Los Angeles County
Metropolitan Transportation
Authority
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Los Angeles, CA

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EXECUTIVE MANAGEMENT COMMITTEE

APRIL 14, 2016

SUBJECT: FISCAL YEAR 2017 (FY17) BUDGET DEVELOPMENT STATUS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE report on **Fiscal Year 2017 Budget Development Status.**

ISSUE

The FY17 Budget Development process started at the beginning of 2016 with the board adoption of the Risk Allocation Matrix (RAM) to identify a strategic mix of cost savings and revenue generating new initiatives with the goal to foster a culture of financial discipline throughout Metro to ensure Metro's long term financial stability. Next, the major budget planning parameters were reviewed such as sales tax, Consumer Price Index (CPI) and service hours which determine the revenue available as well as the primary key cost drivers in the budget. The preliminary FY17 capital program was discussed next which covered 41 percent of the total budget.

This monthly status report for the FY17 Budget will include a summary of the preliminary budget shown by program, the preliminary bus and rail operations budget comprising 28 percent of the budget, a summary of the Full-Time Equivalent (FTE) position requests and an update on the sales tax assumption.

	Board Status Updates
Jan-16	RAM initiatives adopted for FY17 implementation
Feb-16	(1)Budget Planning Parameters for Assumptions and Service Levels (2)FY17 Preliminary Capital Program
Mar-16	Agencywide Bus and Rail Service Levels
Apr-16	(1) Preliminary Summary of Expenditures and FTE (2) Bus and Rail Operations Budget
May-16	Board Adoption – May 26

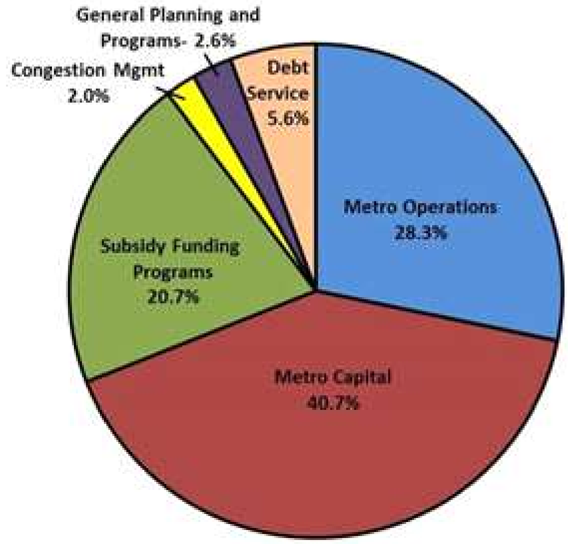
DISCUSSION

Expenditures Summary

The agency implemented a zero-based budget process for FY17 which is a deliverable based approach in building the budget. Through this process, we were able to prioritize projects and redeploy expenditures and resources to the core needs for the upcoming fiscal year. This also further reinforces the agency's commitment to tighten budget controls, exercise fiscal discipline in the allocation of limited resources and drive accountability.

As a result, the FY17 Budget includes a decrease in total agency expenditures of $118.8 million, which is a 2 percent decrease, from $5.8 billion in FY16 to $5.68 billion in FY17. This budget decrease is reached despite absorbing increases in costs for fuel and propulsion power, labor inflation, costs for two new rail extension services and many new programs, studies and projects.

	Program Type ($ in millions)	FY16 Budget	FY17 Proposed	Var $s	Var %	% of Total FY17 Budget
1	Metro Capital	$ 2,515.3	$ 2,313.9	$ (201.4)	-8.0%	40.7%
2	Metro Operations	1,515.4	1,605.2	$ 89.8	5.9%	28.3%
3	Subsidy Funding Programs	1,160.6	1,177.8	$ 17.2	1.5%	20.7%
4	Congestion Management	99.5	114.7	$ 15.2	15.3%	2.0%
5	General Planning & Programs	180.7	149.6	$ (31.1)	-17.2%	2.6%
6	Debt Service	328.7	320.1	$ (8.6)	-2.6%	5.6%
7	**Grand Total**	**$ 5,800.2**	**$ 5,681.4**	**$ (118.8)**	**-2.0%**	**100.0%**



Metro Capital is decreasing $201.4 million or by 8.0% primarily due to the completion of construction of the Gold Line Foothill 2A and Expo Line Phase 2 extensions. This is only partially offset by an increase in Metro Operations of $89.9 million or 5.9% for the transfer of the expenses related to operating the new rail line extensions. Because of the efforts to tighten cost controls, this nets a savings agencywide. Further details of the changes in Bus and Rail Operations are covered in the next section of this report.

Increases in Subsidy and Congestion Management are offset by decreases in Debt and General Planning and Programs driven by refunding of old debt at lower market interest rates and a strong emphasis on accountability to ensure project delivery is achieved within the budget while continued progress is made on board directed planning studies.

Bus and Rail Operations Budget

In FY17, Metro will operate 8.2 million revenue service hours. Service changes will be implemented to maximize the service footprint while controlling operating costs and attracting additional ridership. The main service initiatives for Bus Operations are to increase the overall system speed and on-time performance, as well as optimize the Bus and Rail network interface. These initiatives include a pilot on the Silver Line for the all door boarding program, line management to improve speed on the Bus Rapid Transit (BRT) lines, changes to improve span of service and minor adjustments to improve passenger accessibility. Metro staff worked with the five Service Councils to develop these service changes as well as utilize provisions of the Transit Service Policy to reinvest some of the service savings in order to improve service on other lines to match demand. Rail Operations service changes and initiatives are highlighted by the full year implementation of the Gold Line Foothill and EXPO II Santa Monica rail extensions. Other service changes include weekend mid-day/PM headway adjustments on the Gold Line to align with the other rail lines and matching night service headways with actual ridership demand.

The $1.578 billion bus and rail operations budget represents a $104.6 million increase or 7.1% from the FY16 budget. The budget increase can be summarized into the categories of One-Time/Contractual Increases and Recurring Cost Control Items. Cost growth for the One-Time/Contractual items of $108.4 million or 7.4% is primarily attributed to expenditures related to full-time operation of the Foothill/EXPO II Rail extensions which is 3.3% of the change. Other items include contractually negotiated rates, cost inflation and various non-recurring initiatives (Bus Operator Barrier installation, Bus CNG Re-Tanking, and Soil Remediation at Division 6). The recurring cost control items were held constant or reduced to FY16 budgeted levels to arrive at a decrease of $3.8 million or 0.3% due to savings in the Professional/Contract services accounts and other discretionary accounts; e.g. Travel. Exercising prudent cost control allowed for this result. Again, the net increase is $104.6 million or 7.1% from the FY16 budget. A detailed schedule reflecting the budget changes is shown below.

BUS AND RAIL OPERATIONS BUDGET

		$ in Millions Total	$ Change	% Change
1	FY16 Bus and Rail Operating Budget	$1,473.5		
2				
3	Baseline FY17 Budget Impact			
4				
5	One - Time / Contractual Increases			
6	Labor/Fringe Benefit Increases (3.0% - All Labor Units)		25.6	1.7%
7	Full-Year Revenue Operation: Gold Line Foothill 2A/Expo 2 Rail		48.7	3.3%
8	Insurance/Workers' Compensation Actuarial Benefit Payout Inflation		10.0	0.7%
9	Bus Operator Barrier and Bus Re-Tanking Initiatives		5.5	0.4%
10	CNG Fuel Cost Increase ($0.50 to $0.53)		1.4	0.1%
11	5.0% Increase in Utility Rates + Projected 13.0% Increase for		4.0	0.3%
12	Soil Remediation for Division 6		9.0	0.6%
13	Contractual Rate Increase Purchased Transportation		4.2	0.3%
14	Subtotal One - Time Contractual Expenditures		108.4	7.4%
15				
16	Recurring Cost Control Items			
17	Cost Control in Baseline Professional Services, Maintenance Contracts,		(5.1)	-0.3%
18	Manpower for Division 13 Facilities Maintenance		1.3	0.1%
19	Subtotal Recurring Cost Control Items		(3.8)	-0.3%
20				
21				
22	**Total - FY17 Budget Impacts**		**104.6**	**7.1%**
23				
24	**FY17 Operating Budget**	**$1,578.1**		**7.1%**

FTE Summary

FY17 Budget will have no non-contract FTE additions. Continuing the effort to strengthen fiscal discipline, the agency will redeploy existing vacancies to the priorities for the upcoming year as opposed to requesting new FTEs. In the past couple of years the agency has added positions faster than it can fill them which has led to a growing number of vacant positions to date. Along with the vacancies is the zero-based budget development approach which has allowed the agency to identify and reprioritize the near-time needs accordingly and thereby no new non contract FTE's are requested.

The primary change to contract FTE's is in security to increase the control of security deployment and improve results and will only be filled if there is an offset in the new security contract. In summary there is a net 30 new contract FTEs requested for FY17 comprised of the following: 1) 77 additions for security (conditioned on the new security contract), 2) 1 addition for communications in managing the bike locker program, and offset by 3) a reduction by attrition of 48 in operations from service level optimization.

<u>Sales Tax Assumption Update</u>

FY17 sales tax growth has been updated to be 3.3% over FY16 Budget from 2.4% based on forecasting source updates as well as actual receipts for FY16 YTD through Q2. Our sales tax assumption remains slightly conservative and within range compared to other sources.

Sales Tax Forecasts
<u>For FY17 Proposed Budget Assumption</u>
($ amounts in millions)

		Metro Actual/Budget Sales Tax Revenue per Ordinance			
	Sales Tax Revenue	FY15 Actual	FY16 Adopted	FY16 Estimate	FY17 Proposed
1	$ Value per Ordinance	$ 745.7	$ 763.5	$ 770.3	$ 795.7
2	% Change	4.0%	2.4%	3.3%	3.3%
3	UCLA Anderson	$ 728.7	$ 764.4	$ 772.6	$ 804.4
4	Beacon Economics	$ 752.6	$ 771.6	$ 781.8	$ 805.9

NEXT STEPS

We will continue to update the Board and Board staff in the coming weeks. The public can continue to get involved with the budget through the public forums at council and committee meetings and also through various media channels such as email, website and social media outlets.

On May 18, 2016, a public hearing will be held to receive public comments and the FY17 Proposed Budget will be presented to the Board for formal adoption on May 26, 2016.

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