



## Board Report

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File #:2017-0898, File Type:Informational Report

Agenda Number:37.

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### FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 14, 2018

**SUBJECT: FISCAL YEAR 2019 BUDGET DEVELOPMENT  
PROCESS**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE the Fiscal Year 2019 (FY19) Budget Development Process.

#### **ISSUE**

This is the first of a series of monthly updates to the Board on the FY19 Budget development status until May 2018 Board adoption. The budget process is meant to estimate and allocate available resources in order to achieve the CEO's goals in a manner that is fiscally sound and financially responsible. In the upcoming months, the FY19 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 CEO's goals for FY19 with 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**

##### **CEO Goals for Fiscal Year 2019**

Targeting a balanced budget for FY19, the annual budget will align resources in a fiscally responsible manner to achieve the following goals:

- Advance safety and security for our customers, the public, and Metro employees;
- Exercise fiscal discipline to ensure financial stability;
- Plan and deliver capital projects on time and on budget while increasing opportunities for small

business development;

- Improve the customer experience and expand access to transportation options;
- Increase transit use and ridership;
- Implement an industry-leading state of good repair program;
- Invest in workforce development;
- Promote extraordinary innovation; and
- Contribute to the implementation of agency wide and departmental Affirmative Action and Equal Employment Opportunity (EEO) goals.

### **Budget Process and Schedule**

Heeding the CEO's call for a fiscally responsible budget plan to deliver FY19 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 transportation infrastructure according to voter approved sales tax ordinances, State and Federal regulations, Board policies and approved guidelines. In the following months the FY19 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
February	Process and Budget Outlook: <ul style="list-style-type: none"> <li>• Budget Development Process and Schedule</li> <li>• Stakeholder Outreach Plan</li> <li>• Sales Tax Forecast, Resources Assumptions</li> <li>• Cost Inflation Estimate</li> </ul>
March	New Infrastructure Planning and Construction: <ul style="list-style-type: none"> <li>• New Transit System; Rail, Bus Rapid Transit and Alternative Modes (Bike and Active Transportation)</li> <li>• Highway</li> <li>• Regional Rail</li> </ul>
April	Operating Budget and Regional Subsidy: <ul style="list-style-type: none"> <li>• Metro Transit, Including Bus and Rail Service Levels</li> <li>• State of Good Repair</li> <li>• Subsidy to Regional Partners</li> <li>• Other Operating Programs</li> </ul>
May	FY19 Budget Adoption (Planned) <ul style="list-style-type: none"> <li>• Consolidated Agencywide Expenses and FTEs Budget Proposal</li> <li>• Public Hearing on May 16, 2018</li> <li>• Summary of Public Comment and Stakeholder Review</li> <li>• Final Board Adoption on May 24, 2018</li> </ul>

**Board of Directors Updates**

Beginning in February, 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 FY19. In addition to these ongoing regular briefings, staff will also provide monthly updates to the Board.

**Public and Stakeholder Outreach**

Soliciting meaningful input from the public and stakeholders is critical to the budget development. The comprehensive outreach program ensures that Metro provides complete information at the best possible level of engagement to the public and to key stakeholders. To acquire greater participation, the times and locations of public forums are being advertised through multiple channels, including the Metro website, "Take Ones" on board vehicles, newspaper advertising, message on hold, and Metro Briefs.

Public Outreach

In order to encourage public involvement and promote transparency, the budget process includes numerous options and opportunities for informing and engaging the public. Traditional public

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workshops and forums are available to the general public for direct participation. Considering possible time constraints for interested participants, other media channels, communication tools, telephone and digital web based online mechanisms are also being used to provide multiple opportunities for the public to learn about the FY19 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 FY19 budget:

- Public Hearing - A public hearing on the FY19 Budget will be held on May 16, 2018 for the Board to receive public comments. The general public is encouraged to attend and provide their comments on the proposed budget. Notice of public hearing will follow required policies and procedures (multiple languages, published in multiple newspapers, etc.)
- Metro Service Councils - Five Service Councils are located throughout the County to give residents more opportunities for input on service issues in their community. This is an ideal forum for obtaining direct and immediate feedback from our transit riders.
- The Source/El Pasajero/Facebook/Twitter - Staff will be using Metro's social media outlets to inform the public throughout the FY19 Budget development process, including through Facebook ads and Twitter. Three stories have already been posted to the social media accounts (stories on budget basics, the capital program, and the operating budget), and additional stories will follow with each budget update to the Board.
- Interactive Budget Tool - This tool will be an interactive application to engage the public on the budgeting process and to create financial transparency. It is not only a survey but also a way to allow the public to provide feedback on their individual transit priorities. It will be available as a link from the Metro.net page.
- Budget Website - An FY19 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 an opportunity for the public to offer their comments.
- E-mail - [budgetcomments@metro.net](mailto:budgetcomments@metro.net) <<mailto: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 that promote and/or rely on Metro services. In order to apprise them of the budget development process, workshops are scheduled in March and May with

various stakeholder groups to engage and solicit input, as follows:

- Citizens Advisory Council (CAC) - The CAC represents a broad spectrum of interests from all geographic areas of the County. This group consults, obtains and collects public input on matters and concerns of many communities. This is an ideal forum to solicit community feedback on various transit issues.
- Technical Advisory Committee (TAC) - The TAC represents key stakeholders that provide technical assistance in reviewing and evaluating various transportation proposals and alternatives within Los Angeles County. This group provides feedback from the communities they represent and offer insight to transit issues throughout the county, including funding, streets, freeways, and transit air quality improvements.
- Bus Operations Subcommittee (BOS) - The BOS represents transit operators in LA County and offers input on all bus operations, capital and legislative issues. This forum allows for the input of transit riders throughout the county.
- Local Transit Systems Subcommittee (LTSS) - The LTSS provides technical input on issues affecting local transportation systems. This forum allows for the input of local transit system operators throughout the county.
- Streets & Freeways Subcommittee - The Streets & Freeways Subcommittee is a technical subcommittee of the TAC. This forum facilitates budget development input from the subcommittee members, who are charged with reviewing and evaluating various transportation policies, issues, and transportation funding programs.

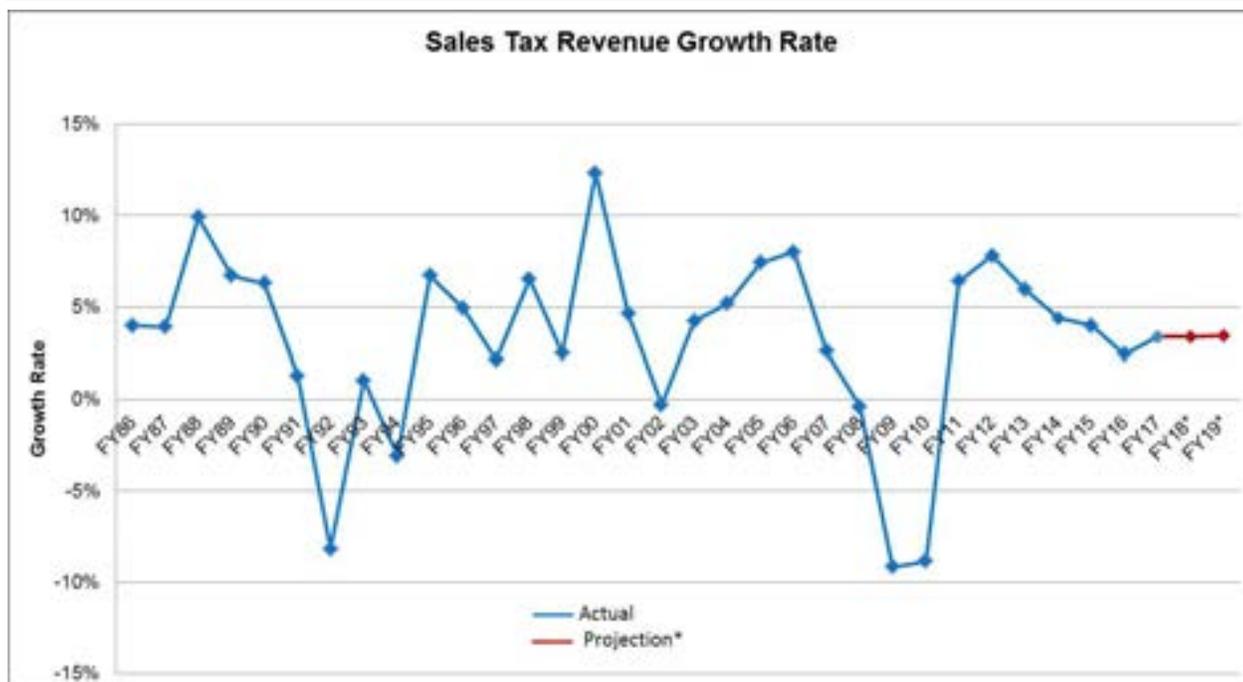
### **Sales Tax Revenue Assumptions**

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

In order to generate a realistic forecast of sales tax revenues, long term and short term historical receipts and 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. Looking back, Figure 1 shows the historical growth of Metro's sales tax revenues. Compared to past years, recent growth has been stable and positive, with growth rates staying in a narrow band between 2.4% and 4.4% since FY14. This mirrors the slow but steady growth of the region's economy over the same period.

Figure 1:

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Looking forward, the leading local forecasts expect current trends to continue over the next year. Figure 2 shows the latest FY19 forecasts per sales tax ordinance provided by UCLA, Beacon Economics and Muni Services. It also shows how Metro’s budget estimates have compared to actual receipts and the leading local forecasts since FY15.

Figure 2:

**Sales Tax Forecast Comparison**

(\$ in millions)

Forecast Source	FY15	FY16	FY17	FY18	FY19
<b>Actual</b>	\$ 745.7	\$ 763.7	\$ 789.4	\$ 816.0**	-
<b>Metro</b>	740.0	770.3*	780.0*	802.0	844.0
<b>UCLA</b>	733.2	772.1	807.4	810.0	863.6
<b>Beacon Economics</b>	751.7	766.2	806.2	816.9	835.4
<b>Muni Services</b>	741.5	785.8	806.2	803.6	827.7

\* Reforecasted budget

\*\* Projection is based on the previous 5 years average Q1 actual receipt percentage from the State Board of Equalization.

Figure 3:

<b>\$ in Millions (for each Sales Tax Ordinance - Propositions A, C, Measures R and M)</b>					
	<b>FY15 Actual</b>	<b>FY16 Actual</b>	<b>FY17 Actual</b>	<b>FY18 Estimated Actual</b>	<b>FY19 Assumption</b>
	\$ 745.7	\$ 763.7	\$ 789.4	\$ 816.0	844.0
% Change	4.0%	2.4%	3.4%	3.4%	3.4%

Given recent trends and current forecasts, we are assuming that the FY19 sales tax annual growth rate will remain steady at the expected +3.4% in FY18. Based on the updated estimate of \$816.0 million in FY18, this growth rate anticipates sales tax revenues (per ordinance) of \$844.0 million in FY19, as shown in Figure 3. We will continue to monitor trends in sales tax receipts and updates from the economic forecasts as we go through the budget process.

As the budget development process continues and additional information becomes available, these parameters may be modified accordingly. Changes and updates will be incorporated and reported back to the Board in the upcoming budget process.

**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 give us a sound revenue and expenditure budget plan.

Consumer Price Index (CPI)

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. Looking back, CPI has been gradually increasing in recent years. UCLA and Beacon Economics expect inflationary pressures to continue building. Given recent trends and current forecasts, we currently assume that CPI will increase from 1.75% in FY18 to 2.25% in FY19, as shown in Figure 4. 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)**

<b>Forecast Source</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
<b>Actual</b>	0.94%	1.73%	2.10%	1.75%*	-
<b>Metro</b>	2.30%	1.97%	1.85%	1.75%	2.25%
<b>UCLA</b>	2.81%	2.25%	2.70%	2.78%	2.42%
<b>Beacon Economics</b>	1.97%	1.57%	1.98%	2.00%	2.15%

\* Preliminary based on FY18 adopted budget

## **Other Expense Assumptions**

### Wages and Benefits

Metro has valid collective bargaining agreements with all five unions for FY19. The labor cost will adhere to the respective labor contracts.

### Service and Program Assumptions

Metro is not projecting significant service changes except for bus bridges to continue passenger services for the planned closure due to new transit construction and Blue Line state of good repair projects. A continued focus on State of Good repair will be a significant part of the FY19 Budget.

### 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.

### Regional Subsidies

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

### Support Costs

Consistent with the CEO's goal of exercising fiscal discipline to ensure financial stability, we will aggressively monitor and manage support costs while ensuring we meet all legally-mandated requirements and remain responsive as an agency.

## **DETERMINATION OF SAFETY IMPACT**

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

## **FINANCIAL IMPACT**

The assumptions describe above are the budget planning parameters, and will guide the development of the FY19 budget. They may be adjusted as more specific information becomes available.

## **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 FY19 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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