



Board Report

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FINANCE, BUDGET, AND AUDIT COMMITTEE APRIL 17, 2019

SUBJECT: FY20 BUDGET DEVELOPMENT UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE FY20 Budget Development Update.

ISSUE

Metro is continuing the development of the FY20 Budget. This report is third in a series of monthly budget updates that will lead to a proposed budget for adoption in May 2019.

In the past status reports, the FY20 Budget progress discussed the factors that impact sales tax forecast and cost inflation, as well as the process that guides the budget development to achieve the Vision 2028 goals in a fiscally sound manner. The second report detailed the proposed Transit Infrastructure Program, which includes Transit Construction, Highway Improvements and Regional Rail.

The focus of this report will be on State of Good Repair (SGR), the Subsidy Funding Program and Debt Service. The SGR program provides the resources required to maintain existing Bus and Rail assets, purchase new Buses and Rail vehicles for replacement and service expansion, Operating system maintenance and upgrades, and maintenance/augmentation of other transit infrastructure. The Subsidy Funding Program represents direct funding to our regional partners to carry out their local transportation needs. Debt service is a financing tool to help deliver essential capital projects.

Staff will also provide a status of continued public outreach efforts to obtain public and stakeholder input.

DISCUSSION

Metro State of Good Repair (SGR)

Metro continues to provide the necessary resources to maintain the transit system in a state of good repair. In FY20, \$491.9 million is allocated to maintain Metro's Bus, Rail, and critical information systems to manage and monitor system-wide performance. It also reflects maintenance of peripheral

Transit Infrastructure. The \$492 million estimate is based on planned project activities and reflect the cash flow required to complete FY20 milestones and deliverables. A profile of the SGR program is shown in the table below.

Metro State of Good Repair				
SGR Category (\$ in millions)	FY19 Budget	FY20 Preliminary	% of Total SGR Budget	Year Over Year Change
1 Bus Acquisition	\$ 96.8	\$ 130.9	26.6%	35.2%
2 Bus Facilities Improvements	20.5	9.3	1.9%	-54.8%
3 Bus Maintenance	69.2	48.7	9.9%	-29.7%
4 Bus Subtotal	\$ 186.6	\$ 188.9	38.4%	1.2%
5 Rail Facilities Improvements	12.6	9.1	1.9%	-27.3%
6 Rail Fleet Procurement	144.3	120.6	24.5%	-16.4%
7 Rail Vehicle Maintenance	51.1	44.5	9.0%	-12.8%
8 Wayside Systems	62.2	66.5	13.5%	7.0%
9 Rail Subtotal	\$ 270.1	\$ 240.9	49.0%	-10.8%
10 Regional and Hubs	16.3	15.8	3.2%	-2.6%
11 TAM Project Management Support	0.6	0.0	0.0%	-93.6%
12 Technology	17.9	17.9	3.6%	0.3%
13 Non MR/MM Major Construction	22.4	17.3	3.5%	-22.8%
14 Non-Revenue Vehicles	10.0	1.2	0.2%	-88.5%
15 Other SGR	10.4	10.0	2.0%	-4.2%
16 Other Subtotal	\$ 77.5	\$ 62.2	12.6%	-19.8%
17 Total Proposed SGR Budget	\$ 534.2	\$ 491.9		-7.9%

Bus State of Good Repair

Bus Acquisition, Facilities Improvements, and Bus Maintenance make up \$188.9 million, 38% of the total SGR budget.

Bus Acquisition

In pursuit of a truly sustainable bus fleet, the Board has adopted a goal of converting Metro's entire fleet of buses from Compressed Natural Gas (CNG) to Zero Emission electric vehicles by the year 2030. This is an ambitious goal considering Metro has the second largest bus fleet in the United States and places high performance demand on its 2,300 buses. Because of this high vehicle demand, Metro will partner with electric bus manufacturers to test, develop, and improve electric bus technology to the point of full technological maturity. FY20 Bus acquisition expenditures represent the initial step of realizing this goal. Bus acquisition consists of procurement and delivery of buses to replace buses scheduled for retirement, for service improvements and for initiating the Board-Directed goal of incorporating electric buses into the fleet. Almost \$131 million, 26% of the total budget is allocated for these efforts. Metro anticipates delivery of 207 forty-foot buses and 65 sixty-foot near zero emission CNG buses, as well as 40 sixty-foot Electric/Zero Emission Buses (ZEB). Total estimated quantity is 312 buses. This also includes placement of electric charging equipment

and infrastructure at stations on the Orange Line alignment, as well as well as Operating divisions. Orange Line vehicle testing will commence and placement of buses into revenue service is currently on schedule.

Bus Facilities Improvements

Bus Facilities Improvements make up \$9.3 million, 2% of the SGR budget. These projects include development of master plans for facility upgrades, site refurbishment, and site reconfigurations to upgrade and maintain facilities. Upgrades include regulatory compliance mandates, such as replacement of underground fuel storage tanks and roof, ventilation, and pavement replacements.

Bus Maintenance

Bus maintenance projects represent \$48.7 million, 10% of the SGR budget. These projects include Bus Midlife refurbishment and integrated engine replacement. Midlife refurbishment ensures that our buses are operational for their designated useful life, which includes structural integrity checks and change-out of critical system components. The refurbishment program also consists of installation of live view security monitors, fare box upgrades, and upgraded ADA wheelchair securement equipment.

Rail State of Good Repair

Rail Facilities Improvements, Rail Fleet Procurement, Rail Vehicle Maintenance, and Wayside Systems repair and replacement total \$240.9 million, 49% of the SGR budget.

Rail Facilities

Rail Facilities projects make up \$9.1 million, 2% to the SGR budget. Projects maintain existing Rail facilities with mandated regulatory upgrades such as station/facility fire control panel installation, sound enclosures for light rail stations adjacent to freeways, Red Line elevator/escalator modernization, various lighting retrofits, roof replacements, ventilation, and pavement replacements. Also included are rail station artwork renovation and replacement.

Rail Fleet Procurement

Light and Heavy Rail Vehicle procurement is allocated \$120.6 million, 24% of the SGR budget dedicated to their deliveries and modernization. Light rail vehicle deliveries will be approaching its final phase as production is nearing an end. Kinkisharyo, the manufacturer, will focus on completing vehicle modifications that enhance safety, security and serviceability, while closing out minor production and assembly installations. The modifications include a secondary train operator display providing full network and operational redundancy to improve performance and reliability.

Additional exterior color route signage enabling non-English speaking customers the ability to navigate the light rail network with greater ease. Interior passenger route information displays will be

replaced with larger thin film-liquid crystal display monitors capable of displaying route and destination graphics. The interior ADA and priority seating areas will have additional demarcation features that will improve visibility of wheelchair priority seating areas.

Two Heavy Rail pilot vehicles are scheduled for delivery inspection and testing. The two cars are the initial major milestone in the process of replacing the original Red Line cars that began service in 1992. The remainder of the option cars within the order will provide service to the entire Purple Line Extension in time for the 2028 Olympics.

Rail Vehicle Maintenance

Rail Vehicle Maintenance projects are allocated \$44.5 million, 9% of SGR budget. Two major vehicle component overhaul programs will close-out in FY20. These component projects are slated to augment customer amenities and refurbishment of gearboxes, Heating, Ventilation, and Air Conditioning (HVAC) systems, and other major equipment that requires specialized technical skills to rebuild.

The Heavy Rail vehicle midlife modernization consists of the change out of critical system components to extend the vehicle useful life. This refurbishment will occur on Red Line vehicles. Vehicle refurbishment has been initiated and two pilot heavy rail vehicles will complete their refurbishment and modernization. These two vehicles will be tested and upon successful testing the remaining vehicles will commence the overhaul and are scheduled to be completed at a rate of two vehicles per month, delivering a total of 74 vehicles. Refurbished critical assemblies include propulsion power systems, friction brake control, Automatic Train Control (ATP) and numerous subsystems required to improve operational reliability. Refurbishment also includes the installation of a fire mist suppression system, which will provide an economical fire life safety solution on the Red and Purple Lines.

Light Rail overhauled vehicles will also be delivered for testing on the Green and Blue Lines. The vehicles were shipped offsite for a complete overhaul and new component installation. New Automatic Train Protection (ATP) equipment will enable the trains to run on the Blue and Crenshaw Lines and in street mode. The critical operational systems for overhaul include friction brakes, air compressor motors, gearboxes and graffiti mitigation.

Other Asset Improvements

Other Asset Improvements total \$62.2 million, 13% of the SGR budget. These projects are slated for regional construction improvements, replacement of maintenance vehicles/equipment, and technology upgrades. Regional projects include the Rosa Parks Willowbrook Station, Emergency Security Operations Center, Patsaouras Plaza Station improvements and a Rail Operations Center. System purchase and upgrades include the procurement of a new enterprise asset management system to integrate maintenance activities and track agency-wide capital assets. Continuing Metro's Wi-Fi/connected bus projects will continue to enhance amenities and improve the customer

experience. Metro's New Blue project is on-going and will continue to install/refurbish tracks, turnouts, crossovers, overhead catenary, train control electronics and station improvements. The system modernization will provide operational advantages that will enable seamless service continuity as Metro's rail system expands. Public interfacing of the project includes pedestrian gates, fare gates.

Another program is the on-going improvement of the TAP fare payment system. TAP offers customers the ability to travel seamlessly on 26 transit service providers. TAP is quickly expanding its payment services by adding the TAP Wallet to enable customers to continue their trips using Bikeshare, Microtransit, and last mile services. This year TAP will introduce the TAP mobile app. This app will enable customers' phones to act as virtual TAP cards, making purchases and boarding more convenient. TAP is preparing for the mobile app by upgrading Metro's fare boxes and station validators and the regional partner agencies' bus fare boxes

Subsidy Funding Program

LACMTA is the Regional Transportation Planning Agency (RTPA) for Los Angeles County. In this capacity, LACMTA plans, programs and administers various local, state and federal funds for the operating and capital needs of the county's transit systems and various transportation improvement programs. In addition, LACMTA supplements reduced fares for the elderly and disabled with additional subsidy programs designed to help underserved residents of LA County. The Subsidy Funding program is increasing by \$74.1 million, or 5.6% over last year. This increase is a direct result of increased funding from growth in sales tax revenues. The table below shows the preliminary budget for the Subsidy Program.

Subsidy Funding Program (\$ in millions)	FY19 Budget	FY20 Preliminary	\$ Change	% Change
Local Agencies	\$ 766.6	\$ 779.3	\$ 12.8	1.7%
Regional Transit	523.4	583.3	60.0	11.5%
Regional Federal Grants	25.6	27.4	1.8	7.0%
Fare Assistance	15.1	14.6	(0.5)	-3.1%
Total	\$ 1,330.6	\$ 1,404.7	\$ 74.1	5.6%

Local Agencies

Prop A, Prop C, Measure R and Measure M Local Return funds, and Transportation Development Act Article 3 and 8 are allocated to the cities and Los Angeles County governments as provided by state laws and local ordinances. In FY20, Local Return is increasing by \$21.7 million, or 3% over last year. By placing \$655 million into the hands of the local cities for improvements, citizens will see even greater improvements to the transportation infrastructure in their own neighborhoods, such as street repair, pedestrian and bicycle facilities, and transit.

In addition to Local Return funds, LACMTA allocates federal, state and other local funds for all modes of surface transportation including Bus Capital and Operations, Local Traffic System, Regional Bikeways, Regional Surface Transportation, Transportation Demand Management and Transportation Enhancement Act funds through a competitive call process. Capital transportation funds are awarded to projects with most significant impact to the region. A total of \$55 million in FY20 is allocated to fund these projects.

Active Transportation programs, Congestion Reduction Demonstration programs, Open Streets grant program, Federal Transportation Earmark and Transit Oriented Development Grant are also included in Local Agencies' subsidy funding program. Transit Oriented Development is a Board adopted program to spur the adoption of local land use regulations to create a better transit-friendly environment. A total of \$779 million will be allocated in FY20 to fund these projects through our partnership with local agencies.

Regional Transit

Regional Transit provides funding to municipal and local operators, Access Services according to state laws, ordinances and Board adopted policies and programs. Funding is allocated to Municipal operators through a Board-adopted Formula Allocation Procedure (FAP). The purpose of this program is to improve countywide transit service operations, maintenance and expansion and to allow each operator to determine how best to accomplish making public transportation more convenient, affordable and improve quality of life.

This program also allocates subsidy funds to transit security services, Regional EZ pass, State of Good Repair and various Board approved discretionary programs such as Municipal Operators service improvement and Transit Service Expansion programs, the sub-regional Paratransit program and sub-Regional Grant projects. The Regional Transit subsidies are increasing by 10.4% in FY20, with \$473 million allocated to funding recipients.

Access Services

Access Services (Access) provides complementary paratransit origin to destination service pursuant to the civil rights mandate of the Americans with Disabilities Act (ADA) on behalf of Metro and 44 other LA County fixed route operators. Access provides over 3.5 million trips to more than 151,000 certified riders annually and continues to deliver high quality and safe paratransit service to people with disabilities throughout Los Angeles County.

FY20 projects a minimal increase in Access ridership; however operating costs are increasing due to minimum wage increases in LA County and changes in contractor service rates to include performance targets to improve customer service.

In FY20, new initiatives are underway with Measure M (MM), providing for a dedicated funding source to help implement additional services which are designed to enhance the customer

experience. Access has successfully implemented several new initiatives in collaboration with Metro and the Aging & Disability Transportation Network. For FY20, MM provides approximately \$12.8 million for the following service enhancements:

Measure M 2% - NEW INITIATIVES	
<i>Contractual Improvements</i>	
Additional Key Performance Indicators	
<i>Technology Improvements</i>	
• On-line Booking	• Where's My Ride App
• Software Modifications	• On-line Applications
<i>Operational Improvements</i>	
• Additional Transfers in Northern Region	• Parents with Disabilities
• Brokerage Model	• Travel Training

Low Income Fare Subsidy

Beginning on July 1, the Low Income Fare is Easy (LIFE) program will transition from a Paper Coupon/Token based program to a TAP based system under which patrons will be able to load their subsidies directly on their TAP cards utilizing any Metro fare vendor.

Coinciding with the launch of the upgraded LIFE program is the introduction of a new benefit: a no cost 20 trip pass. Designed to be available to any operator using the regional TAP far collection system, staff continues to work with municipal operators to complete the necessary agreements to ensure a seamless regional transit experience for our most vulnerable riders.

Funding for the FY20 LIFE program sees a slight decline from FY19 due to increased funding in the last quarter of FY19 in support of Metro's marketing efforts surrounding the new expansion of the LIFE program. Ongoing outreach efforts are included in the FY20 Budget to continue to increase and maintain program members.

Debt

Debt financing is one of the budget tools Metro uses to help deliver projects. Debt issuance is authorized by applicable state and federal legislation and the local sales tax ordinances. The Board-adopted Debt Policy establishes parameters for the issuance and management of debt that follow best practices and set affordability limits.

Debt is not an additional source of revenue. It must be paid back with interest using existing funding sources, in most cases local sales tax revenues. However, it is a way to spread out over multiple years the impact of large spikes in capital costs. For this reason, most of Metro's large projects have utilized, or are expected to utilize debt during the construction phase to facilitate delivery.

The viability of debt financing for a project is based on several factors. Funding sources must be identified and approved by the Board and must extend to cover the life of debt service payments.

Proposed debt issuance must be anticipated in the capital plan and included in fiscal year budgets. For Measure R and Measure M, their respective Oversight Committees must make a finding of benefit for any proposed debt issuance.

Debt financing pledges revenues from future years to cover current expenses. The consequence for doing this is not simply the equivalent reduction of future year revenues, but also the interest expense required to repay the lenders. Therefore, Metro strives to be very judicious in the use of debt. Debt is only used to finance essential capital projects and certain capital equipment, to keep projects on schedule.

Metro utilizes several forms of debt to provide flexibility in issuance for timing and types of expenses. Commercial Paper and other short-term obligations are utilized for quick access to credit markets. Long-term bonds are utilized to spread the cost of projects over time as several generations will both benefit and pay for the projects. Staff also monitors changes in interest rates to take advantage of refunding opportunities to restructure and reduce existing debt service commitments. Metro has also borrowed money under the Transportation Infrastructure Finance and Innovation Act (TIFIA). This is a federal program that provides credit assistance, lowering interest expenses. However, these loans are backed by (and must be repaid with) Measure R revenues.

As of March 2019, Metro has \$5.7 billion of outstanding debt. The annual debt service cost is \$414 million in FY19. Recent projects partially funded with debt proceeds include Expo Phase II, Gold Line Foothill Extension, Crenshaw/LAX, Westside Purple Line Extension Section 1, Regional Connector and numerous highway projects. In FY20, it is anticipated that Crenshaw/LAX, Westside Purple Line Section 2 and the light rail vehicle procurement will utilize debt proceeds. The annual debt service cost in FY20 is estimated at \$531.6 million, an increase of 28% over last year, primarily due to the TIFIA loan repayments and Prop C Series 2019-A/B bonds.

Public Outreach Update

Metro's budget development outreach plan is in full swing. The interactive Online Budgeting Tool launched to engage the public in the budgeting process alongside increased marketing efforts including a social media campaign.

Throughout April, staff is also conducting outreach for various stakeholder meetings, such as the Citizens Advisory Council, Policy Advisory Committee, Technical Advisory Committee, and Bus Operators Subcommittee. At these meetings, the FY20 Preliminary Budget is presented with direct exchange of questions and comments about Metro's plan for the upcoming fiscal year. These presentations are also being held at the April meetings of all Service Councils, offering many opportunities for the public to provide feedback.

The Telephone Town Hall is scheduled for April 10th providing a convenient opportunity for members of the public to offer input on the budget without physical presence at the public hearing or other in-

person forums.

A summary of all comments received during the public outreach process will be included in the May 2019 Board report.

FINANCIAL IMPACT

This report is part of an overall agency wide budget which will be presented to the Board for action in May 2019. There is no direct financial impact by this Receive and File report.

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

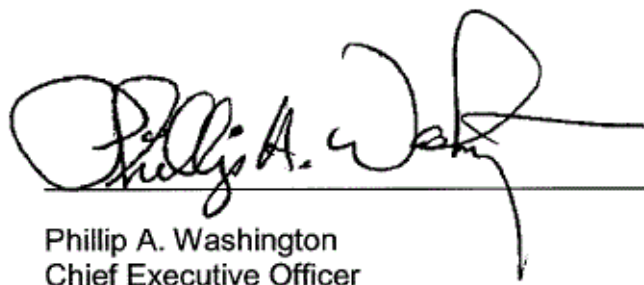
The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's state goal of improving transportation in LA County.

NEXT STEPS

Metro staff is finalizing the Operations Budget and the agency wide FY20 Budget Proposal. Staff will continue to develop and finalize the FY20 Proposed Budget. Regular updates to the Board will take place with more budget details, as they become available. Metro will continue its outreach efforts to stakeholder groups for in-depth and technical discussion of transit services and transportation program priorities that are included in the FY20 Proposed Budget. The programs identified and funded in the budget, including any updates since the first review with the Board will be consolidated and shown in the FY20 Proposed Budget Book, 15 days before the Budget Public Hearing on May 15, 2019.

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