



Board Report

File #: 2022-0243, File Type: Public Hearing

Agenda Number: 15.

REVISED
BUDGET PUBLIC HEARING
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 18, 2022

SUBJECT: FISCAL YEAR 2023 (FY23) BUDGET

ACTION: ADOPT THE FY23 BUDGET

RECOMMENDATION

CONSIDER:

- A. ADOPTING the proposed FY23 Budget as presented in the budget document (provided in a separate transmittal and posted on [metro.net <https://www.metro.net/about/financebudget/>](https://www.metro.net/about/financebudget/));
 - 1. AUTHORIZING \$8.8 billion annual consolidated expenditures to achieve goals and objectives set forth by the Board adopted mission and goals; and
 - 2. AUTHORIZING a total of 10,596 FTEs with 8,778 Represented FTEs and 1,818 Non-Represented FTEs; and
 - 3. AUTHORIZING an average 3.5% performance-based merit increase for Non-Represented employees. The wage increases for Represented employees, in accordance with the pre-negotiated Collective Bargaining Agreements, is an average 3.5% (except for SMART); and
 - 4. APPROVING the Life of Project (LOP) budgets for new capital projects; new capital projects with LOP exceeding \$5.0 million are presented in Attachment A; and
 - 5. AMENDING the proposed budget to include any Board approved actions currently under consideration, from now to the end of fiscal year (June 30, 2022); and
 - 6. AMENDING the proposed budget by \$3.2 million, taking it from \$6.8 million to \$10.0 million for Crenshaw Northern for a technical correction; and
- B. APPROVING the Reimbursement Resolution declaring Metro’s intention to issue debt in FY23 for capital projects, as shown in Attachment B, with the provision that actual debt issuance will require separate Board approval; and

C. APPROVING the addition of one new Non-Represented pay grade to alleviate the pay progression and maintain a consistent pay range from mid-point to mid-point as shown in Attachment E; and

D. APPROVING pay grade upgrade for the Board Clerk job classification.

SOLIS AMENDMENT: With that, I would like propose an amendment to this item that directs Metro staff to explore, if feasible, utilizing that excess \$35 million for non-freeway purposes in the San Gabriel Valley.

I would like staff to report back in August on if and how that funding can be used to support non-freeway projects like bus lanes or even support some partner agencies like ACE.

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. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board at the fund level except for capital expenditures, which is authorized on a life of project basis.

Since February 2022, staff has provided a series of status updates on the FY23 Budget development process to the Board. Before kickoff to the budget development process, an extensive public outreach process was launched in October 2021 with the first of three telephone town halls to communicate the budget proposal and to collect public comments for consideration in the budget development. On May 3, 2022, the FY23 Proposed Budget in its entirety was made available to the public at www.metro.net <<http://www.metro.net>>, in printed copies through the Records Management Center (RMC) at RMC@metro.net <<mailto:RMC@metro.net>>, and on the plaza level of the Gateway building. The public hearing is scheduled on May 18, 2022. On April 21, 2022, advanced public notifications of the Budget Public Hearing were issued through advertisements posted in more than 10 news publications and in various languages.

DISCUSSION

Budget Summary

The proposed \$8.8 billion budget for FY23 is balanced and centers on restoring and enhancing transit service back to pre-pandemic levels with a clear focus on the customer experience and resuming Metro's core business of planning, operations, and construction activities through an equity

lens. This year's budget started with early, improved and expanded public engagement and incorporated comments received through this process. Metro's budget, representing an 8.8% increase over FY22, is making more investments in core businesses.

Thanks to the American Rescue Plan Act (ARPA) one-time federal funding for the Metro Transit Program, the FY23 Proposed Budget can not only restore transit services to pre-pandemic levels but also enhance the customer experience through a cleanliness surge, reimagining public safety, and continue to make Bus/Rail improvements. However, FY23 represents the final year of Federal relief funding for COVID-19. By the end of FY23, Metro will consume all ARPA funding, and with no additional relief funding available, Metro will face immediate financial challenges in the short run, starting in FY24.

Also, in the FY23 Proposed Budget plan, Metro will continue to advance transportation by keeping transit assets in a state of good repair and progressing Measure R and M projects as several are moving into the construction phase while projects in the planning phase are moving towards shovel readiness for new transportation infrastructure projects. Funding will continue according to the forecasted economic recovery for local cities and operators under regional transportation activities.

FY23 Budget Summary and Document can be accessed at:
<https://www.metro.net/about/financebudget/>

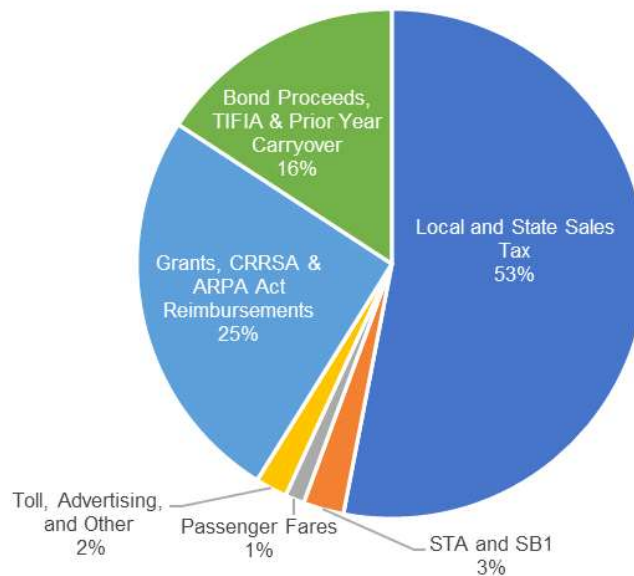
Resources Summary

The FY23 Proposed Budget ensures resources are available to meet the planned Metro program and project delivery schedules for the upcoming fiscal year. Revenue projections are based on the current socio-economic conditions such as the continuing impacts of the pandemic, economic growth projections in FY23, leading regional forecasting sources, and recent transit system usage. The total FY23 Proposed Budget planned resources are \$8.8 billion which is 8.8% more than the FY22 Budget. The increase in sales tax revenues is based on the positive FY22 year to date actual receipt. Strong economic growth continues to rebound from the depths of the pandemic, the impacts of Federal stimulus funding on personal consumption and inflation have been the primary factors.

	Resources (\$ in millions)	FY22 Budget	FY23 Proposed	\$ Change	% Change
1	Local and State Sales Tax	\$ 3,892.5	\$ 4,643.1	\$ 750.6	19.3%
2	STA and SB1	127.8	225.6	97.8	76.5%
3	Sales Tax and STA/SB1 Revenues Subtotal	\$ 4,020.3	\$ 4,868.7	\$ 848.4	21.1%
4	Passenger Fares	73.2	106.5	33.3	45.5%
5	Toll, Advertising, and Other	179.9	177.0	(2.9)	-1.6%
6	Operating & Other Revenues Subtotal	\$ 253.1	\$ 283.5	\$ 30.4	12.0%
7	Grant, CRRSA & ARPA Act Reimbursements	1,857.5	2,216.8	359.3	19.3%
8	Bond Proceeds, TIFIA & Prior Year Carryover ⁽¹⁾	1,909.3	1,382.3	(527.0)	-27.6%
9	Capital & Bond Resources Subtotal	\$ 3,766.8	\$ 3,599.2	\$ (167.7)	-4.5%
10	Resources Total	\$ 8,040.2	\$ 8,751.4	\$ 711.2	8.8%

⁽¹⁾ Represents use of Bond Proceeds and sales tax revenues received and unspent in prior years.
 Note: Totals may not add up due to rounding.

Resources % of FY23 Budget



Expenditure Summary

The total proposed budget of \$8.8 billion, is aligned with Board priorities of service restoration and enhancement, as well as improving the customer experience and public safety through an equity lens. Each program, function, and department budget were developed accordingly to reflect the new

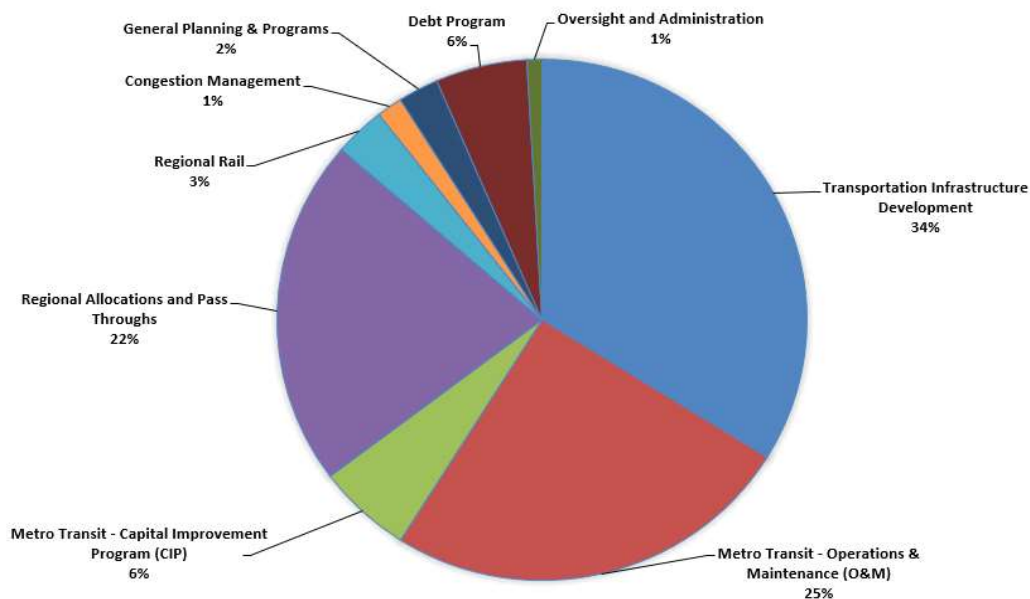
economic realities and progress on projects. The table below illustrates the expenditures by program type in FY23 Proposed Budget.

Expenditures by Program Type (\$ in millions)		FY22 Budget	FY23 Proposed	\$ Change	% Change
1	Transportation Infrastructure Development	\$ 3,012.1	\$ 2,961.5	\$ (50.6)	-1.7%
2	Metro Transit	2,558.3	2,704.9	146.6	5.7%
3	Metro Transit - Operations & Maintenance (O&M)	2,067.1	2,198.8	131.7	6.4%
4	Metro Transit - Capital Improvement Program (CIP)	491.2	506.1	14.9	3.0%
5	Regional Allocations and Pass Throughs	1,380.9	1,888.8	507.9	36.8%
6	Regional Rail ⁽¹⁾	233.0	273.3	40.3	17.3%
7	General Planning & Programs	166.1	216.6	50.5	30.4%
8	Congestion Management	104.4	137.1	32.7	31.3%
9	Debt Program	515.6	489.2	(26.4)	-5.1%
10	Oversight and Administration	69.8	80.1	10.3	14.7%
11	Total Proposed Budget	\$ 8,040.2	\$ 8,751.4	\$ 711.2	8.8%

Note: Totals may not add up because of rounding.

⁽¹⁾ Metrolink's FY23 Proposed Budget is preliminary, pending the transmittal of Metrolink's official budget request.

EXPENDITURE % OF FY23 PROPOSED BUDGET



Full-Time Equivalent (FTE) Summary

The FY23 Proposed FTE Budget includes a total of 10,596 FTEs, an increase of 246 FTEs from FY22. The 246 new additions consist of 98 Non-Represented FTEs and 148 Represented FTEs.

Non-Represented FTEs for FY23 total 1,818 including the addition of 98 new positions to service our core focuses: Customer Experience, Performance Management, Mega Project Management Model, and Valuing our People.

Agencywide FTEs	Customer Experience	Performance Management	Mega Project Mgmt Model	Valuing Our People	New Positions
1 Chief Executive Office & Chief of Staff		2		3	5
2 Chief People Office	2			2	4
3 Chief Safety Office	4				4
4 Customer Experience	10			2	12
5 Office of Innovation				1	1
6 Operations	5	2		1	8
7 Planning and Development		12			12
8 Program Management			35		35
9 Strategic Financial Management	2	7		5	14
10 Board of Directors: County Counsel, Ethics, Inspector General, & Office of Board Administration				3	3
11 Non-Represented	23	23	35	17	98

* Customer Experience encompass: CX Plan, Homeless Outreach, Reimagine Public Safety and Nextgen

** Performance Management include: Process Improvement, Risk Mitigation, Data Management

Represented FTEs for FY23 total 8,778 including 148 new positions for cleaning programs, pre-revenue service operations, increasing efficiency and reliability of the transit system, and reimagining public safety by adding unarmed security personnel.

Agencywide FTEs	Cleaning Bus/Rail	K Line (Crenshaw/LAX)	Regional Connector	Metro Micro	Nextgen	Reimagining Public Safety	New Positions
1 Finance and Budget--TAP		1					1
2 Operations	26	4	52	31	4		117
3 Procurement and Supply Chain Management		2					2
4 System Security and Law Enforcement		3				25	28
5 Represented	26	10	52	31	4	25	148

*Total of 56 Represented FTEs for Cleaning initiatives: 26 FTEs for Bus and Rail system and 30 FTEs to upkeep K Line (Crenshaw/LAX) and Regional Connector

Labor Summary

The FY23 Proposed Budget includes contract wage increases of an average of 3.5% according to the pre-negotiated Collective Bargaining Agreements with the represented union groups AFSCME,

ATU, TCU, and Teamsters. Collective bargaining for a new contract to begin in FY23 for SMART-represented employees is in progress. An average 3.5% performance increase is included for non-represented employees which will be distributed on a merit-based system.

Health and welfare benefits for represented employees are based on Collective Bargaining Agreements. Non-represented medical and dental benefits reflect the carrier contract rates previously approved by the Board.

Life of Project (LOP) Budgets

New capital projects with LOP budgets exceeding \$5.0 million must be approved by the Board as separate Board actions.

Attachment A includes a detailed listing of new capital projects for FY23 with LOP in excess of \$5.0 million. These new capital projects in the FY23 Proposed Budget include New Flyer/EI Dorado Bus Midlife, Closed-Circuit Television (CCTV) System Upgrade, NextGen Cloud-Based Transit Signal Priority (TSP), Metro C (Green) Line Substation Replacement, Advanced Transportation Management System II, as well as other new State of Good Repair projects.

Reimbursement Resolution

Per Federal tax law, bond proceeds can only be used for capital expenditures incurred after the issuance of bonds. Metro must pass a resolution indicating the intent to issue bonds at a later date, in order to reimburse expenditures incurred prior to the bond issuance. See Attachment B for Reimbursement Resolution.

Debt Program

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.

As of July 2022, Metro has \$5.5 billion of outstanding debt for previously completed and current ongoing capital investments. The annual debt service cost in FY23 is estimated at \$485.9 million, a decrease of 5% over last year, primarily due to the savings from Prop C refunding. In FY23, it is anticipated that Crenshaw/LAX, Airport Metro Connector, Westside D Line (Purple) Section 1,2, 3 & Division 20 Turnback and portal, Rail Infrastructure & Rail Cars procurement, East San Fernando Rapidway, Regional Surface Trans & Local Traffic System, and Rail to Rail, among other projects, will

utilize debt proceeds.

Early, Improved & Expanded Public Engagement

As an industry leader in equity, the CEO helped lay the groundwork for more equitable outcomes as Metro developed the FY23 Budget. The public engagement on the FY23 budget began early with Telephone Town Hall meetings in September 2021, October 2021, and March 2022. Over 11,000 callers, including Spanish callers, participated, and Metro's senior leadership was there to listen and respond to community concerns. In addition, Metro held stakeholder outreach meetings with 24 committees or councils participating.

This year, OMB collaborated with the Office of Equity and Race (OER), Communications, and Customer Experience to develop a budget survey. Metro targeted the equity focused and other communities throughout LA County via social media (Facebook, Twitter, NextDoor) and email lists. The budget survey received over 8,000 responses and over 4,100 written comments. OMB staff summarized the written comments, and per the CEO's direction they were used to initiate conversations between departments while developing their budgets. Budget survey results and other budgetary information are available on the new Metro budget portal at metrobudget.net.

The budget public hearing is legally required, pursuant to California PUC codes 130106 which states *"Notice of time and place of the public hearing for the adoption of the annual budget shall be published pursuant to Section 6061 of the Government Code, and shall be published not later than the 15th day prior to the date of the hearing."*

A summary of the public comments and stakeholder outreach efforts are shown in Attachment C.

Public interest increased in the FY23 Budget process since the kickoff. Various committee meetings, sub-committee meetings and stakeholder meetings brought about public inquiries and Board follow-up items. The 4 main items that surfaced were NextGen and Bus Capital Improvement project list, NextGen Bus Plan update, Reimagining Public Safety resource deployment details, and Bus Stop Shading "Shade for All" Campaign found in Attachment D.

New Non-Represented Pay Grade

The Non-Represented salary structure was last adjusted in July 2021. To support the addition of the Deputy Chief Officer job classifications, the Chief People Office will be adjusting the current salary structure by adding a pay grade between the current HCC and HDD. The current Pay Grade HCC will be renamed to HCC1 and will retain its current minimum, mid-point, and maximum values. The new pay grade will be called HCC2 and will be created by averaging the minimum, mid-point, and maximum values of Pay Grades HCC and HDD. There will be no salary adjustment to any current employees due to the addition of this pay grade. The proposed salary structure improves the pay progression and maintains a consistent spread from mid-point to mid-point between pay grades. After implementation, the pay progression between HCC1 and HCC2 will be 11% and the pay progression

between HCC2 and HDD will be 10%, which is consistent with the majority of the salary grades. The spread for each grade will be maintained at approximately 50%, which is consistent with all other pay grades in the structure. Please refer to Attachment E for more details.

Board Clerk Pay Grade Upgrade

As a result of the CEO's realignment, it is recommended that the Board Clerk position be upgraded from Pay Grade H1P to Pay Grade HAA for the following reasons:

- The addition of the Research Department to the Office of Board Administration, which includes the Dorothy Peyton Gray Research Library & Archive, the Records Management Center, and Systems/Electronic Records
- Board Administration staffing has more than doubled from 9 to 22 employees
- Board Administration budget has significantly increased from \$500K to \$2.3M

EQUITY ASSESSMENT

Starting in the FY21 Mid-Year budget process, Metro has applied the Metro Budget Equity Assessment Tool (MBEAT) to its budget requests for operations costs and capital projects. With the launch of the Equitable Zero-Based Budgeting (EZBB) process for the FY23 budget, the MBEAT scope was significantly expanded to assess every budget request and capital project across the agency. The FY23 EZBB MBEAT was applied to nearly 1,300 budget requests and over 750 capital project budgets.

The FY23 EZBB MBEAT process also increased equity fluency amongst staff by challenging program and project managers to consider and articulate how seemingly neutral budget requests, such as bus midlife repair program funds, might impact marginalized groups and communities. The MBEAT continues to evolve through the iterative process of implementing equity at Metro, including how Metro defines and measures equity as well as how staff further understand and implement equity in their work.

To further prioritize equity through the FY23 budget process, OER provided four Equity Principles (1. Focus & Deliver, 2. Listen & Learn, 3. Define & Measure, 4. Train and Grow) to guide staff on how to advance equity under Metro's Equity Platform Framework. Staff were instructed to consider and prioritize projects, programs, and services that support the Equity Principles. Budget highlights that support these four principles were included in the FY23 Proposed Budget (pg. 12-15) earlier this month.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The FY23 Proposed Budget (provided in a separate submittal) at \$8.8 billion is balanced 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 essential in receiving subsidies from federal and state governments and to administer regional transportation funding to local cities and municipal operators.

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 Los Angeles County.

NEXT STEPS

Upon Board authorization and adoption of the FY23 Proposed Budget, Metro will make funds available for the planned transit and transportation programs outlined in this document and program funding to regional transit/transportation partnering agencies, cities and recipients.

Staff will closely monitor the financial situation and provide regular performance updates to the Board.

ATTACHMENTS

FY23 Budget Summary and Document can be accessed at:

<https://www.metro.net/about/financebudget/>

Attachment A - FY23 New Capital Projects

Attachment B - Reimbursement Resolution of Metro for FY23

Attachment C - FY23 Public Outreach (Public Comments)

Attachment D - Public Inquiry and Board Requests

Attachment E - FY23 New Non-Represented Pay Grade

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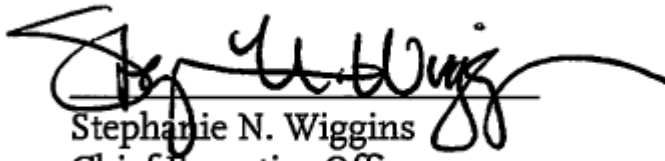
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