



Board Report

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**FINANCE, BUDGET, & AUDIT COMMITTEE
APRIL 19, 2017**

SUBJECT: FISCAL YEAR 2018 (FY18) BUDGET DEVELOPMENT STATUS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE report on **FY 2018 Budget Development Status**.

ISSUE

Prior FY18 Budget Development Status updates included the major budget planning parameters, such as projected sales tax revenues, changes to the Consumer Price Index (CPI), and expected transit service levels. The FY18 Capital Program, which represents the budget for transit construction and state of good repair multi-year projects, has also been presented in previous updates.

This monthly status report provides a preliminary summary of expenditures for the agency, detailing the remaining FY18 program budgets.

DISCUSSION

The preliminary FY18 budget is \$6.11 billion, an increase of \$83.8 million in total agency expenditures from the \$6.03 billion FY17 budget. This increase of only 1.4 percent demonstrates the agency's commitment to fiscal discipline, tight budget controls, and continued emphasis on accountability. As we continue delivering the promises of Measure R and now Measure M, it is Metro's duty to exercise careful planning and to responsibly spend every dollar the voting public has entrusted us with.

Figure 1 shows the \$6.11 billion preliminary agency budget amount by program.

Figure 1:

Program Type (\$ in millions)	FY17 Budget	Preliminary FY18 Budget	Variance \$	Variance %	% of Total FY18 Budget
Metro Operations	\$ 1,607.8	\$ 1,706.0	\$ 98.2	6.1%	27.9%
Metro Capital	2,511.9	2,215.7	(296.2)	-11.8%	36.3%
Subsidy Funding Programs	1,305.1	1,509.8	204.7	15.7%	24.7%
Congestion Management	112.9	97.7	(15.2)	-13.5%	1.6%
General Planning and Programs	170.0	199.2	29.2	17.2%	3.3%
Debt Service	320.1	383.2	63.1	19.7%	6.3%
Grand Total	\$ 6,027.8	\$ 6,111.6	\$ 83.8	1.4%	100.0

Metro Operations

The FY18 \$1.7 billion Transit Operations budget represents a \$98.2 million increase, or 6.1 percent, over the FY17 budget. Figure 2 shows the preliminary Metro Operations budget by mode.

Figure 2:

Metro Operations (\$ in millions)	FY17 Budget	Preliminary FY18 Budget	\$ change	% change
Bus	\$ 1,125.4	\$ 1,169.1	\$ 43.7	3.9%
Rail	464.2	519.6	55.4	11.9%
Subtotal Bus & Rail	\$ 1,589.6	\$ 1,688.7	\$ 99.1	6.2%
Regional Activities & Other	18.2	17.3	(0.9)	-5.0%
Total Metro Operations	\$ 1,607.8	\$ 1,706.0	\$ 98.2	6.1%

This variance is due largely to a \$47.7 million increase in costs as a direct result of recent changes to the FTA-approved Allocation Plan, as well as \$16.9 million in additional labor costs as a result of planned bus bridges for Blue Line signal system upgrades and Silver Line service interruptions due to construction of the Regional Connector. In addition, purchased transportation costs will increase by \$15.5 million due to an increase in the unit rate cost per Revenue Service Hour (RSH), although service levels are consistent with FY17. Finally, the new security and law enforcement contract allocation will result in a \$36.9 million increase to Metro Operations costs. These significant cost increases are offset by recurring cost control items, such as utility efficiencies, reduction in parts use relative to fleet age and performance, and unscheduled overtime reduction.

In FY18, Metro plans to operate 8.2 million revenue service hours, including approximately 7.2 million bus revenue service hours and 1 million rail revenue vehicle service hours. Minor service adjustments will be considered in order to maximize the service footprint while controlling operating costs and seeking to attract additional ridership. With the ongoing feedback of the Ridership Task Force, we hope to identify operational improvements. Planned improvements for FY18 include

increased security at selected Blue Line stations, and a “Tiger Team” of Senior Rail Transit Operations Supervisors (RTOS) who will be assigned to direct train control at 7th/Metro to decongest Expo and Blue Line service delays in downtown Los Angeles.

Metro Capital (Regional Rail Capital and Highway Capital)

The majority of Metro Capital (Transit Capital Expansion, Operating Capital, and Regional Rail Capital) was reviewed in detail in the March 2017 FY18 Budget Development Status update and is thus omitted from this report.

Regional Rail Capital is increasing by \$14.9 million, or 29.2 percent, due to increases in the Board approved projects for Link Union Station (Link US) and initiation of the Rosecrans/Marquardt grade separation project.

The remaining element of the Metro Capital program, Highway Capital, is decreasing by \$302.3 million, or 13.3 percent, primarily due to the offsetting impact of the I-405 contract close-out executed in FY17. Excluding this contract close-out, the Highway program and the total Metro Capital Program would have no significant changes in FY18. Figure 3 shows a detailed listing of the overall Metro Capital program by purpose.

Figure 3:

Metro Capital (\$ in millions)	FY17 Budget	Preliminary FY18 Budget	\$ change	% change
Transit Capital Expansion	1,698.5	1,638.9	\$ (59.6)	-3.5%
Operating Capital	380.4	431.2	50.7	13.3%
Subtotal	\$ 2,078.9	\$ 2,070.1	\$ (8.9)	-0.4%
Regional Rail Capital	51.1	66.0	14.9	29.2%
Highway Capital	381.9	79.6	(302.3)	-79.2%
Total Metro Capital	\$ 2,511.9	\$ 2,215.7	\$ (296.3)	-11.8%

Subsidy Funding Programs

Subsidy Funding Programs are increasing by \$204.7 million, or 15.7 percent, primarily due to increased subsidies paid to local jurisdictions, municipal operators, Metrolink, and Access Services. This is a direct result of increased funding from growth in sales tax revenues and new revenues from Measure M. Figure 4 shows a detailed listing of the Subsidy Funding Programs preliminary budget.

Figure 4:

	FY17	Preliminary		
Subsidy Funding Programs (\$ in millions)	Budget	FY18	\$	%
		Budget	change	change
Regional Transit	531.3	606.0	\$ 74.7	14.1%
Local Agencies	598.4	716.1	117.7	19.7%
Wilshire BRT	9.9	4.7	(5.2)	-52.7%
Federal Pass Throughs	37.1	44.7	7.6	20.3%
Fare Assistance	10.5	10.5	(0.0)	-0.2%
Highway Subsidy	117.7	127.8	10.1	8.6%
Total Subsidy Funding Programs	\$ 1,305.1	\$ 1,509.8	\$ 204.8	15.7%

Congestion Management

The budget for Congestion Management is decreasing by \$15.2 million, or 13.5 percent, due to improved cash flow management. Figure 5 shows a detailed listing of the Congestion Management preliminary budget.

Figure 5:

	FY17	Preliminary		
Congestion Management (\$ in millions)	Budget	FY18	\$	%
		Budget	change	change
Freeway Service Patrol	32.1	30.9	\$ (1.2)	-3.6%
ExpressLanes	52.4	44.3	(8.0)	-15.3%
Kenneth Hahn Call Box Program	12.9	8.1	(4.8)	-37.5%
Regional Integration of Intelligent Transportation System	0	5.3	(0.7)	-11.7%
Rideshare Services	9.5	9.1	(0.4)	-4.5%
Total Congestion Management	\$ 112.9	\$ 97.7	\$ (15.2)	-13.4%

General Planning and Programs

General Planning and Programs will increase by \$29.2 million, or 17.2 percent. This increase is largely due to an increase in costs for legal and financial advisory services related to major Public-Private Partnership capital projects, as well as additional administration costs for new Measure M projects. The remaining third of the increase accounts for planning and financial feasibility studies per the Board approved ExpressLanes strategic plan. Figure 6 shows a detailed listing of the General Planning and Programs preliminary budget.

Figure 6:

General Planning & Programs (\$ in millions)	FY17 Budget	Preliminary FY18 Budget	\$ change	% change
Programs & Studies	\$ 32.2	35.2	\$ 3.0	9.4%
General Planning & Programming	56.6	70.8	14.2	25.1%
Legal, Audit, Transit Court, Oversight & Other	42.6	46.7	4.1	9.6%
Property Management/Union Station & Development	38.6	46.5	7.9	20.4%
Total General Planning & Programs	\$ 170.0	\$ 199.2	\$ 29.2	17.2%

Debt Service

The budget for Debt Service is increasing by \$63.1 million, or 19.7 percent, due to year-over-year changes in the debt repayment schedule as approved by the Board at the time of debt authorization. These repayments are for bonds issued on Measure R funded projects, such as the Crenshaw Line, Expo 2 extension, Gold Line Foothill Extension, and Purple Line Segment 1, as well as Proposition C funded projects, such as the I-405 Carpool Lanes.

FINANCIAL IMPACT

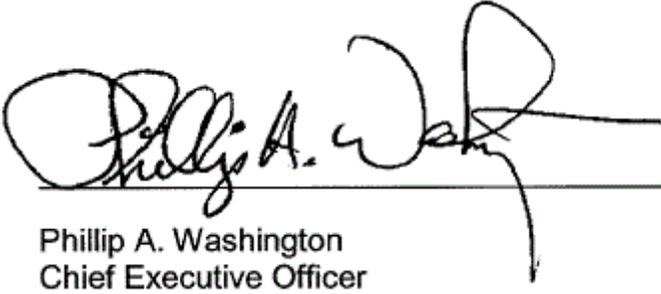
In accordance with California State Public Utilities Code Section 130051.12, the FY18 Budget must be approved by the Metro Board of Directors. Metro cannot operate without a Board-authorized budget.

NEXT STEPS

A public hearing on the proposed FY18 budget will be held at the Finance, Budget and Audit Committee meeting on Wednesday, May 17, 2017. At the public hearing, staff will provide a report on the feedback received as a result of the comprehensive public outreach process. The proposed budget will then advance to the full Metro Board of Directors for consideration and adoption on May 25, 2017, in accordance with CPUC Code Section 130051.12.

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