



## Board Report

File #: 2016-0036, File Type: Budget

Agenda Number: 8.

**EXECUTIVE MANAGEMENT COMMITTEE  
FEBRUARY 18, 2016  
~~FINANCE, BUDGET AND AUDIT COMMITTEE~~  
~~FEBRUARY 17, 2016~~**

**SUBJECT: FY17 BUDGET PLANNING PARAMETERS**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE the FY17 Budget Planning Parameters.

**ISSUE**

The budget planning parameters describe the revenue and cost growth factors for the regional transportation system, and include sales tax revenues, fare revenue, levels of service, labor and Consumer Price Index (CPI) assumptions that guide the allocation of resources for the development of the upcoming annual budget.

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.

**DISCUSSION**

Metro projects a balanced budget for FY17. The budget will align resources according to the following CEO 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 and innovation
- Improve the customer experience and expanding access to transportation options
- Increase transit use and ridership
- Implement an industry-leading state of good repair program
- Invest in workforce development and promoting extraordinary innovation

**Budget Planning Parameters and Rationale**

**A. Sales Tax & TDA Revenue Forecast:** Sales tax growth has been in a cooling mode from the post-recession recovery peak as indicated in Figures 1 and 2. It has slowed down from a growth rate of 4.4% in FY14 to 4.0% in FY15 and 2.4% (estimated) in FY16. It is assumed that the FY17 sales tax growth rate will continue at the FY16 level at 2.4%. This assumption will be re-evaluated as additional sales tax receipt information becomes available from the State Board of Equalization (SBE) and updates from various major forecasting authorities such as UCLA, Beacon Economics, Muni Services and the LA Economic Development Corporation are released. Figure 3 shows how Metro’s estimates compare to the actuals and projections from leading forecasts historically.

Figure 1:

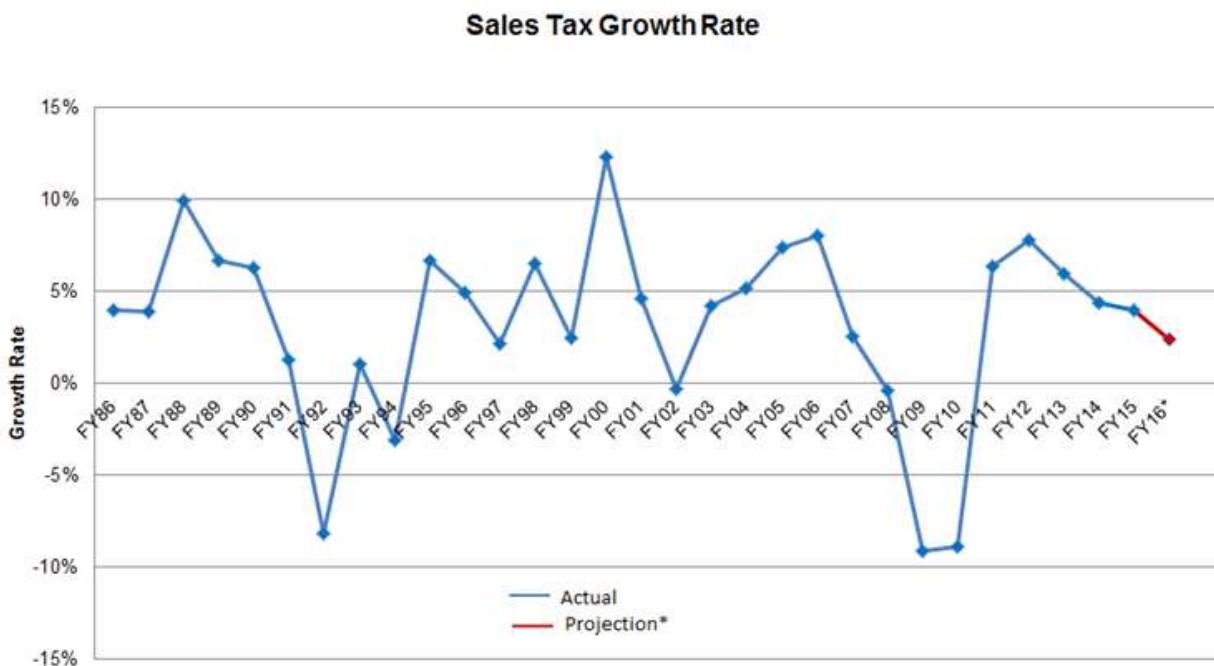


Figure 2:

<b>\$ in Millions (for each Sales Tax Ordinance - Propositions A, C and Measure R)</b>				
	<b>FY14 Actual</b>	<b>FY15 Actual</b>	<b>FY16 Adopted</b>	<b>FY17 Assumption</b>
	\$ 717.2	\$ 745.7	\$ 763.5	\$ 781.8
<b>% Change</b>	4.4%	4.0%	2.4%	2.4%

Figure 3:

(\$ in millions)				
Fiscal Year	Actual	UCLA	Beacon Economics	Metro
FY15	\$ 745.7	\$ 733.2	\$ 751.7	\$ 740.0*
FY16	\$ 760.1**	\$ 772.1	\$ 766.2	\$ 763.5
* Reforecasted budget				
** Projection is based on FY16 Q1 actual receipt from SBE				

**B. State Transit Assistance (STA) Revenue:** Sales tax revenue depends upon actual consumption and price of diesel. \$102.8 million in STA revenue is estimated in FY17 which is lower than the FY16 projection of \$105.7 million. A lower consumption and price are anticipated due to vehicle technology improvements, lower fuel prices and freight companies which previously used diesel switching to cleaner CNG fuel. This assumption will be re-assessed during the budget process to reflect the California State Controller’s Office (SCO) estimate which is due for release in mid-February 2016.

**C. Fare Revenue Forecast:** FY17 assumes no adjustments in fare structure. Fare revenue depends on system boardings, which has been experiencing a decline since April of FY14 as indicated in Figure 4. Current FY16 projected boardings is estimated to be 3.9% below the FY15 actual boardings of 453.0 million as indicated in Figure 5. Agencywide efforts are underway to reverse the declining trend. The two new rail lines (Gold Line Foothill Extension 2A to Azusa and EXPO II to Santa Monica) are expected to bring in 10.9 million of additional boardings in FY17. The overall FY17 boardings is estimated to increase 2.3% from the FY16 projection to 445.3 million, and fare revenue is projected at \$334.0 million.

Figure 4:

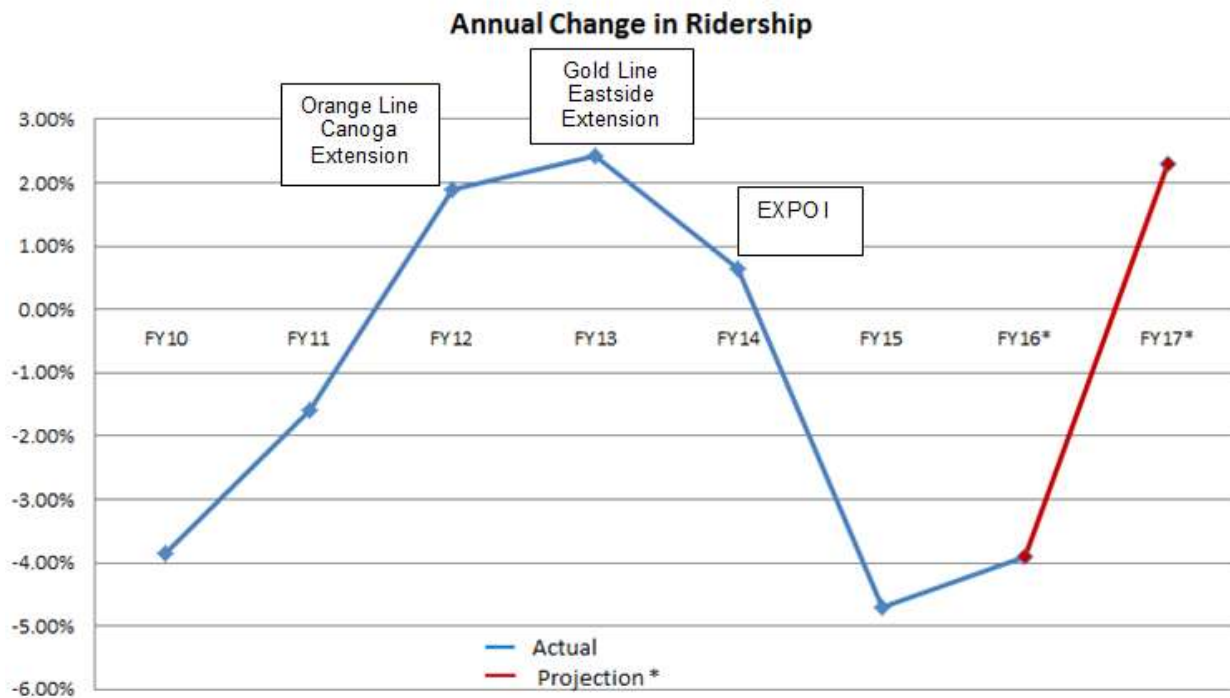


Figure 5:

(in millions)	FY15 Actual	FY16 Projection	% Increase (from FY15 to FY16)	FY17 Assumption	% Increase (from FY16 to FY17)
<b>Boardings</b>					
<b>Base</b>	453.0	435.3	-3.9%	435.3	0.0%
<b>New Services</b> (Gold Line Foothill Ext. 2A to Azusa & EXPO II to Santa Monica)				10.0	
<b>Total Boardings</b>	453.0	435.3	-3.9%	445.3	2.3%
<b>Fare Revenue</b>	\$343.6	\$326.5	-5.0%	\$334.0	2.3%

**D. Service Level:** FY17 will include Risk Allocation Matrix (RAM) recommendations for service optimization such as improved speeds, elimination of duplicate service, load factor adjustments and optimization of rail schedules. Service level will include full year of operation of two new rail lines, Gold Line Foothill Extension 2A to Azusa and EXPO II to Santa Monica.

**E. Staffing:** Staffing plan will be developed as part of the FY17 zero-based budget. No new FTEs are assumed and any additional FTE request will require Board approval.

**F. Wage and Benefits:** For SMART, ATU, TCU and AFSCME members, FY17 Proposed Budget salaries and fringe benefits will grow by negotiated rates per the Union Contract terms.

CEO is in the process of developing a Non-Contract merit based performance measurement system. Health, welfare and pension benefits for Non-Contract will be in accordance with previously approved Board action. Any proposed Non-Contract salary increase will be brought back to the Board for approval.

**G. Consumer Price Index (CPI):** Current estimates from leading forecasts, such as UCLA, Beacon Economics and Muni Services range from 1.9% to 2.9%. The FY17 assumption will be determined as updates are released in March 2016. Figure 6 shows how Metro’s estimates compare to the actuals and projections from leading forecasts historically.

Figure 6:

Fiscal Year	Actual	UCLA	Beacon Economics	Metro
FY15	0.94%	2.81%	1.97%	2.30%
FY16	1.25%*	2.25%	1.57%	1.97%

\* YTD actual based on data from U.S. Bureau of Labor Statistics.

**DETERMINATION OF SAFETY IMPACT**

This recommendation will not have an impact on safety standards for Metro.

**FINANCIAL IMPACT**

The budget planning parameters guide the development of the FY17 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**

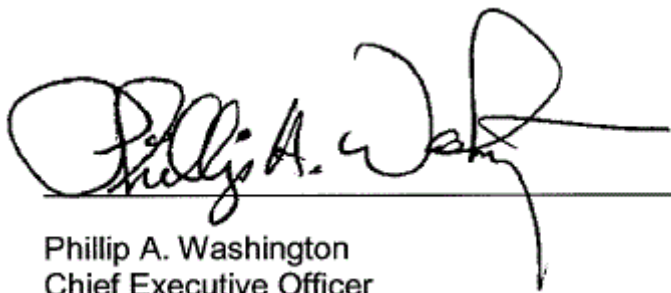
	Budget Status Update		
Jan-16	RAM initiatives for FY17		
Feb-16	(1) Budget Planning Parameters for Assumptions and Service Levels		
	(2) FY17 Preliminary Capital Program		
Mar-16	FTE, Subsidies, Operating and Agencywide Expenses Status Update	Ongoing Board/Board Staff Briefings	Public outreach through: technical subcommittees, service councils, and digital and social media
Apr-16	Proposed Budget Book		
May-16	Final Board Adoption – May 26		

**ATTACHMENTS**

Attachment A - Financial Summary of the FY17 Business Planning Parameters

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Phillip A. Washington  
Chief Executive Officer

**ATTACHMENT A**

1	Assumptions	FY15 Actual	FY16 Projection	FY17 Assumption	% Change FY16 to FY17
2					
3	<u>Revenues</u>				
4	Sales Tax PA, PC, MR & TDA (in millions)	2,611.3	2,672.2	2,736.4*	2.4%
5	STA (in millions)	106.1	105.7	102.8*	-2.7%
6					
7	Fare Revenue (in millions)	343.6	326.5	334.0	2.3%
8					
9					
10	<u>Boardings (in thousands)</u>				
11	Bus (Include Direct Operated, BRT and Purchased Transportation)	342,749.7	329,209.3	329,209.3	0.0%
12					
13	Light	62,775.1	60,778.9	70,782.3	16.5%
14	Heavy	47,506.7	45,358.7	45,358.7	0.0%
15	Subtotal Rail	110,281.8	106,137.6	116,141.0	9.4%
16					
17	Total	453,031.5	435,346.9	445,350.3	2.3%
18					
19					
20	<u>Revenue Service Hours (in thousands)**</u>				
21	Bus (Include Direct Operated, BRT and Purchased Transportation)	7,037.3	7,061.7	7,055.2	-0.1%
22					
23	Light	680.1	769.0	983.4	27.9%
24	Heavy	319.4	325.5	323.3	-0.7%
25	Subtotal Rail	999.5	1,094.5	1,306.7	19.4%
26					
27	Total	8,036.8	8,156.2	8,361.9	2.5%
28					
29					
30	<u>Expenses</u>				
31	CPI Cost Inflatior ***	0.94%	1.97%	1.90% - 2.90%	N/A
32					
33					
34	Wage % Change	Per Union Contract and 3% for Non-Contract	Per Union Contract and 3% for Non-Contract	Per Union Contract and merit for Non-Contract	
	* Subject to change when updates become available from SBE, SCO and major forecasting sources.				
	** Preliminary estimates only include approved Board action on RAM. All other adjustments are still under development.				
	*** FY15 CPI actual based on U.S. Bureau of Labor Statistics.				
	FY17 CPI assumption based on leading forecasting agencies.				

# FY17 Budget Planning Parameters

Executive Management Committee

February 18, 2016



# FY17 Budget Development Process

<b>Board Status Updates</b>	
<b>January 2016</b>	RAM initiatives adopted for FY17 implementation
<b>February 2016</b>	(1) Budget Planning Parameters for Assumptions and Service Levels (2) FY17 Preliminary Capital Program
<b>March 2016</b>	Agencywide Expenses Status Update
<b>April 2016</b>	Proposed Budget Book
<b>May 2016</b>	Final Board Adoption – May 26

## **Outreach with key stakeholders:**

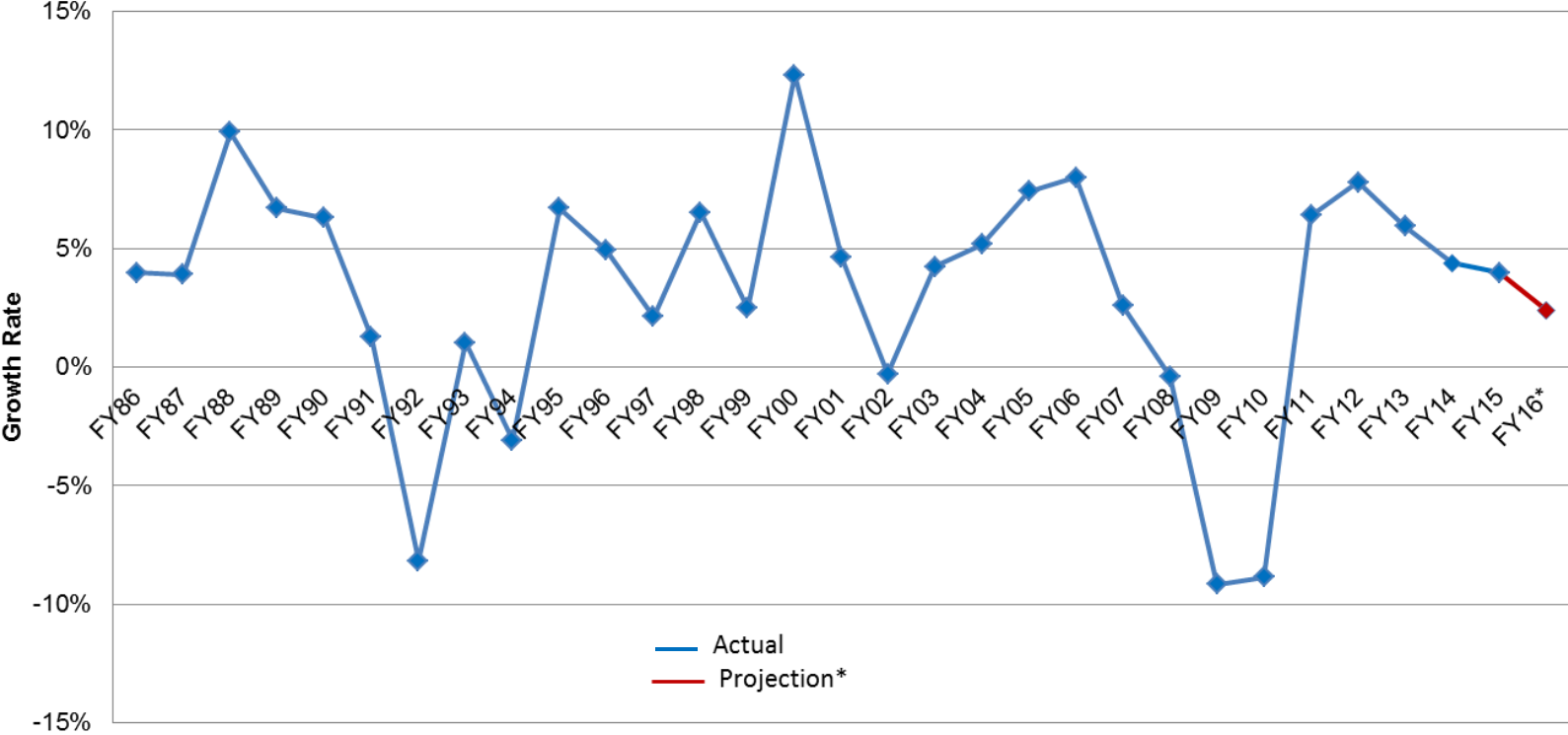
- Board of Directors
- Senior Leadership Team and Executive Staff
- Regional Service Councils, Citizen Advisory Council (CAC), Technical Advisory Committee (TAC), and Bus Operations Subcommittee (BOS)
- Electronic media (e.g. social media, the Source, webinar, web page, etc.)

# Agency Goals

1. Advance safety and security for our customers, the public, and Metro employees
2. Exercise fiscal discipline to ensure financial stability
3. Plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation
4. Improve the customer experience and expand access to transportation options
5. Increase transit use and ridership
6. Implement an industry-leading state of good repair program
7. Invest in workforce development
8. Promote extraordinary innovation

# Sales Taxes

- Sales tax growth has been in a cooling mode from its post-recession recovery peak.
- Growth has slowed down from an increase of 4.4% in FY14 to an estimated 2.4% in FY16.
- It is assumed that the FY17 sales tax growth rate will continue at the FY16 level of 2.4%.
- Staff will closely monitor and adjust the FY17 sales tax forecast, if necessary, as more data becomes available.



# Consumer Price Index (CPI)

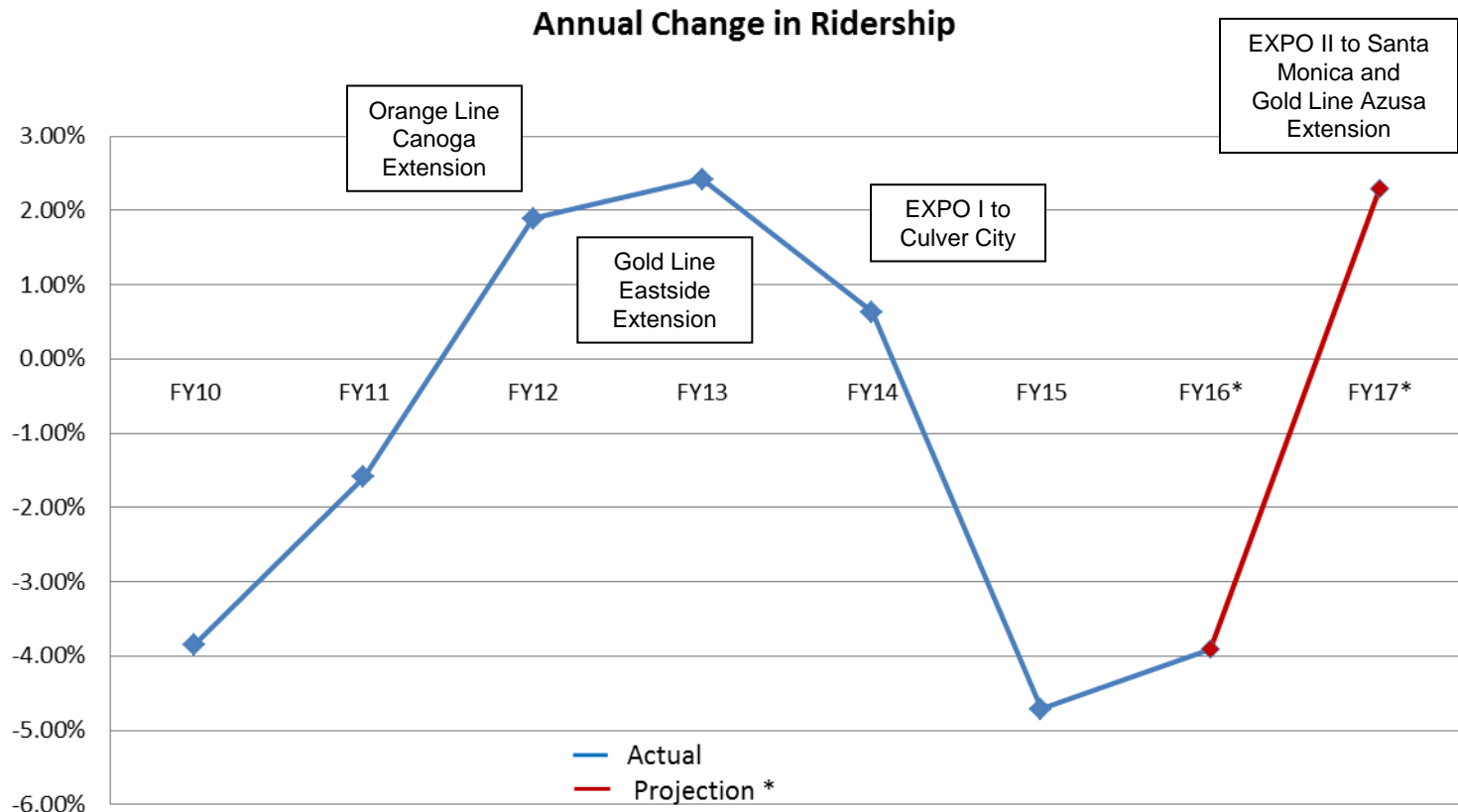
- Current leading forecasts – from UCLA, Beacon Economics and Muni Services – estimate change in the FY17 CPI in a range from 1.9% to 2.9%
- The FY17 assumption will be determined as updates are released in March 2016.
- The chart below shows how Metro’s CPI estimates compare to the actuals and projects from leading forecasts.

Fiscal Year	Actual	Beacon		
		UCLA	Economics	Metro
FY15	0.94%	2.81%	1.97%	2.30%
FY16	1.25%*	2.25%	1.57%	1.97%
FY17 Forecast	--	2.90%	1.90%	1.9% to 2.9%

\* YTD actual based on data from U.S. Bureau of Labor Statistics.

# Fare Revenues and System Boardings

- FY17 assumes no fare restructuring; fare revenues depend on system boardings.
- The two new rail lines are expected to bring in 10 million additional boardings in FY17, and overall Metro transit system boardings and fare revenues are projected to increase by 2.3%, which equates to \$7.5 million in additional fare revenues.



# Wages and Benefits

- For SMART, ATU, TCU and AFSCME members, FTEs will be adjusted based on service levels and zero-based budget cost drivers.
- Further, for these Union Contract positions, FY17 proposed budget salaries and fringe benefits will grow by negotiated rates per the Contract terms.
- The CEO is in the process of developing a Non-Contract merit-based performance measurement system.
- Health, welfare, and pension benefits for Non-Contract positions will be in accordance with previously-approved Board actions.

# Metro Transit Service

- In order to begin the FY17 budget development process, transit service estimates are based on FY16 budget plus service optimizations included in RAM for both Bus and Rail.
- Additionally, Rail includes an increase as a result of a full year of operations on the EXPO II and Gold Line Foothill 2A extensions.
- Currently, FY17 Bus revenue service hours are projected at 7.1 million; and FY17 Rail revenue vehicle service hours are projected at 1.3 million.
- Both Bus and Rail budgeted revenue service hours remain under consideration according to minor service adjustments and other proposed changes that still need to be determined.
- Next month's receive and file update will provide finalized FY17 Bus and Rail service assumptions.

# Next Steps

- March 2016 budget receive and file update will provide finalized FY17 Bus and Rail service assumptions.
- Staff will closely monitor and adjust the FY17 sales tax forecast, if necessary, as more data becomes available.
- The agency will continue to prioritize efforts for FY17 through its new program- and deliverables-based budget process and will provide ongoing updates and analysis to the Board.
- May 26, 2016 – Adoption FY17 budget; projected to be a balanced budget.