{(1) (2)} ▪ Vermont South Bay Feasibility Study ⁽¹⁾ ▪ West Santa Ana Branch ^{(1) (2)}
<i>Metro Transit Capital Improvement</i>
<ul style="list-style-type: none"> ▪ Bus and Rail Facilities SGR program - stations, vertical transportations, roofs, pavements, etc. ▪ Electrification of buses including infrastructure - Silver Line ▪ Enterprise Asset Management System ▪ Heavy rail vehicle acquisitions ▪ Light and heavy railcar modernization and overhaul programs ▪ Orange Line grade separation ⁽¹⁾ ▪ Rail and Bus Operations Center ▪ Rail system improvements, yards, cars ▪ Rio Hondo Confluence Station ▪ Rolling stock midlife and non-revenue equipment programs ▪ Wayside SGR program underway on Red and Green Lines - radio, signals, communications, track, special work, OCS, power and the like
<i>Regional Transit</i>
<ul style="list-style-type: none"> ▪ Antelope Valley Line Enhancements ▪ Doran Street ATP ▪ LAUS Esplanade / Forecourt ▪ McGinley to Roxford Double Track ▪ Union Station Master Plan (Phase 2)
<i>Highway / Street Improvements</i>
<ul style="list-style-type: none"> ▪ Adams Flyover ▪ Alameda Corridor East grade separation phase 2 ⁽¹⁾ ▪ Centinela grade separation ▪ Countywide Soundwall Noise Studies ⁽¹⁾ ▪ Eastside Light Rail Access ⁽¹⁾ ▪ First / Last Mile (PLE and others) ⁽¹⁾ ▪ I-105 ExpressLanes ⁽¹⁾ ▪ I-210 Barriers

Bucket 2: Work Evaluated to Defer with the Objective of Staying on the Original Measure M Schedule *cont. (selective list)*

- I-5 Capacity Enhancements (SR14 to Parker Road) ⁽¹⁾
- I-5 Corridor Improvement I-605 to I-710 ⁽¹⁾
- I-605 Hotspots (incl SR-91 interchange) ⁽¹⁾
- I-710 South Corridor Project ⁽¹⁾
- L.A. River (Bike) Path ⁽¹⁾
- La Canada Soundwalls
- Rail to Rail ATP
- Rail to River ATP
- Rosecrans/Marquardt Grade Separation ⁽¹⁾
- Soundwall Packages 12, 13, and 14 ⁽¹⁾
- South Bay Highway Operational Improvements ⁽¹⁾
- SR-138 new project initiation documents ⁽¹⁾
- SR-57 / SR-60 Interchange Improvements ⁽¹⁾
- SR-71 GAP - Mission Blvd to San Bernardino County Line ⁽¹⁾

⁽¹⁾ Measure R/M Project

⁽²⁾ Pillar Project