

**Board Report**

File #: 2017-0015, **File Type:** Informational Report

Agenda Number: 32.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
FEBRUARY 15, 2017**

SUBJECT: INITIATING FY18 BUDGET DEVELOPMENT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the **FY18 Budget Development Process and Schedule, CEO Budget Goals, Outreach, and Sales Tax Revenue and CPI Assumptions**

ISSUE

Metro is developing its FY18 Budget, a process that began in the past two months with the FY17 Midyear review, as directed by the CEO. The FY17 Midyear review establishes the FY18 Budget development baseline both for positions (FTEs) and for non-labor expenses.

This is the first of a series of monthly updates to the Board on the FY18 Budget process. This report will describe the opportunities, constraints, and mechanisms that will guide the development of the FY18 Budget. As with prior years, the primary objective is to achieve the CEO's goals in a manner that is fiscally sound both in the budget year as well as in future years. New for FY18 will be the incorporation of Measure M, which adds new resources and new challenges to address an expanding portfolio of projects while continuing to maintain fiscal responsibility.

This report begins with an outline of our budget process and schedule. Next we provide the CEO's goals for FY18, followed by a description of our comprehensive public outreach program, which seeks to maximize public input and ensure that Metro's stakeholders have an active role in the process. Then we will provide the sales tax revenue and Consumer Price Index (CPI) assumptions that will lay the framework for the development of the upcoming annual budget.

DISCUSSION

Budget Process and Schedule

This report is the first in a series of reports to the Board, culminating in final Board Adoption, as follows:

- February 2016:

- Budget Development Process and Schedule
- Outreach
- Sales Tax Revenue and CPI Assumptions
- March 2017:
 - FY18 Capital Program (Transit and Highway Construction, and State of Good Repair)
 - Bus and Rail Service Levels
 - Transit Boardings and Fare Revenue Projections
 - Expenses (not including FTEs)
 - By Program, including Capital, Transit Operations, Other Agencywide Programs, and Subsidies
 - By Department, including Operations, Security, Planning, Information Technology, and others
- April 2017:
 - Preliminary FY18 Budget proposal, including Federal, State, and Local Revenues, and non-labor expenses
 - Agencywide labor expenses, including contract and non-contract positions
 - Outreach status update
- May 2017:
 - Public Hearing - May 17, 2017
 - Final Board Adoption - May 25, 2017

(In accordance with State Public Utilities Code Section 130051.12)

CEO Budget Goals

Metro projects a balanced budget for FY18. The annual budget will align resources in a fiscally responsible manner to achieve 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;
- 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 agencywide and departmental Affirmative Action and Equal Employment Opportunity (EEO) goals.

Additionally, as described by the CEO in his State of the Agency report to the Metro Board of Directors in January of 2017, the FY18 Budget will further ensure that resources are invested with respect to developing a safety culture, supporting innovation, investing in people, providing a culture of learning and accountability, and taking the first steps to begin implementing Measure M projects as prescribed by the ordinance approved by Los Angeles County voters in November of 2016.

Board of Directors, Public, and Stakeholder Outreach

A comprehensive outreach program for the FY18 Budget is in place to ensure that Metro provides complete information and the best possible level of engagement on budget development to the Board of Directors, to the public, and to key stakeholders. Soliciting meaningful input from the public and stakeholders is important. To ensure 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. The outreach plan will include over 50 briefings with our Board, key stakeholders and the public.

Board of Director Briefings

Beginning in February, detailed budget briefings will be presented to Board staff on a weekly basis. The purpose of these briefings is to provide policy makers with an in-depth explanation of the budget development for each and every Metro department, as well as a comprehensive look at all revenues, expenses, and project deliverables planned for FY18. In addition to these ongoing regular briefings, OMB staff will also conduct individual Board member briefings by request on an as-needed basis

Public Outreach

We have planned numerous options and opportunities for informing and engaging the public in the FY18 budget process. While more traditional public workshops and forums are ideal for people who can afford the time to participate, other media channels, communication tools, and technology advances are also being used to provide multiple opportunities for the public to learn about the FY18 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 FY18 budget.

- Public Hearing - A public hearing on the FY18 Budget will be held on May 17, 2017 for the Board to receive public comments. The general public is encouraged to attend and provide their comments. Notice of public hearing will follow policies and procedures required (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 FY18 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.
- Podcast - Staff will be recording and posting a podcast in late-March/early-April 2017 on various budget themes and issues.
- 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 FY18 Budget website that can be accessed through 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> has been established to allow the public an opportunity to comment outside of a public setting.

Stakeholder Briefings

Budget 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 and 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 and Consumer Price Index (CPI) Assumptions

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.

Following is a series of charts and descriptions that provide the parameters for projected sales tax revenues and agency expenditures. Metro's reliance on sales taxes for more than half of total revenues necessitates as accurate a forecast as possible to determine funding constraints in the budget year. Many of our future expenses are dependent on changes in the Consumer Price Index (CPI), so we therefore scrutinize current spending levels combined with forecast service levels and changes in the CPI to develop the most accurate possible reflection of future spending.

Sales Tax & TDA Revenue Forecast

Sales tax annual growth is continuing in a positive direction, but at a slower pace than the post-recession recovery peak period, as indicated in Figures 1 and 2. Specifically, annual growth has slowed down from +4.0% in FY15 to +2.4% in FY16 and +2.1% in FY17 (estimated). As shown in both Figures 1 and 2, we currently assume that the FY18 sales tax annual growth rate will increase slightly from the expected +2.1% in FY17 to +2.6% in FY18. Finally, Figure 3 shows how Metro's estimates have historically compared to the actuals and projections from leading forecasts.

Figure 1:

Sales Tax Annual Growth Rate

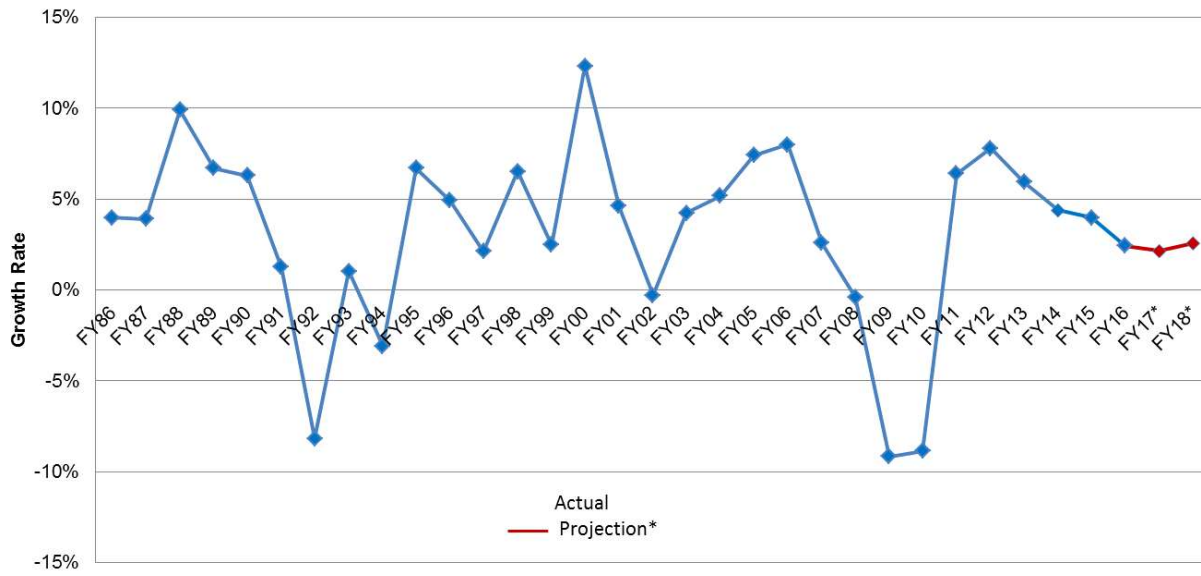


Figure 2:

Annual Change in Sales Taxes

(\$ in millions)

| Revenues for each Sales Tax Ordinance - Propositions A, C, Measure R, and Measure M | | | | |
|--|--------------------|--------------------|------------------------------|------------------------|
| | FY15 Actual | FY16 Actual | FY17 Estimated Actual | FY18 Assumption |
| | \$ 745.7 | \$ 763.7 | \$ 780.0 | \$ 800.0 |
| % Change | 4.0% | 2.4% | 2.1% | 2.6% |

Figure 3:

Sales Tax Forecast Source Comparison

| Forecast Source | FY15 | FY16 | FY17 | FY18 |
|-------------------------|-------------|-------------|-------------|-------------|
| Actual * | \$ 745.7 | \$ 763.7 | \$ 780.0 | --- |
| Metro ** | \$ 734.2 | \$ 763.5 | \$ 795.7 | \$ 800.0 |
| UCLA | \$ 733.2 | \$ 772.1 | \$ 807.4 | \$ 810.0 |
| Beacon Economics | \$ 751.7 | \$ 766.2 | \$ 806.2 | \$ 816.9 |

* FY17 Actual is projection based on FY17 Q1 receipt from State Board of Equalization

** FY15 and FY16 are Adopted Budget

As noted in Figure 3 above, the FY17 sales tax revenue forecast for FY17 of \$780.0 million is based on actual sales tax receipts from the State Board of Equalization (SBE) through FY17 Q1. While this amount is lower than the adopted budget amount of \$795.7, Metro staff will continue to monitor additional sales tax receipts as provided by SBE in the coming months to update both the FY17 and FY18 amounts. Additionally, we will continue to monitor updates from economic forecasting authorities including UCLA, Beacon Economics, Muni Services and the LA Economic Development Corporation.

State Transit Assistance (STA) Revenue

State Transit Assistance sales tax revenue depends upon actual consumption and price of diesel fuel. For FY18 \$60.0 million in STA revenue is anticipated, which is higher than the FY17 projection level of \$52.9 million. A slightly higher consumption and price are anticipated due to increasing oil and natural gas drilling activity (which uses diesel fuel in its operations), and an assumption of normal temperatures contributes to a forecast of fuel consumption growth, according to the U.S. Energy

Information Administration. This assumption will be reassessed during the budget process to reflect the State Controller’s Office estimate, which is due for release in the coming weeks.

Consumer Price Index (CPI)

It is anticipated that the CPI will range between 1.25% to 2.00%, based on historical pattern and actual experience. The FY18 assumption will be re-evaluated as updates from leading forecasting authorities are released in March 2017. Figure 4 shows how Metro’s estimates have historically compared to the actuals and projections from leading forecasts.

Figure 4:

Annual Change in Consumer Price Index (CPI)

| Forecast Source | FY15 | FY16 | FY17 | FY18 |
|-------------------------|-------|-------|---------|--------------|
| Actual | 0.94% | 1.73% | 1.24% * | |
| Metro | 2.30% | 1.97% | 1.85% | 1.25 - 2.00% |
| UCLA | 2.81% | 2.25% | 2.70% | 2.78% |
| Beacon Economics | 1.97% | 1.57% | 1.98% | 2.00% |

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

Wages and Benefits

For SMART, ATU, TCU, and AFSCME members, and for Non-Contract staff, the FY18 Proposed budget will assume no wage, salary, or fringe benefit increases, exclusive of required minimal fringe benefit increases for Non-Contract staff and pending the completion of ongoing union contract negotiations. Any budgeted wage, salary, or fringe benefit increases will be determined by the amounts included in the final contracts, as approved by the Board.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The budget planning parameters will guide the development of the FY18 budget and 10-Year Budget Plan, and they may be adjusted as more specific information becomes available.

ALTERNATIVES CONSIDERED

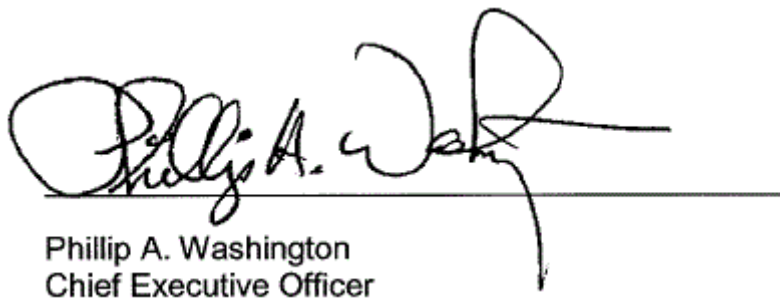
The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

NEXT STEPS

As described earlier in this report, Metro staff will provide regular FY18 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.

Prepared by: Luke H. Klipp, Principal Transportation Planner, (213) 922-7412
Jessica Lai, Senior Manager, Budget, (213) 922-3644
Perry Blake, Executive Officer, Finance, (213) 922-6171
Melissa Wang, Executive Officer, Finance, (213) 922-6024

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington
Chief Executive Officer

Initiating FY18 Budget Development

February 15, 2017

Finance, Budget & Audit Committee

Finance, Budget & Audit Committee

- CEO Budget Goals for FY18
- Outreach
- FY18 Budget Assumptions
 - Sales Tax Revenues
 - Consumer Price Index
- FY18 Budget Process and Schedule

CEO Budget Goals for FY18

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
9. Contribute to the implementation of agencywide and departmental Affirmative Action and Equal Employment Opportunity (EEO) goals

Outreach

- Outreach will be conducted throughout the budget process until board adoption
- Soliciting input with “bottoms-up” approach through key groups (transit riders, communities, key stakeholders, transit operators, and general public)
- Social media campaign to provide more information on the budget
- Online Budget Tool

| Type | Description | Dates |
|-----------------------------------|---|---|
| Board Updates | Monthly Board Reports will provide status of budget process | Finance & Budget Committees (Feb/Mar/Apr/May) |
| Board Staff Briefings | Weekly meetings will be held on specific budget topics | Focused briefings (Feb/Mar/Apr/May) |
| Stakeholder meetings | Bus Operations Subcommittee Technical Advisory Subcommittee Local Transit Systems Subcommittee Streets & Freeways Citizens Advisory Council | Mar 21, May 16 Mar 1, May 3 Mar 30, Apr 27 TBD Mar 3, May 5 |
| Public | Service Council meetings On-Line Budgeting tool Monthly Podcasts on budget topics as provided to the Board Blog posts on theSource Website to provide latest budget information Metro Briefs Email for public to provide comments Public Hearing | Mar 2-11, May 4-13 Feb-May Feb/Mar/Apr/May Feb/Mar/Apr/May On-going On-going On-going May 17 |
| Board and Deputy briefings | Will be scheduled as requested with each of the Board offices | May 1 – May 24 (as requested) |

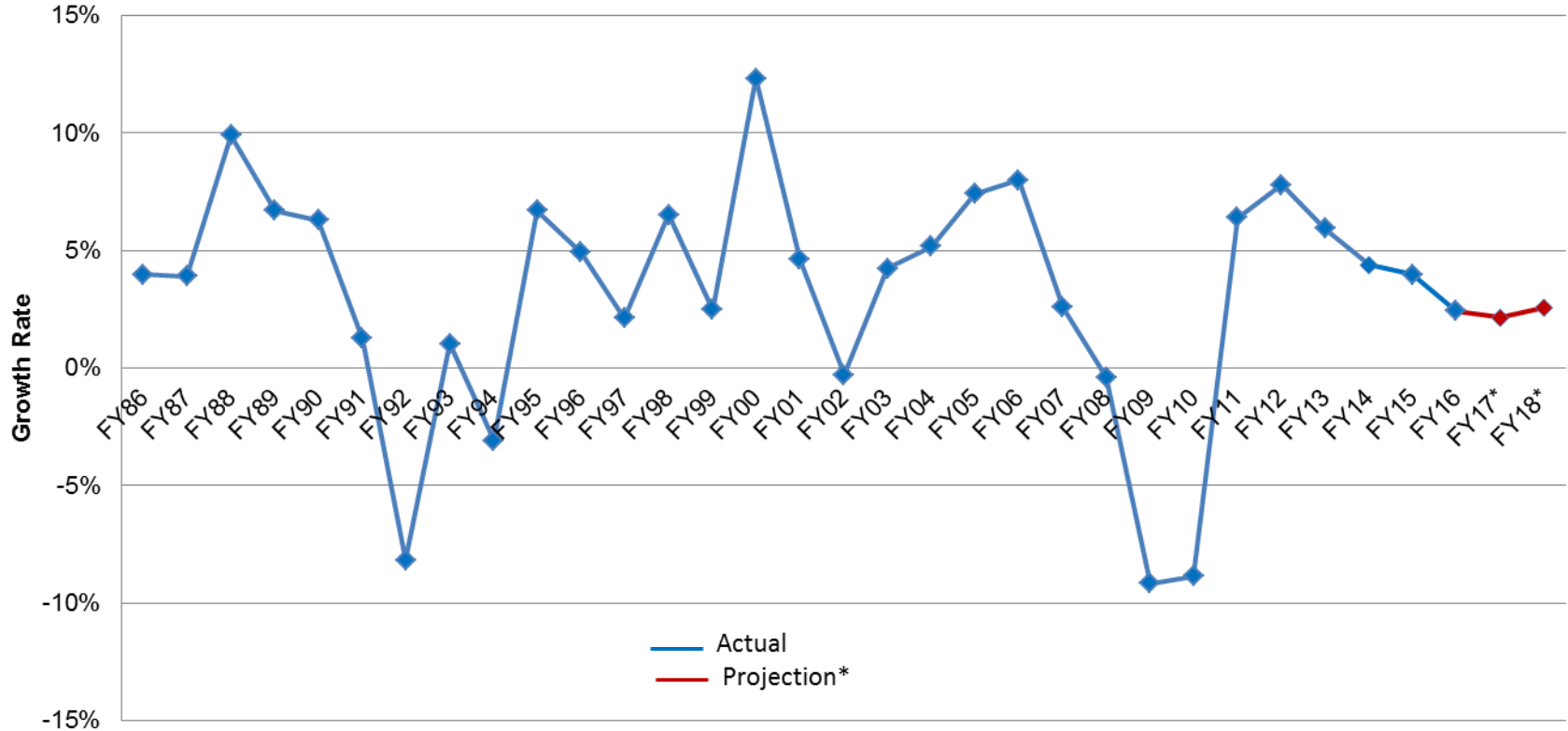


Anticipate over 50 briefings and workshops

FY18 Budget Assumptions

Sales Tax Revenues

Sales Tax Annual Growth Rate



Average Annual 30-Year Growth Rate: 3.2%

FY18 Budget Assumptions

Sales Tax Revenues

Annual Change in Sales Taxes

(\$ in millions)

| Revenues for each Sales Tax Ordinance - Propositions A, C, Measure R, and Measure M | | | | |
|---|-------------|-------------|-----------------------|-----------------|
| | FY15 Actual | FY16 Actual | FY17 Estimated Actual | FY18 Assumption |
| | \$ 745.7 | \$ 763.7 | \$ 780.0 | \$ 800.0 |
| % Change | 4.0% | 2.4% | 2.1% | 2.6% |

Sales Tax Forecast Source Comparison

| Forecast Source | FY15 | FY16 | FY17 | FY18 |
|------------------|----------|----------|----------|----------|
| Actual * | \$ 745.7 | \$ 763.7 | \$ 780.0 | --- |
| Metro ** | \$ 734.2 | \$ 763.5 | \$ 795.7 | \$ 800.0 |
| UCLA | \$ 733.2 | \$ 772.1 | \$ 807.4 | \$ 810.0 |
| Beacon Economics | \$ 751.7 | \$ 766.2 | \$ 806.2 | \$ 816.9 |

* FY17 Actual is projection based on FY17 Q1 receipt from State Board of Equalization

** FY15 and FY16 are Adopted Budget



Metro

FY18 Budget Assumptions

Consumer Price Index

Annual Change in Consumer Price Index (CPI)

| Forecast Source | FY15 | FY16 | FY17 | FY18 |
|------------------|-------|-------|---------|--------------|
| Actual | 0.94% | 1.73% | 1.24% * | |
| Metro | 2.30% | 1.97% | 1.85% | 1.25 - 2.00% |
| UCLA | 2.81% | 2.25% | 2.70% | 2.78% |
| Beacon Economics | 1.97% | 1.57% | 1.98% | 2.00% |

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

FY18 Budget Process and Schedule

- February 2017:
 - Budget Development Process and Schedule
 - Outreach
 - Sales Tax Revenue and CPI Assumptions
- March 2017:
 - FY18 Capital Program
 - Bus and Rail Service Levels
 - Transit Boardings and Fare Revenue Projections
 - Expenses (not including FTEs)
- April 2017:
 - Preliminary FY18 Budget proposal
 - Agencywide labor expenses
 - Outreach status update
- May 2017:
 - Public Hearing: May 17
 - Final Board Adoption: May 25