



Board Report

File #: 2020-0522, File Type: Public Hearing

Agenda Number: 10.

**BUDGET PUBLIC HEARING
FINANCE, BUDGET, AND AUDIT COMMITTEE
SEPTEMBER 16, 2020**

SUBJECT: FISCAL YEAR 2021 (FY21) BUDGET

ACTION: ADOPT THE FY21 BUDGET

RECOMMENDATION

CONSIDER:

- A. ADOPTING the proposed FY21 Budget as presented in the budget document (provided in a separate transmittal and posted on metro.net);
1. AUTHORIZING \$6.0 billion annual consolidated expenditures to achieve goals and objectives set forth by the Board adopted Metro Vision 2028 strategic plan; and
 2. AUTHORIZING a total of 10,219 FTEs with 8,482 Represented FTEs and 1,737 Non-Represented FTEs which did not change from FY20 authorized levels; and
 3. APPROVING the Life of Project (LOP) budgets for new capital projects with LOP exceeding \$5.0 million presented in Attachment A; and
 4. AMENDING the proposed budget to include \$165.2 million for Gold Line Foothill Extension 2B for a total of \$265.2 million, finalized after budget closed; and
- B. APPROVING the Reimbursement Resolution declaring Metro's intention to issue debt in FY21 for capital projects, as shown in Attachment B, with the provision that actual debt issuance will require separate Board approval.

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. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board at the fund level except for capital expenditures,

which is authorized on a life-of-project basis.

In May, Metro Board of Directors adopted a Continuing Resolution to extend FY20 Budget authorization through the first quarter of FY21 which provided an opportunity to reset the financial forecast due to the COVID-19 pandemic. All Metro activities have been reassessed to reprogram the resources available for Metro and regional activities in the upcoming year within the current economic constraints to arrive at the FY21 Proposed Budget.

Since May 2020, staff has provided a series of status updates on the FY21 Budget development process to the Board. Meanwhile, an extensive public outreach process was launched to communicate the budget proposal and to collect public comments as the budget development was in progress. On September 1, 2020, copies of the FY21 Proposed Budget in its entirety were made available to the public at www.metro.net <<http://www.metro.net>>, and in printed copies through the Records Management Center (RMC) at RMC@metro.net <<mailto:RMC@metro.net>> and on the plaza level of the Gateway building. The public hearing is scheduled on September 16, 2020. As of August 16, 2020, advanced public notification of this hearing was issued through advertisements posted in over 11 news publications, in different languages.

DISCUSSION

The proposed FY21 budget is balanced at \$6.0 billion, a decrease of \$1.2 billion or 16.5%, from the \$7.2 billion FY20 budget. The \$1.2 billion reduction represents the slowdown experienced in the first quarter and the gradual build-up through the end of the year that parallels the projected economic recovery curve. This annual budget reflects the reductions in costs due to economic constraints caused by COVID-19 while aligning resources in a fiscally responsible manner to achieve the following Metro Vision 2028 goals:

- Provide high-quality mobility options that enable people to spend less time traveling.
- Deliver outstanding trip experiences for all users of the transportation system.
- Enhance communities and lives through mobility and access to opportunity.
- Transform Los Angeles County through regional collaboration and national leadership.
- Provide responsive, accountable, and trustworthy governance within the LA Metro organization.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

The Coronavirus Aid, Relief and Economic Security (CARES) Act delivered some financial relief from the effects of the COVID-19 pandemic. As the Regional Transportation Planning Entity (RTPE) for Los Angeles County, the Metro Board was responsible for allocating transit-related funding provided under the CARES Act to transit agencies in the County.

The highest priority was to address and mitigate reductions in sales tax revenue for FY20 and FY21 to ensure funding for transit operations throughout the County were maintained and supported at pre-COVID funding levels. While CARES funding provided this much needed relief funding for transit operations in the region and Metro operations, it did not cover all Metro losses in operations and

provided no funding for capital projects.

Service and NextGen

Metro remains an essential service provider to Los Angeles County's population by operating bus and rail services that are transporting people to jobs and connecting communities. On average, Metro will provide bus and rail revenue service hours at 81% of pre-COVID levels, while anticipating 55% of pre-COVID levels of ridership delivering a robust service network and more frequent rides for the essential workers in Los Angeles County. The service plan assumes a phased-in flexible approach to building up service levels as the County recovers from the COVID-19 pandemic along with implementation of NextGen and alternative service options such as MicroTransit. During this pandemic, Metro will further prioritize enhanced cleaning, sanitizing, and PPE availability.

The goals and objectives of the NextGen Study are to provide high quality mobility options to all Los Angeles County residents, reduce travel time, and improve customer commuting experience. From the extensive outreach conducted, the lessons learned will significantly improve the bus network. One of the objectives of NextGen is to speed up the service, so more miles can be run in less time. Further, NextGen will utilize Metro's resources to advance equity and economic opportunity for all County residents.

Working in tandem with NextGen service implementation to improve speed and reliability, NextGen will also include bus lane prioritization, All-Door boarding, speed and delay analysis, and other enhancements as detailed in the following table.

	Project Description (\$ in thousands)	FY21 Proposed	Life of Project
1	Service Enhancements		
2	Analysis and Outreach - Bus Priority Lanes	\$ 865	\$ 956
3	Implementation - Bus Priority Lanes	900	2,725
4	All Door Boarding Expansion	1,569	1,569
5	Bus Zone Optimization	2,400	8,250
6	Metro Rail Speed Analysis	766	1,000
7	Station Cleanliness & Evaluation	500	500
8	Service Enhancements Total	\$ 7,000	\$ 15,000
9	Other Improvements Benefiting NextGen Implementation		
10	Patsaouras Plaza Busway Station	\$ 3,000	\$ 49,000
11	Cesar Chavez/Vignes Bus Pavilion at Union Station	1,100	2,500
12	Willowbrook/Rosa Parks Station Bus Plaza	12,200	15,000
13	Airport Metro Connector Bus Plaza	75,000	75,000
14	G Line (Orange) BRT Improvements	20,400	361,000
15	North Hollywood to Pasadena BRT	5,700	267,000
16	North San Fernando Valley (NSFV) BRT	2,500	180,000
17	Vermont Avenue Transit Corridor	3,200	425,000
18	Other Improvements Total	\$ 123,100	\$ 1,374,500
19	Total NextGen Related Projects	\$ 130,100	\$ 1,389,500

Note: Totals may not add up because of rounding.

NextGen projects include bus priority lanes on two NextGen Tier 1 corridors which are to be prioritized through a technical analysis and outreach process performed by Metro and LADOT, All-Door Boarding for two NextGen Tier 1 lines, speed and delay analysis of the A (Blue) Line and E (Expo) Line, LADOT technical support, stakeholder outreach on all speed and reliability projects, and expansion of the Station Cleanliness and Evaluation Program. NextGen direct and related

investments include \$7.0 million for bus and rail service improvements, \$16.3 million for Station and Bus Plaza expansion, and \$106.8 million for enhancement of service in Bus Rapid Transit and other transit corridors for a total of \$130.1 million in FY21.

The planned service levels of revenue service hours and miles for FY21 are based on on-street reality, reflecting various operating factors such as projected ridership, available staff, increased traveling speeds due to less congestion, in addition to prudent financial management.

	Base Enhanced Sunday Service	Phase 1 Orders Begi to Lift	Phase 2 Schools Back, Start of NextGen	Phase 3 FY21 Post- COVID	Phase 4 * FY22 Building Back Service	Phase 5 * FY23 Full Service Recovery
Revenue Service Hours (in millions)	FY20 April 2020	FY21 end o June 2020	FY21 Dec 2020	FY21 Jan - June 2021	FY22	FY23
Bus	5.0	5.6	5.6	5.6	5.6 - 6.5	5.6 - 7.1
Rail	1.0	1.0	1.0	1.0	1.1	1.1
Bus and Rail Total	6.0	6.6	6.6	6.6	6.7 - 7.6	6.7 - 8.2

* Does not include Crenshaw or Regional Connector revenue service increases and adjustments

While service hours are a necessary cost driver to estimate budget expenses, it is not the only measurement to determine the level or quality of service. Factors such as service miles, geographic coverage, frequency of service, travel time, on-time performance, safety, cleanliness, and other such factors are important to improve customer experience and increase ridership. In addition, to enhance our customer experience, Operations constantly monitors and adjusts the service based on ridership and overcrowding.

As a result of scheduled investments in phased COVID-19 recovery and the anticipated NextGen speed improvements, to operate the system’s 75 million miles of service pre-COVID-19 level now requires a total of 6.6 million revenue service hours instead of the previous 7.1 million revenue service hours. This represents an efficiency improvement of 7%. Finally, as the local and regional economy recovers, service increases will be implemented in phases allowing the system to dynamically consider the principles of NextGen and factors such as revenue, the cost of operating the service, ridership, staff availability, vehicles, other operating resources as well as performance indicators.

Budget Summary

Progress will continue in FY21 on all Measure M and R projects towards environmental clearance and shovel readiness which includes the building of new highways and transportation infrastructure as well as planning and providing funding for regional transportation activities. Although Metro’s transit infrastructure program has been significantly impacted by COVID-19, the budget carefully balances the resources available with project schedules to ensure on-time project delivery. In addition, projects in planning phases have been reviewed to ensure that they advance towards shovel ready stages.

By providing optimal transit service to meet ridership demand, progressing projects, in addition to prudent management of resources to remain financially sustainable, Metro continues to reimagine the future of Los Angeles County and its transportation network in delivering equity, sustainability, prosperity, and better quality of life for all County residents.

Resources Summary

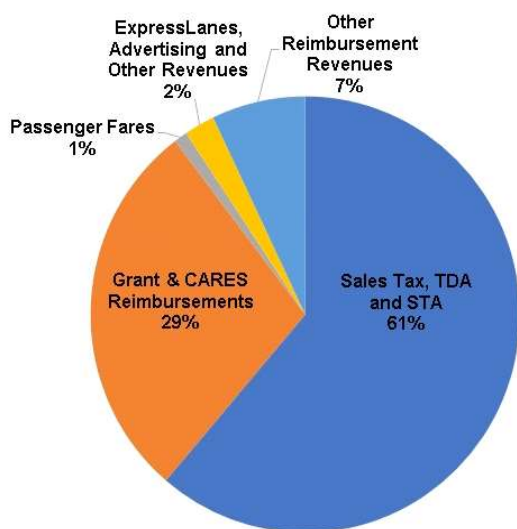
The FY21 Proposed Budget ensures resources are available to meet the planned Metro program and project delivery schedules for the upcoming fiscal year. Revenue projections are based on the current economic conditions such as the economic impact of the COVID-19 pandemic, historical sales tax growth cycles, leading regional forecasting sources, and recent transit system usage.

The total FY21 Proposed Budget planned resources are \$6,017.3 million which is 16.5% less than the FY20 Budget.

	FY20 Budget ⁽¹⁾	FY21 Proposed	\$ Change	% Change
Resources (\$ in millions)				
1 Sales Tax, TDA and STA	\$ 4,174.4	\$ 3,685.0	\$ (489.4)	\$ (0.1)
2 Grant & CARES Reimbursements	1,107.6	1,708.5	601.0	0.5
3 Passenger Fares	284.5	60.3	(224.2)	(0.8)
4 ExpressLanes, Advertising and Other Revenues	155.1	138.6	(16.5)	(0.1)
5 Other Reimbursement Revenues ⁽¹⁾	1,487.2	424.9	(1,062.3)	(0.7)
Total Resources	\$ 7,208.8	\$ 6,017.3	\$ (1,191.5)	-16.5%

⁽¹⁾ Include Bond Proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown and prior year commitment.

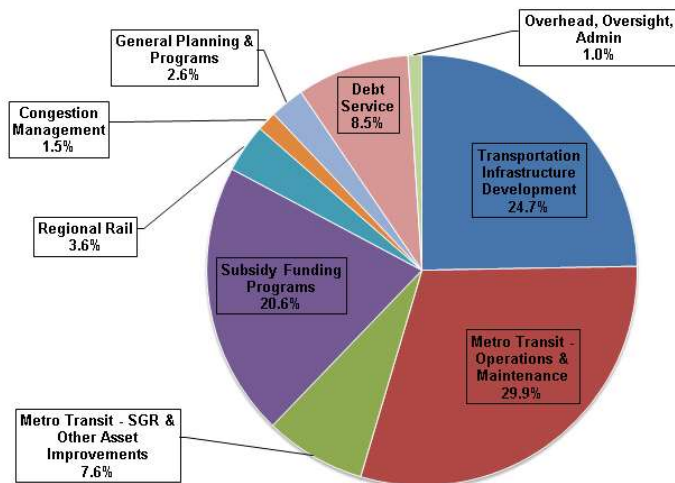
Resources % of FY21 Budget



Expenditure Summary

Each program, function, and department adjusted their budgets accordingly to reflect the new economic realities and progress on projects which resulted in a total budget decrease of \$1,191.5 million, or a 16.5% decrease from the FY20 Budget of \$7.2 billion.

Program Type (\$ in millions)	FY20 Budget	FY21 Proposed	FY20 - FY21 \$ Change	FY20 - FY21 % Change
1 Transportation Infrastructure Development	\$ 2,382.4	\$ 1,486.5	\$ (895.9)	-37.6%
2 Metro Transit - Operations & Maintenance	1,839.1	1,798.6	(40.4)	-2.2%
3 Metro Transit - SGR & Other Asset Improvements	493.5	457.0	(36.5)	-7.4%
4 Subsidy Funding Programs	1,404.7	1,239.2	(165.5)	-11.8%
5 Regional Rail	178.2	219.5	41.3	23.2%
6 Congestion Management	135.9	89.6	(46.3)	-34.0%
7 General Planning & Programs	168.9	155.1	(13.8)	-8.2%
8 Debt Service	534.9	509.2	(25.8)	-4.8%
9 Oversight and Administration	71.2	62.6	(8.6)	-12.1%
10 Total Expenditures	\$ 7,208.8	\$ 6,017.3	\$ (1,191.5)	-16.5%



Full-Time Equivalent (FTE) Summary

FY21 Proposed FTEs remained at authorized FY20 Budget levels, with a total of 10,219 FTEs, (8,482 agencywide represented and 1,737 agencywide non-represented). Payroll and employment are reimbursable costs through the CARES Act and possible future stimulus funding. The Agency looks to preserve jobs in the County by retaining Metro employees while controlling cost through vacancy savings and reducing overtime usage whenever applicable.

Agency FTEs	FY20 Budget	FY21 Proposed
AFSCME	821	821
ATU	2,444	2,444
TCU	915	915
TEAMS	175	175
UTU	4,127	4,127
Non-Contracts	1,737	1,737
Total FTEs	10,219	10,219
Total Agencywide Represented	8,482	8,482
Total Agencywide Non-Represented	1,737	1,737
Grand Total	10,219	10,219

Labor Summary

The proposed budget includes up to a 4.5% salary increase for Represented employees, in line with the pre-negotiated Collective Bargaining Agreements with the Represented Union groups. The labor cost increases reflect the rising wage inflation and living wage standards. Health/welfare benefits for represented employees are based on Collective Bargaining Agreements.

Metro will continue to freeze Non-Represented employee merit increases through the second quarter of FY21. Metro will monitor closely the financial situation and fiscal recovery. CEO may revisit Non-Represented employee merit increase in the second half of the fiscal year. Non-Represented medical/dental benefits reflect the carrier contract rates previously approved by the Board.

Areas of Risks

- This budget assumes a gradual recovery beginning in September, with a full recovery anticipated in June 2021.
- Further declines in sales tax revenues from the current estimate as a result of extended Stay at Home orders due to the ongoing COVID-19 pandemic.
- Costs that rise faster than the inflation factor built into the budget for goods/services used to deliver Metro’s projects and services.
- Uncertainty regarding if/when business activities will return to pre-COVID levels.
- Uncertainty regarding public willingness to return to public transit post-COVID.
- Changes in Metro’s share of federal and state funding that is dependent on legislative or other actions.
- Unplanned/unfunded projects added post Budget adoption.
- State of Good Repair capital projects encountering unplanned acceleration or changes in scope.
- Life of Project (LOP) construction budget adoptions outpace Measures R and M Ordinance

cost estimates.

- Greater than planned Compressed Natural Gas (CNG) cost per therm based on changing natural gas reserves, triggering implementation of CNG hedging agreements.

Life of Project (LOP) Budgets

Capital projects with LOP budget increases greater than \$1.0 million, and any new projects with LOP budgets in excess of \$5.0 million must be approved by the Board as separate Board actions.

Attachment A includes a detailed listing of new capital projects for FY21 with LOP in excess of \$5.0 million. These projects are included in the FY21 Proposed Budget.

Reimbursement Resolution

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

Public Outreach

As we navigate through staying connected with riders and the public about Metro's budget process during the current COVID-19 outbreak, the safety of our riders is of paramount concern. The mobility needs of the County are vast, and unique for each individual resident, therefore building trust by engaging often and consistently creating both an online and offline pathways to have a voice is essential. We have made major efforts to engage Los Angeles County residents remotely, while following all social/physical distancing protocols to ensure the safety of riders, the public, and stakeholders. We've been able to accomplish this by holding all meetings virtually, via live stream, use of online engagement tools such as, the Budget questionnaire at metro.net/myvoice, developing a social media campaign via Metro's Facebook page, Instagram, NextDoor, Twitter, TheSource and implementation of print marketing efforts to drive the public, stakeholders and our riders to attend the virtual meetings, provide their feedback and make comments to the budgetcomments@metro.net [<mailto:budgetcomments@metro.net>](mailto:budgetcomments@metro.net).

The comprehensive outreach for the FY21 Budget started in March 2020 and as mentioned above, included many opportunities to provide feedback using various methods online, email and virtual meetings. The virtual meetings included a dedicated Special Budget Briefing for all Regional Service Councils and a Budget Public Hearing to review the FY21 Proposed Budget. As of August 16, 2020, advanced public notifications of the Budget Public Hearing were issued through advertisements posted in more than 11 news publications and in different languages. The public was provided the opportunity to submit comments using an online comment feature allowing them to provide live public comments by phone, in English and Spanish. Staff also provided FY21 Budget Briefings at other online meetings for stakeholders such as Citizens Advisory Council, Technical Advisory Committee, Policy Advisory Committee, Bus Operations Subcommittee, Local Transit Systems Subcommittee, Streets, Freeways Committee as well as the Gateway Cities and San Gabriel Valley Councils of

Governments.

The outreach efforts have proven to be successful, even during this pandemic, as we continue to receive valuable input from riders, our stakeholders, and the public who helps shape the Metro programs, initiatives, and the budget. A summary of the public outreach efforts, comments received as well as results from the interactive questionnaire are shown in Attachment C.

FINANCIAL IMPACT

The FY21 Proposed Budget (provided in a separate submittal) at \$6.0 billion is balanced 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 essential in receiving 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 FY21 Proposed Budget, Metro will make funds available for the planned transit and transportation programs outlined in this document and program funding to regional transit/transportation partnering agencies, cities and recipients.

Staff will closely monitor the financial situation and will request Board approval of Mid-year Budget amendments, if needed. In addition, as part of the performance management process, Metro will monitor progress throughout the year relative to the Agency goals using measurements such as budget variances, 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. In addition, continuous improvements will be implemented to the process and regular updates will be reported to the Board.

ATTACHMENTS

Proposed FY21 Budget document can be accessed at <https://media.metro.net/2020/FY21-Proposed-Budget-Book.pdf>

Attachment A - FY21 New Capital Projects

Attachment B - Reimbursement Resolution of Metro for FY21

Attachment C - FY21 Public Outreach

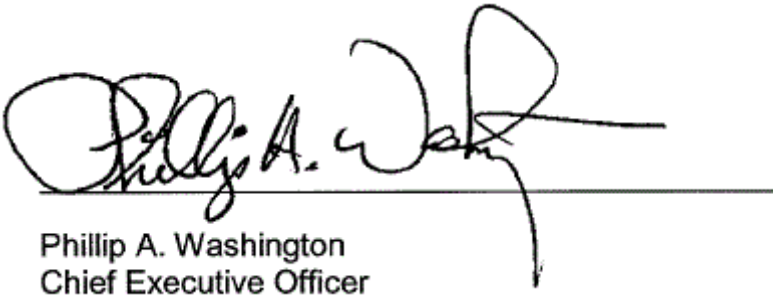
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