



Board Report

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Agenda Number: 8.

FINANCE, BUDGET, AND AUDIT COMMITTEE FEBRUARY 17, 2021

SUBJECT: FISCAL YEAR 2022 BUDGET DEVELOPMENT PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE The Fiscal Year 2022 (FY22) Budget Development Process

ISSUE

This is the first of a series of monthly updates to the Board to kick-off the FY22 Budget development process, scheduled for May 2021 Board Adoption. This report lays the framework for the annual budget development, with the primary objective to achieve Metro's goals in a manner that is fiscally sound and financially responsible.

This report begins with an outline of the planned budget process and schedule, followed by discussions of the approach used to forecast sales tax revenues and other resources, cost inflation and other program expense assumptions, and a section detailing a comprehensive public outreach program which seeks to maximize public input and ensure that Metro's stakeholders have an active role in the process.

DISCUSSION

Budget Process and Schedule

The FY22 Budget will continue Metro's missions to improve transit services, keep transit assets in a state of good repair, fund and plan for regional transportation programs and construct transit/transportation infrastructure according to voter approved sales tax ordinances, State and Federal regulations, Board approved policies and guidelines.

The FY22 Budget development process begins with forecasting and estimating the resources available for the upcoming year; taking into account the current economic environment, past historical performance, and projections from leading economic organizations. The CEO sets budget targets by program based on resource eligibility and availability with the prioritization criteria made up of four factors: Equity, Grant Funding Consideration, Project Readiness, and Project

Interdependency / Safety and Reliability. The equity budgeting tool is a new feature for staff to consider first when planning for the activities in FY22 from the start. The Senior Leadership Team (SLT) will work with the professional staff across the Agency to evaluate and build the budget requests. After resolving the difference of demands on the limited resources in the upcoming fiscal year, the CEO will move forward with the proposed FY22 Budget recommendation. Meanwhile, staff will provide regular updates to the board and engage the public to ensure transparency of the budget in progress and integrate the feedback to the FY22 Budget before proceeding to the Board for final approval.

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
February	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
March	Infrastructure Planning and Construction: <ul style="list-style-type: none"> • Transit Rail and Bus • Highway • Regional Rail
April	<ul style="list-style-type: none"> • Metro Transit – Operations & Maintenance and State of Good Repair • Subsidy Funding • Other Operating Programs
May	Public Hearing and Board Adoption: <ul style="list-style-type: none"> • Consolidated Agency-wide Expenses and FTEs Budget Proposal • Proposed Budget Book published on May 4, 2021 • Public Hearing on May 19, 2021 • Summary of Public Comment and Stakeholder Review • Final Board Adoption on May 27, 2021

The upcoming 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.

Sales Tax Revenue Assumptions

Metro relies on sales taxes for over 60% 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 FY22.

Given the continuing uncertainty in the pandemic environment, the economic sector model developed for the FY21 Budget is used to isolate and evaluate the economic changes in specific segments of the economy. The following assumptions were used to develop the model projections:

- COVID-19 restrictions will still be in place at the start of the fiscal year in July and gradually be lifted over the first two quarters as vaccination rates increase;
- As businesses continue to adapt to the new normal, underlying economic growth will continue at a gradual pace;
- By the third quarter (January-March 2022), vaccination rates will allow for a broader reopening of the economy and the recovery will accelerate;
- Stimulus funds from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) will indirectly increase sales tax revenues in the same way the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding did.

Results from this model are compared to a multiple regression analysis. This analysis determines the relationship between the sales tax revenue, unemployment rate, Consumer Price Index, and population in Los Angeles County. Historical actuals since FY94 are employed as observations and a regression equation is derived. The FY22 sales tax revenue prediction reconciles closely with the economic sector model projection. Long term and short term historical receipts as well as leading professional forecasts of economic trends are also considered in the sales tax growth rate development.

Figure 1 displays Metro's current sale tax revenue projections per ordinance and how they compare to the pre-COVID-19 estimates. It is anticipated that sales tax revenue will finally exceed the pre-COVID-19 peak set in FY19 and reach \$865.0 million per ordinance in FY22, a 2.9% increase from the FY21 Midyear Reforecast. However, while the FY22 sales tax revenue is recovering from the depth of the pandemic decline, it is expected to still lag behind the pre-COVID-19 FY20 Budget level and remain below the pre-COVID-19 projection by 7.7% or \$72.3 million per ordinance.

Figure 1:

Sales Tax Revenue per Ordinance (\$ in Millions)⁽¹⁾	FY20	FY21	FY22	Total
COVID-19 Scenario	\$ 824.7 ⁽²⁾	\$ 840.8 ⁽⁴⁾	\$ 865.0 ⁽⁵⁾	\$ 2,530.5
% Change	-2.6%	2.0%	2.9%	
Pre-COVID-19 Scenario	\$ 873.0 ⁽³⁾	\$ 910.0 ⁽⁵⁾	\$ 937.3 ⁽⁵⁾	\$ 2,720.3
% Change	3.1%	4.2%	3.0%	
COVID-19 Loss	\$ (48.3)	\$ (69.2)	\$ (72.3)	\$ (189.8)
% Loss	-5.5%	-7.6%	-7.7%	-7.0%

⁽¹⁾ Proposition A, Proposition C, Measure R and Measure M. Transportation Development Act (TDA) sales tax revenue is approximately 50% of the other ordinances.

⁽²⁾ Actual sales tax receipts

⁽³⁾ FY21 Adopted Budget

⁽⁴⁾ FY21 Midyear Reforecast

⁽⁵⁾ Projections

Figure 2 compares historical and current Metro's budget estimates to actual receipts and the leading regional forecasts. FY22 sales tax revenue projections from UCLA, Beacon Economics and Muni Services are between \$794.4 million to \$896.7 million per ordinance and Metro's estimate of \$865.0 million falls within the range.

Figure 2:

Sales Tax Forecast Comparison

(\$ in Millions)

Forecast Source	FY17	FY18	FY19	FY20	FY21	FY22
Actual	\$ 789.4	\$ 836.7	\$ 846.8	\$ 824.7	\$ 840.8 ⁽¹⁾	-
Metro- Adopted	795.7	802.0	844.0	873.0	778.1	865.0 ⁽²⁾
UCLA	807.4	810.0	863.6	838.1	770.2	794.4
Beacon Economics	806.2	816.9	835.4	843.5	892.3	896.7
Muni Services	806.2	803.6	827.7	868.1	737.3	881.7

(1) FY21 Midyear Reforecast

(2) FY22 Assumption

These growth rates will be reviewed and adjusted during the budget development process as more economic data becomes available. We will continue to monitor any COVID-19 impacts, trends in sales tax receipts, updates from the economic forecast sources and report back to the Board in the upcoming budget process.

Other Resource Assumptions

Toll, Advertising and Other

Toll revenues are projected to be \$44.6 million in FY22 which include ExpressLanes usage and violation fees from the existing I-10, I-110. For advertising revenue, \$24.1 million based on new and existing contracts is expected in FY22. Other revenues including bike program, Union Station, park and ride, lease, film, Service Authority Freeway Emergencies (SAFE), auto registration fees, transit court fees, federal Compressed Natural Gas (CNG) tax credits retro amounts for CY2018 and CY2019, investment income and other miscellaneous revenues are anticipated at a total of \$95.4 million in FY22.

Passenger Fares

Passenger fares are assumed to grow with boardings as vaccination rates increase and the economy begins reopening. The projection is still under development as staff works to finalize the analysis based on further evaluation of changes occurring in various economic segments.

CRRSAA

CRRSAA stimulus package was approved in December 2020, providing \$14 billion in transit infrastructure grants nationwide. The amount allocated for Los Angeles County is still being determined and specific allocation amounts for each transit operator will be brought to the Board for approval. The Federal CRRSAA stimulus package is expected in FY22 to backfill for revenue losses and increased operating costs during the COVID-19 pandemic for Bus and Rail Transit Operations and Maintenance, including payroll. All of this funding will be allocated to operate Metro Bus and Rail Transit.

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

STA and SB1 are sales tax revenues dependent on actual consumption and price of diesel and gasoline, the FY21 Budget is \$183.6 million. This assumption will be re-assessed during the budget process to reflect the State Controller's Office (SCO) estimates, which are due for release in mid-February 2021.

Grant Resources

Overall a total of \$1,138.9 million in local, state and federal grant resources is in the FY21 Budget to

support Metro's transit planning, operating, State of Good Repair and construction activities. The estimate for FY22 will be updated as we receive more information from the Federal Transit Administration (FTA), state and other local agencies as the budget development evolves.

Bond Proceeds and Prior Year Carryover

Debt issuance is authorized by applicable federal and state 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. New debt issuance will be used as a last resort to mitigate the shortfalls in State of Good Repair, transit construction and highway activities.

In FY21, \$1,184.8 million of debt proceeds and prior year carryover are available for transit construction, highway and State of Good Repair projects. The debt amounts for FY22 will be determined at a later stage as we finalize the FY22 expense budget and are subject to CEO approval.

Resource Assumption Summary

Figure 3:

	Resources (\$ in Millions)	FY20 Adopted	FY21 Midyear	FY22 Assumption	% Change
1	Sales Tax and TDA Revenues ⁽¹⁾	\$ 3,928.5	\$ 3,783.6	\$ 3,892.5	2.9%
2	Toll, Advertising and Other	155.3	109.6	164.1	49.7%
3	Subtotal Resources	\$ 4,083.8	\$ 3,893.2	\$ 4,056.6	4.2%
4	Passenger Fares ⁽²⁾	\$ 284.5	\$ 22.2	TBD	
5	CARES/CRRSAA ⁽³⁾	-	569.6	TBD	
6	STA and SB1 Revenues ⁽⁴⁾	245.9	183.6	TBD	
7	Grant Resources ⁽⁴⁾	1,184.8	1,138.9	TBD	
8	Bond Proceeds and Prior Year Carryover ⁽⁴⁾	1,408.6	1,184.8	TBD	
9	Total Resources	\$ 7,207.6	\$ 6,992.3		

Note: Totals may not add due to roundings.

⁽¹⁾ Sales Tax and TDA Revenues reflect current year revenues only. Any (estimated) prior year carryover amounts are reflected on line 8 and will continue to be revised throughout the remainder of the annual budget process.

⁽²⁾ Passenger fares are assumed to grow with boardings as vaccination rates increase and the economy begins reopening. The projection of the revenue is still under development and further evaluation.

⁽³⁾ \$305.3 million out of \$874.9 million from the CARES Act allocated to Metro not reflected in the FY20 Adopted Budget was used to cover the immediate Transit Operations shortfalls in FY20. The remaining \$569.6 million is included in the FY21 Midyear Budget. The CRRSAA allocations are still being determined and will be brought to the Board for approval.

⁽⁴⁾ The estimates for FY22 STA/SB1, Grants and Bond Proceeds and Prior Year Carryover will be updated when information is available.

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.

Historical trends and leading regional forecasts are taken into account when estimating cost inflation. The economic factors that most impact CPI include employment, wages, prices of goods, interest rates, and consumer confidence. CPI rate is expected to increase moderately at 2.0% in FY22 (Figure 4) as immunization efforts begin to foster a return to normality and consumers are recuperating from loss or reduction of income. We will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 4:

Annual Change in Consumer Price Index (CPI)

Forecast Source	FY17	FY18	FY19	FY20	FY21	FY22
Actual	2.10%	3.48%	3.40%	2.48%	2.30% *	
Metro	1.85%	1.75%	2.25%	2.28%	2.30%	2.00%
UCLA	2.70%	2.78%	2.42%	2.60%	2.19%	1.68%
Beacon Economics	1.98%	2.00%	2.15%	1.83%	2.30%	2.07%

* Preliminary based on FY21 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 increases with the represented employees for FY22. CPI is also used as a key assumption for cost inflation for materials, equipments and services procured for Metro programs. Metro Board approved the Voluntary Separation Incentive Program (VSIP) on August 27, 2020 and the impact will be reflected in the FY22 Budget with a 50% reduction of vacated positions.

Public Outreach and Engagement

This year's budget outreach process reflects our efforts to engage and inform customers, key stakeholders and the public throughout the budget process. Engaging our customers, key

stakeholders and the public through an equitable, transparent, and comprehensive process is paramount to fulfilling Metro's vision and mission. Equity will not only be a focus in our outreach efforts, we are also working to review and evaluate budget requests through an equity lens.

As our past experiences have demonstrated, successful engagement for budget outreach happens when tools and technologies can more effectively reach our customers, stakeholders, and the public, such as providing opportunities and varied means/channels to engage and provide feedback, providing public meeting schedules and information ahead of time, accommodating people with disabilities, providing language interpretation, and providing all up to date budget information on our website. To acquire greater participation, the FY22 budget development process will be advertised through multiple modes, including social media campaigns, traditional advertising and advertising aboard Metro vehicles to reach Los Angeles County residents. See Attachment A for a list of the public forums and media channels that will be utilized.

As we continue to grapple with the immediate and ongoing effects of the pandemic, we will continue to conduct all public forums and budget briefings via a virtual platform in accordance with established guidelines that follow social and physical distancing rules, as safety is our number one priority for all.

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 FY22 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.

ATTACHMENTS

Attachment A - Public Outreach Forums and Media Channels

Prepared by: Jessica Lai, Director of Budget, (213) 922-3644
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Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington
Chief Executive Officer

Public Outreach Forums and Media Channels

- Public Hearing - A public hearing on the Proposed FY22 Budget will be held on May 19, 2021, and the public is encouraged to participate via a virtual meeting to provide their comments on the proposed budget to the Board. Notices of the public hearing will follow the most up-to-date statutory requirements (multiple languages, published in multiple newspapers, etc.)
- Proposed FY22 Budget Briefing/Regional Service Councils - Metro's Five Service Councils are located throughout the County to allow residents more opportunities for input on service issues in their communities. A Budget Briefing will be scheduled April 22, 2021 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/Next Door - Staff will be using Metro's social media outlets to inform the public about FY22 Budget survey and feedback on the proposed budget including Instagram Stories, Next Door announcement and Twitter posts.
- Budget Questionnaire - The questionnaire is an interactive process that will 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/myvoice* website – Finance and Budget page and announced through social media outlets such as E-Blast email, Facebook, Instagram, Next Door and Twitter.
- Finance and Budget Website - An FY22 Budget website that can be accessed through metro.net/myvoice 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 direct links to the online questionnaire, schedules of 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.
- Internal and External Stakeholder Meetings - 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. Meetings and forums scheduled in April

and May 2021. These meetings include and are not limited to a Public Hearing, Metro Regional Service Councils, Council of Governments (COGS), 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), and other community group meeting as requested.

FY22 Budget Development Update

**Finance Budget and Audit Committee
February 17th, 2021**



Metro

Budget Process & Schedule Timeline

Month Topic



February FY22 Budget Development Process

- Budget Process and Schedule
- Sales Tax Forecast, Resources Assumption
- Cost Inflation Estimate
- Stakeholder Outreach Plan
- Other Expense Assumptions

March Infrastructure Planning & Construction

- Transit System: Rail, Rapid Transit
- Highway
- Regional Rail

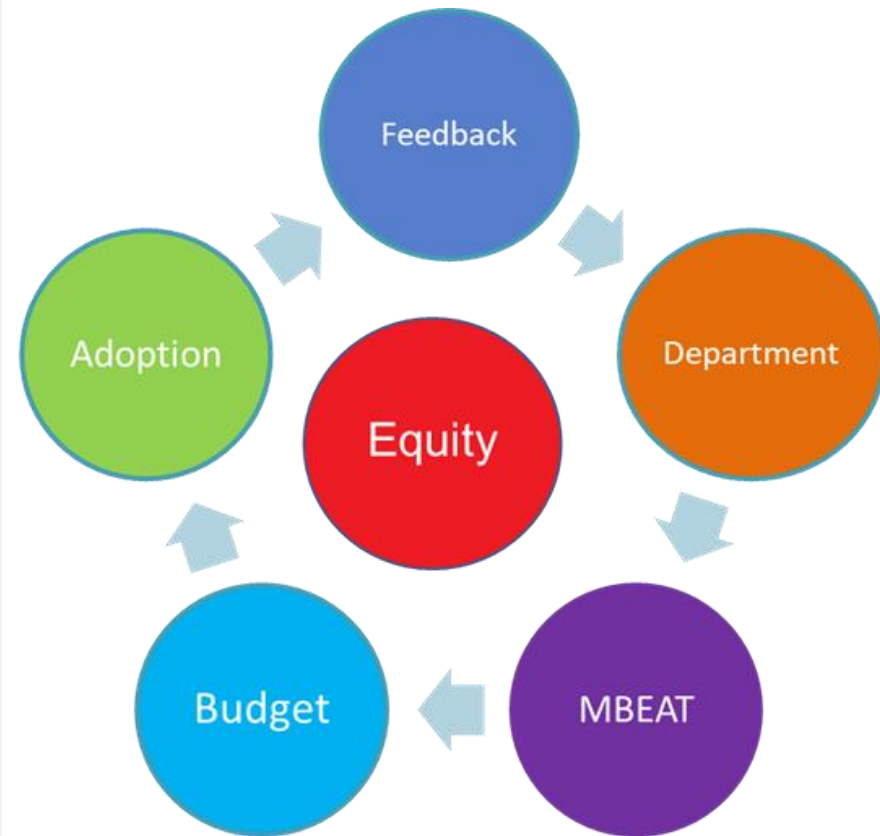
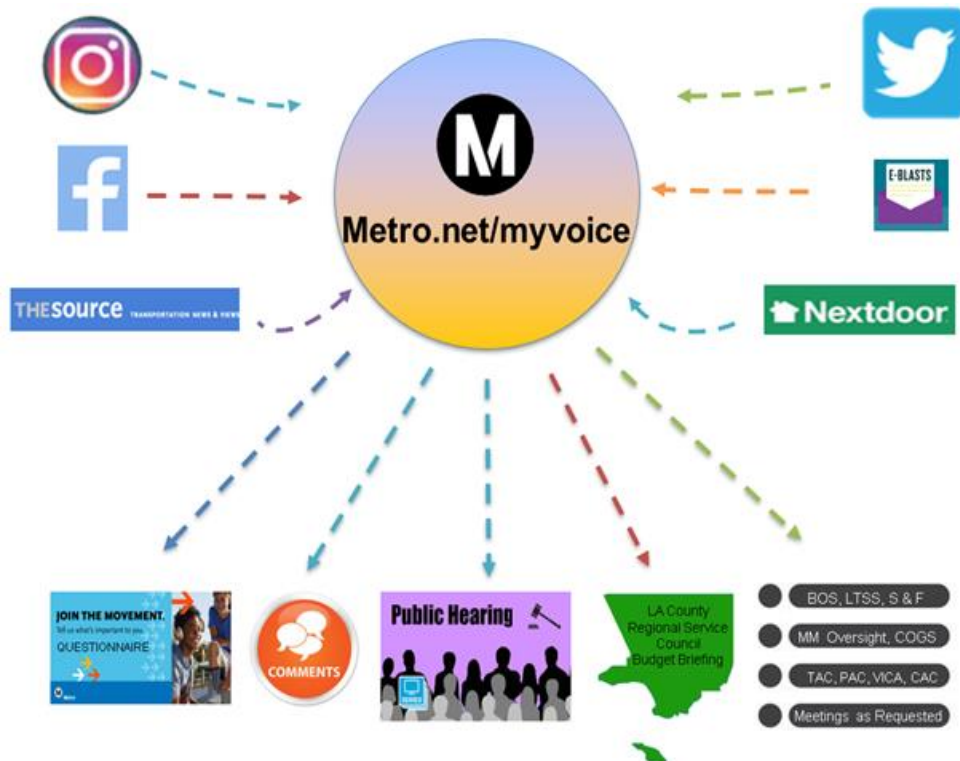
April Transit Operations, Metro State of Good Repair (SGR), Regional Subsidy & Other Operating Programs

- Metro Transit – Operations & Maintenance Expense
- Metro Transit – State of Good Repair
- Subsidy Funding
- Other Operating Programs

May FY22 Budget Adoption (Planned)

- Consolidated Agency-wide Expenses and FTEs Budget Proposal
- Public Hearing on May 19, 2021
- Summary of Public Comment and Stakeholder Review
- Final Board Adoption on May 27, 2021

FY22 Budget Outreach - Activities & Equity

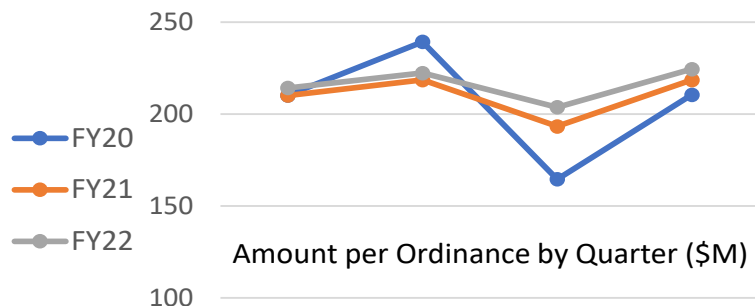


FY22 Resources – Sales Tax Assumptions

FY22 Sales Tax Revenue Projection by Economic Sector by Quarter, based on Year-over-Year Quarterly Growth

	Q1Δ	Q2Δ	Q3Δ	Q4Δ
General Retail	1.2%	1.1%	3.8%	1.9%
Apparel Stores	3.5%	1.1%	7.8%	1.9%
Department Stores	0.6%	0.9%	2.9%	1.5%
Furniture/Appliance	0.7%	1.0%	4.4%	1.6%
Drug Stores	1.4%	2.0%	3.8%	3.4%
Recreation Products	0.6%	0.8%	4.4%	1.4%
Florist/Nursery	0.5%	0.7%	4.1%	1.1%
Miscellaneous Retail	0.6%	1.4%	1.8%	2.3%
Food Products	2.4%	1.6%	8.9%	2.6%
Transportation	1.4%	2.3%	5.4%	1.7%
Construction	3.1%	2.5%	4.1%	3.3%
Business To Business	2.4%	1.9%	5.0%	2.7%
Miscellaneous	2.3%	2.5%	3.7%	2.4%
Total	1.9%	1.8%	5.4%	2.7%

- COVID-19 restrictions will still be in place at the start of the fiscal year in July and gradually be lifted over the first two quarters as vaccination rates increase;
- Stimulus funds from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) will indirectly increase sales tax revenues in the same way CARES Act funding did;
- As businesses continue to adapt, underlying economic growth will continue at a gradual pace;
- Growth will accelerate in the third quarter as most businesses reopen and people start going out more;
- Overall year-over-year growth for FY22 is projected to be 2.9%.



FY22 Preliminary Estimate of Resources

- Total Sales Tax and TDA revenues will be \$3.89B.
- Tolls, Advertising, and Other Revenues increase 49.7% to \$164.1M.
 - Toll revenues: \$44.6M in ExpressLanes usage and violation fees from the existing I-10, I-110
 - Advertising revenue: \$24.1 million based on new and existing contracts
 - Other revenues: \$95.2M including bike program, Union Station, park and ride, lease, film, SAFE, auto registration fees, transit court fees, federal CNG tax credits, investment income, etc.
- Passenger fares under development but are assumed to grow with boardings as vaccination rates increase and the economy begins reopening.
- CRRSAA allocations for Los Angeles County are yet to be determined.
- Estimates for FY22 STA/SB1, Grant and Bond Proceeds and Prior Year Carryover will be updated when information is available.

	Resources (\$ in Millions)	FY20 Adopted	FY21 Midyear	FY22 Assumption	% Change
1	Sales Tax and TDA Revenues	\$ 3,928.5	\$ 3,783.6	\$ 3,892.5	2.9%
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9	Total Resources	\$ 7,207.6	\$ 6,992.3		

Labor and Cost Inflation

Major cost drivers are Labor and Cost Inflation, assuming all programs are continuing as usual:

- Wages will increase from FY21 to FY22 as follows:
 - a) **Represented (Union)**
 - *Per the Collective Bargaining Agreements*
 - *Labor costs will adhere to existing contracts*
 - b) **Salary increases for Non-Contract TBD**
- Fringe benefit increases as approved by the Board annually
- Voluntary Separation Incentive Plan (VSIP) 50% savings per Board approval
- Cost inflation is projected to increase by 2.0%, as measured by CPI

Annual Change in Consumer Price Index (CPI)

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