

**Board Report**

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**FINANCE, BUDGET, AND AUDIT COMMITTEE
APRIL 14, 2021****SUBJECT: FISCAL YEAR 2022 BUDGET DEVELOPMENT UPDATE - METRO TRANSIT PROGRAM****ACTION: RECEIVE AND FILE****RECOMMENDATION**

RECEIVE AND FILE Fiscal Year 2022 Budget Development Update - Metro Transit Program.

ISSUE

This report is the third in a series of budget development updates leading to the Fiscal Year 2022 (FY22) Budget adoption for Board consideration in May 2021. This update highlights the Metro Transit program, consisting of operating and maintenance of Metro bus and rail services, projects to keep Metro transit systems in a state of good repair, as well as the latest update of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). As the economy recovers from the impacts of COVID-19, we will continue to monitor and make adjustments as needed during FY22 Midyear Budget assessment.

DISCUSSION

As the economy and Metro financials gradually recover from the last two fiscal years of COVID-19 impact, Metro's budget outlook for FY22 is slightly more optimistic than the previous fiscal year. However, it does not fully address all the long-term costs associated with service recovery, new operational initiatives, customer experience pilots, and a new security model. Together with the accelerated roll out of COVID-19 vaccinations in Los Angeles County, continued federal stimulus of Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and resulting economic inflection point anticipated in the third quarter of FY22, the Metro Transit program is gearing up to operate pre-COVID-19 bus and rail service levels. In February 2021, Board Motion 27.1 provided staff a clear timeline to restore bus service to 7 million annualized pre-COVID-19 revenue service hour (RSH) level by September 2021. The FY22 Budget proposes concrete plans to deliver the service level according to the Board motion.

In addition, the Metro Transit program is poised to begin operation of both the Crenshaw/LAX and

Regional Connector rail lines, which will completely change the inter-/intra- city rail transportation landscape in Los Angeles County, and at the same time posing significant operation service changes for Metro. The FY22 Budget includes capitalizable pre-revenue service hours for testing the transition to seamlessly integrate these two rail lines. Once the operations are safely and successfully integrated, the pre-revenue service hours can be transferred to passenger carrying revenue services in the upcoming fiscal year.

In the past few months, the Metro Board, the public and Metro customers are expecting fundamental changes in safety, security, and customer experience in the public transportation system and Metro services. In June 2020, the Board approved Motions 37.0 and 37.1 to form a Public Safety Advisory Committee (PSAC) to develop a community-based approach to public safety on the transit system. In March 2021, the Board approved Motion 26.2, committing significant Metro resources to re-define post-pandemic public safety and community-based approaches to policing and addressing unhoused issues on Metro transit services. The FY22 Proposed Budget includes several initiatives and considerations to improve customer experience, system safety and security, as well as evaluating budget resource allocation through an equity lens.

Finally, Los Angeles County representatives made up of the Metro Board of Directors, elected officials, transit operators and staff were successful in keeping the Round 2 CRRSAA funding of \$127 million for Los Angeles County. Metro's share is estimated at \$95 million and will be incorporated during the FY22 Midyear budget process, as the Board considers customer experience initiatives, PSAC recommendations, additional transit system integration needs and other initiatives. This month, the Board will consider approval of the CRRSA Round 2 allocations. As we continue to monitor the financial situation, the post-pandemic sales tax projections, and fare revenues, we will be able to better articulate the resources available to support the Board's policy decisions during the FY22 Midyear discussion.

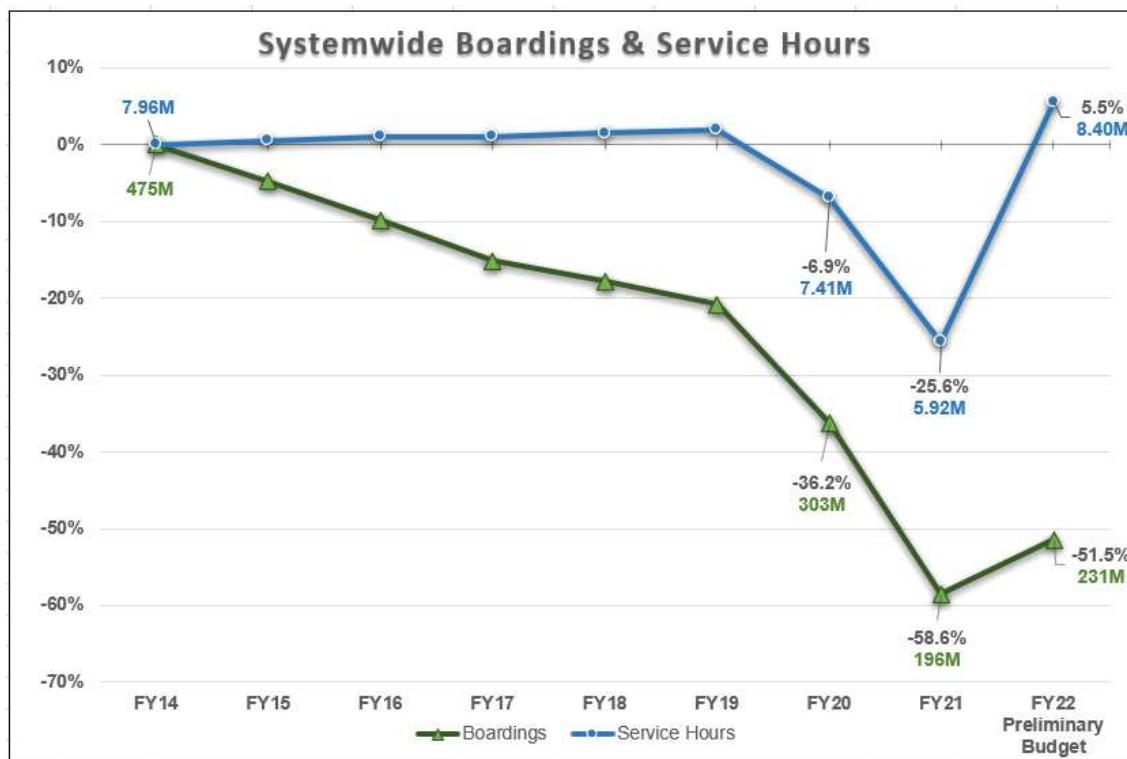
Metro Transit

Bus and Rail Service Plan

In the FY22 Operation plan, bus and rail service will be restored back to pre-COVID-19 levels by September 2021, per Motion 27.1 adopted in February 2021. To provide this service, bus and rail operator availability is one of the most critical challenges. COVID-19 has had significant impacts this past year, resulting in much higher incidences of missed operator assignments. COVID-19 mandatory quarantines, caregiving, and childcare accounted for an additional 17% of bus operator absences above and beyond the typical rate of sick leave and vacation. In preparation for returning to pre-COVID-19 service levels, Metro has resumed and accelerated operator hiring. Adding service without sufficient operator availability not only creates possible cancelled services, which upsets Metro riders, but also leads to overworked operators and increased overtime.

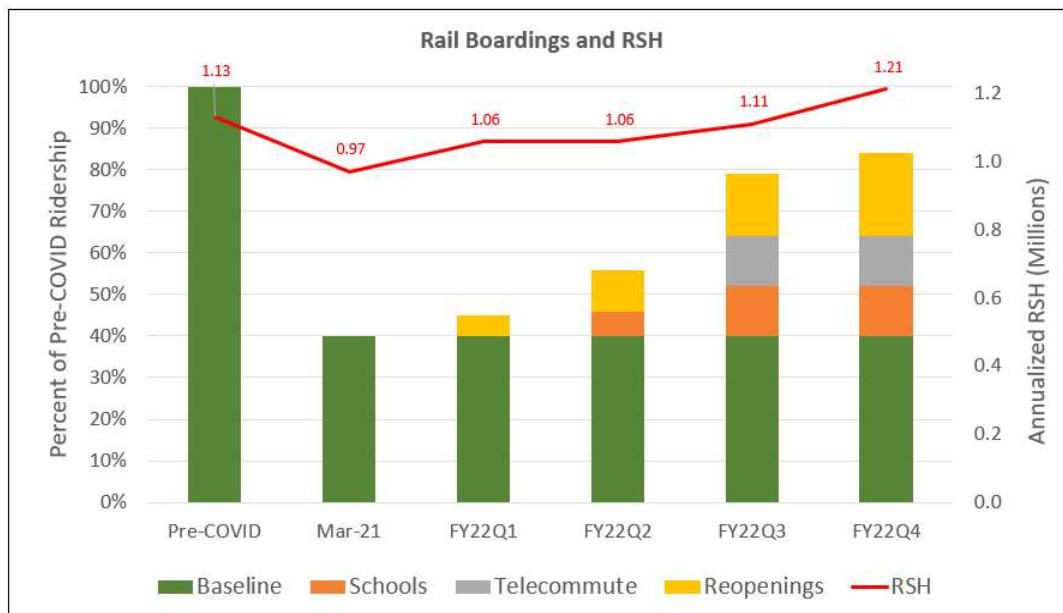
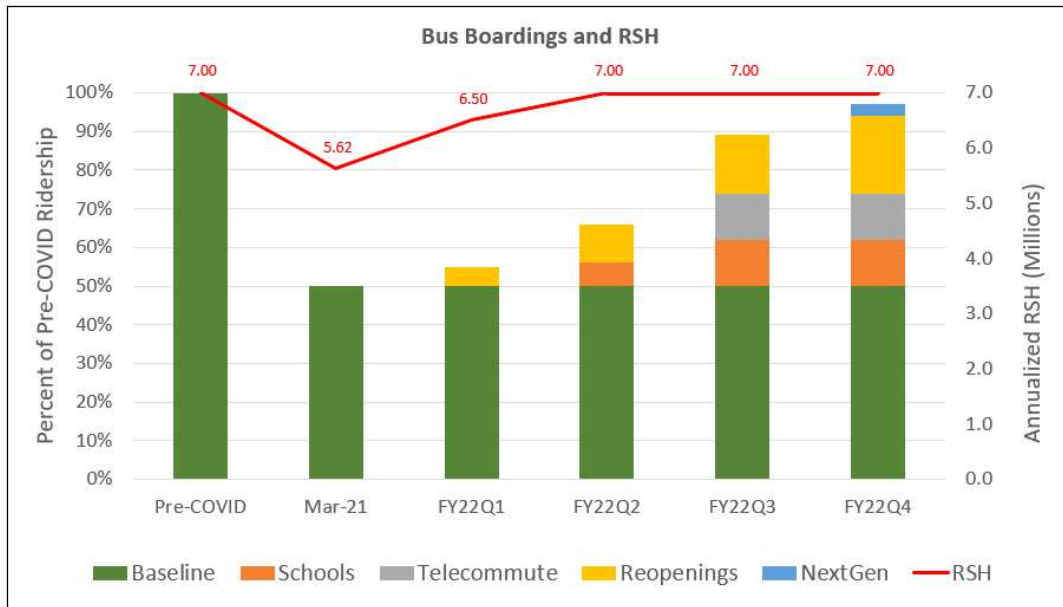
While Metro increases the pace of operator hiring, the FY22 Proposed Budget service plan reflects a restoration of service that outpaces ridership projections, and will continue to address remaining physical distancing needs, overcrowding and service reliability issues. Operations continuously monitors the crowding issue and makes ad-hoc adjustments in service frequency to address these observations.

The chart below demonstrates that the operational service hours recovery plan including bus, rail and Microtransit is still ahead of passenger load increases by comparing systemwide RSH and boarding projections. Restoring bus service back to 7 million RSH will prevent rider overcrowding on high capacity lines, provide more transit options and more frequent service.



The FY22 service plan does more than just restore service levels, the plan makes service improvements designed to support ridership recovery. The NextGen bus improvement plan invests in improving the boarding and riding experience, for full implementation in FY22. NextGen will significantly change the current network reallocating underutilized services to high ridership lines. In addition, as part of the NextGen plan, the Microtransit program is expanding to include nine zones of service to address customers' desire for trip-making options in the lower density areas of the region

suites to the Micro Transit model of operation. Bus and Rail boardings will phase-in over time to get us back to pre-COVID-19 service levels. A quarterly breakout showing Percent of pre-COVID-19 Ridership and Annualized RSH for FY22 separated by Bus and Rail is shown in the charts below:



Rail Pre-Revenue Service

Included in the FY22 proposed service plan are capitalizable pre-revenue service hours for the new Metro Rail extensions: Crenshaw/LAX and Regional Connector. This supports an effort to bring multiple Rail lines into revenue service at the same time. Regional Connector will provide a one-seat ride for traveling across Los Angeles County. Passengers will be able to travel between Azusa and Long Beach (A Line), and between East Los Angeles and Santa Monica (E Line), without transferring. The Crenshaw/LAX line will extend transit service from the existing Expo Line (E Line) to, and merging with, the Green Line (C Line). Once in operation, these two new rail extensions will significantly improve the connectivity of the region's transportation network and riders will have easier connections within the Metro Rail system.

Metro Transit Expenses

Metro Transit Programs (\$ in Millions)		FY21 Budget	FY22 Prelim	\$ Change	% Change	% of Total
Metro Transit - Operations	Bus	\$1,283.9	\$1,375.0	\$ 91.1	7.1%	56.4%
	Rail	533.1	572.9	39.8	7.5%	23.5%
	Microtransit	27.1	39.6	12.5	46.1%	1.6%
Metro Transit - Operations Total		\$1,844.1	\$1,987.5	\$ 143.4	7.8%	81.5%
Metro Transit - SGR		521.4	452.3	(69.1)	-13.3%	18.5%
Total Metro Transit		\$2,365.5	\$2,439.8	\$ 74.3	3.1%	100.0%
Capitalized System Integration						
Pre-Revenue Crenshaw		26.9	34.5	7.6	28.3%	
Pre-Revenue Regional Connector		-	26.1	26.1		
Total Capitalized System Integration		\$ 26.9	\$ 60.6	\$ 33.7	125.3%	
Total Metro Transit and Pre-Revenue		\$2,392.4	\$2,500.4	\$ 108.0	4.5%	

*Totals may not add due to rounding

The FY22 preliminary budget for the Metro Transit program, including Operations & Maintenance (O&M) and State of Good Repair (SGR), is \$2.4 billion, an increase of 3.1% over FY21. Expenditures are based on operating-eligible funding for both O&M and SGR. Service restoration is the priority for FY22 budget planning. The Operating budget totals \$1.987 billion, which includes allowances for additional labor and overtime to support running 8.26 million revenue service hours to operate Bus, Microtransit, and Rail services. An additional \$33.7 million is needed for the pre-revenue service expenses for Crenshaw and Regional Connector.

State of Good Repair (SGR)

The SGR program proposes asset replacement and improvement projects based on the Chief

Executive Officer's prioritization criteria:

1. Project interdependency/safety and reliability
2. Grant funding
3. Equity
4. Project readiness & financial risk

The objective is to maintain existing transit infrastructure at a high level of safety, quality, and reliable operability. In addition to the prioritization criteria, each SGR project proposal was reviewed based on industry standards, age-based condition assessments, and asset modernization needs due to obsolescence or technology advancement. The Chief Executive Officer has directed staff to standardize the evaluation consideration under the context of operational need to produce an SGR financial policy document / statement during FY22.

In FY22, \$452 million is allocated to maintain Metro's Bus, Rail, regional, and critical information systems. The FY22 budget reflects planned project activities and the cash flow required to complete FY22 milestones and deliverables. See Attachment A for detailed Bus/Rail Operating costs and State of Good Repair costs.

Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act) Update for Metro Transit Program supplemental revenue to augment bus and rail eligible funds

The Metro Transit program is primarily funded with local sales taxes and the pandemic had a significant impact to the Metro transit program. In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed providing essential funding to maintain transit service and lost revenues. Following the intent of the CARES Act, Metro utilized these funds to maintain transit service and preserve jobs (see Attachment B). Federal stimulus funding continues to be critical in mitigating these financial challenges.

In December 2020, additional federal relief was provided through the CRRSA Act, supplementing the CARES funding which is needed to maintain and restore bus service in FY22. Following the intent of the CRRSA Act, Metro will use these funds for bus and rail operating expenses. In March 2021, the Metro Board approved CRRSA Act "Round 1" allocations and this month CRRSA Act "Round 2" will be brought to the Metro Board for approval, adding an additional \$127 million for Los Angeles County transit operators.

Public Outreach Update

As we move into further development of the budget, we have planned an extensive schedule of outreach events with our key stakeholder groups, customers, and the public. Metro will ensure it is providing access to meeting participants by moving forward with engagement and education of the FY22 Budget in a transparent and equitable manner. We will continue to solicit input via public workshops, budget briefings, key stakeholder meetings, the legally required Public Hearing and Board Meetings and receiving comments by email, regular mail, and the budget questionnaire.

Participants will have the opportunity to comment using an online comment feature allowing them to provide live public comments by phone, in English and Spanish. Additionally, upon request, sign language interpretation, materials in alternative formats and other accommodations are available to the public. Keeping in line with Metro policy on social distancing, meetings will be held on video conference platforms, thus continuing to fulfill all public involvement and participation requirements during COVID-19 pandemic. Please note that all meetings are subject to change and we will continue to accept request for Budget Briefings until adoption of the FY22 Budget at the May 27, 2021 Board meeting.

Furthermore, with the recent Customer Experience Survey, feedback and results are being used to prioritize customer experience investments as well as to track trends and develop methods that will gauge success over time. These results will be used to work with the departments to help identify what is included in the budget.

DETERMINATION OF SAFETY IMPACT

This recommendation will not have an impact on safety standards at Metro.

FINANCIAL IMPACT

The assumptions described above are the budget planning parameters and will guide the development of the FY22 Budget. Budgets and assumptions may be adjusted as more specific and updated information becomes available.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal:

Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

ALTERNATIVES CONSIDERED

The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

NEXT STEPS

Metro staff will review and finalize the FY22 Budget proposal by May 2021 for Board consideration of adoption and in time for public hearing on May 19th. Staff will also continue conducting outreach to stakeholder groups for in-depth and technical discussions of Transit Services and Transportation Programs included in the FY22 Proposed Budget. The planned SGR projects and Bus/Rail service budgets are preliminary and are subject to change as the budget development process concludes.

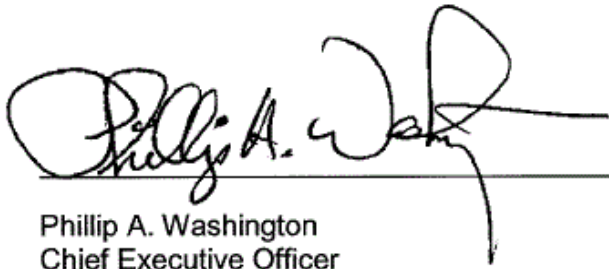
ATTACHMENTS

Attachment A - Metro Transit: Operations & Maintenance and State of Good Repair

Attachment B - Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding

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