

**Board Report**

File #: 2020-0310, **File Type:** Resolution**Agenda Number:** 13.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
MAY 20, 2020****SUBJECT: CONTINUING RESOLUTION FOR FISCAL YEAR 2021 BUDGET****ACTION: ADOPT A CONTINUING RESOLUTION FOR FISCAL YEAR 2021 BUDGET****RECOMMENDATION**

- A. ADOPT a continuing resolution to extend FY20 budget authorization for one quarter into FY21 until September 2020 when Fiscal Year 2021 (FY21) budget is considered for Board adoption
- B. AUTHORIZE the CEO to execute the adopted continuing resolution through first quarter of FY21 until October 1, 2020
- C. AUTHORIZE the extension of all annual Operating and Fare subsidy Memorandums of Understanding (MOUs) subject to available funds until such time as the FY21 budget is adopted

ISSUE

California Public Utilities Code (PUC) Section 130105 requires Metro Board to adopt an annual budget. The budget is the legal authorization to obligate and spend funds to implement Board policies and to carry out regional transit and transportation programs. The current FY20 budget authorization is for the period of July 1, 2019 to June 30, 2020. The development of the FY21 budget has been in progress and on schedule until March 2020 when Coronavirus Disease-2019 (COVID-19) pandemic altered the trajectory of the economy. As the nation and the county shifts resources and priorities to address this emergency, the development of the annual budget was negatively impacted; resources and revenues needed to continue Agency programs in FY21 are not fully defined

As the situation continues to evolve and COVID-19 end date is uncertain, the financial indicators on which Metro budget is built become more volatile. The budget development requires a fiscally responsible approach to allow more time re-evaluating the revenue projections and adjusting expenditures proposed in order to ensure a balanced budget with a transparent due process.

A continuing resolution to extend the adopted FY20 Budget beyond June 30, 2020 for one quarter is a temporary reprieve to place Metro in a better position to reforecast, while legally engage employees

and vendors without interruption until the FY21 budget can be adopted. The resolution will facilitate Metro to perform necessary and/or emergency regional transit services, transportation expansion, planning and local funding activities, subject to available funds. Meanwhile, Metro will follow the due process and PUC requirement to update the Board regularly, conduct a public hearing, and engage stakeholders with a revised FY21 Budget for Board consideration to adopt by September 2020.

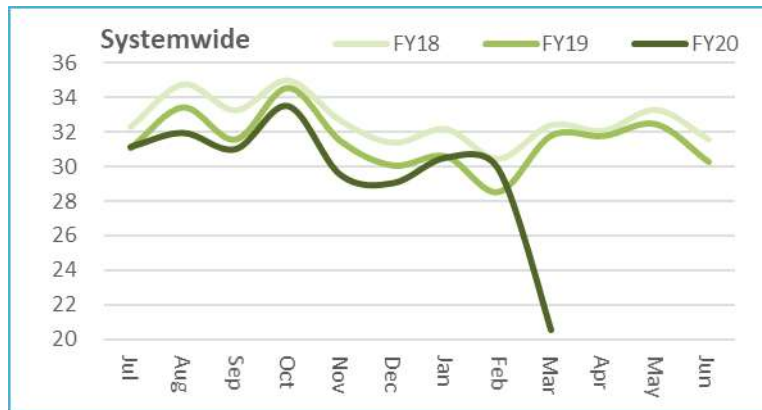
DISCUSSION

Until now, the preparation of Metro's annual budget has followed the normal timeline, with budget development beginning in January, progressing through the subsequent months, and culminating in Board adoption each May. The process ensures a judicious plan for the region's transportation resources, requiring close collaboration with departments, extensive public outreach, review with Citizen Advisory Committee, Technical Advisory Committee, Service Councils and monthly status updates to the Board. Step-by step, the framework of the annual budget, from revenue estimate, transit service levels, transportation and transit expansion progress to direct funding to regional municipalities for local transit/transportation needs, is subject to a thorough review by all parties.

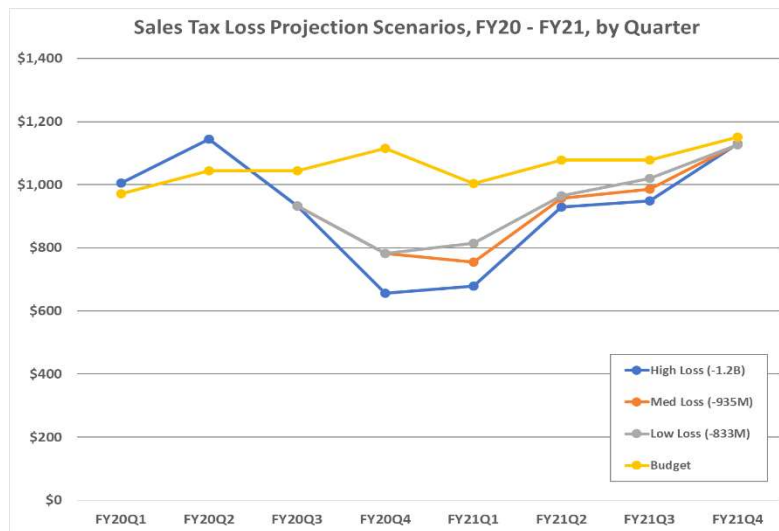
Before Board adoption of the annual budget, California Public Utilities Code Section 130106 requires a public hearing with at least 15 days prior notice and availability of the proposed budget document. The comprehensive involvement by staff, stakeholders and the public, as well as the process lead time leave little room to accommodate sudden and drastic measures of an emergency, such as COVID-19 pandemic. The FY21 Budget development must pivot the agency's focus and priority on safety for the transit public and Metro employees.

Financial Indicators to Date:

The US government declared a state of emergency, following World Health Organization (WHO) pronouncing COVID-19 as a pandemic. This came at the heel of Los Angeles County, State of California and City of Los Angeles pronouncements of a state of emergency in the middle of March. As public gatherings were prohibited and social distancing mandated, key financial indicators to fund Metro's services and functions took a nosedive. Transit ridership, for example, collapsed, as shown in the chart below displaying a 35% boarding drop in March, equivalent to a 70% weekly decline and resulting in plummeting fare revenues



The more significant revenue impact is the uncertainty in the sales tax revenues. Sales taxes account for approximately 60% of Metro’s revenue source annually. The result for the month of March, with the “Safer at Home Order” in place, will not be available until June. However, as the non-essential business shutters and retail sales plunge due to the pandemic, Metro is bracing for an intense decline in the immediate quarters, ranging from 30% to 42% decline in the 4th quarter of FY20. The chart below shows current projections at a range of low-, medium- and high sales tax loss estimates, with an anticipated swift recovery starting in the first quarter of FY21 and come back to pre-COVID level by the end of FY21.



Metro is also aggressively pursuing stimulus subsidies from FEMA, Federal and State governments. Federal CARES Act signed on March 27, 2020 will provide about \$1 billion for LA county transit operators on a reimbursement basis. CARES alone will not cover all the losses and is not eligible for

all Metro and regional transportation needs. The CARES Act funding allocations will be brought to the Board for approval.

CEO Call for Action to Control Expenses:

While the Continuing Resolution legally authorizes program expenses and expenditures at the FY20 adopted budget amount, the CEO is directing Metro staff to enforce strong fiscal discipline and maintain a balanced budget through the crisis. Before the pandemic, Metro's financial position experienced a steady economic climb, allowing Metro to stay afloat through the end of fiscal year. To further prepare for the uncertain outcome and duration, the CEO directed a Call for Action to conserve resources following State, County and City mandates and to immediately reduce cost with a limited number of exceptions:

- Cost incurred from COVID-19 for ensuring health and safety regarding the sanitation and hygiene of customers and employees:
 - PPE
 - Cleaning services
 - Additional expenses directly related to COVID-19
- Operating bus and rail service at the level per Transit Operation Plan
 - All direct and indirect support functions to revise proportionately to service adjustment
- Key infrastructure projects under construction, such as Crenshaw/LAX, Regional Connector, Purple Line Extension, Gold Line Foothill Extension, and Patsaouras Bus Plaza
 - Further analyze reduction in consultant staffing, third party staffing and other expenses including support functions on these projects
- Paying legally required payments such as contractually obligated:
 - Debt service

- Subsidies
- License, utilities, rental, etc.
- Federal and State regulatory requirements

Revised Budget Development Process:

With the approval of the Continuing Resolution, Metro will revise the budget development process accordingly, while living within the available means. The revised process will fulfill obligated requirements for full transparency with the public and stakeholders. The additional time will allow for a more up-to-date review with the Board, Board deputies/staff and stakeholders. Staff will continue to monitor the financial conditions and reforecast available revenues and resources. Budget expenditures will be re-assessed as the agency perseveres through the sudden recession caused by COVID-19. Departments will adjust their budgets to continue operate daily bus and rail services, build new highway and transportation infrastructure, as well as plan and provide funding for regional transportation activities. The revised budget adoption is anticipated in September 2020. As the situation evolves, a midyear adjustment may be required.

Date	Action
May 2020	Adoption of Continuing Resolution
August 2020	Stakeholder Outreach
September 1, 2020	FY21 Draft Budget Publication
September 16, 2020	Public Hearing
September 24, 2020	FY21 Budget Adoption
December 2020	Midyear Budget Amendment (as needed)

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The Resolution will allow Metro to allocate available resources, consistent with the adopted FY20 budget to eligible transit and transportation programs beyond June 30, 2020 until the adoption of the FY21 Budget.

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

Not adopting a Continuing Resolution is not recommended as the annual budget legal authorization ends on June 30, 2020. In the absence of the adoption of the FY21 Budget, the Continuing Resolution is necessary to allow Metro to obligate and spend funds without negatively impacting Metro's functions and activities.

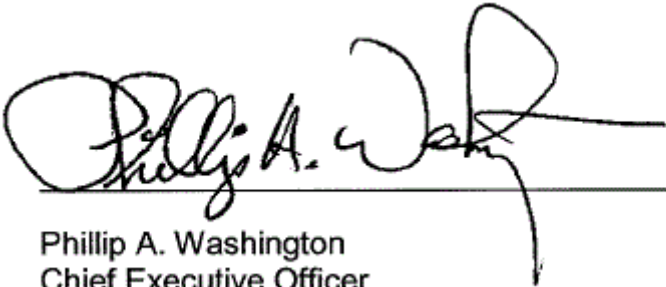
NEXT STEPS

Metro staff will continue to develop the FY21 budget and continue to prepare financial resources according to the authorization of the Continuing Resolution through September 30, 2020. Staff will continually monitor the financial status and provide regular reports to the Board during the periods of State, County and local cities state of emergency.

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