



Board Report

File #: 2021-0208, File Type: Public Hearing

Agenda Number: 8.

**BUDGET PUBLIC HEARING
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 19, 2021**

SUBJECT: FISCAL YEAR 2022 (FY22) BUDGET

ACTION: ADOPT THE FY22 BUDGET

RECOMMENDATION

- A. ADOPTING the proposed FY22 Budget as presented in the budget document (provided in a separate transmittal and posted on metro.net);
 - 1. AUTHORIZING \$8.0 billion annual consolidated expenditures to achieve goals and objectives set forth by the Board adopted mission and goals; and
 - 2. AUTHORIZING a total of 10,347 FTEs with 8,630 Represented FTEs and 1,717 Non-Represented FTEs (see Attachment E); and
 - 3. AUTHORIZING an average 3.5% performance-based merit increase for Non-Represented employees. The wage increase for Represented employees, in accordance with the pre-negotiated Collective Bargaining Agreements, is an average 5%; and
 - 4. AUTHORIZING a 2.0% adjustment to current Non-Represented job pay grade levels to reflect best practice. There is minimal impact to the budget and current employees' salaries (see Attachment D); and
 - 5. APPROVING the Life of Project (LOP) budgets for new capital projects; new capital projects with LOP exceeding \$5.0 million are presented in Attachment A; and
 - 6. AMENDING the proposed budget to include any Board approved actions currently under consideration such as the Fareless System Initiative, from now to end of fiscal year (June 30, 2021); and

- B. APPROVING the Reimbursement Resolution declaring Metro's intention to issue debt in FY22 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.

Since February 2021, staff has provided a series of status updates on the FY22 Budget development process to the Metro Board's Finance, Budget and Audit Committee. 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 May 4, 2021, the FY22 Proposed Budget in its entirety were made available to the public at www.metro.net, in printed copies through the Records Management Center (RMC) at RMC@metro.net, and on the plaza level of the Gateway building. The public hearing is scheduled on May 19, 2021. On April 9, 2021 and April 23, 2021, advanced public notifications of the Budget Public Hearing were issued through advertisements posted in more than 11 news publications and in various languages.

DISCUSSION

The FY22 Proposed Budget is balanced at \$8.0 billion, an increase of \$1.0 billion or 14.4%, from the \$7.0 billion FY21 Budget. The \$1.0 billion will allow Metro to restore and enhance transit services, as well as resume planning and construction activities temporarily slowed down at the beginning of the pandemic. As COVID-19 vaccines continue to roll out in Los Angeles County, schools and the economy begin to open, and the region prepares for a new normal, service restoration is a priority as Metro Transit looks to supply service to pre-pandemic levels by September 2021. Service enhancements are planned as NextGen enters its final phase, delivering more reliable service with speed improvements and covering more miles in less time. The final phase also includes expansion of Metro Micro to nine zones.

Metro will continue to advance transportation by keeping transit assets in a state of good repair, progressing Measure R and M projects as several are moving into construction phase while projects in planning phase are moving towards shovel readiness for new highways and transportation infrastructure projects. Funding will continue according to the forecasted economic recovery for local cities and operators under regional transportation activities. Further, the FY22 Proposed Budget includes several initiatives and considerations to improve customer experience, public safety, and security. The FY22 budget allocation has been comprehensively evaluated through an equity lens.

Resources Summary

The FY22 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 continuing economic impacts of the pandemic, anticipated

economic recovery in FY22 due to accelerated rollout of vaccinations, leading regional forecasting sources, and recent transit system usage.

The total FY22 Proposed Budget planned resources are \$8.0 billion which is 14.4% more than the FY21 Budget.

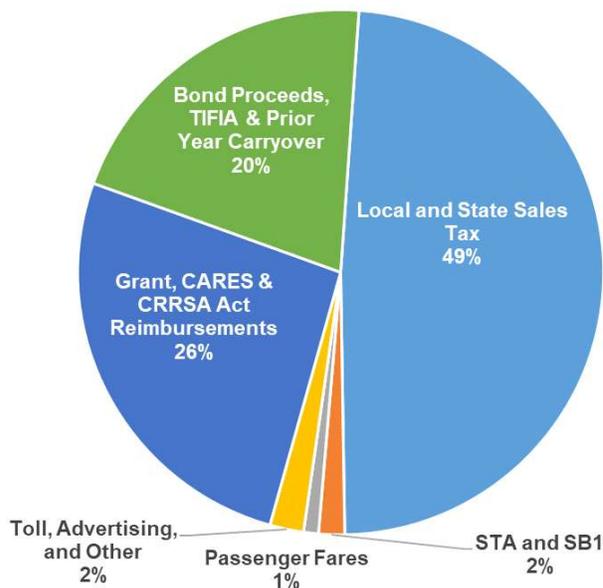
- Local sales tax and Transportation Development Act (TDA) revenues are projected to increase by 2.9% based on economic analysis of the recovery from the COVID-19 pandemic's impact on taxable sales, nationally recognized forecasting sources, and Metro's own historical experience.
- State Transit Assistance (STA) and Senate Bill 1 (SB1) revenues are expected to be \$127.7 million region wide, representing a 30.4% decrease from FY21 Budget based on State Controller's Office (SCO) estimates.
- Passenger fares are expected to come in at \$73.2 million for FY22, reflecting ridership projections, fare collection impact of social distancing measures, and impacts of promotional fare adopted by Metro Board.
- Expresslanes toll revenues are expected to be \$46.6 million in anticipation of increased traffic and service demand during the pandemic recovery.
- Advertising revenues of \$24.1 million are expected in FY22, which is 27.8% above the FY21 Budget.
- Other revenues are expected to come in at \$95.5 million which include bike program, park and ride, lease, vending, film, Service Authority for Freeway Emergencies (SAFE), credits, fees, investment income, and other miscellaneous revenues.
- Metro received \$776.5 million from Federal CRRSA Act to facilitate fund exchanges for transit operator allocations, with \$682.5 million for Metro Transit.
- Bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA), and sales tax carryover are in line with planned Transit Infrastructure Development and State of Good Repair expenditure activities.

	Resources (\$ in millions)	FY21 Budget	FY22 Proposed	\$ Change	% Change
1	Local and State Sales Tax	\$ 3,783.6	\$ 3,892.5	\$ 108.9	2.9%
2	STA and SB1	183.6	127.8	(55.8)	-30.4%
3	Sales Tax and STA/SB1 Revenues Subtotal	\$ 3,967.2	\$ 4,020.3	\$ 53.1	1.3%
4	Passenger Fares	22.2	73.2	51.0	229.7%
5	Toll, Advertising, and Other	109.6	166.2	56.6	51.6%
6	Operating & Other Revenues Subtotal	\$ 131.8	\$ 239.4	\$ 107.6	81.6%
7	Grant, CARES & CRRSA Act Reimbursements	1,948.8	2,094.2	145.4	7.5%
8	Bond Proceeds, TIFIA & Prior Year Carryover	945.0	1,648.7	703.7	74.5%
9	Capital & Bond Resources Subtotal	\$ 2,893.8	\$ 3,742.9	\$ 849.1	29.3%
10	Resources Total	\$ 6,992.9	\$ 8,002.6	\$ 1,009.7	14.4%

(1) Represents use of Bond Proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) drawdowns and sales tax revenues received and unspent in prior years.

Note: Totals may not add up due to rounding

Resources % of FY22 Budget



Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA)

In December 2020, additional federal relief was provided through the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), which will be used to support the transit operations for Metro and 68 other transit operators in Los Angeles County. The Southern California Association of Governments (SCAG) Regional Council approved the distribution of \$911.5 million to

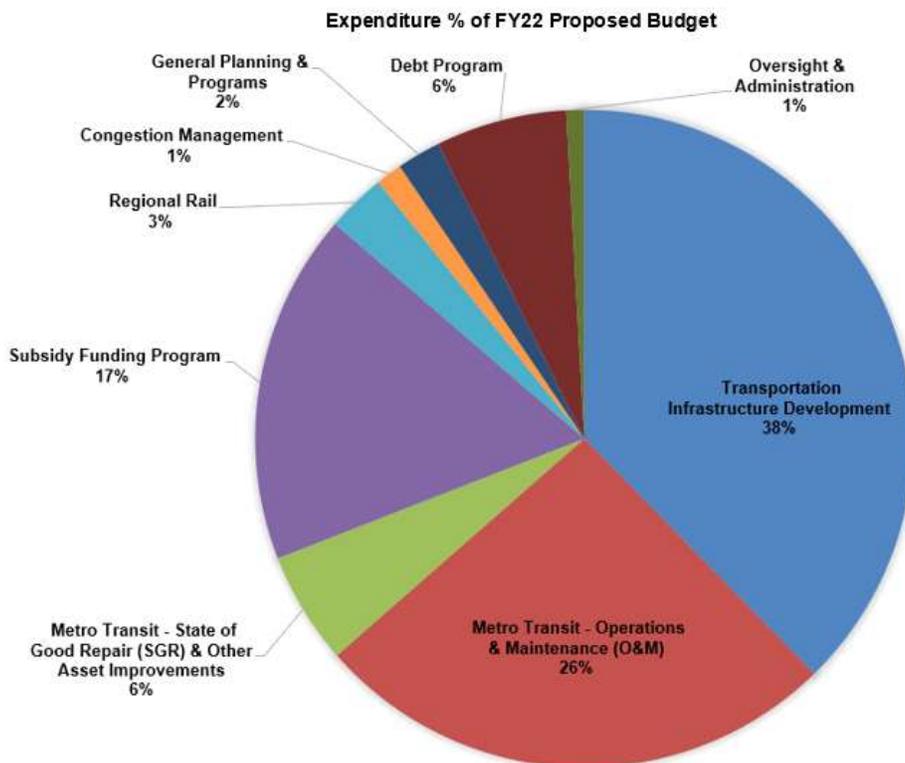
Los Angeles County. \$776.5 million is allocated to Metro to facilitate fund exchanges for transit operator allocations, with \$682.5 million for Metro Transit and \$93.9 million to Tier 2 Operators, Metrolink, Access Services, Regional Paratransit and Voluntary Reporters.

Expenditure Summary

The total proposed budget of \$8.0 billion, an increase of 14.4%, is aligned with Board priorities of service restoration and enhancement, as well as improving customer experience and public safety through an equity lens. Each program, function, and department budget are developed accordingly to reflect the new economic realities and progress on projects. The table below illustrates the expenditures by program type in FY22 Proposed Budget.

Expenditure by Program Type (\$ in millions)	FY21 Budget	FY22 Proposed	\$ Change	% Change
1 Transportation Infrastructure Development	\$ 2,367.9	\$ 3,015.1	\$ 647.2	27.3%
2 Metro Transit	2,357.3	2,512.2	154.8	6.6%
3 Metro Transit - Operations & Maintenance (O&M)	1,844.1	2,069.9	225.8	12.2%
4 Metro Transit - State of Good Repair (SGR) & Other Asset Improvements	513.2	442.3	(70.9)	-13.8%
5 Subsidy Funding Program	1,239.0	1,380.7	141.7	11.4%
6 Regional Rail	244.7	233.0	(11.7)	-4.8%
7 Congestion Management	88.0	103.9	15.9	18.0%
8 General Planning & Programs	157.4	172.0	14.6	9.3%
9 Debt Program	474.9	516.0	41.1	8.7%
10 Oversight & Administration	63.6	69.7	6.1	9.6%
11 Total Budget	\$ 6,992.9	\$ 8,002.6	\$ 1,009.7	14.4%

Note: Totals may not add due to rounding.



Full-Time Equivalent (FTE) Summary

During FY21, Metro implemented the Board approved Voluntary Separation Incentive Program (VSIP) to eligible Non-Represented, AFSCME, and Teamsters Represented employees who voluntarily agree to separate or retire from Metro within a pre-designated retirement period. A total of 179 FTEs (Non-Represented and Represented) elected to participate in VSIP and 87 (57 Non-Represented and 30 Represented) positions were eliminated in the FY22 Proposed Budget.

The FY22 Proposed Budget includes a total of 1,717 Non-Represented FTEs, a net decrease of 25 Non-Represented FTEs from FY21 resulting from the elimination of 57 VSIP positions and the addition of 32 new positions to implement new initiatives in delivery Metro's Transit and Transportation programs. Represented FTEs for FY22 total 8,630 which is an increase of 148 Represented FTEs from FY21, resulting from an elimination of 30 VSIP positions and 178 new positions. Please refer to Attachment E for more details.

Agencywide FTEs	FY21 Budget	VSIP	New Initiatives	FY22 Proposed	Change
1 AFSCME	821	(26)	33	828	7
2 ATU	2,444		36	2,480	36
3 TCU	915		4	919	4
4 TEAMSTERS	175	(4)		171	(4)
5 SMART	4,127		105	4,232	105
6 Non-Contract	1,742	(57)	32	1,717	(25)
7 Total FTEs	10,224	(87)	210	10,347	123
8 Total Agencywide Represented	8,482	(30)	178	8,630	148
9 Total Agencywide Non-Represented	1,742	(57)	32	1,717	(25)
10 Grand Total	10,224	(87)	210	10,347	123

Labor Summary

The FY22 Proposed Budget includes contract wage increases of 5.0% on average according to the pre-negotiated Collective Bargaining Agreements with the Represented union groups. An average 3.5% performance increase is included for Non-Represented employees which will be distributed on a merit-based system. Non-Represented employees did not receive any salary increase in FY21. The labor cost increases reflect the rising wage inflation and living wage standards. Health and welfare benefits for Represented employees are based on Collective Bargaining Agreements. Non-Represented medical and dental benefits reflect the carrier contract rates previously approved by the Board.

Non-Represented pay grade levels were last adjusted in July 2019. To reflect best practice, Human Capital & Development (HCD) will be adjusting the current compensation pay grade levels by 2.0%. There will be minimal impact to budget and current employees' salaries. Please refer to Attachment D for more details.

Life of Project (LOP) Budgets

New capital projects with LOP budgets exceeding \$5.0 million must be approved by the Board as separate Board actions.

Attachment A includes a detailed listing of new capital projects for FY22 with LOP in excess of \$5.0 million. These new capital projects in the FY22 Proposed Budget include Metro Green Line Overhead Catenary System Replacement, Metro Gold Line Arroyo Seco Hill Stabilization, Union Station Gateway Fire Detection System Renovation, as well as other new State of Good Repair projects.

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

The budget outreach process began in February 2021 with an e-blast to more than 375,000 Metro subscribers that directed them to the metro.net/myvoice landing page where information about the budget was available, including stakeholders' meeting schedules and a special Budget Briefing for all five Regional Service Councils. The landing page also allowed access to the questionnaire to provide comments (budgetcomments@metro.net) and presented information about the Budget Public Hearing. The budget communication campaign was initiated via social media platforms such as Metro's Facebook page, Instagram, NextDoor, Twitter, TheSource alongside print media through the utilization of interior car cards on Metro buses and trains.

Office of Management & Budget (OMB) staff provided FY22 Proposed Budget Briefings at other meetings for stakeholder groups, including but not limited to the Citizens Advisory Council, Technical Advisory Committee, Policy Advisory Committee, Bus Operations Subcommittee, Local Transit Systems Subcommittee, Streets, Freeways Committee, Valley Industry Commerce Association as well as the Gateway Cities and San Gabriel Valley Councils of Governments. In addition to the meetings listed above, OMB staff was invited to present to Metro's Accessibility Advisory Committee. Engagement at all meetings were conducted virtually, thus continuing to follow physical distancing guidelines currently in place.

The budget public hearing is legally required, pursuant to California PUC codes 130106 - *Notice of time and place of the public hearing for the adoption of the annual budget shall be published pursuant to Section 6061 of the Government Code, and shall be published not later than the 15th day prior to the date of the hearing.*

A summary of the public outreach efforts, feedback received, as well as results from the budget questionnaire are shown in Attachment C.

EQUITY ASSESSMENT

Metro Budget Equity Assessment Tool (MBEAT) - Process Evaluations

The FY22 Metro Budget Equity Assessment Tool (MBEAT) pilot is a comprehensive agencywide budget equity assessment process that helps staff consider how Metro's annual budget influences marginalized communities' access to opportunities and addresses potential barriers or harms. Implementation of the MBEAT has created a process to highlight budgetary requests with benefits for marginalized and/or vulnerable communities and identifies opportunities to improve budget equity outcomes.

Together with the Office of Management and Budget, staff from the Office of Equity and Race have tracked and documented opportunities for improvements to the MBEAT process for subsequent fiscal years, such as lengthening the review process and offering a variety of educational resources and training materials for Metro staff. There is additional need for continued training to streamline the MBEAT process and continued support for staff to consider how investment, projects, programs, and policies might cause harm or not benefit all as intended, given historic and current disparities and systemic inequities. Furthermore, they will conduct interviews with department staff to further refine the MBEAT process and continue to build on this foundation in future budget cycles.

Please see the FY22 Budget Equity Assessment - Receive and File Report for a full summary.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The FY22 Proposed Budget (provided in a separate submittal) at \$8.0 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 federal and state governments and to administer regional transportation funding to local cities and municipal operators.

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

Upon Board authorization and adoption of the FY22 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. 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 FY22 Budget document can be accessed at

<https://media.metro.net/2021/FY22-Proposed-Budget-Book.pdf>

Attachment A - FY22 New Capital Projects

Attachment B - Reimbursement Resolution of Metro for FY22

Attachment C - FY22 Public Outreach

Attachment D - Compensation Adjustment

Attachment E - FY22 Non-Represented and Represented FTEs

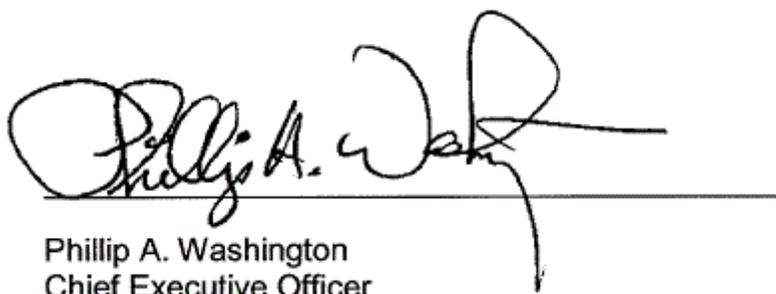
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