



## Board Report

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### FINANCE, BUDGET, AND AUDIT COMMITTEE FEBRUARY 20, 2019

**SUBJECT: FISCAL YEAR 2020 BUDGET DEVELOPMENT PROCESS**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE the Fiscal Year 2020 (FY20) Budget Development Process.

#### **ISSUE**

This is the first of a series of monthly updates to the Board to kick-off the FY20 Budget development status until May 2019 Board Adoption. The budget process is meant to estimate and allocate available resources in order to achieve the Metro Vision 2028 goals in a manner that is fiscally sound and financially responsible. In the upcoming months, the FY20 Budget development reports will include reviewing key economic factors affecting revenues and expenses, setting program deliverable objectives and resource requirements, incorporating stakeholder input and demonstrating agency accountability and performance through the first of its kind Performance Management tool.

This report begins with the Metro Vision 2028 goals for FY20 with an outline of the planned budget process and schedule. A section detailing a comprehensive public outreach program follows, which seeks to maximize public input and ensure that Metro's stakeholders have an active role in the process. The report also discusses the approach used to forecast sales tax revenues and cost inflation for program expenses. These assumptions lay the framework for the development of the upcoming annual budget.

#### **DISCUSSION**

##### **Metro Vision 2028 Goals**

Targeting a balanced budget for FY20, the annual budget will align resources in a fiscally responsible manner to achieve the following Metro Vision 2028 goals:

- Provide high-quality mobility options that enable people to spend less time traveling.
- Deliver outstanding trip experiences for all users of the transportation system.
- Enhance communities and lives through mobility and access to opportunity.

- Transform Los Angeles County through regional collaboration and national leadership.
- Provide responsive, accountable, and trustworthy governance within the LA Metro organization.

### Budget Process and Schedule

Heeding the CEO's call for a fiscally responsible budget plan to deliver FY20 goals, Metro will continue to improve transit services, keep transit assets in a state of good repair, fund and plan for regional transportation programs and construct new transit/transportation infrastructure according to voter approved sales tax ordinances, State and Federal regulations, Board policies and approved guidelines. In the following months the FY20 Budget process is designed to build one program at a time, while incorporating the Board and stakeholder input.

Here is a summary of the schedule of topics to be presented over the next few months; culminating in final Board Adoption in May.

Month	Topic
February	Process and Budget Outlook: <ul style="list-style-type: none"><li>• Budget Development Process and Schedule</li><li>• Stakeholder Outreach Plan</li><li>• Sales Tax Forecast, Resources Assumptions</li><li>• Cost Inflation Estimate</li></ul>
March	New Infrastructure Planning and Construction: <ul style="list-style-type: none"><li>• New Transit System; Rail, Bus Rapid Transit and Alternative Modes (Bike and Active Transportation)</li><li>• Highway</li><li>• Regional Rail</li></ul>
April	Operating Budget and Regional Subsidy: <ul style="list-style-type: none"><li>• Metro Transit, Including Bus and Rail Service Levels</li><li>• State of Good Repair</li><li>• Subsidy to Regional Partners</li><li>• Other Operating Programs</li></ul>

May	<b>FY20 Budget Adoption (Planned)</b> <ul style="list-style-type: none"><li>• Consolidated Agencywide Expenses and FTEs Budget Proposal</li><li>• Public Hearing on May 15, 2019</li><li>• Summary of Public Comment and Stakeholder Review</li><li>• Final Board Adoption on May 23, 2019</li></ul>
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## Board of Directors Updates

Beginning in February, detailed budget briefings will be presented to Board staff on a regular basis. These briefings will provide an in-depth explanation of the budget development for every Metro department, as well as a comprehensive look at all revenues, expenses, and project deliverables planned for FY20. In addition to these ongoing regular briefings, staff will also provide monthly updates to the Board.

## Public and Stakeholder Outreach

Soliciting meaningful input from the public and stakeholders is critical to the budget development. The comprehensive outreach program ensures that Metro provides complete information at the best possible level of engagement to the public and key stakeholders. To acquire greater participation, the times and locations of public forums are being advertised through multiple channels, including social media and the Metro website, "Take Ones" aboard vehicles, message on hold, and Metro Briefs.

### Public Outreach

To encourage public involvement and promote transparency, the budget process includes numerous options and opportunities for informing and engaging the public. Traditional forums are available for direct participation. Considering possible time constraints of interested participants, alternative media channels, communication tools, telephone and digital online mechanisms are being used to provide multiple opportunities for the public to learn about and communicate the FY20 Budget and process.

The following list describes the public forums and media channels that will be utilized to maximize participation in the development of the FY20 Budget:

- Public Hearing - A public hearing on the FY20 Budget will be held on May 15<sup>th</sup>, 2019, and the public is encouraged to attend and provide their comments on the proposed budget to the Board. Notice of public hearing will follow legally required policies and procedures (multiple languages, published in multiple newspapers, etc.)
- Metro Service Councils - Five Service Councils are located throughout the County to give

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residents more opportunities for input on service issues in their community. This is an ideal forum for obtaining direct and immediate feedback from our transit riders.

- The Source/El Pasajero/Facebook/Twitter - Staff will be using Metro's social media outlets to inform the public throughout the FY20 Budget development process, including Facebook ads and Twitter.
- Interactive Budget Tool - This tool will be an interactive application to promote financial transparency and engage the public on the budgeting process. It's more than a simple survey; it's also a way to allow the public to provide feedback on their individual transit priorities. It will be available as a link from the Metro.net page, and announced through social media outlets such as Facebook and Twitter.
- Budget Website - An FY20 Budget website that can be accessed through www.Metro.net will provide regular updates on the budget process, budget details as they become available each month, and offer opportunity for the public to provide their comments.
- E-mail - [budgetcomments@metro.net](mailto:budgetcomments@metro.net) has been established to allow the public an opportunity to comment outside of a public setting.
- Telephone Townhall - A town-hall-style meeting, including a discussion of the proposed budget followed by a question-and-answer period. It is conducted via telephone with participants throughout Los Angeles County.

### Stakeholder Briefings

Stakeholders range from jurisdictions and other public agencies that receive funding from Metro to community groups and other organizations that promote and/or rely on Metro services. To apprise them of the budget development process, workshops are scheduled in March and April with various stakeholder groups to engage and solicit input, as follows:

- Citizens Advisory Council (CAC) - The CAC represents a broad spectrum of interests from all geographic areas of the County. This group consults, obtains and collects public input on matters and concerns of many communities. This is an ideal forum to solicit community feedback on various transit issues.
- Technical Advisory Committee (TAC) - The TAC represents key stakeholders that provide technical assistance in reviewing and evaluating various transportation proposals and alternatives within Los Angeles County. This group provides feedback from the communities they represent and offer insight to transit issues throughout the county, including funding, streets, freeways, and transit air quality improvements.

- Bus Operations Subcommittee (BOS) - The BOS represents transit operators in LA County and offers input on countywide bus operations, capital and legislative issues. This forum allows for the input of transit riders throughout the county.
- Local Transit Systems Subcommittee (LTSS) - The LTSS provides technical input on issues affecting local transportation systems. This forum allows for the input of local transit system operators throughout the county.
- Streets & Freeways Subcommittee - The Streets & Freeways Subcommittee is a technical subcommittee of the TAC. This forum facilitates budget development input from the subcommittee members, who are charged with reviewing and evaluating various transportation policies, issues, and transportation funding programs.

### **Sales Tax Revenue Assumptions**

Metro relies on sales taxes for more than half of its total revenues. In addition, cities and our transit provider partners plan their operation based on our revenue projections. This fact necessitates a careful evaluation and forecasting of the sales tax growth rate and funding levels.

In order to generate a realistic forecast of sales tax revenues, long term and short term historical receipts and leading professional forecasts of economic trends are factored in the sales tax growth rate development. Following is a series of charts and descriptions that provide the parameters for projected sales tax revenues.

Figure 1 shows the historical growth of Metro's sales tax revenues. Compared to past years, recent growth has been positive with growth rates staying in between 2.4% and 6.0% since FY14. This mirrors the steady growth of the region's economy over the same period.

Figure 1:

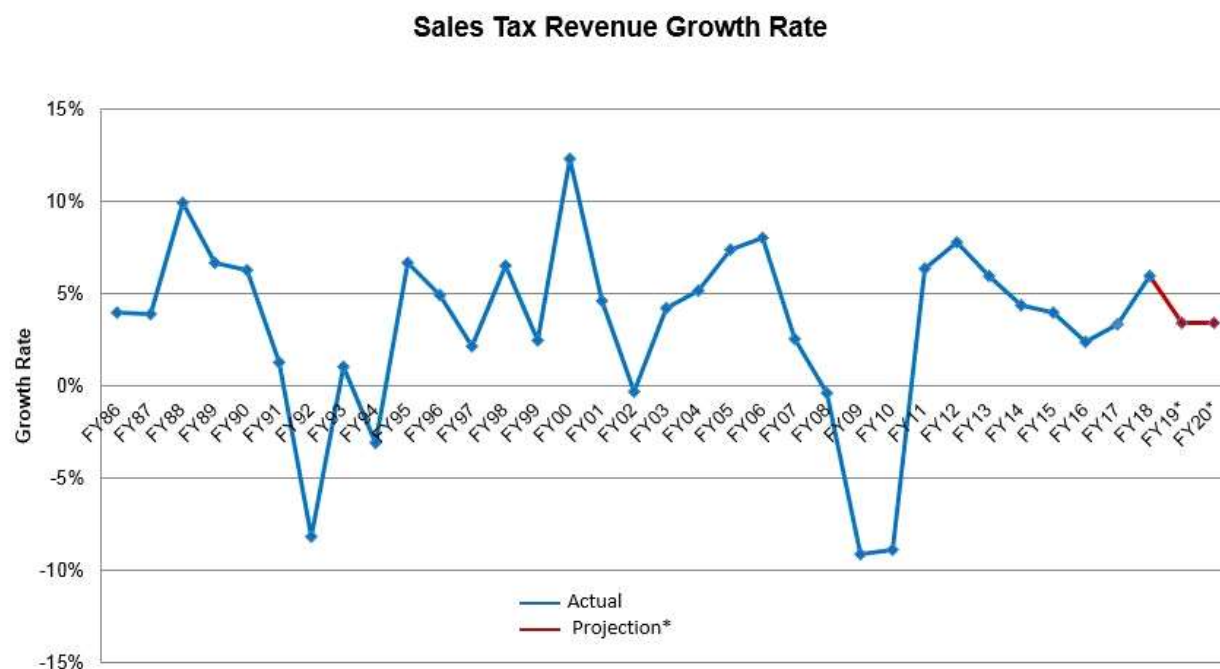


Figure 2 shows the latest FY20 forecasts per sales tax ordinance provided by UCLA, Beacon Economics and Muni Services. It also shows how Metro's budget estimates have compared to actual receipts and the leading local forecasts since FY15.

Figure 2:

**Sales Tax Forecast Comparison**

(\$ in millions)

Forecast Source	FY15	FY16	FY17	FY18	FY19	FY20
<b>Actual</b>	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 865.1 <sup>(2)</sup>	-
<b>Metro</b>	740.0	770.3 <sup>(1)</sup>	780.0 <sup>(1)</sup>	816.0 <sup>(1)</sup>	844.0	894.5 <sup>(2)</sup>
<b>CDTFA<sup>(3)</sup></b>	749.8	770.9	779.7	801.1	868.7	911.6
<b>UCLA</b>	733.2	772.1	807.4	810.0	863.6	838.1
<b>Beacon Economics</b>	751.7	766.2	806.2	816.9	835.4	843.5
<b>Muni Services</b>	741.5	785.8	806.2	803.6	827.7	868.1

(1) Reforecasted budget

(2) Projection may be modified as additional information becomes available from the California Department of Tax and Fee Administration (CDTFA) and major forecasting agencies.

(3) Projections based on CDTFA's January statewide sales tax growth rate estimates.

Figure 3:

<b>\$ in Millions (for each Sales Tax Ordinance - Propositions A, C, Measures R and M)</b>					
	<b>FY16 Actual</b>	<b>FY17 Actual</b>	<b>FY18 Actual</b>	<b>FY19 Estimated Actual</b>	<b>FY20 Assumption</b>
Sales Tax Base	\$ 763.7	\$ 789.4	\$ 836.7	\$ 865.1	\$ 894.5
% Change	2.4%	3.4%	6.0%	3.4%	3.4%

Traditionally, Metro has used the first quarter sales tax receipt data from California Department of Tax and Fee Administration (CDTFA) to project the full year sales tax receipts. However, insufficient data is available this year since CDTFA is still processing missing paper returns as a result of glitches during their system upgrade in May 2018. Given other positive economic indicators such as low unemployment rate and growing real personal income, it is estimated that the FY19 year-end actual sales tax receipt per ordinance will reach \$865.1 million, which represents a 3.4% increase from the FY18 actual.

We assume the FY20 sales tax annual growth rate will remain steady at Metro's own twenty-five year historical growth rate of 3.4%, providing us with a base sales tax receipt of \$894.5 million per ordinance. As a result of the US Supreme Court's ruling in *South Dakota v. Wayfair*, we anticipate new state legislation will be enacted allowing additional sales tax collections from e-commerce vendors who do not have a physical presence in the state. It is estimated that \$10 to \$20 million of additional sales tax receipt per ordinance will be generated from this change in FY20. Metro will amend the revenue forecast at mid-year based on initial receipts during FY20 from these e-commerce vendors.

These growth rates will be reviewed and adjusted during the budget development process as more information becomes available from CDTFA. We will continue to monitor trends in sales tax receipts and updates from the economic forecasts as we go through the budget process, and report back to the Board in the upcoming budget process.

### **Cost Inflation Indicator as in Consumer Price Index (CPI) and Other Expense Change Factors**

On the expense side, Metro program cost and cash flow requirements are impacted by cost inflation, existing labor contracts and program guidelines. The most common indicator of cost inflation is the Consumer Price Index (CPI) as published by the Bureau of Labor Statistics. Accurate projections of sales tax revenues and CPI are important to provide a sound revenue and expenditure budget plan.



Consumer Price Index (CPI)

In order to project cost inflation, a similar approach as with sales tax revenues forecast was followed by taking into account of the historical trend and leading regional forecasts. Looking back, CPI has been gradually increasing in recent years. UCLA and Beacon Economics expect inflationary pressures to continue building. Given recent trends and current forecasts, we currently assume that CPI will increase from the projected 2.25% in FY19 to 2.28% in FY20, as shown in Figure 4. We will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 4:**Annual Change in Consumer Price Index (CPI)**

Forecast Source	FY15	FY16	FY17	FY18	FY19	FY20
Actual	0.94%	1.73%	2.10%	3.48%	2.25%*	-
Metro	2.30%	1.97%	1.85%	1.75%	2.25%	2.28%
UCLA	2.81%	2.25%	2.70%	2.78%	2.42%	2.60%
Beacon Economics	1.97%	1.57%	1.98%	2.00%	2.15%	1.83%

\* Preliminary based on FY19 adopted budget

**Other Expense Assumptions**Wages and Benefits

Metro's labor and fringe benefit costs will continue to adhere to the respective collective bargaining agreements with all five unions for FY20.

Service and Program Assumptions

Metro is continuing its NextGen Bus study. The objective is to look at current service and provide a bottom-up assessment of service deployment given travel patterns, line usage, trip destinations, and availability of alternate methods of travel. These factors will be integrated into a service model that will provide the most efficient and effective customer experience. Contingency bus service will also be incorporated to address Rail service interruptions and special events. Service scenarios will be presented to the service councils and Board of Directors for consideration. Our State of Good Repair (SGR) program will continue to preserve our infrastructure and ready ourselves for future Rail expansion projects. The emphasis will be on delivery of cleaner burning CNG and Zero Emission Buses(ZEB), new rail vehicles, overhaul of the existing bus and rail fleet, and maintenance of track and system components on rail lines.



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### Transit and Transportation Infrastructure

Major new transit and highway projects listed in the sales tax ordinances will be funded based on their Board-adopted Life of Project budgets.

### Regional Subsidies

Subsidy funding for regional projects and programs will be included in the budget based on distribution formulas or specific Board approvals.

### Support Costs

Consistent with the CEO's goal of exercising fiscal discipline to ensure financial stability, we will aggressively monitor and manage support costs while ensuring we meet all legally-mandated requirements and remain responsive as an agency.

### **DETERMINATION OF SAFETY IMPACT**

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

### **FINANCIAL IMPACT**

The assumptions described above are the budget planning parameters, and will guide the development of the FY20 Budget. They may be adjusted as more specific and updated information becomes available.

### **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**

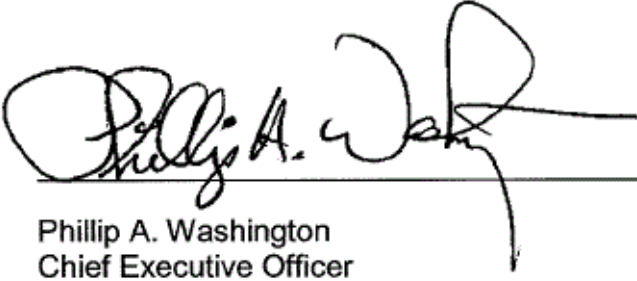
The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

### **NEXT STEPS**

As described earlier in this report, Metro staff will provide regular FY20 Budget briefings to Board members and their staff starting this month. Further, we will provide receive-and-file reports on a monthly basis, as previously detailed.

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