

**Board Report**

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**FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 11, 2018**

SUBJECT: FISCAL YEAR 2019 (FY19) BUDGET DEVELOPMENT STATUS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE report on FY 2019 Budget Development Status.

ISSUE

Metro is continuing the development of the FY19 Budget. This report is third in a series of monthly budget development updates that will lead to a proposed budget for adoption in May 2018.

In the past status reports, the FY19 Budget progress discussed the factors that impact sales tax forecast and cost inflation, as well as the process that guides the budget development to achieve the Board and CEO goals in a fiscally sound manner. The second report itemized the proposed Transit Project Construction/Planning, Highway, Regional Rail programs, and Metro's implementation plans to meet Measure M/Measure R (MM/MR) priorities for the coming fiscal year. Both reports presented a status of the continued efforts to expand public outreach program in order to maximize stakeholder input.

The primary focus of this report will be on Metro Transit and Subsidy Funding programs. Metro Transit consists of Bus and Rail Operations, Maintenance, and State of Good Repair (SGR) to Metro's transit assets. Metro Bus and Rail Transit service generates Fare Revenue to help offset some of the operating costs; therefore, projected Fare Revenues forecast will be presented as well. Subsidy Funding represents a direct funding to regional partners to carry out local transportation and transit needs. This includes subsidies paid to local jurisdictions, Municipal Operators, Access Services, and funding for other programs such as Fare Assistance.

Staff will also provide a status of continued public outreach efforts to obtain public and stakeholder input.

DISCUSSION

FY19 Budget Program Summary

Metro performs four major core business functions, planner, builder, operator, and funding partner of transportation programs and projects that shape LA County. The FY19 Budget to perform these functions is projected to be balanced at approximately \$6.6 billion. This is 5% greater than the FY18

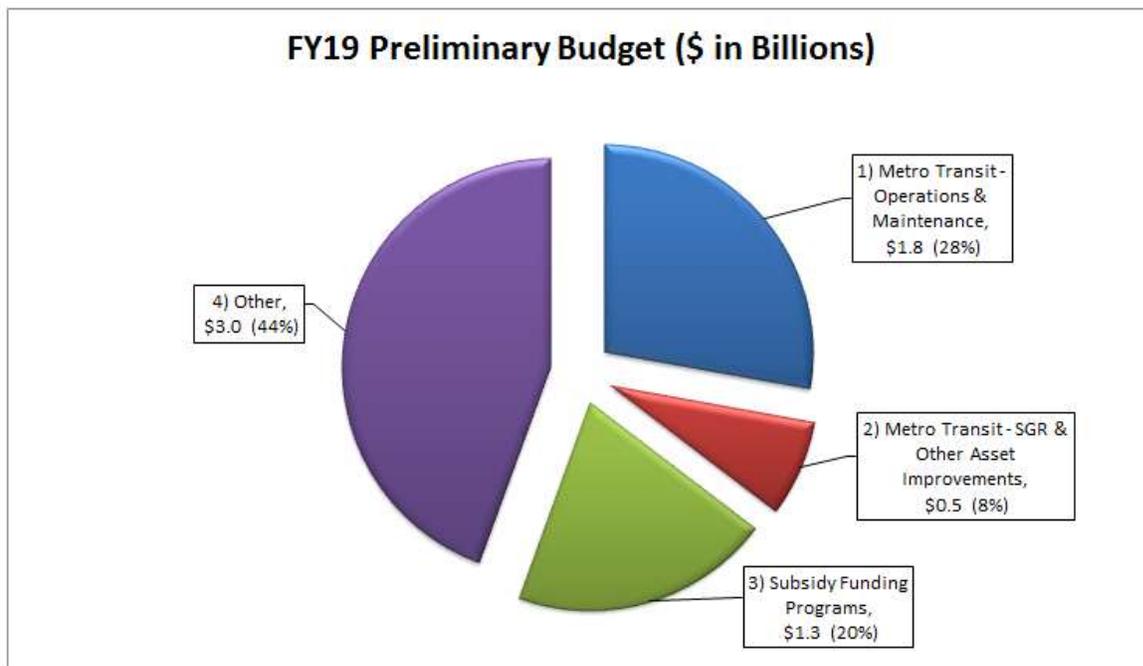
Budget.

As shown in Figure 1, the total budget is divided into 4 different categories: 1) Metro Transit-Operations and Maintenance, 2) Metro Transit-State of Good Repair and Other Asset Improvements, 3) Subsidy Funding Programs and 4) Other as described in the paragraph below. Each of these categories represents a total dollar amount and percentage of the total budget.

Metro Transit Bus and Rail Operations is \$1.8 billion, representing 28% of the budget. State of Good Repair and Other Asset Improvements are \$0.5 billion, or 8%. Subsidy funding programs for LA County are \$1.3 billion, approximately 20% of the total budget. Combining these three programs accumulate to a total of \$3.6 billion, approximately 56% of the total budget. Other programs, including Transportation Infrastructure Development, Regional Rail, Congestion Management, General Planning & Programs, Oversight & Administration, and Debt Service, make up the remaining balance of the \$6.6 billion.

This report will focus on the following three programs: 1) Metro Transit-Operations and Maintenance, 2) Metro Transit-State of Good Repair and Other Asset Improvements, and 3) Subsidy Funding Programs.

Figure 1



Program 1: Bus and Rail Operations and Maintenance

Service Levels

Bus and Rail Operations and Maintenance reflect the resources required to run daily bus and rail services. Bus and rail service levels are the main cost driver used to develop this budget. Figure 2 shows the change in Revenue Service Hours (RSH) from FY18 to FY19.

Figure 2

Bus and Rail Service Levels by Mode				
	Bus	Rail	Total	
1	FY18 Budget	7,006,000	1,245,000	8,251,000
2	Changes in Service Levels			
3	Minor Service Adjustments to Relieve Overcrowding	15,000	32,000	47,000
4	Bus Bridges	84,000	-	84,000
5	"New Blue" Rehabilitation Service Interruptions	-	(30,000)	(30,000)
6	FY19 Preliminary Budget	7,105,000	1,247,000	8,352,000
7	Changes From FY18 Budget			
8	% Change	1.4%	0.2%	1.2%

The FY18 budgeted RSH are 8,251,000, consisting of 7,006,000 for Bus and 1,245,000 for Rail. There is a total RSH increase from FY18 to FY19 of 101,000 hours. Bus is scheduled to operate an additional 99,000 RSH. This increase consists of 15,000 in minor service adjustments to relieve overcrowding. The major rehabilitation of Metro’s Blue Line, known as “The New Blue” will require segments of the line to be closed and will result in 84,000 RSH of bus bridges.

There is a net increase of 2,000 Rail Revenue Vehicle Service Hour (RVSH). This includes an increase of 32,000 RVSH service improvements, such as three cars consist on the Gold Line and adjust headways to six minutes on the Green Line to accommodate the increased demand in the AM peak. There is also a reduction of 30,000 service hours due to Blue Line service closure as Metro initiates major rehabilitation efforts continues on the oldest rail line, “The New Blue” project.

Metro Transit Expenditures

Bus and Rail operations is an estimated total of \$1.8 billion in FY19 with \$1.25 billion for Bus and \$0.58 billion for Rail. Overall, there is a 5.1% increase to the FY18 Budget to operate and maintain Metro’s Bus and Rail services.

In Metro Bus and Rail Transit programs, changes in union labor and fringe benefit rates reflect current Collective Bargaining Agreements with the five unions. Whenever possible, staff identified

cost control measures and applied them to consumables, contracted services and other controllable expenses line items to offset a portion of cost increase.

Bus Operations and Maintenance

As shown in Figure 3 the overall Bus Operations budget is broken down into 2 sub-categories: 1) Labor and Fringe, and 2) Consumables, Contracted Services and Other Controllable Expenses. The combined total of both sub-categories for the FY19 Preliminary Budget is \$1,248.0 million. Labor and Fringe makes up \$745.3 million and the remaining \$502.7 million is the budget for Consumables, Contracted Services and Other Controllable Expenses.

Figure 3

Bus Operations (\$ in millions)	FY18 Budget	FY19 Preliminary	\$ Change	% Change	% Total Budget
Labor and Fringe	\$ 699.6	\$ 745.3	\$ 45.7	6.5%	60%
Consumables, Contracted Services, Other	\$ 503.0	\$ 502.7	\$ (0.3)	-0.1%	40%
Total Bus Operations	\$ 1,202.6	\$ 1,248.0	\$ 45.4	3.8%	100.0%

Bus Labor and Fringe Benefits make up 60% of the Bus Operations and Maintenance budget. This component is projected to increase by approximately \$45.7 million, 6.5% greater than the FY18 Budget. This is attributed to negotiated wage increases, and additional hours needed to support bus bridges, special events

Consumables, Contracted Service, and Other Controllable Expenses reflect the remaining 40% of the budget, and are nearly the same as FY18 with a decrease of \$300,000 absorbing cost inflations for the new fiscal year.

Rail Operations and Maintenance

As shown in Figure 4 the overall Rail Operations budget is broken down into 2 sub-categories: 1) Labor and Fringe, and 2) Consumables, Contracted Services and Other Controllable Expenses. The combined total of both sub-categories for the FY19 Preliminary Budget is \$575.2 million. Labor and Fringe makes up \$252.8 million and the remaining \$322.4 million is the budget for Consumables, Contracted Services and Other Controllable Expenses.

Figure 4

Rail Operations (\$ in millions)	FY18 Budget	FY19 Preliminary	\$ Change	% Change	% Total Budget
Labor and Fringe	\$ 234.2	\$ 252.8	\$ 18.6	7.9%	44%
Consumables, Contracted Services, Other	\$ 298.3	\$ 322.4	\$ 24.1	8.1%	56%
Total Rail Operations	\$ 532.5	\$ 575.2	\$ 42.7	8.0%	100.0%

Rail Labor and Fringe Benefits reflect 44% of the Rail Operations and Maintenance budget. This budget component is projected to increase by approximately \$18.6 million, 7.9% greater than the FY18 Budget. This is also attributed to negotiated wage increases, increased resources to enhance vehicle and facilities maintenance, as well as additional on-street and station supervision required to support bus bridges and special events.

Consumables, Contracted Service, and Other Controllable Expense reflect the remaining 56% of the budget, and there is a current projection of an increase of approximately \$24.1 million, 8.1% greater than FY18. About \$33.0 million in expenditure increases are projected, primarily to provide additional maintenance contract services for rail vehicle, stations, and other rail facilities maintenance. Offsetting the increase is the reduction in consumable parts and projected propulsion power rates. These reductions are approximately \$5.0 million. The net result reflects \$42.7 million increase to the overall Rail Operating expense.

Fare Revenues

Metro Bus and Rail services generate fare revenues to offset a portion of the operating expenses. Annual Fare Revenue in the budget is estimated by multiplying projected Fare per Boarding by an estimated annual number of boardings.

Fare per Boarding

FY18 year-to-date Fare per Boarding experiences a narrow range of \$0.76 to \$0.78 per boarding. FY19 Budget is proposed to use the midpoint of the actual experience to date at \$0.77 per boarding.

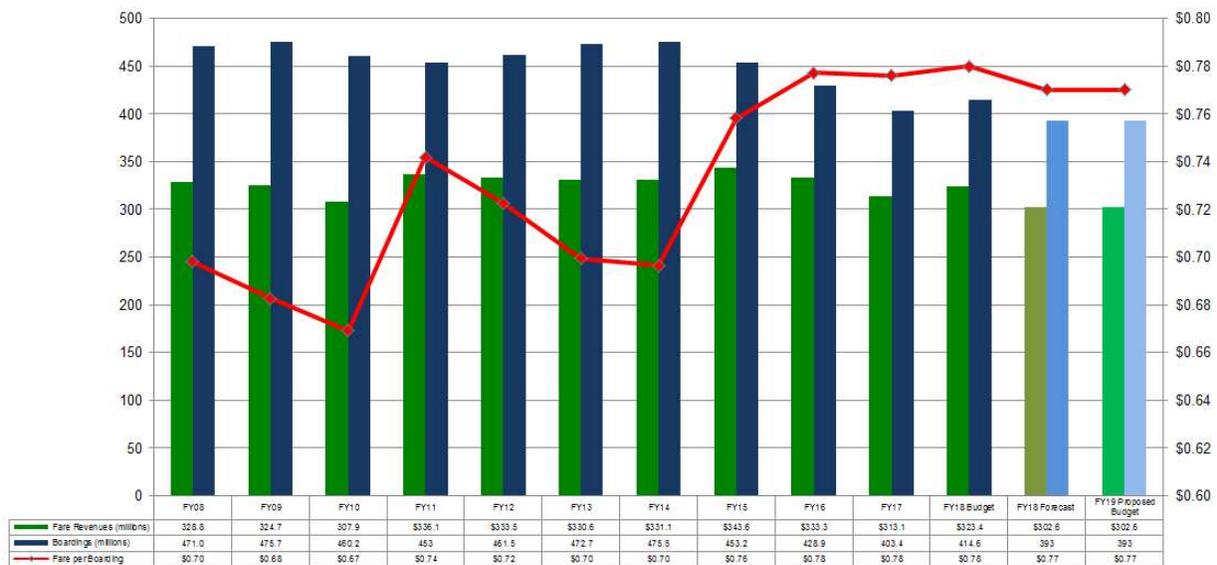
Annual Boardings

FY19 system wide boarding projections are 393 million based on the projected actual boarding count for FY18. Planned FY19 service adjustment efforts to reduce overcrowding on the Gold Line and Green Line and other service right sizing are designed to maintain FY19 boarding at FY18 estimated level of 393 million.

Based on these fare per boarding and annual boarding projections, fare revenues are estimated to be \$303 million. Figure 5 reflects actual Fare per Boarding, annual Boardings and Fare Revenues from FY08 through FY17, as well as the FY18 forecast and FY19 Proposed Budget.

Figure 5

Fare Revenues, Boardings and Fare/Boardings



Ridership Initiatives

Attracting additional ridership is one of Metro’s top priorities. Although ridership decline is a nationwide issue, it is imperative to develop long term strategies and immediate actions to improve ridership. Metro is constructing some comprehensive strategic directions beyond transit service planning to address the ridership loss, and will bring them to the Board at a future meeting for consideration.

Program 2: State of Good Repair

Metro continues to devote major resources to maintain the transit system in a State of Good Repair. Over \$493 million is allocated to maintain Metro’s Bus, Rail, and Technology Infrastructure. Major projects include Bus Acquisition and the related Technology Upgrade, On-going Bus Maintenance Midlife and Engine Replacement, Rail Vehicle Procurement, and Rail Vehicle Overhaul. Right of Way refurbishment is also a high priority project, with primary focus on the Blue Line, “The New Blue”.

Technology upgrade projects will improve our customer experience, such as Connected Bus to provide on-board Wi-Fi service. The purchase and integration of a new Enterprise Asset Management system will enhance the tracking and condition assessment of Metro's assets. Figure 6 shows each State of Good Repair program by maintenance category.

Figure 6

(\$ in Millions)

SGR Category	FY18 Budget	FY19 Preliminary	% of Total SGR Budget	Year Over Year Change
1 Bus Acquisition	\$ 44.0	\$ 96.6	20%	119%
2 Bus Facilities Improvements	\$ 19.6	\$ 17.9	4%	-9%
3 Bus Maintenance	\$ 44.4	\$ 45.7	9%	3%
4 Bus Subtotal	\$ 108.0	\$ 160.1	32%	48%
5 Rail Facilities Improvements	\$ 9.4	\$ 11.9	2%	28%
6 Wayside Systems	\$ 40.8	\$ 85.9	17%	110%
7 Rail Fleet Procurement	\$ 115.0	\$ 127.6	26%	11%
8 Rail Vehicle Maintenance	\$ 70.9	\$ 50.4	10%	-29%
9 Rail Subtotal	\$ 236.1	\$ 275.8	56%	17%
10 Non-Revenue Vehicles	\$ 11.3	\$ 3.9	1%	-65%
11 Construction - Regional and Hubs	\$ 63.1	\$ 35.6	7%	-44%
12 Technology	\$ 13.4	\$ 17.6	4%	31%
13 Other Subtotal	\$ 87.8	\$ 57.1	12%	-35%
14 Total Proposed SGR Budget	\$ 431.9	\$ 493.1		14%

Bus State of Good Repair

About \$160 million is planned to fund Bus Infrastructure Rehabilitation. This represents 32% of the total State of Good Repair program. Over \$96 million of the \$160 million is dedicated to initiating the conversion of the bus fleet to Electric/Zero Emission Buses (ZEB) and purchase of 38 new electric buses for the pilot program. Metro will also be adding 48 Near Zero Emission CNG buses to replace buses scheduled for retirement. The Electric/Zero Emission Buses (ZEB) will be run as a pilot program on the Orange Line and Silver Line. Bus testing will be conducted to validate current operating technology and determine infrastructure needs to migrate to a full electric bus fleet. Staff will periodically bring the test results to the Board for evaluation and to determine future implementation plans.

The remaining \$64 million will provide On-going Bus Facilities Improvement and Bus Midlife Maintenance Activities. These projects include continued development of master plans for facility

upgrades, refurbishment, and site reconfigurations to upgrade critical facilities. Upgrades also include regulatory compliance projects; such as replacement of underground fuel storage tanks. Bus midlife refurbishment activities include structural integrity checks, engine replacements, component change-out of critical systems. Beginning this year, bus engines will be upgraded to a near Zero Emission CNG configuration which runs cleaner than those CNG engines that are currently installed.

Rail State of Good Repair

Over \$275 million will be dedicated to Rail Infrastructure Rehabilitation. About \$128 million of the \$275 million is projected for rail vehicle procurements that will continue to keep up with scheduled rail expansion projects and replace older vehicles that are approaching the end of their useful life. The replacement vehicles will meet new demand and replace the existing Blue Line fleet. About \$98 million will be programmed for on-going facility improvements and rehabilitation of the Blue Line. This initiative deemed “New Blue” will include replacement of Overhead Catenary Systems, communications systems, and fare gate infrastructure installation. The remaining \$51 million will allow continued Rail vehicle midlife and component overhaul programs.

Other Asset Improvements

Over \$57 million will be programmed for Technology upgrades, Regional Construction, and purchase of vehicles and equipment to support transportation and maintenance activities.

Technology upgrades include initiating the purchase and integration of an enterprise asset management system that will replace the 15 year old system currently used. This will allow the agency to shift the tracking of asset maintenance from age based tracking to condition based tracking to have a more realistic method to schedule and replace assets and related bus, rail, and centralized infrastructure. Funds are also allocated for programs such as Connected Bus and Wi-Fi installations at more rail lines and in new buses for an improved customer experience and security.

Program 3: Subsidy Funding Programs

Subsidy Funding represents a direct funding to regional partners to carry out local transportation needs which have increased by \$89.6 million, or 7.2%. This increase is primarily due to increased subsidies paid to local jurisdictions, Municipal Operators, and Access Services. This is a direct result of increased funding from growth in sales tax revenues. Due to uncertainty regarding Federal Grant funding sources, Regional Federal Grants are budgeted at a 16.6% decrease from the prior year. Fare Assistance program is increasing slightly due to due to sales tax growth in Measure M funding for LIFE (Low Income Fares is Easy) program.

Figure 7 shows a detailed listing of the Subsidy Funding Program’s preliminary budget.

Figure 7

Subsidy Funding Programs (\$ in millions)	FY18	FY19	\$ change	% change
	Budget	Preliminary		
Local Agencies	\$ 729.2	\$ 769.4	\$ 40.2	5.5%
Regional Transit	469.4	523.3	53.9	11.5%
Regional Federal Grants	30.6	25.5	(5.1)	-16.7%
Fare Assistance	14.1	14.7	0.6	4.3%
Total Subsidy Funding Programs	\$ 1,243.3	\$ 1,332.9	\$ 89.6	7.2%

In June, separate reports will be brought forward for specific Board approval detailing subsidy funding amounts for each Municipal and Local Operators, including Access Services, and local jurisdictions. This includes adoption of FY19 Transit Funds Allocation and FY19 Access Services budget.

Public Outreach Update

This month, Metro's budget development outreach plan is in full swing. On March 19, the interactive Online Budgeting Tool was launched alongside increased marketing efforts including a social media campaign. The Online Budgeting Tool, first launched during the FY17 outreach process, engages the public in the budgeting process by soliciting input on transportation priorities, providing information on the types of programs in the budget, and offering background on Metro's role within LA County.

Throughout April, staff is also conducting outreach for various stakeholder meetings, such as the Citizens Advisory Council, Policy Advisory Committee, Technical Advisory Committee, and Bus Operators Subcommittee. At these meetings, the FY19 Preliminary Budget is presented with direct exchange of questions and comments about Metro's plan for the upcoming fiscal year. These presentations are also being held at the April meetings of all Metro Service Councils, offering many opportunities for the public to weigh in on the budget.

Because the Telephone Town Hall held during the FY18 Budget outreach process yielded valuable input with over 3,000 participants, efforts this year are expanded to offer two sessions on the evenings of April 4th and April 5th. This new format of engagement provides a convenient opportunity for members of the public to offer input on the budget process without physical presence at the public hearing or other in-person forums.

A summary of all comments received during the public outreach process will be included in the May 2018 Board report.

FINANCIAL IMPACT

This report is a status update of an overall agency-wide proposed budget that will be presented to the Board for adoption consideration in May 2018. Submission of this Receive and File report will not have an immediate financial impact on the FY19 Budget.

ALTERNATIVES CONSIDERED

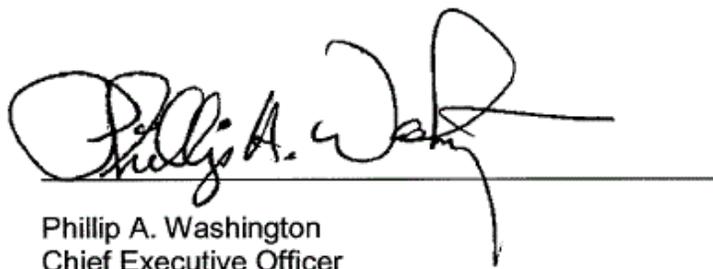
Per PUC Code 130051.12, Metro shall establish overall goals and objectives to achieve optimal transportation services and adopt an aggregate budget for all organizational business units. Not adopting the budget would severely impact Metro's goal of improving transportation services in Los Angeles County.

NEXT STEPS

Staff will continue to develop and finalize the FY19 Proposed Budget. Regular updates to the Board will take place with more budget details. Metro will continue its outreach efforts to stakeholder groups for in-depth and technical discussion of transit services and transportation program priorities that are included in the FY19 Proposed Budget. The programs identified and funded in the budget, including any updates since the first review with the Board will be consolidated and shown in the FY19 Proposed Budget Book 14 days before the Budget Public Hearing on May 16, 2018.

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