



Board Report

File #: 2016-0372, File Type: Public Hearing

Agenda Number: 38

**FINANCE, BUDGET & AUDIT COMMITTEE
PUBLIC HEARING - PROPOSED FY17 BUDGET
MAY 18, 2016**

SUBJECT: FISCAL YEAR 2017 (FY17) BUDGET

ACTION: ADOPT THE FY17 BUDGET

RECOMMENDATION

APPROVE:

- A. adopting the **FY17 Budget** as presented in the budget document (provided in a separate transmittal and posted on Metro.net) with the amendment of an additional -\$5.3 million reduction as a reconciliation item to the proposed budget as shown on Attachment A;
- B. the **Reimbursement Resolution declaring Metro's intention to issue debt in FY17 for capital projects** (provided in Attachment B). Actual debt issuance will require separate Board approval;
- C. an average 3% merit increase for non-represented employees which will be performance based; and
- D. an adjustment to management pay grades and salary bands for the top seven levels H1S through HFF to reflect typical market practice. There is no impact to the budget or to current employees' salaries (see Attachment C).

ISSUE

State Law (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. Budget detail is a management plan for financial activity and is prepared at the fund, project, department and expenditure level. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board except for capital expenditures, which is authorized on a life-of-project basis.

Copies of the proposed budget document were made available to the public on May 3, 2016, both electronically at www.metro.net and through the Records Management Center (RMC) at RMC@metro.net. Printed copies of the budget document were made available at the RMC on the Plaza level of the Gateway Building on the same day. The public hearing is scheduled for May 18, 2016. Advance public notification of this hearing was issued through advertisements posted in over two dozen news publications.

The FY17 Budget development process started in January 2016 with monthly updates to the Finance, Budget, & Audit Committee. Additionally, in that time, Metro staff has provided multiple budget briefings to Board staff and has followed up on questions received from Board staff. There has also been 19 meetings held to stakeholders including Service Councils, Citizens Advisory Council, Technical Advisory Committee, Bus Operations Subcommittee and the public both in person and via electronic media outlets such as podcasts, website and social media.

DISCUSSION

The proposed FY17 Budget is balanced at \$5.7 billion in total agency expenditures which is a decrease of -\$137 million, or -2.4%, from \$5.8 billion in FY16. This is a result of efforts to tighten cost controls, increase fiscal discipline and accountability throughout the agency while continuing to deliver on the following agency goals:

1. Advance safety and security for our customers, the public, and Metro employees
2. Exercise fiscal discipline to ensure financial stability
3. Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation
4. Improve the customer experience and expand access to transportation options
5. Increase transit use and ridership
6. Implement an industry-leading state of good repair program
7. Invest in workforce development
8. Promote extraordinary innovation

Assumptions Summary

The FY17 budget is built based on the following assumptions:

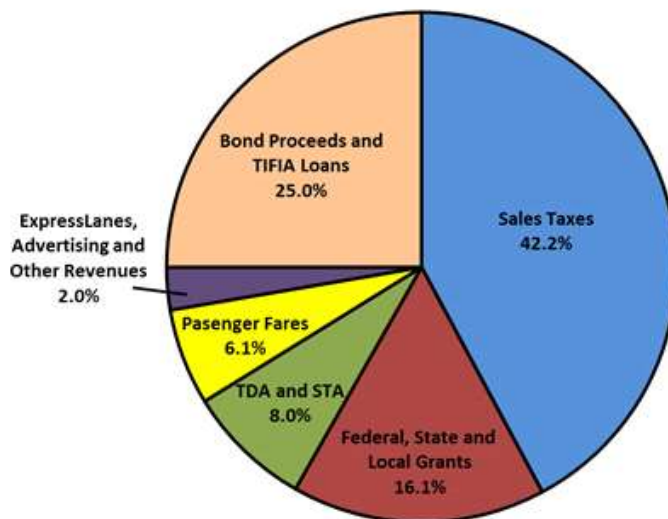
- FY 17 sales tax growth of 3.3% over FY16 Budget based on forecasting sources as well as actual receipts for FY16 YTD through Q2
- CPI of +1.85% based on Beacon Economics forecast
- Bus Revenue Service Hours decrease by 41,828 hours or -0.6% primarily due to increase speed and optimizing service levels

- Rail Revenue Service Hours increase by 168,584 hours or 15.4% from a full year operations of the rail extensions
- The budget reflects negotiated wage and salary provisions for represented employees (SMART, ATU, AFSCME, TCU and Teamsters). The wage increase by these provisions is at least 3.0% for annual wage increase and an additional amount for step increase to reach the maximum pay rate for an annual increase ranging from 3% to 5%.
- No new non represented FTEs requested
- Represented FTEs increase in Transit security department is conditioned upon savings from the new law enforcement contract; any reduction in represented FTE's will be through attrition.

Resources Summary

The table below summarizes the budgeted types of resources available for FY17.

		FY17	
Resources (\$ in millions)		Proposed	% of Total
1	Sales Taxes (Prop A, C and Measure R)	\$ 2,387.1	42.2%
2	Federal, State and Local Grants	910.7	16.1%
3	TDA and STA	450.8	8.0%
4	Passenger Fares	346.2	6.1%
5	ExpressLane, Advertising and Other Revenues	152.6	2.7%
6	Bond Proceeds and TIFIA Loans	1,415.8	25.0%
7	Grand Total	5,663.2	100.0%



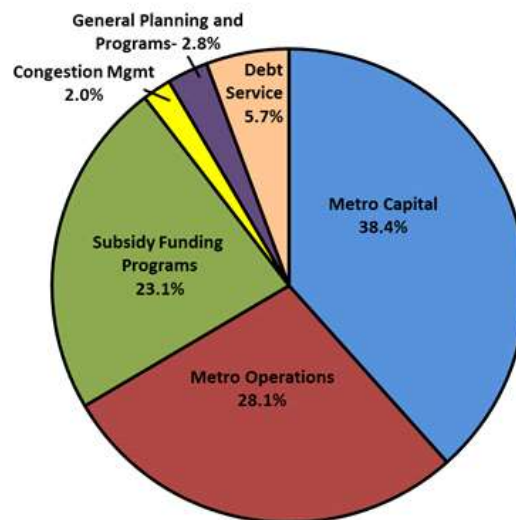
FY17 vs FY16 Expense Summary

The agency implemented a zero-based budget process for FY17 which is a deliverable based

approach in building the budget. Through this process, we were able to prioritize projects and redeploy expenditures and resources to the core needs for the upcoming fiscal year. This reinforces the agency’s commitment to tighten budget controls and exercise fiscal discipline in the allocation of limited resources and further drive accountability.

As a result, the FY17 Budget nets to a decrease in total agency expenditures of -\$137 million, which is a -2.4% decrease, from \$5.8 billion in FY16 to \$5.7 billion in FY17. This budget decrease is the net result after absorbing \$130 million or 2.2% of cost increases for non-discretionary items and new programs. However cost control and accountability efforts contribute to a decrease from FY16 to FY17 of -\$267 million or -4.6%. This further demonstrates the agency’s core goal of exercising fiscal discipline to ensure financial stability. The chart below shows the summary of expenditures for FY16 vs FY17.

Program Type (\$ in millions)	FY16	FY17 Proposed	Variance \$'s	Variance %	% of Total FY17 Budget
1 Metro Capital	\$ 2,521.4	\$ 2,173.8	\$ (347.6)	-13.8%	38.4%
2 Metro Operations	1,515.2	1,593.5	78.3	5.2%	28.1%
3 Subsidy Funding Programs	1,159.7	1,306.2	146.5	12.6%	23.1%
4 Congestion Management	99.4	111.0	11.6	11.7%	2.0%
5 General Planning & Programs	175.8	158.5	(17.3)	-9.8%	2.8%
6 Debt Service	328.7	320.1	(8.6)	-2.6%	5.7%
7 Grand Total	\$ 5,800.2	\$ 5,663.1	\$ (137.1)	-2.4%	100.0%



The major reasons for the \$130 million or 2.2% increase is due to increases in labor, insurance and utilities rate inflation, contractual obligations, costs for investing in new programs such as Bike and Active Transportation Programs, studies and projects, and ongoing construction projects such as the Westside Purple Line Extension, Regional Connector and Crenshaw/LAX based on the project LOP and a full year operation of the Gold Line Foothill Phase 2A and Expo Line extensions.

Risk Allocation Matrix (RAM) in FY17 Budget

In January 2016, the RAM was approved by an action of the Metro Board of Directors. RAM is an

ongoing agencywide process to identify a strategic mix of cost saving and revenue generating new initiatives to implement in order to secure Metro's long term financial stability. To monitor the savings and revenues achieved through the RAM new initiatives, the estimated financial impacts of those that will be implemented in FY17 have been included in the proposed budget. Based on current projections, the total savings and revenues to be realized in FY17 are estimated at \$128M.

	FY17 Current Budget Amount
1 New Revenues	\$436,200
2 Includes new advertising and film revenue-generation opportunities	
3 Ongoing Cost Savings	\$27,697,666
4 Includes minor adjustments in bus and rail service, and reallocation of cap and trade funds	
5 One-time Cost Savings	\$100,000,000
6 One-time reduction in fund balance reserves	
7 Total	\$128,133,866

FTE Summary

FY17 Budget will have no non-contract FTE additions. Continuing the effort to strengthen fiscal discipline, the agency will redeploy existing vacancies to the priorities for the upcoming year as opposed to requesting new FTEs. In the past couple of years the agency has added positions faster than it can fill them which has led to a growing number of vacant positions to date. Along with the vacancies is the zero-based budget development approach which has allowed the agency to identify and reprioritize the near-time needs accordingly and thereby no new non contract FTE's are requested.

A net 30 new represented FTEs requested for FY17 comprised of the following:

- 1) 77 additions for the Transit security department (conditioned upon the new law enforcement contract); the 77 addition in security is to increase the control of security deployment and improve results and again will only be filled if there is an offset in savings in the new law enforcement contract
- 2) 1 addition for communications in managing the bike locker program
- 3) 48 positions in operations will be reduced through attrition based on Board approved service levels planned for FY17

	Department	FY17	FY17 Change		FY 17
			FY16	FY17	
		Non Represented	Represented		Total
1					
2	Board of Directors	38	0	0	38
3	Chief Executive Office	236	219	77	532
4	Communications	101	183	1	285
5	Congestion Reduction	20	0	0	20
6	Finance & Budget	166	68	68	234
7	Information Technology	92	51	51	143
8	Operations	275	7,580	-48	7,532
9	Planning & Development	163	0	0	163
10	Program Management	234	0	0	234
11	Vendor/Contract Mgmt	158	162	162	320
12	Total	1,483	8,263	30	8,293

Non Represented FTE's Merit Increase

In line with negotiated wage rates for represented FTEs, an average 3.0% merit increase is requested for non-represented employees which will be distributed based on a merit based performance system.

Classification and Compensation Pay Grade and Salary Band Adjustment

In order to reflect market practice, HR will be consolidating and adjusting the current pay grade level bands to reflect consistent progression and spreads which will align customary compensation packages. There will be no impact to budget or current employees' salary. Please refer to Attachment C for more details.

Public Outreach

A comprehensive public outreach program for the FY17 budget is in place to ensure the greatest level of engagement from the public and key stakeholders. Using public workshops, communication tools and technology advances, numerous options and opportunities for informing and engaging the public are available.

In addition, an online tool will be available to engage the public and continually gather input to help guide the mid-year budget and future budgets.

Soliciting meaningful input from the public and stakeholders is important. To ensure greater participation, the times and locations of public workshops were advertised through multiple channels, including the Metro website, "Take Ones" on board bus/rail vehicles and at customer centers, newspaper advertising, messages on hold, and Metro Briefs. A summary of public outreach efforts and comments received is in Attachment D.

Reimbursement Resolution

Federal tax law requires that bond proceeds can only be used for expenses incurred after the issuance of bonds. In order to be reimbursed for expenses incurred before the bond issue, Metro must pass a resolution indicating the intent to issue bonds at a later date for the expenditures

described in the reimbursement resolution. The attached resolution (Attachment B) is included in the budget board report as a matter of course, to tie expenditures anticipated in the budget to proceeds from future bond issuance, and it must be approved as an item separate from the budget document.

DETERMINATION OF SAFETY IMPACT

The proposed budget continues to make safety a primary goal and provides funding for new and ongoing safety programs throughout Metro.

FINANCIAL IMPACT

The proposed FY17 Budget (provided in a separate transmittal) is \$5.7 billion which is a -2.4% decrease from FY16. The budget includes expenditures 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 a requirement necessary in order to continue to receive subsidies from the state and federal governments and to administer regional transportation funding to local cities and Municipal Operators.

NEXT STEPS

Monitoring the FY17 budget performance will be an ongoing effort year around. Staff will be conducting quarterly variance analysis and tracking performance metrics to reinforce accountability and budgetary control. There will be a mid-year budget assessment to evaluate the budget's alignment to agency priorities. In addition, continuous improvements will be implemented to the process and regular updates will be reported to the Board.

ATTACHMENTS

Attachment A - Amendment Items to FY17 Proposed Budget

Attachment B - Reimbursement Resolution of Metro for Fiscal Year 2017

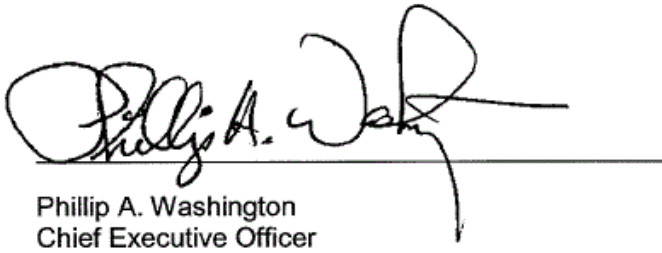
Attachment C - Classification and Compensation Adjustment

Attachment D - Public Outreach and Comments on Fiscal Year 2017 Budget

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