



Board Report

File #: 2018-0147, **File Type:** Public Hearing

Agenda Number:

**BUDGET PUBLIC HEARING
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 16, 2018**

SUBJECT: FISCAL YEAR 2019 (FY19) BUDGET

ACTION: ADOPT THE FY19 BUDGET

RECOMMENDATION

CONSIDER:

- A. ADOPTING the proposed FY19 Budget as presented in the budget document (provided in a separate transmittal and posted on metro.net); and
- B. APPROVING the Life of Project (LOP) budgets for new capital projects with LOP exceeding \$5 million, included in the proposed FY19 Budget and presented in Attachment A; and
- C. APPROVING the Reimbursement Resolution declaring Metro’s intention to issue debt in FY19 for capital projects, as shown in Attachment B, with the provision that actual debt issuance will require separate Board approval; and
- D. AMEND the proposed budget to include \$2,000,000 for Expo Phase 1 and \$20,624,400 for Expo Phase 2, as approved by Expo Construction Authority for fiscal year 2019, for a total addition of \$22,624,400; and
- E. AMEND the proposed budget to include \$25,000,000 for farebox upgrade, as approved by the Board on April 18, 2018; and
- F. AMEND the proposed budget to include \$500,000 to begin the draft environmental study of the Crenshaw Northern Extension project upon identification of the preferred alternatives identified by the Board for this corridor

ISSUE

California Public Utilities Code Section 130105 requires Metro to adopt an annual budget to manage the revenues and expenses of the agency's projects and programs. The budget is the legal authorization to obligate and spend funds and to implement Board policy. It includes all operating, capital, planning and programming, subsidy funds, debt service requirements, and general fund activities for the fiscal year. Budget detail is a management plan for financial activity and is prepared at the fund, project, department, and expenditure level. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board except for capital expenditures, which is authorized on a life-of-project basis.

Copies of the proposed budget were made available to the public on May 1, 2018, both electronically at www.metro.net and through the Records Management Center (RMC) at RMC@metro.net. Printed copies of the budget document were also made available at the RMC on the plaza level of the Gateway building on May 1, 2018. The public hearing is scheduled for May 16, 2018. Advance public notification of this hearing was issued through advertisements posted in over two dozen news publications on April 11th and May 1st, 2018.

BUDGET MESSAGE

The transportation landscape of Los Angeles (LA) County is changing. Metro is leading the change with groundbreaking, expansive projects designed to invigorate our current infrastructure. As our population grows, mounting congestion stands in our way. Therefore, Congestion Reduction, along with overall Customer Experience, is Metro's top priority to improve the quality of life for LA County residents.

Through enhanced transit services and an ever-growing list of innovative new transportation initiatives, we aim to relieve congestion by focusing on the larger mobility picture. This will require addressing the issue of connectivity across all modes and all trip purposes. As we work to integrate trips made by private vehicles and transit with better first/last mile connections, we are moving closer to a transportation network that accommodates the mobility needs of all residents and visitors in LA County.

Metro's goal in the coming year is to move more people onto transit by making meaningful improvements to the services we provide. In order to appeal to a wider audience and encourage transit use among those who have never used our system, we must create a new customer experience. As a direct approach, we are committed to enhance our transit services by taking advantage of new technologies, such as MicroTransit, more advanced mobile apps, and better real-time information. While we improve overall service and tackle congestion with a comprehensive transportation strategy, it follows that increased ridership will be a natural outcome. Once we prove that Metro is safe, clean, easy to use, and efficient, we can make sure LA keeps on moving.

DISCUSSION

The proposed \$6.6 billion budget for FY19 is balanced and aligns resources in a fiscally responsible manner to achieve the following goals:

1. Advance safety and security for our customers, the public, and Metro employees
2. Exercise fiscal discipline to ensure financial stability
3. Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation
4. Improve the customer experience and expand access to transportation options
5. Increase transit use and ridership
6. Implement an industry-leading state of good repair program
7. Invest in workforce development
8. Promote extraordinary innovation
9. Contribute to the implementation of agencywide and departmental Affirmative Action and Equal Employment Opportunity goals

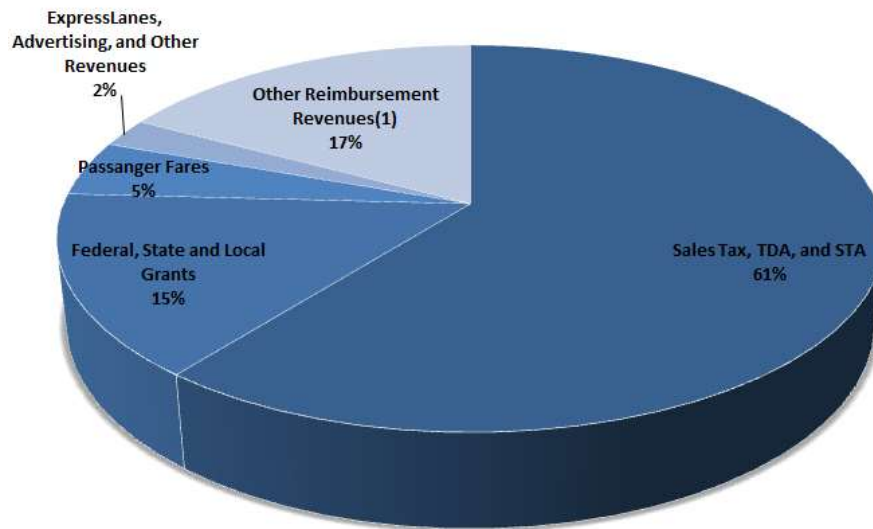
As part of the performance management process, Metro will monitor progress throughout the year relative to the Agency goals using measurements such as budget variance, Key Performance Indicators (KPIs) target achievement, Project Milestone achievement and cost savings and new revenue generation through the risk allocation matrix (RAM). This reinforces Metro's commitment to strategic monitoring of performance and the improvement of accountability.

Resources Summary

Resources (\$ in Millions)	FY18	FY19	FY18 - FY19 \$ Change	FY18 - FY19 % Change
	Budget	Prelim Budget		
1 Sales Tax, TDA, and STA	\$ 3,691.2	\$ 3,980.2	\$ 289.0	7.8%
2 Federal, State and Local Grants	985.9	997.3	11.4	1.2%
3 Passanger Fares	302.6	302.6	-	0.0%
4 ExpressLanes, Advertising, and Other Revenues	137.7	158.1	20.4	14.8%
5 Other Reimbursement Revenues ⁽¹⁾	1,164.3	1,124.4	(39.9)	-3.4%
Total Budget	\$ 6,281.7	\$ 6,562.6	\$ 280.9	4.5%

⁽¹⁾ Includes bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown and prior year commitment

**Resources %
of FY19 Budget**



The FY19 Proposed Budget ensures resources available to meet the planned Metro program and project delivery for the coming fiscal year. Revenue projections are built on historical sales tax growth cycles, accepted forecasting sources and Metro’s 30 year actual sales tax receipts. The total FY19 budget planned resources is \$280.9 million or 4.5% greater than FY18.

- Sales Tax, TDA, and STA increases \$289 million or 7.8% in total, due to the following 2 reasons:
 - There is a \$98 million or 3.4% projected increase for Prop A, C and Measure R sales tax as well as TDA revenues. Measure M increase is 5.5% more at 8.9%, or \$68.8 million, reflecting allowances for FY18 Measure M inaugural year of lower than

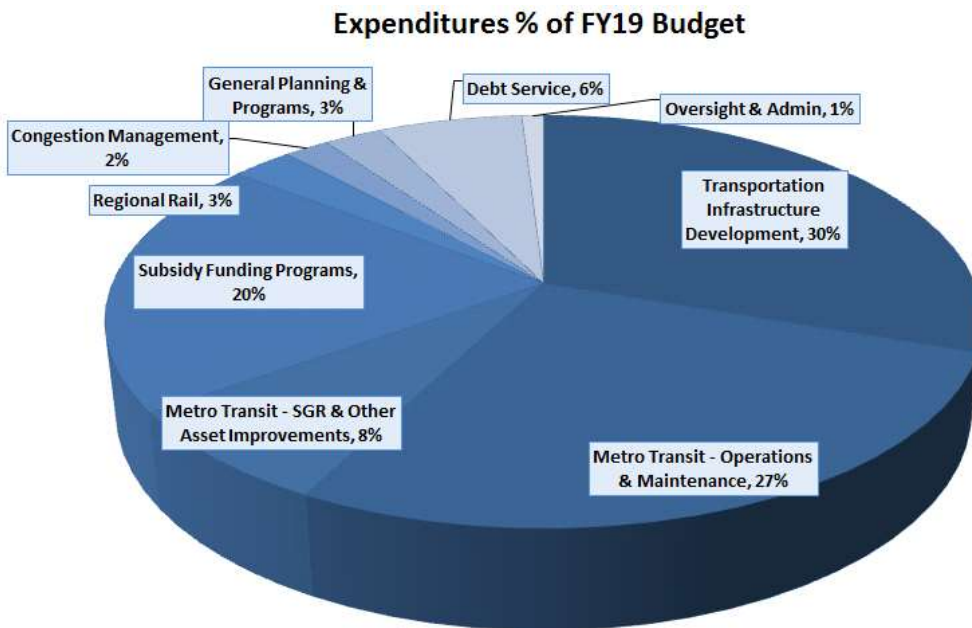
anticipated sales tax receipts.

- STA and State Senate Bill 1 (SB1) increase by \$122 million or 204% based on State Controllers' Office (SCO) estimates and new SB1 supplemental funding for transit and state of good repair.
- Federal, State and Local Grants are at a modest \$11 million increase or 1.2%, reflecting related capital expense activity.
- Passenger Fare revenues to remain flat due to level ridership & fare per boarding estimates.
- ExpressLanes, Advertising, and Other Revenues are increasing \$20.4 million or 14.8% in total, primarily due to the addition of Green Funds and increasing CNG credits for FY19.
- Other Reimbursement Revenues is \$39.9 million or 3.4% lower in total based on timing of project schedules. This includes bond proceeds, sales tax carryover, and Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdowns which are backed by future expected sales tax.

Expenditure Summary

In FY19, Metro is poised to lead the ongoing transformation of Los Angeles County, with a bold plan to push the region to new heights. This year, we will continue our rapid progress toward achieving the vision of Measure M, with over a dozen transit expansion projects in various stages of planning, groundbreaking, and construction. We are also focused on the rejuvenation of our existing lines and facilities, as we move to pilot an electric bus fleet and continue major rehabilitation efforts on the Blue Line, our oldest rail line.

Expenditures by Program Type (\$ in Millions)		FY18	FY19		
		Budget	Prelim Budget	FY18 - FY19 \$ Change	FY18 - FY19 % Change
1	Transportation Infrastructure Development	\$ 1,987.2	\$ 1,987.7	\$ 0.5	0.0%
2	Metro Transit – Operations, Maintenance, & Regional Operating Services	1,755.4	1,795.5	40.1	2.3%
3	Metro Transit - SGR & Other Asset Improvements	431.9	493.0	61.1	14.1%
4	Subsidy Funding Programs	1,243.3	1,333.0	89.7	7.2%
5	Regional Rail	178.4	179.0	0.6	0.3%
6	Congestion Management	113.0	127.3	14.3	12.6%
7	General Planning & Programs	133.5	167.4	33.9	25.4%
8	Debt Service	383.9	416.6	32.7	8.5%
9	Oversight & Admin	55.2	63.3	8.2	14.8%
Total Budget		\$ 6,281.7	\$ 6,562.6	\$ 280.9	4.5%



The total budget increase from FY18 to FY19 is \$281 million or 4.5%. The major differences are addressed in program categories below which include the assumption for CPI increase of 2.25%.

- Transportation Infrastructure Development remains steady and supports Measure R and M projects such as Westside Purple Line Extension, including the Division 20 expansion, Regional Connector and Crenshaw LAX projects.
- Metro Transit - Bus and Rail Operations & Maintenance has a 5.1% increase from FY18 due to the new labor contracts and additional Revenue Service Hours (RSH) needed to support bus bridges for the “New Blue” rehabilitation project and special events.
 - Bus Revenue Service Hours (RSH) increases by 104,000 hours or 1.5%, due to Bus bridges for Blue Line closures related to the “New Blue” rehabilitation project and minor service adjustments to relieve overcrowding.
 - Rail RSH increases by 2,000 hours or 0.2%, due to minor service adjustments for 3-car consists on the Gold Line and headway increases on the Green line during the AM peak; increases mostly offset by reductions due to Blue Line closures for the New Blue project.
- Metro Transit - State of Good Repair (SGR) & Other Asset Improvements is at a 4% increase from FY18 due to piloting the conversion of the bus fleet to Electric/Zero Emission Buses (ZEB), rehabilitation of the Blue Line, system upgrades, and improving customer experience.
- Subsidy Funding Programs increases by \$89.6 million, or 7.2%, primarily due to increased funding from growth in sales tax revenues and new SB1 funding.
- Regional Rail remains constant with continuing operating and capital support of the Metrolink commuter rail system and the Metro managed Regional Rail.
- Congestion Management is increasing by \$14 million, or 13%, primarily due to a service provider and contract renewal rate change.
- General Planning & Programs increases by \$31 million, or 25%, due to the expansion of bikeshare, LA River Bikepath, Rail to Rail/River, Union Station improvements and Public Private Partnerships (P3).
- Debt Service increases by \$33 million, or 9% due to repayment of FY18 proceeds issued as previously approved by the Board.
- Oversight & Admin is a \$6 million increase, or 15%, due to continued ramp up of support for carrying out Measure M initiatives as well as cost inflation factors.
- The labor cost increase reflects rising cost inflation, living wage standard increases and labor market contraction. Wage increases and health/welfare benefits for represented employees are based on Collective Bargaining Agreements; salary increases for non-represented employees are expected to be in line with represented employees at a 4% increase over FY18 and is merit based. Non-represented medical/dental benefits reflect costs previously approved by the Board.

FTE Summary

The FY19 proposed budget includes requests for 79 non-represented FTE additions and up to 170 represented FTE additions.

- Total Non-Represented FTE increase of 79 primarily due to Crenshaw project and other capital projects support, Metro operations, and continuing Measure M initiatives and oversight.
- Total Represented FTE increase of up to 170 primarily due to Crenshaw Pre-Revenue Service and increase in bus service for “New Blue” rehabilitation bus bridges.

A summary of the requested FTEs is shown in the table below.

1	Non-Represented FTEs	
2	FY18 Budget	1,601
3	Congestion Management	3
4	Crenshaw Pre-Revenue Service	11
5	Debt Service	1
6	General Planning & Program	1
7	Measure M Initiatives Support, Oversight & Admin	26
8	Metro Operations and Support	17
9	MR/MM Planning Studies	16
10	Westside Subway Ext Sect 1, 2, 3	4
11	<i>FY18 vs FY19 Change</i>	<i>79</i>
12	FY19 Proposed	1,680

13	Represented FTEs	
14	FY18 Budget	8,367
15	Crenshaw Pre-Revenue Service	83
16	Operating Bus Service	81
17	Property Maintenance	2
18	Metro Programs Support, Oversight & Admin	4
19	<i>FY18 vs FY19 Change ⁽¹⁾</i>	<i>170</i>
20	FY19 Proposed	8,537

(1) The FY19 Proposed Represented FTE's will not exceed 170 and is subject to change based on further service level adjustments.

Life of Project (LOP) Budgets

Projects greater than \$1 million with LOP budget increases and new projects in excess of \$5 million must be approved by the Board in separate Board actions.

Attachment A includes a detailed listing of new capital projects for FY19 with LOP in excess of \$5 million. These projects are included in the proposed FY19 budget but do require LOP approval by the Board, as requested by Recommendation B of this report.

Reimbursement Resolution

Per Federal tax law, bond proceeds can only be used for expenses incurred after the issuance of bonds. Metro must pass a resolution indicating the intent to issue bonds at a later date for the expenditures described in the reimbursement resolution to be reimbursed for expenses incurred before the bond issue. See Attachment B for anticipated expenditures in the budget related to proceeds from future bond issuance.

Public Outreach

Soliciting meaningful input from the public and stakeholders is critical to budget development. The comprehensive outreach program for FY19 included many opportunities to provide feedback online or by telephone in addition to in-person meetings. These meetings included Metro Service Councils, Citizens Advisory Council (CAC), Technical Advisory Committee, Bus Operations Subcommittee, Local Transit Systems Subcommittee, Streets & Freeways Subcommittee, Policy Advisory Committee (PAC), Valley Industry & Commerce Association (VICA) Transportation Committee, and BizFed. This allowed for the greatest level of engagement and direct dialogue with stakeholders.

To encourage participation, the times and locations of public workshops were advertised through multiple channels, including the Metro website, “take ones” on board vehicles, newspaper advertising, messages on hold, e-blasts, and social media ads. Outreach efforts for FY19 also included two Telephone Town Hall sessions and an interactive Online Budget Tool, making it convenient for LA County residents to participate in the budget process without physical presence at a meeting. A summary of public outreach efforts and comments received is shown in Attachment C.

FINANCIAL IMPACT

The proposed FY19 budget (provided in a separate transmittal) at \$6.6 billion, plus the following amendments: \$2 million for Expo Phase 1, \$20.6 million for Expo Phase 2, \$25 million for farebox upgrades, and \$500,000 for Crenshaw Northern Extension, is balanced, and includes expenditures and appropriates the resources necessary to fund them. The proposed budget demonstrates Metro’s ongoing commitment to meeting its capital and operating obligations, which is a requirement

necessary in order to continue to receive subsidies from the state and federal governments and to administer regional transportation funding to local cities and municipal operators.

NEXT STEPS

Upon Board authorization and adoption of the FY19 budget, staff will start make funds available for the planned transit and transportation programs outlined in this document and be programmed to fund regional transit/transportation partnering agencies, cities and recipients.

Monitoring the FY19 budget performance will be a year-round ongoing effort. Staff will conduct quarterly performance management reviews and track metrics to reinforce accountability and budgetary control. There will be a mid-year budget assessment to evaluate the budget's alignment to agency priorities and actual performance. In addition, continuous improvements will be implemented to the process and regular updates will be reported to the Board.

ATTACHMENTS

Attachment A - FY19 New Capital Projects

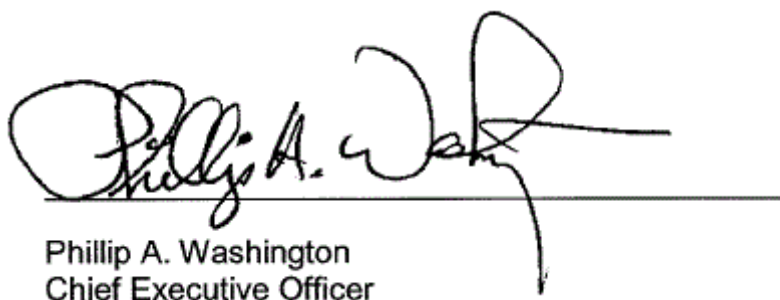
Attachment B - Reimbursement Resolution of Metro for FY19

Attachment C - FY19 Public Outreach

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