



Metro

Los Angeles County
Metropolitan Transportation Authority

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53

**FINANCE, BUDGET & AUDIT COMMITTEE:
PUBLIC HEARING – PROPOSED FY15 BUDGET
May 14, 2014**

SUBJECT: FISCAL YEAR 2015 (FY15) BUDGET

ACTION: ADOPT THE PROPOSED FY15 BUDGET

RECOMMENDATIONS

Adopt the proposed FY15 Budget as presented in the budget document (provided as a separate transmittal) with the following amendments totalling in a reduction of \$97.8 million:

- A. Authorize the CEO to amend the FY15 Budget after completion of union contract negotiations for the amount of wage and compensation increases as approved by the Board.
- B. Further reduce As-Needed and Discretionary budgets for travel, seminar, and other miscellaneous accounts by 21.7%, or \$4.0 million (Attachment A), which will not negatively impact Measure R Transit and Highway projects, in order to continue to exercise fiscal responsibility.
- C. Add 44 positions, including one contract and 43 non-contract full-time equivalent (FTE) positions (Attachment B) for delivering Measure R Transit and Highway Project, conducting Community Outreach, improving Deferred Maintenance, enhancing Safety and Security and for other high priority programs.
- D. Add \$7.9 million for the FTE increase from Item C above. Ninety-three percent of the increase is funded by designated funding sources or savings from Professional and Contract Services accounts and are not eligible for Bus and Rail purposes. Net impact to Bus and Rail eligible funding is \$540,000, which represents a 0.04% increase to the Bus and Rail Operating budget (Attachment C).
- E. Approve a wage increase of 3% for non-contract employees and the corresponding pay grade ranges for a total of \$3.9 million in FY15. The Bus and Rail Operations eligible funding portion of the increase is \$1.2 million, which is 0.09% of the Bus and Rail Operating Budget. The request is comparable to other local agencies (Attachment D).

- F. Adjust the proposed FY15 Budget cash flow for the Exposition Construction Authority by reducing \$105.6 million to reflect the May 1, 2014 adoption by the Exposition Construction Authority Board of its FY15 Budget with no change to the approved Life of Project budget.
- G. Approve the Reimbursement Resolution declaring LACMTA's intention to issue debt in FY15 for capital projects. Actual debt issuance will require separate Board approval (Attachment E).

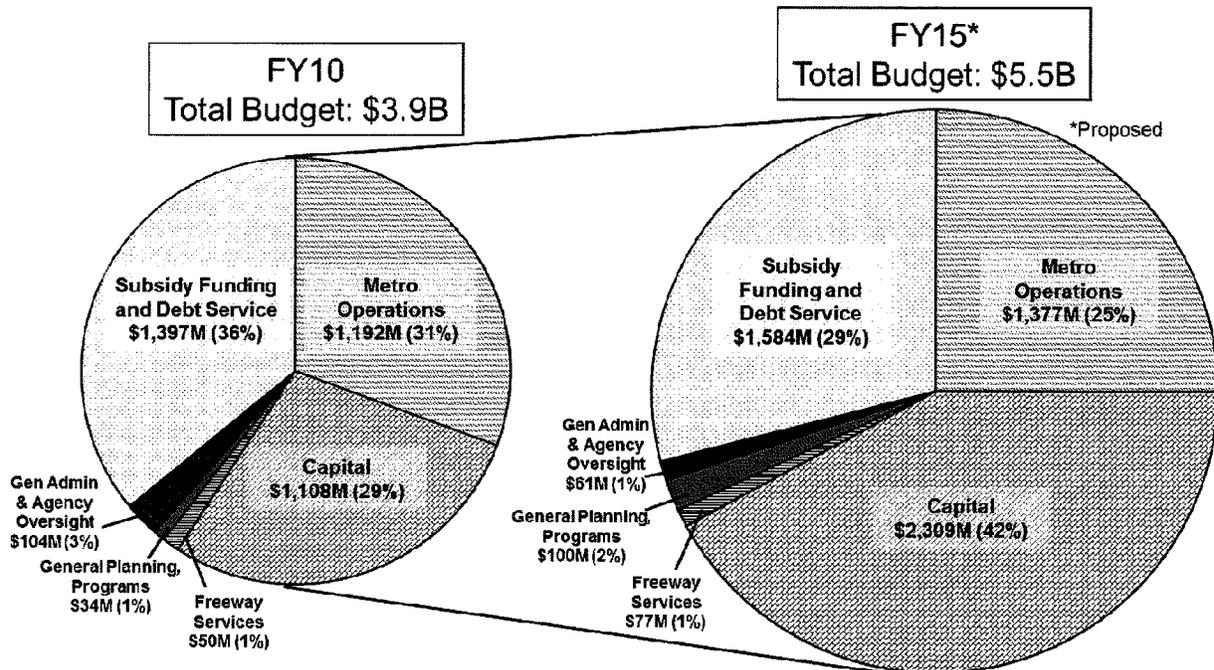
ISSUE

State Law requires the adoption of an annual budget to manage the revenues and expenses of the agency's projects and programs. The budget is the legal authority to obligate and spend funds and implements previous Board policy. It includes all operating, capital, debt service requirements, and general fund activities for the fiscal year. Budget detail is a management plan for financial activity and is prepared at the fund, project, department, and expense/expenditure level. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation adopted by the Board except for capital expenditures that are authorized on a life-of-project basis.

Copies of the proposed budget document were made available to the public on April 29, 2014, both electronically at www.metro.net and through the Records Management Center (RMC) at RMC@metro.net. Printed copies of the budget document were made available at the RMC on the Plaza level of the Gateway Building on the same day. The public hearing is scheduled for May 14, 2014. Advance public notification of this hearing was issued through advertisements posted in multiple news publications.

DISCUSSION

Since FY10, Metro's total budget has increased by 41% from \$3.9 billion to the proposed \$5.5 billion in FY15, reflecting \$1.6 billion growth, mainly due to increased capital programs, for improving deferred maintenance, increasing safety and security measures, and constructing Measure R Transit and Highway.



Agencywide, non-contract positions have decreased from FY10 to FY14 by 7 FTEs. The share of those non-contract positions has shifted from operations and general administration to capital and planning.

The proposed FY15 Budget is balanced at \$5.5 billion and incorporates numerous cost control measures, including significant reductions in Bus and Rail overtime and substantial reductions in discretionary accounts.

The proposed FY15 Budget contains Measure R-funded transit construction projects throughout the region, including: work on the new Crenshaw/LAX line, completion of the Expo and Gold Line extensions, and the start of major work for the Regional Connector and the Purple Line extension. It focuses on the following areas:

- Measure R Transit & Highway project delivery;
- Bus and Rail service improvements;
- Countywide transit funding and transportation studies;
- ExpressLane toll operations
- Systemwide safety and security;
- Deferred maintenance projects;
- Exploration of additional Public-Private Partnership (PPP) opportunities; and,
- New initiatives, such as technology, bike program, and signage improvements.

While the proposed FY15 Budget is balanced due to extensive cost controls and cost-cutting measures, Metro projects an operating deficit in two years of \$37 million, which is estimated to grow to \$226 million by FY23. A fare restructuring proposal is being presented to the Board which would help mitigate some of this projected shortfall.

Recommendation B – Reduction in discretionary and as-needed budgets:

In light of the looming budget deficit, the agency has re-evaluated discretionary and as-needed budgets and is proposing additional reductions in these accounts in a manner that will not affect the delivery of Measure R Transit and Highway projects. As shown in Attachment A, the recommended reduction of \$4.0 million represents a 21.7% reduction in these budget items.

Recommendation C – Additional FTEs:

The recommended amendment would add a total of 44 new FTEs in FY15, including one contract and 43 non-contract positions. Ten of the requested 44 FTEs will be converting contracted field work in house in Community Relations for Transit and Highway construction projects to more effectively mitigate community issues prior to and during the construction period. Twenty-three FTEs are requested to continue planned Measure R Transit and Highway projects. The rest of the 11 FTEs will support ExpressLane operations, Union Station maintenance, technology strategic initiatives, and safety/security, and will exercise tighter control over Deferred Maintenance contract administration and improve union labor benefit and arbitration processing.

Total non-contract positions across the agency have decreased by seven FTEs from FY10 to FY14. With the increased emphasis to improving Deferred Maintenance, Safety and Security, and building Measure R Transit and Highway Projects since FY10, each non-contract FTE on the average carries 30% more budget, or additional scope of work, in the FY15 proposed document. The work assignment of the non-contract FTEs has also shifted from General Administration, Agency Oversight, and Bus and Rail Operating to Capital Maintenance and Construction. Comparing FY14 to FY10, 124 non-contract FTEs were reallocated from the former, while FTEs 117 were added to Capital Projects.

Recommendation D – Budget for the additional FTEs:

The recommended FTEs will increase the budget by \$7.9 million (Attachment C). \$7.4 million, or 93%, of the position increase will be funded with designated funding sources, such as Measure R, Toll revenues, SAFE Call Box, Union Station revenues, or the savings generated due to reductions in service contracts. Only three FTEs will be funded by Bus and Rail eligible funding sources for a total of \$540,000, which increases the Bus and Rail Operating budget by only 0.04%.

Recommendation E – Non-contract salaries:

Since July 1, 2009, contract employees with signed collective bargaining agreements have received cumulative wage increases totaling up to 8% via signing bonuses, quarterly compensation adjustments, and/or other benefits/settlements, whereas non-contract employee salaries have been increased once by 2%. As shown in Attachment D, the 2% salary increase provided to Metro non-contract personnel in July 2013 is below comparable local agencies, several of which are considering or budgeting additional salary increases in FY15. The total cost for an across-the-board 3% increase in non-contract salaries would be \$3.9 million, of which only \$1.2 million would be Bus and Rail

eligible, or 0.09% of the Bus and Rail Operating budget. Approval of this action will also increase non-contract pay grade ranges by 3%.

Recommendation F – Exposition Construction Authority budget:

Metro funds the Exposition Construction Authority's budget. On May 1, 2014, the Exposition Construction Authority Board approved its FY15 Budget of \$397.5 million, which reduced the original FY15 cash flow forecast included in the proposed FY15 Budget by \$105.6 million, as follows:

- Reduction of \$34.5 million from Expo Phase I,
- Reduction of \$117.5 million from Expo Phase II, and
- Addition of \$46.4 million to light rail vehicle purchases.

This cash flow forecast change for the FY15 Budget does not change the approved Life of Project budget.

Preparation for the Expo Line and Gold Line New Extension Openings

Looking forward in FY15, Metro will prepare extensions for additional revenue service along both the Expo Line and the Gold Line. These two new extensions will open for revenue service in FY16 and will add 18 track miles to the Metro Rail system, which is a nearly 20% increase to the system's existing 87 track miles. Additionally, Metro will add two new light-rail vehicle maintenance facilities along these line extensions, increasing maintenance capacity by approximately 75%. Further, Metro is increasing its light-rail fleet by 45%, with the addition of 78 new light-rail vehicles, which start arriving four-per-month in July 2015 and the testing car being delivered in the second quarter of FY15.

In order to conduct systems integration and testing in advance of full operations of these new lines, vehicles, and facilities, Metro will need to significantly increase personnel in Operations and support functions beginning in early FY15. Metro staff will return to the Board in the following months with details on the anticipated labor resources and other expenditures in order to ensure a timely and safe revenue operation along both line extensions.

DETERMINATION OF SAFETY IMPACT

The proposed budget continues to make safety a primary goal and provides funding for new and ongoing safety programs throughout the agency.

ALTERNATIVES CONSIDERED

There is no alternative to adopting a budget. State law requires that a budget shall be adopted for continued agency operations.

FINANCIAL IMPACT

The proposed FY15 Budget (provided in a separate transmittal) is \$5.5 billion. After factoring in the impact of the proposed amendments, the FY15 Budget would be reduced to \$5.4 billion. The budget includes expenditures and appropriates the resources necessary to fund them. The proposed FY15 Budget, as amended by this report,

demonstrates Metro's capacity to meet capital and operating obligations, which is a requirement necessary in order to receive subsidies from the state and federal governments and to administer regional transportation funding to local cities and Municipal Operators.

NEXT STEPS

Provide the board report detailing the request for additional labor and expenditure items for systems integration and testing for the Metro Expo Line and Gold Line extensions, light-rail vehicle maintenance facilities, and new light-rail vehicles.

Implement and monitor the FY15 budget, identify areas for improvement, develop multi-year financial forecasts and regularly update the Board on the agency's ongoing financial performance.

ATTACHMENTS

- A. FY15 As-Needed and Discretionary Accounts Recommended Reductions
- B. Proposed FY15 Additional FTEs
- C. Funding Sources for the FTE Additions
- D. Comparable Local Agency Salary Survey
- E. Reimbursement Resolution of LACMTA for Fiscal Year 2015

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ATTACHMENT A

FY15 As-Needed and Discretionary Accounts Recommended Reductions

	FY15		FY15 Budget	
Managing Department Name	Proposed Budget	Recommended Adjustment	After Adjustment	Reduce %
1				
2	<u>Discretionary Accounts</u>			
3	BOARD OF DIRECTORS	264,219	-	264,219 0.0%
4	CHIEF EXECUTIVE OFFICE	1,592,701	(392,701)	1,200,000 -24.7%
5	COMMUNICATIONS	2,245,197	(745,197)	1,500,000 -33.2%
6	CONGESTION REDUCTION	1,038,000	-	1,038,000 0.0%
7	ENGINEERING AND CONSTRUCTION	726,570	(476,570)	250,000 -65.6%
8	FINANCE AND BUDGET	333,410	(183,410)	150,000 -55.0%
9	INFORMATION TECHNOLOGY	136,924	-	136,924 0.0%
10	OPERATIONS	1,303,782	-	1,303,782 0.0%
11	PLANNING AND DEVELOPMENT	835,206	(535,206)	300,000 -64.1%
12	VENDOR/CONTRACT MANAGEMENT	363,850	(113,850)	250,000 -31.3%
13	Discretionary Accounts Subtotal	8,839,859	(2,446,934)	6,392,925 -27.7%
14				
15	<u>As-Needed Accounts</u>			
16	BOARD OF DIRECTORS	320,000	-	320,000 0.0%
17	CHIEF EXECUTIVE OFFICE	1,382,880	(382,880)	1,000,000 -27.7%
18	COMMUNICATIONS	2,691,897	(500,000)	2,191,897 -18.6%
19	CONGESTION REDUCTION	299,464	-	299,464 0.0%
20	ENGINEERING AND CONSTRUCTION	1,193,613	(193,613)	1,000,000 -16.2%
21	FINANCE AND BUDGET	661,460	-	661,460 0.0%
22	INFORMATION TECHNOLOGY	295,042	-	295,042 0.0%
23	OPERATIONS	662,105	-	662,105 0.0%
24	PLANNING AND DEVELOPMENT	1,777,222	(500,000)	1,277,222 -28.1%
25	VENDOR/CONTRACT MANAGEMENT	399,597	-	399,597 0.0%
26	As-Needed Accounts Subtotal	9,683,280	(1,576,493)	8,106,787 -16.3%
27				
28	Total	18,523,138	(4,023,427)	14,499,712 -21.7%

ATTACHMENT B

Proposed FY15 Additional FTEs and Funding Source

	A	B	C	D
	FY15		FY15	
Department	Proposed Document	Requested Amendment	Budget after Amendment	Recommendation
1 BOARD OF DIRECTORS	36	-	36	
2 CHIEF EXECUTIVE OFFICE	429	3	432	2 in Labor Relation with potential savings in EF by reducing arbitration backlog; 1 in LAMPS funded by Prop 1B Security Grant
3 COMMUNICATIONS	261	10	271	Convert consultants in Community Relations for MR Transit with offsetting Pro Svc savings
4 CONGESTION REDUCTION	13	2	15	1 in Toll Rd for program increase funded by Toll revenue; 1 in SAFE for RIITS funded by Call Box
5 ENGINEERING AND CONSTRUCTION	176	8	184	6 in TPD and 2 in Highway; all funded by Measure R
6 FINANCE AND BUDGET	183	6	189	2 in Treasury funded by Debt Svc; 1 in Accounting funded by MR TIFIA; 2 in OMB funded by MR; 1 in Pension funded by General Adm
7 INFORMATION TECHNOLOGY	133	2+1	136	1 Tech Initiative and Strategy, 1 PCI compliance, 1 ATU for IPMO Office setup
8 OPERATIONS	7,579		7,579	
9 PLANNING AND DEVELOPMENT	143	6	149	1 Union Station Upkeep to be funded by Union Station revenue; 1 Airport Connector, 2 Real Estate, 1 Grant, and 1 PPP to be funded by Measure R
10 VENDOR/CONTRACT MANAGEMENT	270	6	276	3 in DEOD funded by Measure R; 3 in Procurement for Deferred Maintenance with offsetting savings in consultant contract
11 TOTAL FTEs	9,223	44	9,267	43 NC and 1 Union Positions

ATTACHMENT C

Funding Sources for the FTE Additions

	Funding Source	FTE Amendments	Corresponding Budget
1	Measure R	30	
2	Union Station Revenue	1	
3	Express Lanes and SAFE	2	
4	Debt/Cash Management	2	
5	Prop 1B Security Grant	1	
6	Savings from Bus and Rail Eligible Contract Reduction	5	
7	Subtotal Before Bus and Rail Eligible Fund	41	\$ 7,380,000
8	Bus and Rail Eligible Fund	3	\$ 540,000
9	Total FTE Amendment and Budget	44	\$ 7,920,000

Comparable Local Agency Salary Survey

FY15 SALARY SURVEY

	Agency	FY14 Increase	Forecasted FY15 Increase	Notes
1	Caltrans	3.0%-5.0%	Expect 2.0% increase contingent on state tax revenues.	FY14 increase contingent on salary status on the step scales. FY15 increase dependent on meeting State tax revenues target.
2	City of Los Angeles	1.5%-5.0%	Raises governed by union contract agreements. Likely similar to FY13-FY14.	Jan 2013 provided a 3.0% increase. Resulting in calendar year 2013 increase of at least 4.5%.
3	County of Los Angeles	4.0%	2% to be given in Oct-2014. Expect similar for Apr-2015.	FY14 increase was provided as follows: 2.0% on Oct-2013 and 2.0% on Apr-2014. County primarily comprised of union employees, but raises provided apply to all, including both union and non-contract.
4	Exposition Authority	2.0%-6.0%	Expect 2.0%-6.0% discretionary increase	15%-25% Employee retention packages approved in Feb 2014 for Expo Phase 2 staff who remain on hand till 2016 Revenue Operations Date.
5	Foothill Gold Line Extension Authority	1.5%-4.5%	Expect 1.5%-4.5% discretionary increase	03/20/14 Foothill Authority Agenda Item 4 requests UP TO 10% pro rata allowance for COLA & merit increases. Likely 1.5%-4.5% distribution.
6	Metrolink	3.00% to 4.14%	Expect 3.0% merit-based increase and 1.14% COLA.	FY2014-2015 SCRRA Budget Document; Page 4; Other Considerations - 4th bullet itemizes FY15 request.
7	OCTA	up to 6.0%	Up to 6.0% merit-based increase; 4.0% budgeted in FY15.	4.0% budget planned with FY15 merit-based distributions expected to range between 0.0%-6.0%.
8	LACMTA	2.0%	Proposing a 3% wage and pay grade range increase for non-contract employees.	

**REIMBURSEMENT RESOLUTION
OF THE
LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
FOR FISCAL YEAR 2015**

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "Metro") desires and intends to finance certain costs relating to (i) the design, engineering, construction, equipage and acquisition of light rail lines including the Exposition Line Phase I or Phase II Project, the Crenshaw/LAX Transit Corridor Project and Gold Line Foothill Extension Project (ii) the design, engineering, construction, equipage and acquisitions for the Southwestern Yard (iii) the design, engineering, construction, equipage and acquisitions for the Rail Deferred Maintenance Project (iv) the design, engineering, construction, equipage and acquisitions for the HOV Lanes and Alameda Corridor East (v) the design, engineering, construction, equipage and acquisition of various segments of the Metro Red Line and Purple Line subways, including the Westside Subway Extension Section 1 (vi) the design, engineering and construction of certain highway, busway and/or related projects (vii) the engineering, construction and/or acquisition of various capital facilities and equipment, including buses and rail cars, related to service operation and (viii) to other transit related projects (each a "Project" and collectively, the "Projects");

WHEREAS, to the extent that federal and/or state grant funding budgeted to be received during FY15 is delayed or reduced, the Los Angeles County Metropolitan Transportation Authority desires and intends to finance certain costs relating to the Projects.

WHEREAS, Metro expects to issue debt through the issuance of tax-exempt bond issues to pay for these expenditures, which bond issues will have two separate security sources, Proposition A, sales tax revenues and grant revenues to finance the costs of the Projects on a permanent basis (the "Debt");

WHEREAS, Metro expects to expend moneys of the Enterprise Fund (other than moneys derived from the issuance of bonds) on expenditures relating to the costs of the Projects prior to the issuance of the Debt, which expenditures will be properly chargeable to a capital account under general federal income tax principles;

WHEREAS, Metro reasonably expects to reimburse certain of such capital expenditures with the proceeds of the Debt;

WHEREAS, Metro expects that the amount of Debt that will be issued to pay for the costs of the Projects will not exceed \$100 million for Proposition A and \$98 million for grant revenues;

WHEREAS, at the time of each reimbursement, Metro will evidence the reimbursement in writing, which identifies the allocation of the proceeds of the Debt to Metro, for the purpose of reimbursing Metro for the capital expenditures made prior to the issuance of the Debt;

WHEREAS, Metro expects to make reimbursement allocations no later than eighteen (18) months after the later of (i) the date on which the earliest original expenditure for the Project is paid or (ii) the date on which the Project is placed in service (or abandoned), but in no event later than three (3) years after the date on which the earliest original expenditure for the Project is paid;

WHEREAS, Metro will not, within one (1) year of the reimbursement allocation, use the proceeds of the Debt received by way of a reimbursement allocation in a manner that will result in the creation of replacement proceeds of the Debt or another issue (e.g., Metro will not pledge or use the proceeds received as reimbursement for the payment of debt service on the Debt or another issue, except that the proceeds of the Debt can be deposited in a bona fide debt service fund); and

WHEREAS, this Resolution is intended to be a " declaration of official intent" in accordance with Section 1.150-2 of the Treasury Regulations.

NOW THEREFORE, BE IT RESOLVED, that (i) all of the foregoing recitals are true and correct and (ii) in accordance with Section 1.150-2 of the Treasury Regulations, Metro declares its intention to issue Debt in an amount not to exceed \$100 million for Proposition A and \$98 million for grant revenues; the proceeds of which will be used to pay for the costs of the Projects, including the reimbursement to Metro for certain capital expenditures relating to the Projects made prior to the issuance of the Debt