

**Metro**Los Angeles County
Metropolitan Transportation AuthorityOne Gateway Plaza
Los Angeles, CA 90012-2952213.922.2000 Tel
metro.net

2nd REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
JANUARY 14, 2015

SUBJECT: FY16 BUDGET PLANNING PARAMETERS**ACTION: RECEIVE AND FILE****RECOMMENDATION**

Receive and file the FY16 Budget Planning Parameters.

ISSUE

The budget planning parameters, as described below, include sales tax growth assumptions, levels of service, fare revenue per boarding and other key financial factors that guide the allocation of resources for the development of the upcoming annual budget.

DISCUSSION

Metro will present a balanced budget for FY16. The budget will emphasize safety, security, transit service quality improvement, new bus and rail vehicle purchases, delivery of rail and highway projects, bike programs, technology enhancements, opening of EXPO II to Santa Monica and Gold Line Foothill Extension, state of good repair, Union Station, and a potential transportation ballot measure and other new initiatives.

The budget planning parameters serve as the framework for developing the annual budget. As the budget development process continues and additional information becomes available, these parameters may be modified, updated and/or changed accordingly.

Budget Planning Parameters and Rationale

- A. Sales Tax & TDA Revenue Forecast:** The FY15 sales tax and TDA revenues are assumed to grow 2.4% above the FY14 actuals. Given the FY15 Q1 actual revenues are only slightly above budget by 1.3%, the FY16 sales tax and TDA

revenue growth rate is assumed to continue growing at 2.4% over FY15 Budget in order to provide a conservative approach to revenue projections.

- B. State Transit Assistance (STA) Revenue:** Depends upon actual consumption of diesel usage. Preliminary forecast for FY16 is at \$83.6 million which is lower than the FY15 budget level of \$100.2 million due to improved vehicle technology and fuel efficiency. This assumption number will be revised during the budget process to reflect the State Controller's FY16 estimate due for release in early February 2015.
- C. Fare Revenue Forecast:** Assumes no adjustments in fare structure from the September 15, 2014 fare change. Maintains frozen student fares. Total estimated fare revenue for FY16 is \$363.2 million which is higher than the FY15 budget level of \$351.1 million due to a full year impact of the fare structure change effected September 15, 2014 and the anticipated boarding increase from new revenue services for Expo II and Gold line Foothill extension-an increase in systemwide boardings.
- D. Fare per Boarding:** Estimated at 76 74¢ per boarding for FY16, which is an increase of 8.6 5.7% over FY14 actual fare per boarding of 70¢. This change is to reflect increased revenues as a result of the new fare structure. Impact of fare restructuring will be evaluated and reported to the Board within three to six months.
- E. Rail Service Level:** Assumes that Gold Line Foothill Extension and EXPO II to Santa Monica will begin revenue service during FY16. Metro Rail service will increase by 66,700 or 6.5% Revenue Vehicle Service Hours (RVSH) for a total of 1,094,500.
- F. Bus Service Level:** Metro Bus services will remain constant at the FY15 level of 7,061,700. Any service changes approved by the Board will be reflected and amended into the FY16 budget.
- G. Deferred Maintenance:** Focuses on the delivery of safety and service reliability related maintenance projects for Metro Bus and Rail systems. ~~Vehicle mid-life services and replacement vehicle procurements for buses, light rail, and heavy rail are at the forefront of the program to mitigate the deferred maintenance backlog. Also perform component overhaul and midlife service to mitigate the deferred maintenance backlog until new vehicles are delivered. Deferred Maintenance progress-~~Emphasis will be placed on the older Blue and Red rail lines.
- H. Planned Measure R Project Progress:** Board adopted Measure R Transit and highway projects will continue as planned in the ordinance. TIFIA and TIGER II grants were approved for Crenshaw/LAX Transit Corridor in Fall of 2013. Full Funding Grant Agreements (FFGA) were adopted in Summer of 2014 for Westside Subway Extension Section 1 and the Regional Connector. Through

FY15 and FY16, design and construction efforts are ongoing for Crenshaw / LAX Transit Corridor, Regional Connector, and Westside Subway Extension Section 1 projects. Also in FY16, Westside Subway Extension Section 2 plans for ongoing preliminary design and FFGA evaluation while additional procurements are anticipated for the Southwestern Yard and Paint/Body Shop associated with Crenshaw / LAX Transit Corridor.

- I. **Staffing:** Any staffing increase will be associated with increased service or capital expansion. We will coordinate closely with, and receive input from the Board for any FTE changes.

- J. **Wage and Benefits:** ~~Current structure of allocated overhead is based on the most recent approved Federal Cost Plan, and the percentage of direct/indirect staffing allocations remains unchanged. Expense baseline equals FY15 budget. Adjustments were made based on the negotiated Union Contracts (ATU, TCU, and UTU) effective through FY17. No new FTEs unless justified by new services or projects as directed by the Board of Directors. For SMART, ATU and TCU members, FY16 Proposed budget salaries and fringe benefits will grow by negotiated rates per the Union Contract terms. Operations staffing positions (Operators, Mechanics, and Wayside Inspectors) linked directly to existing service levels and pre-revenue activities for EXPO II to Santa Monica and Gold Line Foothill Extension, as previously approved by the Board.~~

- K. **Consumer Price Index (CPI):** Current estimates from leading forecasts, such as UCLA, Beacon Economics, Muni Services and the LA Economic Development Corporation range from 1.4% to 2.4%. FY16 assumption is based on the most conservative estimate from Beacon Economics at 1.4% growth.

FINANCIAL IMPACT

The budget planning parameters guide the development of the FY16 budget and may change 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 impede Metro's stated goal of improving transportation in Los Angeles County.

NEXT STEPS

A Proposed FY16 Budget will be presented to the Board in May 2015 for approval. In the months preceding budget adoption, we will brief Board and Board staff with additional information as it becomes available


ATTACHMENTS

- A. Financial Summary of the FY16 Business Planning Parameters
- B. FY16 Sales Tax Revenue Assumption

Prepared by: Office of Management & Budget, 213-922-3088



Nalini Ahuja
Executive Director, Finance & Budget



Arthur T. Leahy
Chief Executive Officer

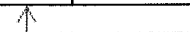
Financial Summary of FY16 Business Planning Parameters

1 Assumptions	FY14 Actual	FY15 Budget	FY16 Assumption	% Change FY15 to FY16
2				
3 <u>Revenues</u>				
4 Sales Tax PA, PC, MR & TDA (in millions)	2,507.5	2,569.7	2,630.6	2.4%
5 STA (in millions)	117.1	100.2	83.6	-16.6%
6				
7 Fare Revenue (in millions)	331.1	351.1	363.2	3.4%
8 Fare Revenue per Boarding	0.70	0.74	0.76	2.7%
9				
10				
11 <u>Boardings (in thousands)</u>				
12 Bus (Include Direct Operated, BRT and Purchased Transportation)	361,464.2	359,260.5	359,260.5	0.0%
13				
14 Light	63,704.8	63,727.4	68,729.9	7.8%
15 Heavy	50,364.8	50,382.8	50,479.3	0.2%
16 Subtotal Rail	114,069.6	114,110.2	119,209.2	4.5%
17				
18 Total	475,533.8	473,370.7	478,469.7	1.1%
19				
20				
21 <u>Revenue Service Hours (in thousands)</u>				
22 Bus (Include Direct Operated, BRT and Purchased Transportation)	7,014.5	7,061.7	7,061.7	0.0%
23				
24 Light	678.6	702.3	769.0	9.5%
25 Heavy	320.0	325.5	325.5	0.0%
26 Subtotal Rail	998.6	1,027.8	1,094.5	6.5%
27				
28 Total	8,013.1	8,089.5	8,156.2	0.8%
29				
30				
31 <u>Expenses</u>				
32 CPI Cost Inflation *	1.9%	2.8%	1.4% - 2.4%	N/A
33				
34				
35 Wage % Change	Per Union Contract and 0% for Non-Contract	Per Union Contract and 3% for Non-Contract	Per Union Contract	

* CPI estimates based on leading forecasting agencies.

FY16 Sales Tax Revenue Assumption

		\$ in Millions (for each Sales Tax Ordinance- Proposition A, C and Measure R)			
		FY13 Actual	FY14 Actual	FY15 Adopted	FY16 Assumption
1					
2		\$ 687.2	\$ 717.2	\$ 734.2	\$ 751.6
3	% Change	5.9%	4.4%	2.4%	2.4%



		FY13 Estimate	FY14 Estimate	FY15 Estimate	FY16 Estimate
4	Forecasting Sources				
5	UCLA Anderson	\$ 688.3	\$ 705.6	\$ 739.2	\$ 775.4
6	% Change	5.0%	2.5%	4.8%	4.9%
7					
8	Beacon Economics	\$ 695.0	\$ 717.2	\$ 738.4	\$ 759.9
9	% Change	6.0%	3.2%	2.9%	2.9%
10					
11	Muni Services	\$ 687.2	\$ 717.2	\$ 751.0	\$ 785.8
12	% Change	5.9%	4.4%	4.7%	4.6%