



Board Report

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**FINANCE, BUDGET AND AUDIT COMMITTEE
SEPTEMBER 18, 2019
OPERATIONS, SAFETY, AND CUSTOMER EXPERIENCE COMMITTEE
SEPTEMBER 19, 2019**

SUBJECT: BUDGET DEVELOPMENT PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Annual Budget Development Process.

ISSUE

At the May 2019 Board Meeting, the Board requested a report back on the budget development process. This report provides the budget development process and improvements for increased transparency throughout the year.

DISCUSSION

Metro is a regional transportation planner, builder, funder and transit operator for Los Angeles County. The budget represents an annual snapshot of the needs for the agency to continue with the multi-year programs and plans underway. Applying budget resources to these programs is a comprehensive and iterative year-round process. The budget development starts with updating the progress on the program plans, assessing the rate of milestone delivery, and the available resources for these core programs grouped by Transportation Infrastructure Development (Builder), Metro Transit Operations (Operator), and Planning & Subsidy Program (Planner/Funder).

At the beginning of the fiscal year (July through December), departments focus on the development of long-term project and program budget planning to ensure alignment with the program goals and agency initiatives. Staff applies available funding to meet these program needs at the same time. The second half of the year (January through June), staff refines the first year of the long term plan to produce the annual budget.

Along with the program progress review, Metro prepares a Quarterly Financial and Performance Report that summarizes the results of actual to budget variance and Metro's overall performance from the Comprehensive Agencywide Performance Evaluation (CAPE) tool. The CAPE measures

progress of Mission Essential Task Lists (METLs), Key Performance Indicators (KPIs) and Project Milestones. All elements of performance are combined to produce an evaluation base for developing the new fiscal year budget.

Based on the review of the long-term plan, available funding, and regular performance evaluations, the CEO then directs an annual budget funding target that is feasible and realistic to deliver the program goals within schedule and scope for each department, in a fiscally responsible manner. Staff reconciles the departmental budget proposals with CEO budget targets while allocating financial resources that are eligible and available to maximize transportation and mobility impact for our customers. The intensive review process is repeated at program level and department level multiple times to deliver CEO targets and agency goals while forming the proposed budget for Board review.

Status of the development progress is reviewed monthly at Finance and Budget Committee starting in January each year. Starting with FY21, bus and rail proposed Revenue Service Hours (RSH) will go to Operations, Safety, and Customer Experience Committee in February for review. Staff also conducts in depth Budget Board Staff Briefings at least once a month to anticipate potential program concerns or budgetary issues.

Outlined below is a general timeline for Board review of the budget development:

January - Budget Parameters

In January, OMB provides a Budget Development update to the Board. This report outlines the following:

1. Budget Process and Schedule
2. Sales tax forecasts based on leading forecasting agencies (UCLA, Beacon Economics and Muni Services)
3. Resource Assumptions
4. Consumer Price Index (CPI) projections based on leading forecasting agencies (UCLA and Beacon Economics)
5. Other expense assumptions

Revenue projections are essential in developing a realistic forecast, that not only Metro relies on to develop their budget, but the entire county as well. Extensive analysis is done with leading forecasting agencies' projections and long-term/short-term Metro historical receipts. These projections and assumptions provide the parameters for the resources available for the upcoming year and are updated throughout the budget process as more information becomes available.

The results of Q1 and Q2 Financial and Performance Review aide in evaluating the current budget

and aide in developing next year's budget. Assessment of how projects are tracking and the identification of major changes that may impact the current budget and future needs are also considered.

Based on the projected revenues available, the results of current year Q1 and Q2, and known changes, next year's budget targets are set and approved by the CEO. These targets allow us to control expenses within available resources with the objective of preparing a balanced proposed budget for the Board.

February - Transportation Infrastructure Development & Revenue Service Hours

In February, OMB provides a preliminary look at Metro's transit expansion program overseen by Transportation Infrastructure Development (TID), which includes the following:

1. Transit Expansion: Light Rail, Heavy Rail, Bus Rapid Transit (BRT) Construction, and early planning efforts before construction
2. Highways: Front-end planning, preliminary engineering and project implementation support for Highway Improvement as approved in Measure M and Measure R, as well as Soundwalls
3. Metro Regional Rail projects and Metrolink Operations/Capital Program funding

The TID Program budget development process occurs from August - January. The program supports the Planning and Construction efforts that comprise the future transit expansion across the county as defined in the Measure R and M Ordinances. A portion of the budget is allocated to planning and early design efforts funded on an annual basis. Planning efforts are required to develop a transit project from a conceptual early vision to a tangible project for which the public can provide input for further definition and development.

Thereafter, the majority of the program budget is administered with Life of Project Budget (LOP) constraints as adopted by the Board. During this time, OMB staff evaluate the numerous projects to forecast and prepare for near/long term cashflow risks and potential LOP concerns. This process focuses on milestone progress evaluation, annual cashflows updates, and fund risk monitoring to manage overall funding delivery to support the major capital projects specified in Measure R and Measure M.

Service Parameters

Also in February, Transit Operations will provide bus and rail service parameters for Operations, Safety, and Customer Experience Committee review. The parameters are based on current levels of scheduled service adjusted for new programs like NextGen and other service adjustments to reflect actual "on-street" deployment, as well as other board-mandated services.

March - Transit Operations and Metro State of Good Repair

In March, OMB provides a preliminary look at the second largest Metro program, Metro Transit Operations and Metro State of Good Repair (SGR), which includes the following:

1. Bus and Rail Service Levels
2. Bus and Rail Operating Budget
3. Bus and Rail Operating Expenditures by Type
4. Metro State of Good Repair Program (Bus, Rail and other Asset Improvements)

The Operations budget is largely based on the planned Revenue Service Hours (RSH) and Boardings projected for the upcoming fiscal year. In March, the preliminary Transit Operations budget will be provided based on the service levels reviewed by the Operations Committee in February. Once approved, they will be broken down into discrete estimating factors encompassing each budget element and will form the basis for FTEs and all other Operations and Maintenance budget resource needs.

Metro State of Good Repair (SGR)

To provide for the best possible system reliability and safety for Metro's riders, the agency is committed to allocate the necessary resources to keep transit infrastructure in a state of good repair. Elements of infrastructure upgrades and improvements include bus and rail vehicle acquisition and mid-life maintenance, rail track and signal rehabilitation, facilities maintenance, critical information systems and repair/replacement of other peripheral infrastructure.

The SGR planning process begins in August as part of the multi-year capital projects long-term plan. The baseline document used for planning is a detailed asset listing using Federal Transit Administration (FTA) asset definitions and variables to assess asset age, condition, and other asset useful life measurements.

The process requires a grouping of asset repairs into individual projects and requiring estimates using criteria including, but not limited to, average asset condition, life cycle cost calculations, availability of staffing resources, project readiness, and progress made on existing projects. The Senior Leadership Team and OMB work with the technical working groups to evaluate project prioritization. Once the projects are finalized, the SGR program plan and related cash flows for the upcoming fiscal year are brought to the Board for approval as part of the annual budget.

April - Subsidy Funding and Agency Budget

In April, OMB provides a preliminary look at the third largest Metro program, Metro Subsidy Funding Program, Debt Program, a high-level summary of the agency preliminary budget, which includes the following:

1. Subsidy Funding Program (direct funding to our regional partners to support local transportation needs)
2. Debt Service (financing tool to help deliver essential capital projects)
3. Summary of Agency Budget
 - a. Agency budget by Department
 - b. Agency budget by Expenditure Type
4. Full-Time Equivalent (FTE) positions

Metro as the Regional Transportation Planning Agency for Los Angeles County, is responsible for programming and administering local, state and federal funds for the operating and capital needs of the county's transit systems and various transportation programs. This program is mainly formula allocated funding and is directly related to the sales tax revenues projections. The programming of these funds undergoes an extensive review process by various Metro subcommittees and stakeholders from April through June, with final Metro Board action in June each year.

Each month, OMB presented the preliminary budgets of the major programs as a builder, operator and funder. The Summary of Agency Budget is a comprehensive look at the agency's proposed budget, bringing all the programs together. The Annual Budget will be presented by Department and Expenditure Type to provide a cross sectional view of the expenses anticipated for the next fiscal year.

FTE position requests are submitted by each department in February. The reasonableness of the requests are reviewed in conjunction with their CAPE results and overall department deliverables. All FTE requests are reviewed and approved by CEO in March, the labor dollar impact is calculated and presented as part of the Agency Budget broken down by Department and Expenditure Type.

May - Public Hearing and Board Adoption

With the consolidation of all the elements of the budget, a proposed budget is released to the public for review. A Budget Public Hearing is scheduled as required by PUC 130105 and 130106 for final Board Adoption of the annual budget.

June

Once the budget is officially adopted, the Adopted Budget is finalized and Metro ensures revenue resources are available for funding by July 1st.

Budget Public Outreach

A comprehensive public outreach plan is in place to provide various forums for the public to participate on the development process of the FY20 Budget. Over the last few years, the comprehensive outreach program included many opportunities to provide feedback using different methods, through email and telephone, in addition to many in-person public meetings. Metro has expanded the outreach program by utilizing technology to reach LA County residents. An online survey was developed and evolved into an online interactive budget tool developed to solicit input. Metro has further launched social media campaigns that included Facebook and Twitter to drive people to the online interactive budget tool. Traditional budget workshops were held to garner feedback. These meetings included Metro Service Councils, Citizens Advisory Council (CAC), Policy Advisory Committee (PAC) and other internal stakeholder meetings. The Telephone Town Hall, the most recently added event was utilized to roundup the public outreach efforts, which reached an all-time high in the number of participants.

FINANCIAL IMPACT

There is no financial impact with this Receive and File Report.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

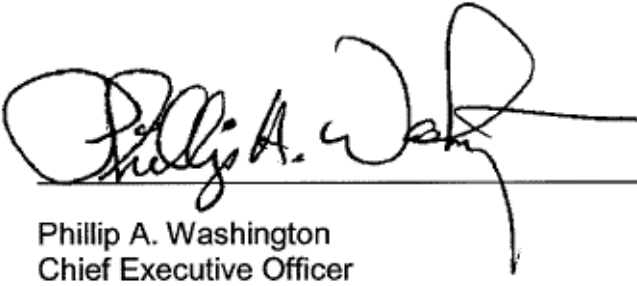
Recommendation supports strategic plan goal #5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

NEXT STEPS

Staff will initiate the budget development process according to schedule and will provide advance invitation to the Board to participate in the monthly status review starting in January 2020. The revenue service assumptions will be presented to the Operations, Safety, and Customer Experience Committee. Meanwhile, Metro will continue focused informational outreach campaign to advise the public on transportation and transit plans included in the proposed budget.

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