



Board Report

File #: 2023-0223, File Type: Public Hearing

Agenda Number: 2.

**BUDGET PUBLIC HEARING
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 17, 2023**

SUBJECT: FISCAL YEAR 2024 (FY24) BUDGET

ACTION: ADOPT THE FY24 BUDGET

RECOMMENDATION

CONSIDER:

- A. ADOPTING the proposed FY24 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 \$9.0 billion annual consolidated expenditures to achieve goals and objectives set forth by the Board adopted mission and goals;
 2. AUTHORIZING a total of 10,842 FTEs, with 8,943 Represented FTEs and 1,899 Non-Represented FTEs;
 3. AUTHORIZING an average 3.5% performance-based merit increase and a cost-of-living adjustment (COLA) of 2.5% on July 1st, 2023, and 2.5% on January 1st, 2024, for Non-Represented employees. The COLA will adjust the Non-Represented salary pay grade bands accordingly. The wage increases for Represented employees, in accordance with the pre-negotiated Collective Bargaining Agreements, is 3.5% plus step progression increases;
 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 B;
 5. AMENDING the proposed budget to include any Board approved actions currently under consideration from now to the end of the fiscal year (June 30, 2023);
- B. AMENDING FY24 Proposed Budget document by including 40 additional Transit Security Officers (TSOs) to support rail expansion and increase safety on our transit system;
- C. AMENDING FY24 Proposed Budget document by including 2 Non-Represented positions to support alternative delivery procurements on mega-projects; and

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- D. APPROVING the Reimbursement Resolution declaring Metro's intention to issue debt in FY24 for capital projects, as shown in Attachment C, with the provision that actual debt issuance will require separate Board approval.

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 are authorized on a life of project basis.

Since January 2023, staff has provided the Board with status updates on the FY24 Budget development process. Before the kickoff of the budget development process, an extensive public outreach process was launched in October 2022 with the first of three telephone town halls to communicate the budget proposal and collect public comments for consideration in the budget development. On May 2, 2023, the FY24 Proposed Budget 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 for May 17, 2023. On April 17, 2023, advanced public notifications of the Budget Public Hearing were issued through advertisements posted in more than ten news publications and in various languages.

BACKGROUND

The FY24 Budget development started in January 2023, utilizing the Equitable Zero-Based Budget (EZBB) process as a cost control tool to generate a fiscally responsible budget. Beginning February 2023, Metro staff has provided monthly updates to the Finance, Budget, & Audit Committee as well as multiple budget briefings to Board staff and responded to their follow up questions. Additionally, Metro staff has met with a variety of stakeholders, including the Community Advisory Council, Regional Service Councils, Technical Advisory Committee, Policy Advisory Committee, Accessibility Advisory Committee, etc., and the public via three (3) Telephone Town Halls to collect public comments and feedback.

This is the final series of monthly updates to the Board on the FY24 Budget development process, culminating with our FY24 Budget recommendation for Board Adoption. This report wraps up the framework for the annual budget development, with the primary objective to advance Metro's transit and transportation goals, with an equity lens, in a fiscally sound and financially responsible manner. The FY24 EFC Budget Assessment showed a 4.7% (\$567M) increase as a total percent of the budget (26.1% in FY23 vs. 30.8% in FY24) in targeted benefits; and an overall 6.6% (\$938M) increase in all benefits.

DISCUSSION

Post Pandemic Financial Stability

Metro continues recognizing the importance of sound financial planning to execute transit capital investments and operating plans. The overall metro transit program deficit/gap, referred to as the 'fiscal cliff,' and the challenges of major infrastructure capital projects are two distinct concerns impacting Metro. The Agency recognizes the additional financial risks stemming from Transportation Infrastructure Development (TID) and will continue to build out the ordinance approved major construction projects.

Growing operating transit costs are also expected in the next three years, driven by the rail system expanding service and implementation of zero-emission buses to get ahead of the State's mandate for eliminating the use of hydrocarbon-fueled buses. At the same time, Metro is continuing to invest in new initiatives to make the system clean, safe, and reliable without additional American Rescue Plan Act (ARPA) assistance.

In doing so, Metro faces financial pressures and challenges, making it imperative that every dollar is budgeted and spent wisely. Under the CEO's direction, Metro will continue to identify cost mitigation strategies to help address current and future challenges while strengthening cost controls through the Equitable Zero-Based Budgeting (EZBB) process using the Early Intervention Team and other task force efforts.

See Attachment A for the Financial Recovery Plan and the Agency's efforts.

Budget Summary

The proposed \$9.0 billion budget for FY24 is balanced and focused on a service plan to include system expansion integration, customer experience enhancements, safety, cleanliness, maintaining assets in a state of good repair, employee safety, retention, and engagement. This year's budget continues improving 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 an enhanced and expanded public engagement incorporating comments received throughout this process, including the My Metro Budget interactive tool developed in 2022. Metro's proposed budget, representing a 2.6% increase over FY23, is focused on more investments in core businesses.

Transit Service Delivery and Transit Construction Programs

Metro strives to redefine daily travel habits with legacy transit investments to improve ease of use, accessibility, and travel experiences for regional patrons. This year's multi-phased budgeting process provides a balanced budget emphasizing our commitment to a clean, safe, and reliable transit system. By doing so, we hope to restore the core services Los Angeles County residents entrusted to Metro.

The FY24 Proposed Budget plan includes the full year service operation for the Regional Connector and K Line (Crenshaw/LAX Line). The budget also includes pilot intervention programs to deter non-transit loitering and restore safe and reliable transit to the Westlake/MacArthur Park Station, served

by Metro B and D Lines (Red/Purple) and nearby NextGen Tier 1 bus. These interventions include upgrades to fare gates, station lighting, CCTV cameras, alarms, bench seating, signage, and new station kiosks to improve the customer experience and public safety. There are also additional investments throughout the system supporting the multi-layered public safety approach and enhancing cleanliness with a 13% increase in budget from adding custodial staff.

Metro continues to advance transportation by following industry prescribed maintenance schedules. Also, Measure R and M projects continue to progress, moving from the planning phase toward shovel readiness for several new transportation infrastructure and highway projects. The annual budget for these projects reflects the cash flow requirement for the activities in each respective project development phase. While the transit construction phase is decreasing with the opening of the Regional Connector, the transit planning phase is ramping up for Sepulveda Corridor, West Santa Ana Branch, and Eastside Transit Corridor Phase 2 projects.

Regional Allocations and Pass-Through Programs

The Regional Allocations and Pass-Through programs will continue the allocation of resources to local jurisdictions, municipal and community operators, Access Services, and funding for other programs such as the Congestion Reduction Demonstration (CRD) Toll Revenue grant programs, Open streets, Active Transportation, Transit-Oriented Development (TOD) Planning grants, Federal Pass-Through programs, and other transit investment projects. Metro will continue various discounted and free fare programs to attract and retain ridership (i.e., GoPass for K-12 and Community College Students and Low-Income Fair is Easy (LIFE) Programs and fare capping).

FY24 Budget Summary and Document can be accessed at:

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

Resources Summary

The FY24 Proposed Budget ensures that 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 decades-high inflation, economic growth projections in FY24, leading regional forecasting sources, and recent transit system usage.

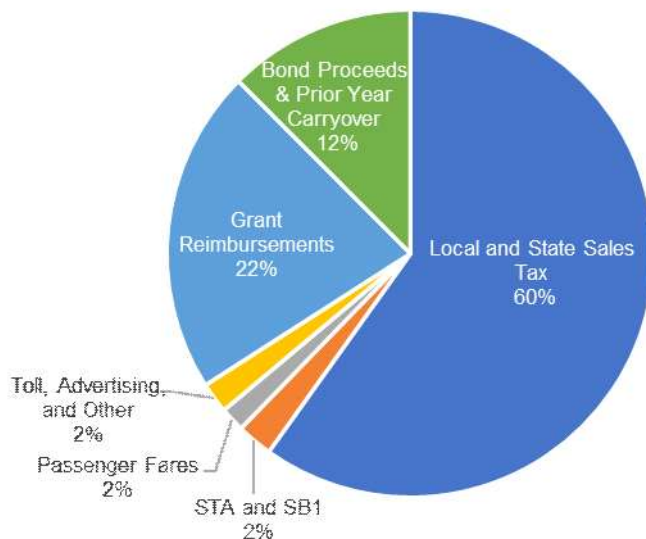
The total FY24 Proposed Budget planned resources are \$9.0 billion, which is 2.6% more than the FY23 Budget. The increase in sales tax revenues is based on the positive FY23 year to date actual receipt. Strong economic growth continues to respond correspondingly and stabilize from rapid pandemic recovery growth rates. The 16.3% projected growth in sales tax and TDA revenues are offset by the decrease in federal stimulus funding related to the pandemic. The American Rescue Plan Act (ARPA) is ending in FY23, and no additional federal stimulus funding is assumed in FY24.

Resources (\$ in millions)		FY23 Budget	FY24 Proposed	\$ Change	% Change
1	Local and State Sales Tax	\$ 4,643.1	\$ 5,400.0	\$ 756.9	16.3%
2	STA and SB1	225.6	214.7	(10.9)	-4.8%
3	Sales Tax and STA/SB1 Revenues Subtotal	\$ 4,868.7	\$ 5,614.7	\$ 746.0	15.3%
4	Passenger Fares	106.5	146.8	40.3	37.8%
5	Toll, Advertising, and Other	169.3	184.0	14.7	8.7%
6	Operating & Other Revenues Subtotal	\$ 275.8	\$ 330.8	\$ 55.0	19.9%
7	ARPA	1,239.5	-	(1,239.5)	-100.0%
8	Grant Reimbursements	1,180.7	1,946.7	766.0	64.9%
9	Bond Proceeds & Prior Year Carryover ⁽¹⁾	1,220.7	1,125.7	(95.1)	-7.8%
10	Capital & Bond Resources Subtotal	\$ 3,640.9	\$ 3,072.4	\$ (568.6)	-15.6%
11	Resources Total	\$ 8,785.5	\$ 9,017.9	\$ 232.4	2.6%

⁽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 FY24 Budget



Expenditure Summary

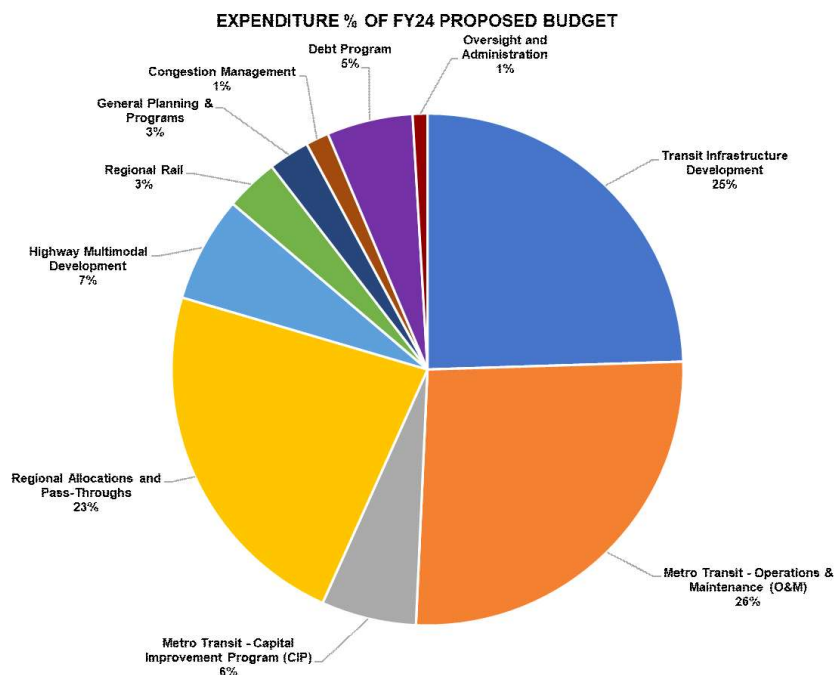
The proposed budget of \$9.0 billion is aligned with Board priorities of improved customer experience and service, as well as providing reliable daily service and public safety through an equity lens. Each program, function, and department budget was developed accordingly to reflect the new economic realities and progress on projects. The table below illustrates the expenditures by program type in

FY24 Proposed Budget.

Expenditures by Program Type (\$ in millions)	FY23 Budget	FY24 Proposed	\$ Change	% Change
1 Transit Infrastructure Development	\$ 2,327.6	\$ 2,210.3	\$ (117.3)	-5.0%
2 Metro Transit	2,755.6	2,905.1	149.4	5.4%
3 Metro Transit - Operations & Maintenance (O&M)	2,251.0	2,363.7	112.7	5.0%
4 Metro Transit - Capital Improvement Program (CIP)	504.7	541.4	36.7	7.3%
5 Regional Allocations and Pass-Throughs	1,905.8	2,057.7	151.9	8.0%
6 Highway Multimodal Development	575.7	602.3	26.7	4.6%
7 Regional Rail ⁽¹⁾	292.3	302.9	10.6	3.6%
8 General Planning & Programs	220.6	233.7	13.1	5.9%
9 Congestion Management	137.0	131.9	(5.1)	-3.7%
10 Debt Program	489.2	489.8	0.6	0.1%
11 Oversight and Administration	81.7	84.3	2.6	3.1%
12 Total Proposed Budget	\$ 8,785.5	\$ 9,017.9	\$ 232.4	2.6%

Note: Totals may not add up because of rounding.

⁽¹⁾Metrolink's FY24 Proposed Budget is preliminary, pending the transmittal of Metrolink's official budget request.



Full-Time Equivalent (FTE) Summary

The FY24 Proposed FTE Budget includes 10,842 FTEs, an increase of 198 FTEs from FY23. The new additions consist of 80 Non-Represented FTEs and 118 Represented FTEs.

Non-Represented FTEs for FY24 total 1,899, which includes an additional 80 new positions to serve

the following areas:

- Enhance the Transit Rider Experience
- Mega Project Management Model
- Valuing the Workforce
- Capital Support Functions
- Financially Sustainable and DEI-Driven Future
- Administration & Process Support
- Joint Development & Goods Movement.

Of the 80 new Non-Represented FTEs, 30 FTEs are cost neutral, transitioning from external services to internal expertise while continuing to build our in-house knowledge base. See the table below.

	Enhance the Transit Rider Experience	Mega Project Mgmt Model	Valuing the Workforce	Financially Sustainable & DEI Driven Future	Capital Support Functions	Admin & Process Support	Joint Development & Goods Movement	New Positions
Agencywide FTEs: Non-Represented								
1 Chief Executive Office & Chief of Staff	1		2	2	2	1		8
2 Chief People Office			7			1		8
3 Chief Safety Office	5							5
4 Customer Experience Office	3				1	1		5
5 Operations	9						1	10
6 Planning And Development	1			1	3		3	8
7 Program Management		20						20
8 Strategic Financial Management	8			4				12
9 Board Of Directors: Ethics, Inspector General, & Office of the Board Administration	1		2			1		4
10 Grand Total	28	20	11	7	6	4	4	80

* **Cost Neutral FTEs:** Enhance the Transit Rider Experience (7 FTEs); Mega Project Management Model (20 FTEs), Capital Support Functions (1 FTE), and Administrative & Process Support (2 FTEs)

Represented FTEs for FY24 total 8,943, which includes 118 new positions for the following: pre-revenue testing for the Purple Line Extension 1 & 2, cleaning programs, increased service support, customer transit experience, public safety resource deployment, and facilities maintenance.

	PLE Pre-Rev	Cleaning	Increased Service Support	Customer Transit Experience	Public Safety Resource Deployment	Facilities Maintenance	New Positions
1 Chief Safety Office					8		8
2 Customer Experience Office				9			9
3 Operations	60	22	11			6	99
4 Strategic Financial Management			2				2
5 Grand Total	60	22	13	9	8	6	118

* Pre-Revenue: Purple Line Extension Section 1 (53 FTEs) and preparation for Purple Line Section 2 (7 FTEs)

The need for the following additional FTEs were recently identified and therefore includes an amendment for 40 additional Transit Security Officers (TSOs) to support rail expansion and increase

safety on our transit system and two Non-Represented positions to support alternative delivery procurements on mega-projects per recommendations B and C.

Labor Summary

High inflationary period, high turnover rates, and labor shortages have public agencies across California implementing cost-of-living adjustments (COLA), creating performance incentive programs, as well as increasing salary and pay bands to stay competitive in the current economy. As a result of this pandemic induced tight labor market, Metro needs to remain competitive in the current market to retain and attract talent. During the pandemic, Metro's Non-Represented FTEs did not receive a performance-based merit increase in FY21 and have not received a COLA adjustment since 2008. The FY24 budget proposes a Non-Represented employee cost-of-living adjustment (COLA) of 2.5% on July 1st, 2023, and a 2.5% on January 1st, 2024, to keep pace with inflation, align with other peer agencies, and aid employee retention.

The FY24 Proposed Budget includes an average contract wage increase of 3.5%, plus Step Progression increases, according to the pre-negotiated Collective Bargaining Agreements with the Represented union groups AFSCME, ATU, TCU, SMART, and Teamsters. For Non-Represented employees, an average 3.5% performance increase is included, 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.

Budget Amendments through June 30, 2023

The proposed budget to include any Board approved actions currently under consideration, from now to the end of the fiscal year (June 30, 2023).

Life of Project (LOP) Budgets

The Board must approve new capital projects with LOP budgets exceeding \$5.0 million as separate Board actions.

Attachment B includes a detailed listing of new capital projects for FY24 with LOP budgets over \$5.0 million. These new capital projects in the FY24 Proposed Budget include Division 20 Bungalow A Replacement, Metro C (Green) Line Mainline Fastener Replacement, L.A. Union Station South Patio Plumbing and Pavers, Metro A (Blue), E (Expo) and L (Gold) Line Led Tunnel Lights, Metro A (Blue) Line Gate Mechanism Replacement, PLE Section 1 Systems Integration Testing & Training, and PLE Section 2 Systems Integration Testing & Training.

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 C for Reimbursement Resolution.

Debt Program

Debt financing is a cash management and budget tool 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 prudent guidelines for the issuance and management of debt following industry best practices and ordinance-specific affordability limits.

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

As of July 2023, Metro has approximately \$5,199.6 million of outstanding long-term debt. The annual debt service cost in FY24 is estimated at \$486.1 million, a decrease of 0.04% over the FY23 Budget of \$485.9 million, according to the debt service schedule. In FY24, it is anticipated that Airport Metro Connector, Westside D Line (Purple) Sections 1, 2, & system integration, Division 20 Portal Widening, Gold Line Foothill Extension, Infrastructure for Silver Line and new bus procurement, East San Fernando Transit Corridor, Regional Surface Transportation and Local Traffic System, and various other projects will utilize bond proceeds from the issued debt.

Early, Improved & Expanded Public Engagement

Metro understands that transparency and education about the annual budget and process are important to Los Angeles County residents. Public feedback is integral in prioritizing limited resources. While OMB makes many efforts to engage the public about the budget, other departments within the organization also work to engage with the public throughout the year. OMB worked closely with the Communications department to develop a marketing strategy that engaged with EFCs and all other areas of LA County to provide an equitable transportation system.

The FY24 budget development process kicked off early, with the first of three Telephone Town Hall (TTH) meetings held on October 2022 and followed by two more in January and March of 2023. To solicit feedback early for the FY24 budget, OMB launched the new interactive and educational My Metro Budget tool in October 2022. Stakeholder and public meetings continued to be held and engaged a wide audience of riders to learn more about their concerns and priorities. We continue to update the budget portal at budget.metro.net with current budgetary information.

The budget public hearing scheduled on May 17 is legally required, pursuant to California PUC code 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, stakeholder meetings, as well as all other outreach efforts are described in Attachment D.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The FY24 Proposed Budget (provided in a separate submittal) at \$9.0 billion is balanced. 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.

EQUITY PLATFORM

Per Board direction, Metro has annually applied the Metro Budget Equity Assessment Tool (MBEAT) to its budget requests for operations costs and capital projects since the FY21 budget process. The FY24 MBEAT augmented the FY24 Equitable Zero-Based Budgeting (EZBB) process and was applied to 238 capital projects and 217 operating expense budgets.

The FY24 EZBB MBEAT identified impacts on marginalized communities and highlighted budget requests that advanced equitable outcomes for each Metro department. The MBEAT shows that Metro continues to show stronger equity benefits for physical projects in marginalized and Equity Focus Communities (EFC) and fewer equity benefits for countywide or systemwide programs without intentional prioritization for those communities. With this data, staff is better equipped to identify opportunities to incorporate equity iteratively and intentionally into broader programs and services.

The EZBB process also utilized Metro’s new EFC Budget Assessment process, a geographic equity analysis. In 2022, Metro conducted the FY23 EFC Baseline Assessment to identify whether Metro’s budget was proportionately investing in benefits to EFCs, which comprise approximately 40% of Los Angeles County. The FY23 EFC Baseline showed approximately 67.3 percent of Metro’s FY23 approved budget provided targeted and indirect benefits to EFCs (26.1 percent targeted benefits and 41.2 percent indirect benefits). In year two of this assessment, the FY24 EFC Assessment showed increases in the proportion of Metro’s budget investing in benefits to EFCs (30.8 percent targeted benefits and 43.1 percent indirect benefits). These increases amounted to a 4.7 percent increase in targeted benefits, 1.9 percent increase in indirect benefits, and a total of 6.6 percent increases in all benefits, as illustrated by the table below:

	FY23 EFC Baseline Assessment	FY24 EFC Assessment (Year 2)	% Change FY23 vs. FY24
Targeted Benefits	26.1%	30.8%	4.7%
Indirect Benefits	41.2%	43.1%	1.9%
Total EFC Benefits	67.3%	73.9%	6.6%

Staff also aligned their FY24 department budgets towards budget Equity Principles that support Metro’s Equity Platform framework. Budget highlights that support these four principles were included in the FY24 Proposed Budget (pg. 9 - 11) earlier this month.

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 goal of improving transportation in Los Angeles County.

NEXT STEPS

Upon Board authorization and adoption of the FY24 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

FY24 Budget Summary and Document can be accessed at:

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

Attachment A - FY24 Financial Recovery Plan

Attachment B - FY24 New Capital Projects

Attachment C - FY24 Reimbursement Resolution

Attachment D - FY24 Public Outreach (Public Comments)

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