



Board Report

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**FINANCE, BUDGET, AND AUDIT COMMITTEE
APRIL 20, 2022
OPERATIONS, SAFETY, AND CUSTOMER EXPERIENCE COMMITTEE
APRIL 21, 2022**

**SUBJECT: FISCAL YEAR 2023 BUDGET DEVELOPMENT STATUS UPDATE
ACTION: RECEIVE AND FILE**

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2023 (FY23) Budget Development Status Update.

ISSUE

This is the third in a series of monthly updates to the Board on the FY23 Budget development process, culminating in a planned May 2022 Board Adoption.

BACKGROUND

This update highlights the following:

- A. Equitable Zero-Based Budgeting (EZBB) Cost Control
- B. People First: Quality Investments
- C. Metro Transit Program (Service Plan, Boardings, Fare, and Budget)
- D. Budget for Congestion Management, General Planning & Programming and Oversight & Admin Programs
- E. Early, Improved & Expanded Public Engagement Update

DISCUSSION

A. Equitable Zero-Based Budgeting (EZBB) Cost Control

As Los Angeles County emerges from the COVID-19 pandemic and Metro Operations gears up to welcome back riders, we are preparing to open two new rail services as well as restoring bus service back to pre-pandemic levels. Funding for FY23 Metro Transit Operation program preliminary budget relies heavily on the last of one-time Federal Stimulus Funds, American Rescue Plan Act (ARPA).

Recent inflationary cost trends impact on Metro’s expense continues to grow as Metro starts to operate new rail lines, addresses labor shortage, and absorbs supply chain logistic issues in operations. Additionally, new and improved initiatives implemented during the pandemic such as

cleaning, public safety outreach, Metro Micro, expanded Low Income Fare is Easy (LIFE) enrollment, and Fareless System Initiative (FSI) programs will continue and add more operating cost. The disparity between the loss of ARPA funding and the slower growth pace of local sales tax and fare revenues results in a projected affordability gap starting in FY24 and widening in FY25.

Metro is weighing and developing mitigation strategies to address this near-term affordability gap which led Metro to embark upon the Equitable Zero-Based Budget (EZBB) process for FY23. The goal of EZBB is to ensure tight cost control by identifying and addressing the root causes of cost growth and prioritizing projects and programs with a clear focus on equity and customer experience. The EZBB process will be continued in future years to support our cost mitigation efforts and to achieve a sustainable financial future for Metro. For further information on this, please refer to Attachment A.

The EZBB process in FY23 serves as the overall cost control management tool. It started with the creation of Task Forces to evaluate and address key near-term findings. The Task Forces are comprised of multi-departmental leadership level staff to evaluate the following:

- Bus and Rail Cost - Review cost allocation approach; breaking down controllable direct and indirect cost items. Explore Bus and Rail cost reduction opportunities at itemized detailed levels and proposing updated plans.
- Optimal Service Design - More than focusing on quantity of service, explore solution to provide optimal service to improve speed and reliability, adding more miles to each hour of revenue service. Advancing the quality of customer experience.
- Capital Cost Mitigation - Consider phased life cycle capital development costs from planning to pre-revenue and operation. Research best practice for capturing Pre-Revenue cost. Propose soft cost control policy, evaluate Metro staff vs. consultant staffing models, review design criteria, and assess alternative delivery methodology. Produce fiscally responsible and transparent reporting.

We will continue to pursue additional grant and funding opportunities. With each step of task force evaluation, Staff will inform the Board of schedule and affordability impacts while discussing tradeoffs and mitigation strategies.

B. People First: Quality Investments

Our goals are focused on putting People First: our riders, our partners, and our employees. For Transit Operations, People first means providing high quality, frequent and reliable service to our riders. This budget incorporates the many initiatives underway to improve the quality of service under the umbrella of Customer Experience.

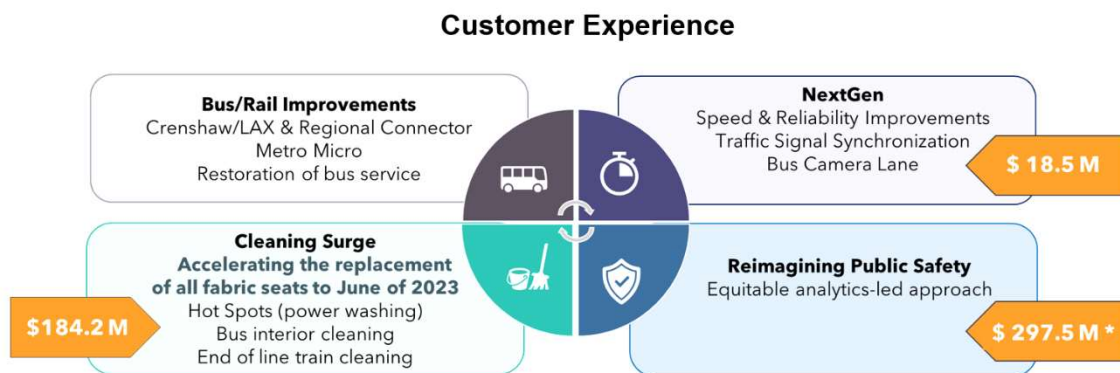
Figure 1:



The FY23 Preliminary Budget puts equity at the core of the decision making, guiding our development with the goal of improving access. The restoration of bus service and the openings of Crenshaw/LAX (K Line) and Regional Connector significantly improves access, connectivity and increases mobility options to our equity-focused communities, including one seat service across the county that minimizes transfers and reduces the time impacts on riders. These new mobility options will help reduce barriers, provide more access to opportunities, resulting in an increase in ridership.

The Customer Experience Plan (CX Plan) is comprised of programs that involve every Metro department and programs including Reimagining Public Safety, NextGen improvements to increase the efficiency and reliability of bus and rail transit, Enhanced Cleanliness programs, our LIFE program for low-income riders, and FSI student support program - our investment in the riders of the future. One major initiative being accelerated in FY23, a direct result from public feedback, is the replacement of all fabric seats throughout our system by June 2023, three years earlier than currently planned. Figure 2 below illustrates the Customer Experience umbrella.

Figure 2:



See Attachment B for details on the initiatives underway.

C. Metro Transit Program (Service Plan, Boardings, Fare, and Budget)

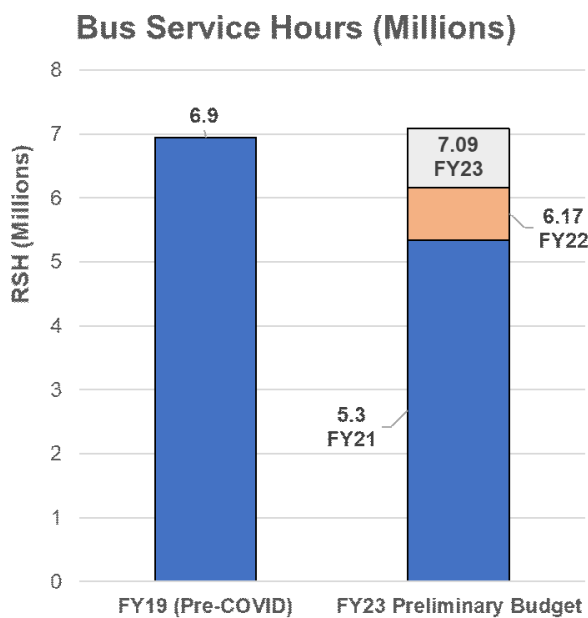
Service Plan

An essential element to the rider experience is the level of service and this budget is both restoring bus service and is adding rail service. The total bus and rail service includes 8.43 million RSHs (excluding Metro Micro RSH) which is 3.8% increase from pre-pandemic levels and a 4.5% increase over FY22 budget.

Bus

As shown in figure 3, Bus service is restored back to pre-COVID-19 level of seven million Revenue Service Hours (RSH) in FY23, a 2.1% increase from FY22 budget.

Figure 3:



Note : This chart excludes Metro Micro revenue service hours.

Rail

Metro’s Rail mobility options are expanding with the opening of two new lines: K Line (Crenshaw/LAX) Phase I and Regional Connector. Both are planned to open during the first half of FY23. As shown in figure 4 below, opening of the two new rail extensions, will increase the service to 1.34 million RSHs, a 19.4% increase over FY22 budget.

- The Crenshaw/LAX Line will extend transit service from the existing E Line (Expo Line) to, and merging with, the C Line (Green Line).
- Regional Connector will provide convenience to those already taking existing A, E, and L rail Lines (Blue, Expo, Gold). Riders will save travel time by eliminating transfers in downtown today

with a one-seat ride for traveling across Los Angeles County. See figure 5 for additional track miles, stations, service hours, and updated headways with opening of Crenshaw/LAX Line (K Line) phase I and Regional Connector.

Figure 4:

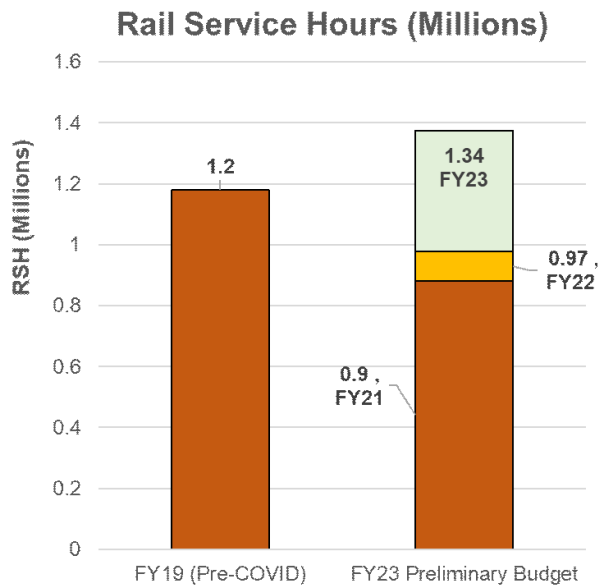


Figure 5:

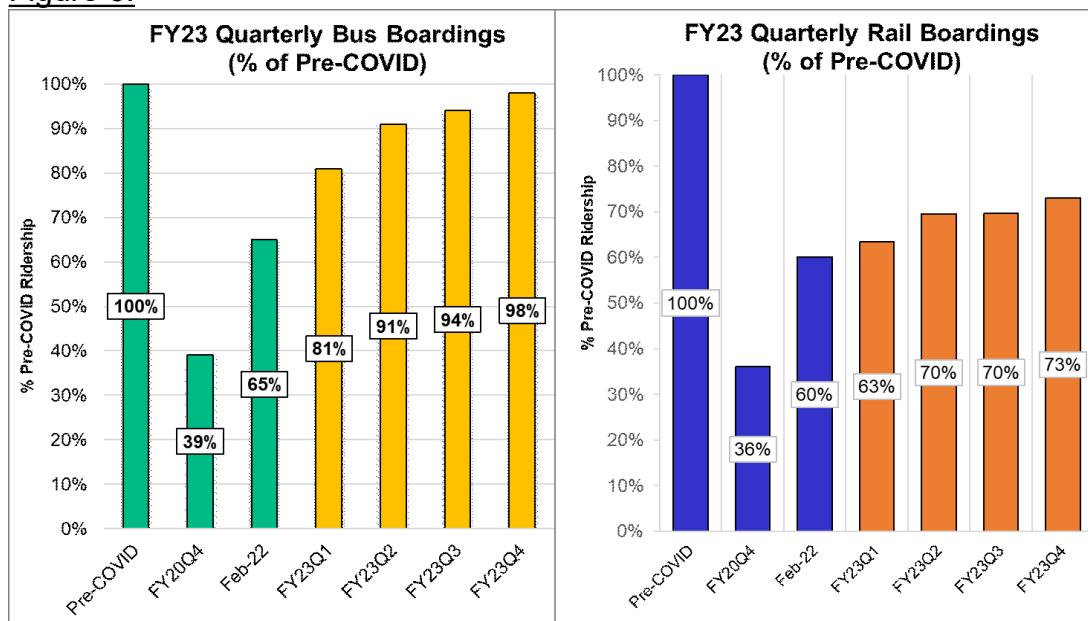
Existing Rail System	Crenshaw/LAX (K Line) Phase 1	Regional Connector
102.7 track miles	8.5 track miles	1.9 track miles
98 stations	8 new stations (7 opening in FY23)	3 new stations
1,113,807 (RSH)	58,022 (Pre-Revenue & RSH)	202,389 (pre-revenue & RSH)
8-minute headways (FY23 Q1-Q2) 6-minute headways (FY23 Q3-Q4) (Subject to ridership demand and operator availability)		

Boardings

With the service improvements in restoring bus service level, adding new and connected rail services, and People First quality enhancements, ridership is estimated to increase by 25% from FY22 Year end estimate for a total of 326.6 million boardings. Phase 1 of the FSI student support program so far has attracted about 20% more student boardings. By the fourth quarter of FY23, bus ridership is expected to be at 98% of pre-pandemic level and rail ridership with slower recovery is expected to be at 73% of pre-pandemic ridership level. In addition, the one seat ride connected by

Regional Connector will attract new riders, but will reduce unlinked passenger boarding counts by eliminating the need to transfer. See figure 6 below for projected FY23 Quarterly Bus and Rail Boardings as a percentage comparison to pre-pandemic ridership level.

Figure 6:



Fare Revenue

To minimize risks for both transit operators and transit riders at the onset of the pandemic in March 2020, Metro implemented rear-door boarding on all buses and fare enforcement was suspended. In May 2020, Board Motion 36 (“Emergency Relief: Full-Price Passes”) was adopted, requiring Metro to offer full fare riders a 50% discount on transit passes once regular boarding practice resumes. In addition, in September 2021, Board Motion 40 (“Amendment to the Fareless System Initiative”) was adopted, directing Metro to double enrollment in the LIFE program and to offer an incentive of free 90-day transit passes for eligible new sign-ups.

Overall, Metro’s non-enforcement approach to fare collection stayed in place for nearly two years. When fare collection resumed on January 10th this year, the two Board Motions were simultaneously implemented. As we continue to monitor and analyze shifts in boardings and fares over the first several months of fare collection, staff will report back on the impacts of Board Motion 36 and Board Motion 40 in June 2022.

Throughout the pandemic, one-time Federal relief funding (CARES, CRRSA, ARPA) continues to supplant estimated fare revenue losses of up to \$689 million through FY23, with the remaining relief funding used for direct transit operations that also helped to ensure no Metro employees were laid off. Based on the most current information available on actual fare collection since January 10th, the FY23 Preliminary Budget will assume \$106 million for passenger fare revenues. While this is significantly more than the \$20 million collected in FY21 at the height of the pandemic, it is still almost \$150 million less than pre-pandemic fare revenues of \$260 million annually, with the funding gap

covered by ARPA in FY23. See figure 7 below on estimated fare revenues and variance.

Figure 7:

Fiscal Year	Expected Fare Revenues*	Actual/Estimated Fare Revenues	Variance	Federal Stimulus Backfill for Loss
FY19	\$302M	\$260M	(\$42M)	
FY20	\$285M	\$181M	(\$104M)	CARES
FY21	\$270M	\$20M	(\$250M)	CARES
FY22	\$257M	\$60M	(\$197M)	CRRSA
FY23	\$244M	\$106M-166M **	(\$78M-\$138M)	ARPA
Total Backfill from Stimulus			(\$629M - \$689M)	

Metro Transit Program Budget

As shown in figure 8 below, the FY23 preliminary budget estimate for Metro Transit Program is \$2.2 billion, an increase of 6.4% or \$131.7 million over FY22 budget and includes funds to support delivery of 8.7 million RSHs to operate Bus, Rail and Metro Micro services.

- Bus expenses are anticipated to increase by \$61.5 million or 5.0% from FY22 budget. This increase will support improved service levels with enhanced quality and service reliability.
- With the addition of the new rail lines, rail budget expenses are anticipated to increase by \$118.9 million or 19.0% from FY22 budget.
- Metro Micro budget is \$37.9 million and includes additional staffing and contract expenses for expansion of service by 24% to 271.4 thousand RSHs.

See further details for Bus, Rail and Metro Micro budget in Attachment C.

Figure 8:

Metro Transit (\$ in Millions)	FY22 Budget	FY23 Prelim	\$ Change	% Change	% of Total
1 Bus Total	\$1,239.1	\$1,300.7	\$ 61.5	5.0%	59.2%
2 Rail Total	627.2	746.0	118.9	19.0%	33.9%
3 Metro Micro (Microtransit)	39.1	37.9	(1.2)	-3.0%	1.7%
4 Metro Transit Total	1,905.4	2,084.6	179.2	9.4%	94.8%
5 FTA Approved Overhead Allocations	161.7	114.2	(47.6)	-29.4%	5.2%
6 Grand Total	\$2,067.1	\$2,198.8	\$ 131.7	6.4%	100.0%

D. Budget for Congestion Management, General Planning & Programming and Oversight & Admin

As shown in figure 9 below, the FY23 Preliminary Budget for Metro Transit (including Metro Micro pilot project), General Planning & Programming, Congestion Management and Oversight & Admin programs totals \$2.6 billion. As the FY23 EZBB process progresses, more detail budget proposals by program are developed.

The following summarizes the changes between FY23 and FY22:

- Congestion Management totals \$136.6 million, an increase of \$33 million or 31.8%.
- General Planning & Programming program totals \$216.6 million, an increase of \$50.5 million or 30.4%.
- \$80.1 million for Oversight & Admin, a \$10.3 million or 14.7% increase from FY22.

See further details on the budget for these three programs in Attachment D.

Figure 9:

	Expenditures by Program Type (\$ in Millions)	FY22 Budget	FY23 Prelim	\$ Change	% Change	% of Total
1	Metro Transit - Operations	\$ 2,067.1	\$ 2,198.8	\$ 131.7	6.4%	26.6%
2	General Planning & Programs	166.1	216.6	50.5	30.4%	2.6%
3	Congestion Management	103.7	136.6	33.0	31.8%	1.7%
4	Oversight & Admin	69.8	80.1	10.3	14.7%	1.0%
5	Total of Programs covered in April Report	\$ 2,406.7	\$ 2,632.0	\$ 225.4	9.4%	31.9%
6	Total of Programs covered in March Report	\$ 5,117.9	\$ 5,630.2	\$ 512.3	10.0%	68.1%
7	Total of April and March Reports	\$ 7,524.6	\$ 8,262.2	\$ 737.6	9.8%	100.0%

In May, staff will provide the consolidated Agency-wide Expenses and FTEs Budget Proposal along with an update on Debt borrowing plans, which is a financing tool to help deliver essential capital projects.

E. Early, Improved & Expanded Public Engagement Update

As an industry leader in equity, the CEO has helped lay the groundwork for more equitable outcomes as we incorporate the voices of our diverse community into the FY23 Budget. Per CEO direction, staff began the public engagement early, and pursued it often. As pandemic restrictions were lifted and the economy opened, staff resumed and expanded the public participation process.

The expanded outreach has been very successful in engaging the public. Metro held three Telephone Town Hall Meetings with over 11,000 participants, released a Budget Survey resulting in over 8,000 responses (compared to 1,659 last year) and over 4,100 written comments (compared to 700 last year). In addition, staff designed and launched a new budget portal (metrobudget.net) that provides updated budget information. Staff will continue public engagement efforts with expanded stakeholders outreach meetings. See Attachment E for details on our FY23 Proposed Budget Public

Engagement efforts.

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 that will guide the development of the FY23 Budget. The preliminary budgets may be adjusted as more specific and updated information becomes available.

EQUITY PLATFORM

This month's report focuses on Metro's Transit program and highlights operating and maintenance of Metro bus and rail services, general planning and programing, congestion management, as well as several customer experience initiatives and public safety enhancements. The Transit Operations Budget emphasizes the importance of Valuing Our People, riders, stakeholders, and employees while providing equitable, sustainable, economically productive, safe, and accessible service.

Metro engaged riders, stakeholders and the broader public early in the budget process, starting with Telephone Town Halls in September followed by a budget survey in January that was offered in Spanish and English to acquire feedback on budget priorities. The survey marketing plan utilized social media ads to capture a broad range of responses and utilized additional targeted practices to ensure a sampling of survey respondents that represents LA County's diverse residents and Metro's ridership.

Additionally, the Metro Budget Equity Assessment Tool (MBEAT) was also incorporated in the FY23 Budget development to assess budgetary requests for equity benefits, impacts and considerations.

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.

NEXT STEPS

Staff will review and finalize the FY23 Budget proposal for Board consideration of adoption and in time for the public hearing on May 18th.

ATTACHMENTS

Attachment A : Equitable Zero-Based Budgeting (EZBB) Cost Control

Attachment B : People First: Quality Investments

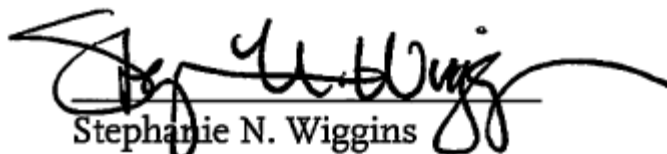
Attachment C : Metro Transit Program (Budget and Service Plan)

Attachment D : Congestion Management, General Planning & Programming, and Oversight & Admin Programs

Attachment E : Early, Improved & Expanded Public Engagement Update

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