



Board Report

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Agenda Number: 16.

FINANCE, BUDGET, AND AUDIT COMMITTEE JANUARY 15, 2020

SUBJECT: FISCAL YEAR 2021 BUDGET DEVELOPMENT PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2021 (FY21) Budget Development Process.

ISSUE

This is the first of a series of monthly updates to the Board to kick-off the FY21 Budget development process, scheduled for May 2020 Board Adoption. The budget process is meant to estimate and allocate resources that are available and eligible to achieve Metro Vision 2028 goals in a manner that is fiscally sound and financially responsible. In the upcoming months, the FY21 Budget development reports will include reviewing key economic factors affecting revenues and expenses, setting program deliverable objectives and resource requirements, incorporating stakeholder input and demonstrating agency accountability and performance through the first of its kind Performance Management tool.

This report begins with the Metro Vision 2028 goals for FY21 and an outline of the planned budget process and schedule. A section detailing a comprehensive public outreach program follows, which seeks to maximize public input and ensure that Metro's stakeholders have an active role in the process. The report also discusses the approach used to forecast sales tax revenues and cost inflation for program expenses. These assumptions lay the framework for the development of the upcoming annual budget.

DISCUSSION

Metro Vision 2028 Goals

Targeting a balanced budget for FY21, the annual budget will align resources in a fiscally responsible manner to achieve the following Metro Vision 2028 goals:

- Provide high-quality mobility options that enable people to spend less time traveling.
- Deliver outstanding trip experiences for all users of the transportation system.

- Enhance communities and lives through mobility and access to opportunity.
- Transform Los Angeles County through regional collaboration and national leadership.
- Provide responsive, accountable, and trustworthy governance within the LA Metro organization.

Budget Process and Schedule

Heeding the CEO’s call for a fiscally responsible budget plan to deliver FY21 goals, Metro will continue to improve transit services, keep transit assets in a state of good repair, fund and plan for regional transportation programs and construct new transit/transportation infrastructure according to voter approved sales tax ordinances, State and Federal regulations, Board approved policies and guidelines. In the following months, the FY21 Budget process is designed to build one program at a time while incorporating the Board and stakeholder input.

Here is a summary of the schedule of topics to be presented over the next few months; culminating in final Board Adoption in May.

Month	Topic
January	Budget Parameters: <ul style="list-style-type: none"> • Budget Development Process and Schedule • Stakeholder Outreach Plan • Sales Tax Forecast, Resources Assumption • Cost Inflation Estimate • Other Expense Assumptions
February	New Infrastructure Planning and Construction: <ul style="list-style-type: none"> • New Transit Rail and Bus • Highway • Regional Rail Service Parameters: Revenue Service Hours (presented by Operations department in the Operations, Safety and Customer Experience Committee)
March	Transit Operations and Metro State of Good Repair (SGR): <ul style="list-style-type: none"> • Metro Transit – Operations & Maintenance • Metro Transit – State of Good Repair
April	Subsidy Funding and Other Operating Programs: <ul style="list-style-type: none"> • Subsidy Funding Program

May	Public Hearing and Board Adoption: <ul style="list-style-type: none">• Consolidated Agency-wide Expenses and FTEs Budget Proposal• Public Hearing on May 20, 2020• Summary of Public Comment and Stakeholder Review• Final Board Adoption on May 28, 2020
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Board of Directors Updates

Beginning in January, detailed budget briefings will be presented to Board staff on a regular basis. These briefings will provide an in-depth explanation of the budget development for every Metro department, as well as a comprehensive look at all revenues, expenses, and project deliverables planned for FY21. In addition to these ongoing regular briefings, staff will also provide monthly updates to the Board. In February, Transit Operations will present Revenue Service Hours (RSH) in the Operations, Safety, and Customer Experience Committee to provide an opportunity for the Board to provide input and feedback.

Public and Stakeholder Outreach

In preparation for the FY21 Budget, we will be undertaking an extensive process of educating and soliciting meaningful input from the public and key stakeholders to identify budget priorities. The comprehensive budget outreach program ensures that Metro is successfully engaging the public and key stakeholders as well as working collaboratively with all departments to provide complete budget information. To acquire greater participation, detailed location information of public forums, community meetings and other avenues will be advertised through multiple channels, including social media campaigns, advertising aboard Metro vehicles, Telephone Town Halls, and other technology to reach Los Angeles County Residents.

Public Outreach

To encourage public involvement and promote transparency, the budget process includes numerous options and opportunities for informing and engaging the public. Many public forums are available for direct participation. Also, considering possible time constraints of interested participants, alternative media channels, communication tools, telephone and digital online mechanisms are being used to provide multiple opportunities for the public to engage and learn about the FY21 Budget and process.

The following list describes the public forums and media channels that will be utilized to maximize participation in the development of the FY21 Budget:

- Public Hearing - A public hearing on the FY21 Budget will be held on May 20, 2020, and the public is encouraged to attend and provide their comments on the proposed budget to the Board. Notices of the public hearing will follow statutory requirements (multiple languages,

published in multiple newspapers, etc.)

- Metro Service Councils Workshops - Metro's Five Service Councils are located throughout the County to allow residents more opportunities for input on service issues in their communities. This is an ideal forum for interested residents to learn about the budget process and for Metro to obtain direct and immediate feedback from our transit riders on their transit priorities.
- The Source/El Pasajero/Facebook/Instagram/Twitter - Staff will be using Metro's social media outlets to inform the public throughout the FY21 Budget development process, including Facebook ads, Instagram and Twitter.
- Interactive Budget Tool - This tool will be an interactive application to promote financial transparency, educate and engage the public on the budgeting process. The simple survey will educate and allow us to acquire feedback from the public and key stakeholders on their individual transit priorities. It will be available as a link from the *Metro.net* website - Finance and Budget Page, and announced through social media outlets such as email, Facebook, Instagram and Twitter.
- Finance and Budget Website - An FY21 Budget website that can be accessed through *www.Metro.net* will provide regular updates on the budget process, budget details as they become available each month, and offer opportunity for the public to provide their comments. The website will include a budget educational video with direct links to the budget tool, other community meetings and forums for the public and key stakeholders to fully engage in the budget process.
- E-mail - budgetcomments@metro.net has been established to allow the public an opportunity to comment outside of a public setting.
- Telephone Townhall - A town-hall-style meeting, including a discussion of the proposed budget followed by a question-and-answer period. It is conducted via telephone with participants throughout Los Angeles County.

Stakeholder Briefings

Stakeholders range from jurisdictions and other public agencies that receive funding from Metro to community groups and other organizations throughout Los Angeles County that promote and/or rely on Metro services. For budget information, traditional budget workshops are scheduled in March and April 2020. These meetings include and are not limited to Metro Service Councils, Citizens Advisory Councils (CAC), Policy Advisory Committee (PAC), Technical Advisory Committee (TAC), Bus Operators Subcommittee, (BOS), Local Transit Systems Subcommittee (LTSS), and Streets and Freeways Subcommittee, Aging, Disability and Transportation Network (ADTN).

Sales Tax Revenue Assumptions

Metro relies on sales taxes for more than half of its total revenues. In addition, cities and transit providers in Los Angeles County plan their operation based on our revenue projections. This fact necessitates a careful evaluation and forecasting of the sales tax growth rate to determine the funding levels for FY21.

In order to generate a realistic forecast of sales tax revenues, long term and short term historical receipts as well as leading professional forecasts of economic trends are factored in the sales tax growth rate development. Following is a series of charts and descriptions that provide the parameters for projected sales tax revenues.

Compared to past years, recent actual five-year growth has been positive with growth rates staying in between 1.2% and 6.0% since FY15 for an average annual growth rate of 3.4%. This mirrors the steady growth of the region’s economy over the same period.

Figure 1:

	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Estimated Actual	FY21 Assumption
Sales Tax (\$ in Millions)	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 846.8	\$ 880.0	\$ 910.0
% Change	4.0%	2.4%	3.4%	6.0%	1.2%	3.9%	3.4%

Figure 1 displays Metro’s FY20 estimated actual and FY21 sales tax receipt projection per ordinance. As a result of the US Supreme Court’s ruling in South Dakota v. Wayfair, new state legislation was enacted allowing additional sales tax collections from e-commerce vendors who do not have a physical presence in the state. It is anticipated that approximately \$7.0 million of additional sales tax receipt per ordinance will be generated from this change on top of our adopted budget of \$873.0 million, leading to a re-estimated actual of \$880.0 million in FY20.

The unusual sales tax growth rates in FY18 and FY19 were caused by the California Department of Tax and Fee Administration’s (CDTFA) system upgrade in May 2018 which resulted in delayed paper returns and sales tax receipt. FY21 sales tax annual growth rate should resume a normal growth rate at 3.4%, the percentage growth before the California system change in FY17. This will provide a sales tax receipt projection of \$910.0 million per ordinance.

These growth rates will be reviewed and adjusted during the budget development process as more information becomes available from the CDTFA. We will continue to monitor trends in sales tax receipts and updates from the economic forecast sources as we go through the budget process, and report back to the Board in the upcoming budget process.

Metro sales tax budget forecast has been consistently more accurate than the leading Los Angeles County forecasts. Figures 2 and 3 show how Metro's budget estimates have compared to actual receipts and the leading local forecasts since FY15. Using an average difference to the actual as a measurement year over year, Metro has the lowest five-year Mean Absolute Percentage Error (MAPE) at 1.2% comparing to the other leading forecasting agencies.

Figure 2:

**Sales Tax Forecast Comparison of Metro and other Forecasting Agencies including
UCLA, Beacon Economics and Muni Services**

(\$ in Millions)

Forecasting Source	FY15	FY16	FY17	FY18	FY19
Actual Sales Tax Receipt per Ordinance	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 846.8
Metro - Adopted	734.2	763.5	795.7	802.0	844.0
UCLA	733.2	772.1	807.4	810.0	863.6
Beacon Economics	751.7	766.2	806.2	816.9	835.4
Muni Services	741.5	785.8	806.2	803.6	827.7

Figure 3:

Fiscal Year	UCLA	Beacon Economics	Muni Services	Metro-Adopted
FY15	1.7%	0.8%	0.6%	0.8%
FY16	1.1%	0.3%	2.9%	0.0%
FY17	2.3%	2.1%	2.1%	0.8%
FY18	3.2%	2.4%	4.2%	4.1%
FY19	2.6%	1.4%	2.3%	0.3%
5YR MAPE	2.2%	1.4%	2.4%	1.2%

Other Resource Assumptions

State Transit Assistance (STA) and Senate Bill 1 (SB1) Revenues

Sales tax revenues depend upon actual consumption and price of diesel and gasoline. \$215.8 million in STA and \$30.1 million in SB1 revenues are expected in FY21. This assumption will be re-assessed during the budget process to reflect the State Controller's Office (SCO) estimate which is due for release in mid-February 2020.

Passenger Fares

No fare increase is assumed in FY21. Total estimated fare revenue for FY21 is \$281.6 million which is based on 70 cents of fare per boarding and upward public transit ridership due to the anticipated opening of the Crenshaw Line in FY21 and other transit system improvements.

Toll, Advertising and Others

\$61.0 million in toll revenues are projected in FY21 which include ExpressLanes usage and violation fees from the existing I-10, I-110. For advertising revenue, \$27.2 million based on new and existing contracts is expected in FY21. Other revenues including bike program, Union Station, park and ride, lease, film, Service Authority Freeway Emergencies (SAFE), county buy down, auto registration fees, transit court fees, CNG credits, investment income and other miscellaneous revenues are anticipated at a total of \$72.4 million in FY21.

Grant Resources

An overall of \$1.6 billion in local, state and federal grant resources are projected in FY21 to support Metro’s transit planning, operating, state of good repair and construction activities.

Resource Assumption Summary

Figure 4:

Resources (\$ in Millions)	FY20 Reforecasted	FY21 Assumption	% Change
Sales Tax and TDA Revenues	\$ 3,960.0	\$ 4,095.0	3.4%
STA and SB1 Revenues	245.9	245.9	0.0%
Passenger Fares	284.5	281.6	-1.0%
Toll, Advertising and Others	155.2	160.6	3.5%
Grant Resources	1,184.8	1,620.8	36.8%
Total (exclude New Bond Proceeds)	\$ 5,830.4	\$ 6,404.0	9.8%

Figure 4 summarizes all FY21 projected available resources (excludes new bond proceeds). New debt issuances will be used as a last resort to mitigate the shortfalls in state of good repair, transit construction and highway types of activities. The amounts required will be determined at a later stage as we finalize the FY21 expense budget and are subject to CEO approval and separate Board authorization.

Ten-Year Resource Outlook

Looking forward the next 10 years of Metro’s major funding sources starting in FY21, Sales Tax growth rate is assumed to be stable at approximately 3% each year. State legislature allows STA and SB1 to grow at inflation. These sales tax revenues will continue to outweigh all other funding

sources for the region’s transit and transportation investments. Passenger fare revenue is anticipated to grow in lock step with the openings of new Transit Rail lines and BRT improvements. Toll, Advertising and Other Revenues will experience small growth. Federal, state and local grant resources will continue at least at current rate. Together with judicious usage of debt financing, the grand total of Metro’s ten-year resources is estimated to be roughly \$85 billion.

Cost Inflation Indicator as in Consumer Price Index (CPI) and Other Expense Change Factors

On the expense side, Metro program cost and cash flow requirements are impacted by cost inflation, existing labor contracts and program guidelines. The most common indicator of cost inflation is the Consumer Price Index (CPI) as published by the Bureau of Labor Statistics. Accurate projections of sales tax revenues and CPI are important to provide a sound revenue and expenditure budget plan.

In order to project cost inflation, a similar approach as with sales tax revenues forecast was followed by taking into account of the historical trend and leading regional forecasts. Both UCLA and Beacon Economics expect the CPI rate to cool down in FY20 and FY21 due to slowing global economy and housing markets. Given recent trends and current forecasts, we assume the FY21 CPI rate will remain stagnate at 2.3% as shown in Figure 5. We will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 5:

Annual Change in Consumer Price Index (CPI)

Forecast Source	FY16	FY17	FY18	FY19	FY20	FY21
Actual	1.73%	2.10%	3.48%	3.40%	2.28%*	
Metro	1.97%	1.85%	1.75%	2.25%	2.28%	2.30%
UCLA	2.25%	2.70%	2.78%	2.42%	2.60%	2.19%
Beacon Economics	1.57%	1.98%	2.00%	2.15%	1.83%	2.30%

* Preliminary based on FY20 adopted budget

Other Expense Assumptions

Wages and Benefits

Metro’s labor and fringe benefit costs will continue to adhere to the respective collective bargaining agreements with all five unions for FY21. There is a minimum 3.75% to 4.5% increase in salary and wage for represented employees based on the collective bargaining agreements and a projected increase in fringe benefits of 6% on average based on the last few years trend. These cost assumptions outpace both the sales tax and CPI projected growth for FY21. From a non-labor cost perspective, CPI is also used as a key assumption for cost inflation.

Service and Metro Transit

Metro Transit Bus and Rail service levels and service scenarios will be presented to the service councils and Board of Directors for consideration in February at the Operations, Safety and Customer Experience Committee. These scenarios will reflect service reallocations in the Board-adopted NextGen service plan. The State of Good Repair (SGR) program will continue to preserve Metro infrastructure and ready for future Rail expansion projects. The emphasis will be on delivery of cleaner burning Compressed Natural Gas (CNG) and Zero Emission Buses (ZEB), as well as electrification infrastructure needed for fleet conversion. Commitments are also in place to deliver new rail vehicles, overhaul the existing bus and rail fleet, and maintain and upgrade track and system components on rail lines.

Transit and Transportation Infrastructure

Major new transit and highway projects listed in the sales tax ordinances will be funded based on their Board-adopted Life of Project budgets. The expansion includes the planning and construction of the voter approved Measure R and M projects such as Westside Purple Line Extensions 1-3, Regional Connector, Gold Line Foothill Extension projects and East San Fernando Valley Light Rail Transit construction. Highway projects will continue to support several Measure M and R Caltrans projects.

Subsidy Funding Programs

Subsidy funding for regional projects and programs will be included in the budget based on distribution formulas or specific Board approvals.

Pathway to Financial Stability

Consistent with the CEO's goal of exercising fiscal discipline to ensure financial stability as an organization, we will be focused on seeking revenue growth and exploring new innovative opportunities to ensure long-term viability of our agency, while staying vigilant in achieving cost efficiency in meeting all legally-mandated requirements.

Metro's aggressive mobility and transportation plan presents a unique challenge to the agency due to the significant demand of programs and the expenditures required. Metro will be working with staff and the Board to prioritize the programs and projects that best utilize the available resources. The mitigation will be reflected in the annual budget development process while arriving at a balanced budget for FY21 and beyond. Metro is committed to understanding the challenges ahead and to ensure the agency stays on a pathway to financial stability as we look into the next decade.

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, and will guide the development of the FY21 Budget. They may be adjusted as more specific and updated information becomes available.

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

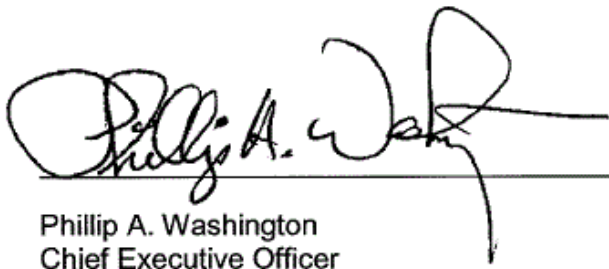
The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

NEXT STEPS

As described earlier in this report, Metro staff will provide regular Budget briefings to Board members and their staff starting this month. Further, we will provide receive-and-file reports on a monthly basis, as previously detailed.

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Phillip A. Washington
Chief Executive Officer

Fiscal Year 2021 Budget Development Update

Finance, Budget and Audit Committee
January 15, 2020

Metro Vision 2028 Goals

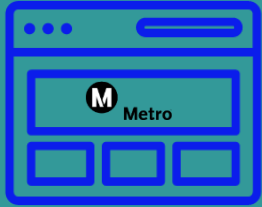
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FY21 Budget Process and Schedule

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Outreach Initiatives



METRO

- Website Banner
- Finance & Budget Site



TELEPHONE TOWN HALL



INTERACTIVE BUDGET TOOL



Soliciting Public Comments

- Email
- Metro Website
- Budget Tool
- Workshops & Meetings
- Telephone Town Hall
- Public Hearing



LOS ANGELES COUNTY



WORKSHOPS & MEETINGS

- Service Councils throughout LA County
- Key Stakeholders



Metro

Resource Assumptions

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Total (exclude New Bond Proceeds)	\$ 5,830.4	\$ 6,403.9	9.8%

- Sales Tax and TDA Revenues is the largest resource category, providing about two-thirds of Metro revenues.
- It has been growing steadily for the past five years at an average rate of 3.4% per year; leading economic forecasts and Metro's internal projection expect that growth to continue in FY21.

Other Resource Assumptions

- Fare revenues of \$281.6 million are projected. This is based on underlying assumptions of \$.70/boarding and a slight uptick in systemwide boardings related to the anticipated opening of the Crenshaw line and other transit system improvements in FY21.
- Other revenues, including Expresslanes tolls, advertising and STA and State SB1 funding are currently budgeted close to FY20 budget levels, but will be revised during the FY21 budget process as more information becomes available.
- Grant revenues are expected to rise to \$1.6 billion in FY21 reflecting increasing federal, state and local grant receipts supporting Metro's transit infrastructure development program. These funds are dedicated to specific projects.
- Cost inflation for non-labor items is expected to rise at +2.30% in FY21 based on a composite of various economic sources.

Next Steps

- **Monthly Board Status Update until Targeted May Budget Adoption**
 - Itemized review of revenues and expenses
 - Detailed program/project listing and operation assumptions
 - Analysis of highlighted programs
 - Highlighting mitigation efforts to address upcoming challenges in order to balance the budget for FY21
- **Public hearing of the proposed budget will take place on May 20th**
- **Final board adoption expected on May 28th**
 - Board adoption legally required before fiscal year start