



## Board Report

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File #: 2022-0448, File Type: Policy

Agenda Number: 8.

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### PLANNING AND PROGRAMMING COMMITTEE AUGUST 17, 2022

**SUBJECT: CMAQ FUNDING UPDATE**

**ACTION: APPROVE RECOMMENDATIONS**

#### **RECOMMENDATION**

CONSIDER:

- A. RECEIVING AND FILE the Congestion Mitigation and Air Quality (CMAQ) Funding Update;  
and
- B. ADOPT Modification to Financial Stability Policy to prioritize available CMAQ Program federal grants to the greatest extent possible for any eligible operations costs.

#### **ISSUE**

This Metro Board report responds to a Board action in April 2022 (Attachment A) to report back to the Board in August 2022 on an operations funding outlook beyond Fiscal Year (FY) 23 and a policy to use CMAQ first for any eligible operations costs.

#### **BACKGROUND**

CMAQ is a federal grant program for uses that mitigate congestion and provide air quality benefits. Metro receives an apportionment of about \$156 million per year from CMAQ and uses the funds for buses, rail vehicles, rail capital projects (e.g., Regional Connector, Westside Subway Extension), rail operations, and carpool lanes. CMAQ must be programmed for a particular use in the federal transportation improvement program and obligated for that purpose within three years.

At its April 2022 meeting, the Board approved the use of CMAQ to fund a \$21,749,863 cost increase to the I-10 High Occupancy Vehicle Lanes Project from Puente Avenue to SR-57. The Board approval included an amendment to the Board item to report back in August 2022 per Attachment A.

#### **DISCUSSION**

Metro staff, in practice, currently program a maximum amount of CMAQ on operations costs. CMAQ is eligible to be spent on rail operations costs, net of any fare revenue (which is not part of the federal

share), for three years (up to five years if the third year is spread over three years) of the initial operations of a transit rail line. Metro Countywide Planning & Development Department staff currently estimate the initial three years of operations costs and fare revenue of all planned Metro rail lines based on their estimated revenue service dates and compute the eligible amount of reimbursable CMAQ expenses. The amount is reduced by 20 percent to account for the non-federal share and variances in the actuals versus estimates. Metro staff then include the estimated amount of reimbursable CMAQ in the Federal Transportation Improvement Program (FTIP), a federal requirement needed to qualify for reimbursement, and submit CMAQ grant applications for reimbursement when the operating expenses are incurred. The amount that is included in the grant applications is an estimated maximum amount that is reimbursable. Given this practice, Metro staff currently prioritize and attempt to maximize the amount of CMAQ that is used for operations. The proposed modification to the Financial Stability Policy would incorporate this practice into the policy.

Operations Funding in FY23

Metro staff provided the Board with operations funding as part of the FY23 budget development status update, proposed budget and budget presentation (Board files #2022-0153 and #2022-0243). In the April 2022 budget development status update provided during Metro’s Finance, Budget, and Audit Committee, staff recognized as the source of the anticipated future operations deficit the combined effects of (1) the pace of fare and tax revenue increases being slower than the rate of decrease in stimulus funds and (2) the cost of operations increasing due to labor shortages, inflation, new rail line openings, and new rider initiatives. The FY23 proposed budget (page 52) identifies the amount of subsidy needed to pay for recurring operating expenses net of recurring operating revenues and one-time grants.

The one-time Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) and the American Rescue Plan Act (ARPA) federal grants in the amount of \$1,283.3 million will be expended in FY23. Sales taxes and other operating funds are not enough to mitigate the loss of the one-time federal stimulus funds, leaving a funding gap beginning in FY24 and projected to grow in future years. The funding gap will be addressed through the FY24 EZBB budget development process, along with cost control measures being evaluated by Task Forces.

<b>Resources &amp; Expenses (\$ in millions)</b>	<b>FY23 Proposed</b>
Transit Fares & Other Revenues	\$ 150.9
Federal & State Grants	
Federal CRRSAA/ARPA	1,238.3
Federal & State Grants	104.4
Local Subsidies	\$ 705.6
<b>Total Operations Resources</b>	<b>\$ 2,199.2</b>
<b>Transit Operations Expenses</b>	<b>\$ 2,199.2</b>

CMAQ will be prioritized to the greatest extent allowable to fund new rail service in FY24 and beyond for the initial three years of service for the Crenshaw/LAX and Regional Connector rail lines. There is no additional CMAQ that is available to fund more operating expenses to forestall the magnitude of

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the operating deficit as the maximum eligible amount of CMAQ available to Metro will be used for operating assistance.

#### Modifications to Financial Stability Policy

Staff recommend the addition of a CMAQ funding policy to an existing Board-adopted policy to facilitate its reference and use. The existing Financial Stability Policy from 2008 would be modified to add the following provision.

“S15. Prioritize available Congestion Mitigation and Air Quality (CMAQ) Program federal grants to the greatest extent possible for any eligible operations costs.”

The Financial Stability Policy with the proposed modifications is included as Attachment B.

### **DETERMINATION OF SAFETY IMPACT**

Approval of this item will have no negative impact to the safety standards of Metro.

### **FINANCIAL IMPACT**

#### Impact to Budget

The adoption of the modification to the Financial Stability Policy will direct staff to use as much CMAQ as available on operating costs. This is consistent with current practice and the use of CMAQ in the FY23 budget.

### **EQUITY PLATFORM**

The modification to the policy will help fund Metro transit operations and the amount of service. This helps provide transit service to those who rely on transit the most. In 2022, most ridership activity has occurred in Metro’s Equity Focus Communities (EFCs).

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

This item supports the Strategic Plan Goal #5, which seeks to “Provide responsive, accountable, and trustworthy governance within the Metro organization.” The item provides information about the funding of Metro’s transit operations to assist in the agency’s financial decisions.

### **ALTERNATIVES CONSIDERED**

The Board could choose not to approve this item and the current practice of using CMAQ to the greatest extent possible for operating assistance would not be incorporated into a Board-approved policy.

### **NEXT STEPS**

Metro staff has programmed the estimated maximum amount of CMAQ reimbursable for the Crenshaw/LAX and Regional Connector operating expenses in the FTIP and will expect to submit for

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CMAQ reimbursement when the rail lines begin revenue service and incur costs. Metro staff is also developing a financial outlook for FY24 that will be shared with the Board in the forthcoming months.

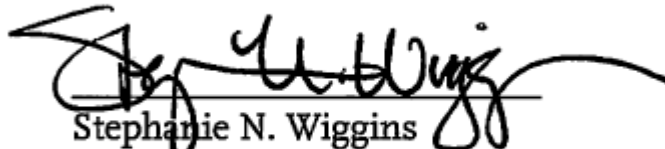
**ATTACHMENTS**

Attachment A - Metro Board Report # 2022-0124

Attachment B - Modified Financial Stability Policy

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