



## Board Report

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**Agenda Number:**

### FINANCE, BUDGET, AND AUDIT COMMITTEE MARCH 16, 2022

**SUBJECT: FISCAL YEAR 2023 BUDGET DEVELOPMENT STATUS UPDATE**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE the Fiscal Year 2023 (FY23) Budget Development Status Update.

#### **ISSUE**

This is the second of a series of monthly updates to the Board on the FY23 Budget development process, culminating in a planned May 2022 Board Adoption.

The focus of this report is Metro's diverse portfolio of Capital projects, which includes the following capitalizable transit and transportation investments:

1. Transit Infrastructure Development (TID): planning and constructing new Transit and Highway Modernization projects for LA county as voter approved in Measure R and Measure M sales tax ordinances
2. Transit Capital Improvement Program (CIP): maintains and improves rolling stock (vehicles), assets, and infrastructure for the bus and rail transit systems. It consists of two main areas:
  - a) State of Good Repair (SGR) maintains Metro assets to ensure they are safe and reliable for daily operations. A core focus is the replacement of assets on a useful life basis.
  - b) Transit Improvement and Modernization (TIM) projects are one-time investments that aid transition of the Metro transit system and assets to the latest technological and environmental standards

Additionally, this report provides an overview of Metro's Regional Rail and Subsidy funding programs, and shares the latest update regarding Metro's comprehensive budget outreach efforts.

## **DISCUSSION**

As the FY23 Equitable Zero-Based Budget (EZBB) progresses, more detailed budget proposals by program are being developed, starting with the preliminary capital investment in this month's report. The Capital Investment made up 43% of the total agency's budget in FY22, followed by the Regional Rail and Subsidy program which in combination made up 20% of the total agency's budget. The FY23 Budget is still under development, but we anticipate the areas covered in this report will comprise almost two-thirds of the agencywide budget.

### **Capital Investment Preliminary:**

This comprehensive report on Metro's Capital projects is intended to provide an integrated assessment of Metro's capital investments in order to support an efficient, equity-focused application of available funding. LA County's transit expansion plan is the nation's most ambitious and transformative program of transportation construction and enhancements. Metro is advancing this initiative in a fiscal environment defined by competing demands for limited funds, inflationary impacts on labor and construction costs, and one-time State and Federal transportation funding opportunities. While being mindful of the fiscal challenges that may increase total project cost at completion, capital projects typically take more than one fiscal year to finish. The FY23 preliminary budget represents the annual increment of cashflow requirement to continue to advance these capital projects.

Fig 1:

Category (\$ in millions)	FY22 Budget	FY23 Preliminary	Year Over Year Change	% Year Over Year Change
1 Transit Expansion	\$ 2,487.5	\$ 2,269.0	\$ (218.5)	-8.8%
2 Highway Modernization	475.1	617.2	142.1	29.9%
3 <b>Transportation Infrastructure Development - Total</b>	<b>\$ 2,962.6</b>	<b>\$ 2,886.2</b>	<b>-76.4</b>	<b>-2.6%</b>
4 Bus, Rail & Other State of Good Repair	412.9	425.8	12.9	3.1%
5 Transit Improvements & Modernization	78.2	74.8	-3.4	-4.3%
6 <b>Transit Capital Improvement Program - Total</b>	<b>\$ 491.2</b>	<b>\$ 500.6</b>	<b>9.4</b>	<b>1.9%</b>
7 <b>TOTAL</b>	<b>\$ 3,453.8</b>	<b>\$ 3,386.8</b>	<b>-67.0</b>	<b>-2%</b>

Note: Totals may not add due to rounding.

### **Transportation Infrastructure Development (TID)**

The TID Program consists of highway modernization projects and transit line expansions and improvements identified in the MR and MM Ordinances. These project developments are divided into planning and construction phases, and the annual budget request reflects the annual increments of the project development phase. Starting with a feasibility study followed by alternatives analyses, the planning phase typically culminates in environmental clearance. The multi-year LOP budget is adopted for each project through a separate board action. For Highway Modernization projects, only those projects led by Metro will come before the Metro Board for LOP adoption. Projects led by the Los Angeles County, the Cities, or other entities are authorized through programming amounts presented to the Board semi-annually.

The annual budget monitors the cashflow requirement for the activities in each project phase, while

considering the existing level of board authorization(s), respective project delivery schedule, and identified eligible and available funding sources from Federal/State/Local grants, sales taxes and financing.

Fig 2:

Category (\$ in millions)	FY22 Budget	FY23 Preliminary	Year Over Year Change	% Year Over Year Change
1 Transit Expansion	\$ 2,487.5	\$ 2,269.0	\$ (218.5)	-8.8%
2 Highway Modernization	475.1	617.2	142.1	29.9%
3 Transportation Infrastructure Development - Total	\$ 2,962.6	\$ 2,886.2	-76.4	-2.6%

For fiscal year 2023, Figure 2 above displays the preliminary budget for the TID program at \$2.9 billion, a decrease of \$76.4 million or 2.6% from the FY22 budget. This is driven by the \$218.5 million reduction or 8.8% decrease in Transit Expansion program despite the 29.9% increase in the Highway Modernization project delivery.

The decrease in Transit expansion annual budget reflects the *substantial completion* for Crenshaw and Regional Connector and much of the right-of-way acquisition on the Purple Line Extension wrapping up.

The increased cashflow of \$149.1 million or 29.9% increase in the Highway Modernization program is reflective of the right-of-way acquisition and major construction starting at the SR-57/SR-60 confluence, construction of the I-5 capacity enhancement around the Santa Clarita area, and the I-105 Express Lane project progressing to Project Specification and Engineering phase.

More detailed project discussion can be found in attachment A.

### Metro Transit - Capital Improvement Program (CIP)

The FY23 Metro Transit's capital program is expanding from "State of Good Repair (SGR)" to a more comprehensive term, "Capital Improvement Program (CIP)." This change will allow Metro to better align with FTA capital asset nomenclature guidelines, and it will help increase transparency. The CIP focuses on maintaining, upgrading, and modernizing assets and infrastructure to ensure the transit system has state of the art equipment and peripheral systems to provide high-quality transit service. Capital asset improvements within this budget include implementation of new technologies, rolling stock purchases, rolling stock modernization, station improvements and more. The goal of the CIP is to enhance the customer experience while improving safety and reliability. Metro's goal is to methodically renew and improve the system while maximizing scarce capital resources.

In FY23, \$500.6 million is allocated to maintain Metro's Bus, Rail, regional, and critical information systems needed to manage and monitor system-wide performance. It also reflects the maintenance of peripheral transit Infrastructure. The \$500.6 million estimate is based on current and future project activities and reflect the necessary cash flow to complete FY23 milestones and deliverables. A profile of the CIP program is shown in the table below.

Fig 3:

**Transit Capital Improvement Program**  
**State of Good Repair (SGR) & Transit Improvements/Modernization (TIM)**

Capital Category (\$ in millions)	FY22 Active	FY23 Preliminary	Year Over Year Change	% Year Over Year Change
1 Bus Acquisition	\$ 93.1	\$ 82.1	\$ (11.0)	(11.8)%
2 Bus Facilities Improvements	16.8	16.6	(0.2)	(1.4)%
3 Bus Maintenance	47.1	41.7	(5.4)	(11.4)%
4 <b>Bus</b>	<b>\$ 157.0</b>	<b>\$ 140.4</b>	<b>\$ (16.6)</b>	<b>(10.5)%</b>
5 Rail Facilities Improvements	4.8	5.8	1.0	21.7%
6 Rail Fleet Procurement	91.9	55.8	(36.1)	(39.3)%
7 Rail Vehicle Maintenance	90.4	112.7	22.3	24.7%
8 Wayside Systems	14.7	42.1	27.4	186.9%
9 <b>Rail</b>	<b>\$ 201.7</b>	<b>\$ 216.4</b>	<b>\$ 14.7</b>	<b>7.3%</b>
10 Non-Revenue & Other SGR	3.4	5.6	2.2	65.9%
11 Regional and Hubs	1.0	6.0	5.0	503.1%
12 <b>Systemwide Assets</b>	<b>\$ 4.4</b>	<b>\$ 11.7</b>	<b>\$ 7.3</b>	<b>165.3%</b>
13 <b>Bus, Rail &amp; Other Subtotal</b>	<b>\$ 363.1</b>	<b>\$ 368.4</b>	<b>\$ 5.4</b>	<b>1.5%</b>
14 Regional and Hubs	29.3	19.7	(9.6)	(32.7)%
15 Technology	20.6	37.7	17.1	82.9%
16 <b>Other Asset Improvements</b>	<b>\$ 49.9</b>	<b>\$ 57.4</b>	<b>\$ 7.5</b>	<b>15.1%</b>
17 <b>SGR Subtotal</b>	<b>\$ 412.9</b>	<b>\$ 425.8</b>	<b>\$ 12.9</b>	<b>3.1%</b>
18 <b>TIM</b>	<b>\$ 78.2</b>	<b>\$ 74.8</b>	<b>\$ (3.4)</b>	<b>(4.4)%</b>
19 <b>Total Proposed Budget</b>	<b>\$ 491.2</b>	<b>\$ 500.6</b>	<b>\$ 9.4</b>	<b>1.9%</b>

In the coming year, Metro will continue working toward the Board goal of achieving a zero-emission fleet by 2030. This effort will require a \$3.5B investment in buses and charging infrastructure over the next 10 years, approximately \$350M in annual expenses. This represents a significant increase above the \$140M average for bus and facilities in the past 10 years. Although there is a slight decrease in bus acquisition expenses this year, new zero emission bus acquisitions are in the pipeline and will increase as quickly as available technology and funding permit. A significant investment of \$13M will also be made in NextGen related projects this coming year. A detailed discussion of the CIP project and cashflow request for FY23 preliminary budget is included in Attachment B.

### Metro Regional Rail

Metro is responsible for overseeing the planning, programming and implementation of commuter rail projects in LA County that are or will be operated by other agencies such as Southern California Regional Rail Authority (Metrolink), Amtrak, California High Speed Rail Authority, and freight carriers. Metro also manages and coordinates capital improvement projects along approximately 150 miles of Metro owned and Metrolink operated railroad right-of-way.

Fig 4:

Metro Regional Rail						
Project (\$ in millions)		FY22 Budget	FY23 Preliminary	\$ Change	% Change	
1	Link US	\$ 71.6	\$ 90.7	\$ 19.1	26.6%	
2	Rosecrans & Marquardt Grade	24.4	27.4	3.0	12.3%	
3	Brighton to Roxford Double Track	2.7	3.4	0.6	23.4%	
4	High Desert Corridor Rail Service Plan	2.0	3.5	1.5	73.4%	
5	Doran Street Grade Separation	2.8	12.4	9.6	341.5%	
6	Lone Hill to CP White	3.6	6.4	2.8	79.3%	
7	Other Metro Regional Rail	1.2	2.9	1.7	140.4%	
8	Total Metro Regional Rail	\$ 108.3	\$ 144.7	\$ 36.4	33.6%	

The LINK US project at Los Angeles Union Station (LAUS) will expand the overall capacity and operational efficiency of LAUS for rail operations. The FY23 budget is driven by the anticipated procurement of the Construction Manager / General Contractor (CMGC) contract and the finalization of real estate acquisitions. Other major activities include ongoing construction of the Rosecrans/Marquardt grade crossing project (the State of California's top priority grade crossing separation project), construction of the interim configuration for the Doran St. Grade Separation Project, final design for the Brighton to Roxford double tracking project in the east San Fernando Valley and final design for the Lone Hill to White double tracking project in the San Gabriel Valley.

The Regional Rail group will also finalize a study to assess the feasibility of high-speed rail service from Palmdale via the High Desert Corridor to the Southern California terminus of the privately funded high-speed rail line to Las Vegas.

#### Metrolink Commuter Rail

At the time of this report, Metrolink is developing their FY23 operating and capital budget. An update will be included in a later monthly report to the Board.

### **Regional Allocations and Pass Throughs**

The Regional Allocations and Pass Throughs represents resources distributed to regional partners to carry out local transportation needs. This component is directly tied to locally imposed and collected sales taxes as well as Metro oversight and distribution of State and Federal Funding Pass through grants. This includes subsidies paid to local jurisdictions, Municipal Operators and community operators, Access Services, and funding for other programs such as the Congestion Reduction Demonstrations (CRD), Toll Revenue grant programs, Open Streets grants, Active Transportation, TOD Planning grants and the Sankofa Park project.

The Regional Allocations and Pass Throughs program expenditures are projected to increase by approximately \$494.1 million to \$1.875 billion over the adopted FY22 budget. This increase is seen in Local Agencies (\$347 million) and Regional Transit (\$119.5 million). Major increases stem from

\$207.1 million for Inglewood Transit Connector (ITC) Project and \$232.1 million in the projected sales tax revenues for FY23 (which represents a 3.5% increase over the re-forecasted FY22 amount), FY21 carryover funding (FY21 actual receipts over adopted budget), and anticipated available grants. The table below summarizes the FY23 Preliminary Subsidy Budget.

Fig 5:

**Regional Allocations and Pass Throughs (Subsidy Program)**

Subsidy Program		FY22 Budget		FY23 Preliminary		\$ Change		% Change
1	<u>Local Agencies</u>							
2	Local Return, TDA 3 & 8	\$	686.6	\$	822.4	\$	135.7	19.8%
3	CFP and Other (ITC)		103.0		314.7		211.7	205.6%
4	<b>Subtotal Local Agencies</b>	<b>\$</b>	<b>789.6</b>	<b>\$</b>	<b>1,137.0</b>	<b>\$</b>	<b>347.5</b>	<b>44.0%</b>
5	Regional Transit		558.7		678.2		119.5	21.4%
6	Regional Federal Grants		17.1		28.7		11.6	68.1%
7	Fare Assistance		15.6		31.1		15.5	99.4%
8	<b>FY23 Preliminary Subsidy Program</b>	<b>\$</b>	<b>1,380.9</b>	<b>\$</b>	<b>1,875.0</b>	<b>\$</b>	<b>494.1</b>	<b>35.8%</b>

Note: Totals may not add due to rounding.

Local Agencies and Regional Transit

As a result of the better than originally anticipated performance of the local economy during FY21 and FY22, direct subsidies provided by Local and State based Sales Tax Revenues including funding to Transit operators and Local Jurisdictions in Los Angeles County increased. Local Agencies sub-program increases by \$347.5 million or 44%, largely for Local Return and for the purchase of right of way and real estate for the Inglewood Transit Connector Project, \$207.1 million.

Collaboration with Regional Transit Operators and Access Services

Staff also continues to work in partnership with the Bus Operators Sub-committee (BOS) to understand the impact of COVID-19 and to determine the appropriate allocation methodology for the FY23 Formula Allocation Procedure (FAP). Final distribution amounts will be brought forward for specific Board approval detailing subsidy funding amounts for each Municipal and Local Operator, including Access Services, and local jurisdictions.

Also included in the FY23 Preliminary Budget Subsidy Program is funding from the adopted American Rescue Plan Act (ARPA) for those local community operators that require a Metro sponsored swap of Federal for Local funding as approved by the Board totaling \$10.6 million.

Preliminary funding of \$141.8 million is proposed for Access Service operations in Los Angeles County, including the direct Metro subsidy to support Access riders on Metrolink within the county, an increase of \$19 million over the adopted FY22 budget.

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Staff will seek approval of FY23 Transit Funds Allocation, and the FY23 Access Services budget at the regularly scheduled June 2022 meeting.

### Regional Federal Grants

Due to the pass-through nature, annual variability of Federal Grants, and uses by local jurisdictions, Regional Federal Grants are expected to increase by \$11.6 million in FY23 over the level adopted in FY22. The budget also includes a number of Board approved programs that include previous Call-For-Projects, Open Street Grants, TOD Planning Grants, other Active Transportation Improvement Projects and various Bicycle program improvements.

### Fare Assistance - Low Income Fare is Easy (LIFE) Program

The LIFE program is anticipated to double in size during the year and the budget is increased accordingly to \$29.5 million to support the Board approved expansion and improvements to the program.

### **Equitable Zero-Based Budgeting (EZBB) Process**

In the FY23 Budget development process, Staff has utilized the EZBB process to evaluate projects and services that are ready to be implemented and in service. The purpose is to be transparent in communicating the schedule and affordability impact of any scope and cost increases while discussing the tradeoffs and mitigation strategies.

The annual budget process details the actionable steps for these projects and services in terms of deliverables, milestones, scope, schedule and required resources in manpower, supplies, service contracts and budget. These elements will be evaluated together with the projects and services in progress for budget expenditures and eligible funding considerations. This is a continuous process as we develop the budget and will include the discussion in the monthly update report.

### **Early, Improved & Expanded Public Engagement Update**

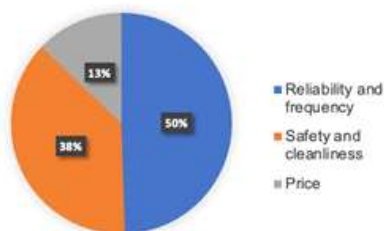
Following our CEO's lead in listening and learning early, Metro's public engagement and outreach began September 2021. We held early listening sessions with our public interest groups, Public Safety Advisory Committee (PSAC), and our union leaders to hear their concerns. We have made significant strides in how we are able to engage with the public on these important budget decisions. This year we are making efforts to report on how the public's comments helped shape our budget and a summary of all comments will be available on the Finance and Budget portal at [www.metrobudget.net](http://www.metrobudget.net) <<http://www.metrobudget.net/>>.

### **Telephone Town Hall**

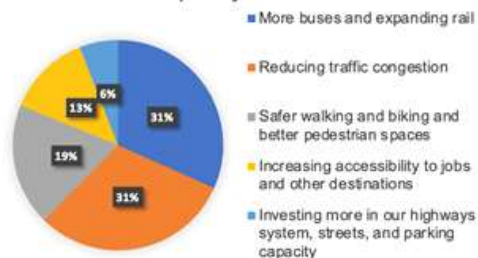


We launched the public engagement efforts with our Telephone Town Hall (TTH) meetings which included over 7,000 participants listening in, including 400 Spanish listeners. The following results are from polling questions asked during the TTH meeting:

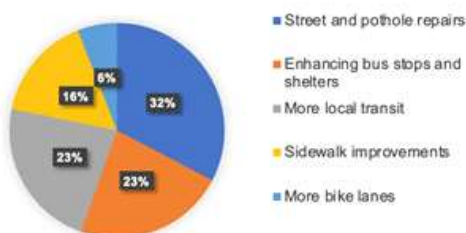
Which of the following is most important to you?



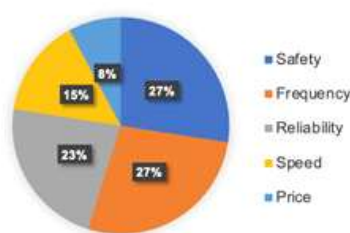
What is your top regional transportation priority?



What type of improvement project would you find most useful?



Of the 5 categories, please select what is most important to you.



The priorities reflected in the TTH comments are like those in the budget survey comments. However, while the same priorities are echoed in both forums, there are differing comments on how to achieve these priorities.

## New Budget Survey

The new budget survey included 8,000 responses to the survey and resulted in more than 4,000 written comments. This year, our efforts are focused on closing the loop and showing how comments have helped shape Metro's budget. These 4,000 comments have been distributed to departments for the FY23 Budget development process. To help review and assess these comments, word clouds were created to identify the most frequent words and themes from the comments. The word cloud below visually illustrates the over 4,000 comments we have received, with bus identified as the number one priority. Departments can drill down further and filter to specific projects and programs to review specific comments.





## Stakeholder Meetings and Outreach Efforts

Schedules and information for public meetings and updated budget information will be provided in advance on the Finance and Budget portal at [www.metrobudget.net](http://www.metrobudget.net) <<http://www.metrobudget.net>>.

## 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 that will guide the development of the FY23 Budget. The preliminary budgets may be adjusted as more specific and updated information becomes available.

## **EQUITY PLATFORM**

The FY23 EZBB process begins with evaluating everything we do by providing flexibility to focus resources on Metro's core missions, key initiatives, and priorities. Equity is also a top priority in these budget discussions as Metro considers how to carry out the many initiatives and the impact on communities. Applying an equity lens to Metro's FY23 Budget for programs, projects and initiatives means to look at all aspects of the budget. Furthermore, the FY23 Budget will align with principles that highlight how public transit can be equitable, sustainable, economically productive, safe, and accessible.

Additionally, the Metro Budget Equity Assessment Tool (MBEAT) has been incorporated in the development of the FY23 Annual Budget. MBEAT assess all FY23 budgetary requests for impacts to marginalized and/or vulnerable communities, help staff identify potential barriers or harms to address, and help staff consider how Metro budgets influence marginalized communities' access to opportunities and reduce potential barriers or harms. Furthermore, the annual budget is developed through a comprehensive process and supports pillars two (Listen and Learn) and three (Focus and Deliver) of the agency's Equity Platform framework.

## **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The 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 LA County.

## **NEXT STEPS**

Next month's FY23 Budget process update will address Metro Transit Operations & Maintenance, other Metro Operating Programs, General Planning and Programs, and Safety and Security.

## **ATTACHMENTS**

Attachment A - Transportation Infrastructure Development

Attachment B - Metro Transit - Capital Improvement Program (CIP)

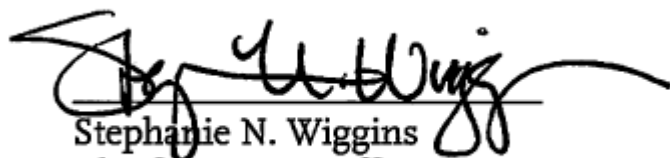
Prepared by: Melissa Wang, Senior Executive Officer, Finance, (213) 922-6024

Irene Fine, Senior Executive Officer, Finance (213) 922-4420

Michelle Navarro, Senior Executive Officer, Finance, (213) 922-3056

Marie Kim, Deputy Executive Officer, Finance, (213) 418-3472  
Scott Arbuckle, Senior Director, Finance, (213) 922-5581

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



Stephanie N. Wiggins  
Chief Executive Officer