



Board Report

File #: 2017-0279, File Type: Public Hearing

Agenda Number: 30

REVISED
BUDGET PUBLIC HEARING
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 17, 2017

SUBJECT: FISCAL YEAR 2018 (FY18) BUDGET

ACTION: ADOPT THE FY18 BUDGET

RECOMMENDATION

CONSIDER:

- A. ADOPTING the **proposed FY18 Budget** as presented in the budget document (provided in a separate transmittal and posted on metro.net); and
- B. APPROVING the addition of 129 positions, including 22 contract and 107 non-contract full-time equivalent positions, as presented in Attachment A; and
- C. APPROVING the Life of Project (LOP) budgets for new capital projects with LOP exceeding \$5 million, included in the proposed FY18 Budget and presented in Attachment B; and
- D. ADOPTING Life of Project (LOP) budget of \$118.9 million for Blue Line Signaling Rehabilitation and Operational State of Good Repair Improvements that incorporates system compatibility, safety features, and new technology to improve headways during service interruptions, further described in Attachment B; and
- E. AMENDING the proposed budget to add \$8.2 million for engineering support and advanced utility relocation designs on Metro Orange Line Grade Separation (project submitted after proposed budget was published); and
- F. AMENDING the proposed budget to add \$1 million for the Comprehensive Operational Analysis (COA), which is a comprehensive service restructuring study; and
- G. APPROVING the Reimbursement Resolution declaring Metro’s intention to issue debt in FY17 18 for capital projects, as shown in Attachment C, 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. 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 were made available to the public on May 3, 2017, 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 17, 2017. Advance public notification of this hearing was issued through advertisements posted in over two dozen news publications.

DISCUSSION

The proposed FY18 budget is balanced at \$6.1 billion in total agency expenditures, an increase of \$83.1 million, or 1.4%, from the \$6.0 billion FY17 budget. This increase of less than the Consumer Price Index (CPI), which is a measure of cost inflation, demonstrates the agency's commitment to fiscal discipline and tight budget controls as we continue to deliver on the 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
9. Contribute to the implementation of agencywide and departmental Affirmative Action and Equal Employment Opportunity goals

Assumptions Summary

The FY18 budget is built on the following assumptions:

- Proposition A, Proposition C, Measure R, and TDA sales tax revenue growth of 2.8% over the FY17 budget, based on forecasting sources as well as actual receipts for FY17 YTD through

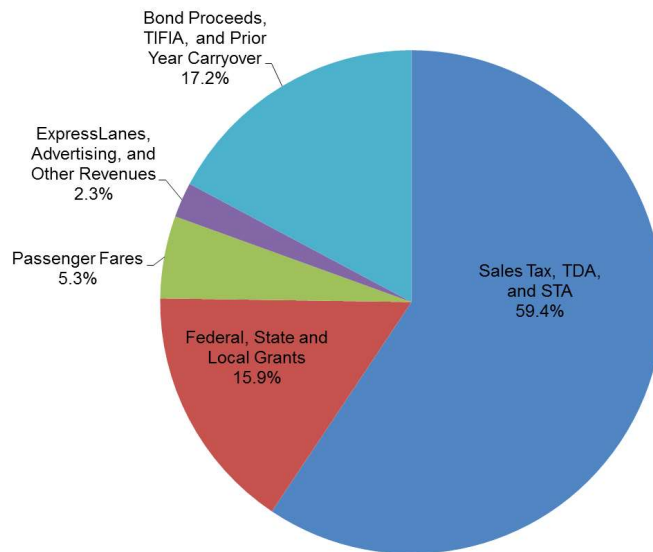
Q2

- Measure M revenues are budgeted at 95% of the estimated annual receipts based on past history for new sales tax inaugural years
- State Transit Assistance (TDA) revenues are based on estimates from the State Controller’s Office
- CPI of +1.75% based on Beacon Economics forecast
- No change in Bus Revenue Service Hours (RSH), with RSH reallocated to:
 - Improve reliability on the Owl network
 - Augment and right-size service in order to increase peak frequencies on priority bus lines
 - Incorporate service support for rail line maintenance and special events
- Rail Revenue Service Hours increase by 129,000 RSH, or 11.6%, due to:
 - Availability of more rail cars to meet growing demand on the Expo Line and Gold Line
 - Providing necessary service to meet growing demand for service to sports venues and special events
- Wage/salary increases and health/welfare benefits for represented employees are based on Board adopted contracts
 - Labor negotiations continue for collective bargaining agreements
- With labor negotiations ongoing, results will be reflected under separate action
- 107 new non-represented FTEs requested
- 22 represented FTEs requested

Resources Summary

The table below summarizes the budgeted resources available for FY18.

Resources (\$ in millions)		FY18	
		Proposed	% of Total
1	Sales Tax, TDA, and STA	\$ 3,628.9	59.4%
2	Federal, State and Local Grants	969.0	15.9%
4	Passenger Fares	323.4	5.3%
5	ExpressLanes, Advertising, and Other Revenues	137.7	2.3%
6	Bond Proceeds, TIFIA, and Prior Year Carryover	1,052.6	17.2%
7	Total	\$ 6,111.6	100.0%



FY18 vs FY17 Expense Summary

For the proposed FY18 budget, every dollar has been linked to one of our nine agency goals as listed on the second page of this report. This new practice enables us to track our ongoing costs in relation to our objectives, which will result in a quantifiable measure of the efforts expended to move toward specific achievements. This approach is designed to further reinforce the agency’s commitment to strategic monitoring of performance and the improvement of accountability.

Due to our focused adherence to tight budget controls, the FY18 budget represents an increase of only 1.4%, which is less than CPI. The main cause of the variance within each program type category are listed below.

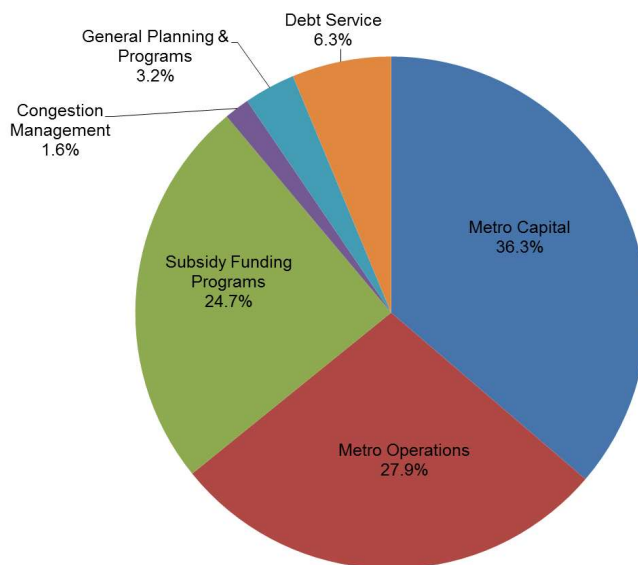
- Metro Capital is decreasing by 11.8%, primarily due to the offsetting impact of the I-405 contract closeout.
- Metro Operations is increasing slightly by 6.1% due to two main factors:
 - Restructuring of Transit Security efforts, including the new law enforcement contracts and an increase in private security.
 - Increase in unit costs for purchased transportation, due to the inclusion of living wage increases in the new contracts.
- Subsidy Funding Programs will increase by 15.7%, primarily due to increased subsidies paid to local jurisdictions, municipal operators, Metrolink, and Access Services, which is a direct

result of additional funding from the growth in sales tax revenues plus new revenues from Measure M.

- Congestion Management will decrease by 13.5% due to improved cash flow management.
- General Planning & Programs will increase by 17.2%, due to planning and administration for new Measure M projects, as well as efforts to secure Public-Private Partnerships to facilitate acceleration of new construction.
- Debt Service will increase by 19.7%, due to year-over-year changes in the debt repayment schedule as approved by the Board at the time of debt authorization.

The chart below shows the summary of expenditures for FY18 compared to FY17.

Expenditures by Program Type (\$ in millions)		FY17 Budget	FY18 Proposed	\$ Variance	% Variance
1	Metro Capital	\$ 2,512.9	\$ 2,216.5	\$ (296.4)	-11.8%
2	Metro Operations	1,607.8	1,706.0	98.2	6.1%
3	Subsidy Funding Programs	1,304.9	1,509.9	205.0	15.7%
4	Congestion Management	112.9	97.7	(15.2)	-13.5%
5	General Planning & Programs	169.2	198.3	29.1	17.2%
6	Debt Service	320.1	383.2	63.1	19.7%
7	Total	\$ 6,027.8	\$ 6,111.6	\$ 83.8	1.4%



FTE Summary

The FY18 proposed budget includes requests for 107 non-contract FTE additions and 22 represented FTE additions. These positions address new Measure M planning, funding, and oversight needs, as well as the Transit Project delivery schedule and piloting of new programs to improve the customer experience on Metro systems. A summary of the requested FTEs is shown in the table below, and a detailed listing of the requested FTEs is presented in Attachment A.

Department	FY18		FY18		FY18		FY18
	FY17	Request	Proposed	FY17	Request	Proposed	Proposed
	Non-Represented			Represented			Total
1 Board of Directors	38		38	0		0	38
2 Chief Executive Office	252	16	268	299	3	302	570
3 Communications	116	8	124	184	1	185	309
4 Congestion Reduction	20	3	23	0		0	23
5 Finance & Budget	144	10	154	67		67	221
6 Information Technology	94	2	96	50	1	51	147
7 Operations	275	11	286	7,532	15	7,547	7,833
8 Planning & Development	151	13	164	0		0	164
9 Program Management	234	36	270	0		0	270
10 Vendor/Contract Management	160	8	168	162	2	164	332
11 Total	1,484	107	1,591	8,294	22	8,316	9,907

Capital Program

The proposed budget includes the capital program life-of-project (LOP) budgets for all capital projects. Projects that are under \$1 million, projects that are unchanged from the prior year, and new projects that are less than \$5 million are identified in the proposed budget and approved with Board action on the proposed budget. Projects that are greater than \$1 million with LOP budget increases and new projects in excess of \$5 million must be approved by the Board in separate Board actions.

Attachment B includes a detailed listing of new capital projects for FY18 with LOP in excess of \$5 million. These projects are included in the proposed FY18 budget but do require LOP approval by the Board, as requested by Recommendation C of this report.

Blue Line Signaling Rehabilitation and Operational Improvements

After renewed review of the state of good repair needs and as directed by the Board to focus on the oldest Metro Rail Line, Blue Line, Metro is combining three Board approved Blue Line improvement projects of \$81.6 million and adding \$37.4 million for a total of \$118.9 million. This LOP is a result of the expanded scope that takes advantage of the new technologies for the signals and relays just now available to improve the reliability of train control. The LOP for this project scope revision is included in the FY18 New Capital Projects listing (Attachment B).

Budget Amendments Since Proposed Budget Was Published

Subsequent to the preparation of the FY18 proposed budget, a modification to increase the total budget by \$8.2 million has been submitted to provide engineering support and advanced utility relocation designs on the Metro Orange Line Grade Separation. This project remains in the planning phase during FY18 for environmental clearance.

Another modification to the FY18 proposed budget is the addition of \$1 million for the Comprehensive Operational Analysis, which is a systemwide bus restructuring study. The purpose of this effort is to restructure the bus network given the changes to the region's travel demand, travel markets, and transportation options, and to set a foundation for future investment in transportation from Measure M.

The total impact of amendments to the proposed budget is shown in the table below.

Amendment Items to FY18 Proposed		\$ (in millions)
1	FY18 Proposed	\$ 6,111.6
	<u>Amendment Items</u>	
2	Metro Orange Line Grade Separation	8.2
3	Comprehensive Operational Analysis	1.0
4	FY18 Proposed with Amendment Items	\$ 6,120.8
5	FY18 Proposed with Amendment Items vs FY17	1.5%

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 C) 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.

Public Outreach

The comprehensive outreach program for the FY18 budget development process represents the most extensive efforts to date, ensuring the greatest level of engagement from the public and key stakeholders. To encourage greater participation, the times and locations of public workshops were advertised through multiple channels, including the Metro website, “take-ones” on board buses and rail vehicles and at customer centers, newspaper advertising, messages on hold, Metro Briefs, and social media channels. Expanded outreach efforts for FY18 included a Telephone Town Hall and an interactive Online Budget Tool, making it convenient for LA County residents to participate in the

budget process and resulting in more responses from the general public compared with prior years. A summary of public outreach efforts and comments received is shown in Attachment D.

FINANCIAL IMPACT

The proposed FY18 budget (provided in a separate transmittal), plus the amendments in Recommendations E-F, is \$6.1 billion, which is a 1.5% increase from FY17. 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

The FY18 Adopted Budget will be published by September 2017 and will be modified as necessary to include all Board actions subsequent to budget adoption, inclusive of Recommendations D-F in this report. Monitoring the FY18 budget performance will be a year-round ongoing effort. Staff will conduct quarterly variance analysis and track 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 and actual performance. In addition, continuous improvements will be implemented to the process and regular updates will be reported to the Board.

ATTACHMENTS

Attachment A - FY18 FTE Requests by Department

Attachment B - FY18 New Capital Projects

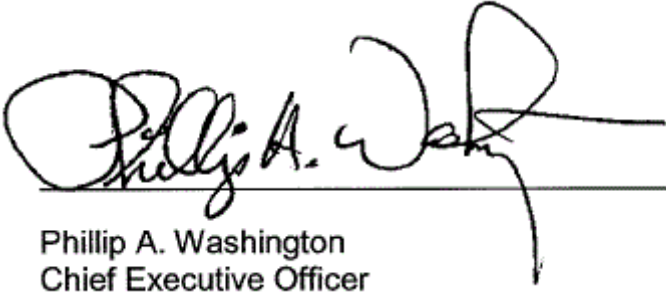
Attachment C - Reimbursement Resolution of Metro for FY18

Attachment D - FY18 Public Outreach

Prepared by: Office of Management & Budget Staff

Melissa Wang, Executive Officer, Finance, (213) 922-6204

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington
Chief Executive Officer