



ITEM ID: 2023-234-0

TRANSMITTAL DATE: June 16, 2023

MEETING DATE: June 23, 2023

TO: Board of Directors

FROM: Arnold Hackett, Chief Financial Officer

SUBJECT: Adoption of FY2023-2024 (FY24) Budget and Approval of Budget Forecasts for the Four Years FY2024-25 through FY2027-28

Issue

Under the terms of the Joint Exercise of Powers Agreement (JPA), the Authority is required to adopt a budget for the succeeding fiscal year no later than June 30th of each year. The Proposed FY2023-24 (FY24) Budget consists of the Operating Budget and State of Good Repair/New Capital Projects Budget. Consistent with multi-year budget planning, approval of the proposed budget forecasts for the fiscal years 2025 through 2028 is also requested at the time of budget adoption.

Recommendation

AUDIT AND FINANCE COMMITTEE RECOMMENDED (5-0) the Board:

- Conduct a Public Hearing during the Board's June 23rd meeting;
- Adopt the Proposed FY24 Budget;
- Approve the Proposed FY24 Budget Forecasts for the Fiscal Years 2025 through 2028;
- Approve the FY24 Salary Resolution.

Strategic Commitment

This report aligns with the Strategic Business Plan commitments of:

- **Safety is Foundational:** We will stay on the leading edge by deploying new technologies and processes to enhance the safety and security of our riders, our fellow employees, and the communities we serve.

- **Customers Are Our Business:** We respect and value our customers, putting them at the heart of all we do, and work hard to attract and retain new customers by understanding their needs and finding new and innovative ways to bring them on board. **Connecting and Leveraging Partnerships:** We will forge new and enhanced relationships with our public and private partners to integrate and coordinate connecting services, providing residents throughout Southern California with better, seamless, sustainable alternatives to driving.
- **Modernizing Business Practices:** We will improve our operational efficiency through transparency, objective metrics and streamlined governance, reducing over-reliance on subsidy while bringing our system into a state of good repair and investing in the development of our employees.
- **Advancing Key Regional Goals:** We will grow the role of regional rail in addressing climate change, air quality, and other pressing issues by advancing toward zero emissions, making rail a compelling alternative to single-occupant automobiles and advancing equity-focused opportunities for all communities throughout Southern California.

The FY24 Budget has been constructed in collaboration with Member Agencies' Staff and CEOs to provide support to each of Metrolink's strategic goals.

Background

Public Hearing Requirement:

Members of the public will be notified of this public hearing in accordance with applicable requirements, by advertisements in newspapers and publications in English and foreign languages, throughout the five-county areas served by the Authority in the following newspapers (listed by newspaper, audience and language):

Orange County Reporter (OC), English
 Ventura County Star (VT), English
 Daily News (LA), English
 Riverside Press Enterprise (RIV), English
 San Bernardino County Sun (SB), English
 LA Sentinel (African American), English
 Armenian Media Network (Armenian), Armenian
 Beirut Times (Arabic/Lebanese), Arabic/Lebanese
 Panorama (Russian), Russian
 La Opinion (Spanish), Spanish
 Rafu Shimpo (Japanese), Japanese
 World Journal (Chinese), Chinese
 The Korean Times (Korean), Korean
 Asian Journal (Tagalog), Tagalog
 Nguoi Viet Daily News (Vietnamese), Vietnamese
 Iranshahr Weekly (Persian), Persian

The Authority's Proposed FY24 Budget is posted on the metrolinktrains.com website.

The Proposed FY24 Budget with all attachments was transmitted to all Member Agencies for their consideration and adoption on May 26, 2023.

Discussion

During its November 2022 workshop, the Board provided feedback to staff regarding their budget priorities for the FY24 fiscal year. Internal kickoff meetings for the FY24 Budget were conducted in early December 2022. The CEO provided guidance that allowed an increase of not more than 5% for each department. Departmental budget requests were submitted and subsequently analyzed and reviewed by Budget staff. The CFO then held internal meetings with each department, and, subsequently, the Chief Executive Officer. The purpose of the meetings was to review the necessity for budget amounts requested taking into consideration such factors as:

- Overarching goal of safety, fiscal sustainability and operational efficiency;
- Consideration of the post pandemic changes to farebox revenue;
- Condition of assets;
- Funding at a level which will meet the goals of the Authority;
- Contractual requirements;
- Historic and current levels of spending;
- Known adjustments for the forthcoming year;
- Projects to improve efficiencies and create savings in current and future years.

Internal meetings were concluded in early March. The CFO then conducted meetings with each of the Member Agency CFOs and staff in late March. The Proposed FY24 Budget was reviewed with the Member Agency Advisory Committee (MAAC) on April 7th, and May 4, 2023.

An overview of the FY24 Proposed Budget for Operations and the Capital Program detailing the total request for support was reviewed with the Member Agencies' Chief Executive Officers during their April 2023 monthly meeting.

On May 26, 2023, the Board approved the transmission of the Proposed FY24 Budget to the Member Agencies for their review and adoption. The forecasts for the years FY2024-2025 through FY2027-28 were also transmitted for Member Agency review and approval.

Foundation for Proposed FY24 Budget

The Proposed FY24 Budget provides funding to achieve:

- Continued emphasis on safe operations
- Intraoperative Positive Train Control (PTC) updates and maintenance as the centerpiece of Metrolink's safety efforts.
- Grant funded efforts to reduce the number of trespasser injuries (GPS/Cameras).
- Investment in existing and new assets to maintain a State of Good Repair (SGR)
- Funding of critical rehabilitation projects.
- Funding for studies to improve maintenance efficacy and efficiency.

- Increase of ridership and revenue
- Assistance for low income riders (Grant)
- Programs for students
- Programs to generate ridership for entertainment, day trips, shopping, etc.
- External study of Fare Structure

FY24 Operating Budget Assumptions:

- Service
 - Service at current service level
 - Addition of Codeshare North and South of Union Station (Pending agreement with LOSSAN)
- Revenue
 - Ridership and Revenue Forecast as provided by KPMG/Sperry Capital (Attachment A)
- Expense
 - Contractor increases only as mandated by agreements 5% merit pool
 - No COLA
 - No New FTE Headcount
 - Arrow as a separate budget funded by SBCTA
- Reporting
 - Monthly
 - Formal mid-year budget review

Operating Budget Details

Proposed Total Operating Revenues are \$52.8M and reflect a projected net decrease of \$13.7M or 20.7% from the FY23 Budget. The year-over-year changes are detailed below in the Operating Revenues section. Expenditures are \$303.4M and reflect an increase of \$7.1M or 2.4% higher than the FY23 Budget. Details of the year-over-year expense change are explained below in the Operating Expenditures section. The required Operating Support is \$250.7M and is an increase of \$20.9M (9.1%) from the FY23 Budget. (see Attachment B for comparisons).

The Proposed FY24 Budget Operating Statement by detailed categories compared to the FY23 Budget, by Member Agency, by Line, and historically over the last five years are included as Attachments C, D, E, and F.

Discussion of Proposed FY24 Budget Operating Statement Operating Revenues

Operating Revenues include Farebox, Dispatching, and Maintenance-of-Way (MOW) Revenues, and Other Revenues, such as interest, scrap, other minor miscellaneous revenues. Operating Revenues are estimated to total \$52.8M for FY24, a decrease of \$13.7M or 20.7% compared to the FY23 Budget.

Farebox Revenue, which is the largest component of the Total Operating Revenue, is projected at \$37.2M, a decrease of \$13.9M or 27.2% compared to the FY23 Budget. Revenue budgets for both FY22 and FY23 were overly optimistic. Recognizing our difficulty in forecasting accurately in a totally restructured environment for public transportation, staff

sought assistance from KPMG/Sperry Capital. The Proposed FY24 Budget is based on the forecast provided by KPMG/Sperry Capital. The comparisons between amounts used in the FY23 Budget which was produced in-house in November of 2021, and the new forecast can be seen on Attachment A. Subsidies add an additional \$3.1M to the Farebox amount.

Dispatching and MOW revenues from the freight railroads and Amtrak are based on existing agreements at the expected rate of usage. The budget of \$2.0M for Dispatching Revenue reflects a decrease of \$0.8M as compared to the FY23 Budget resulting from Amtrak service reduction. The MOW Revenue is \$12.9M reflecting an increase of \$1.1M, or 8.9% as compared to the FY23 Budget. Other Revenues are budgeted at \$0.7M.

Operating Expenditures

Operating Expenditures are presented in the following four categories: Train Operations, Maintenance-of-Way (MOW), Administration and Services, and Insurance. Comparisons are to the FY23 Budget.

The Train Operations component of the Operating budget contains those costs necessary to provide Metrolink commuter rail services across the six-county service area, which includes the direct costs of railroad operations, equipment maintenance, and required support costs. The Proposed FY24 Budget for expenditures related to Train Operations including contingency is \$171.6M an increase of 0.4% from the FY23 Budget

MOW expenditures are those costs necessary to perform the inspections and repairs needed to ensure reliable, safe, efficient operation of trains, and the safety of the public. The Proposed FY24 Budget amount for expenditures related to MOW is \$54.3M, an increase of 4.1% from the FY23 Budget.

Administration and Services include internal expenditures related to Train Operations. The Proposed FY24 Budget for expenditures related to Administration & Services is \$57.4M, an increase of 6.1% as compared to the FY23 Budget.

The Category of Insurance and Legal is \$20.0M for the Proposed FY24 Budget, a 5.4% increase from the FY23 Budget.

Overall, the total Proposed FY24 Budget for operating expenditures is \$303.4M and has increased from the FY23 Budget by \$7.1M or 2.4%. The components of this change are as described below.

Total Train Operations have increased by \$0.7M or 0.4%. The primary drivers of this increase are:

- Train Operations Services have decreased \$4.8M or 9.4% as the result of the decision to remain at current service levels, while the FY23 Budget anticipated complete restoration of service to pre-pandemic level.
- Equipment Maintenance increased by \$3.5M or 8.5%. The mechanical vendor has held their contract flat. The \$3.5M is an increase in the cost of parts for maintaining Rolling Stock. The F125 Locomotives are no longer under warranty.
- Fuel expense decreased by \$3.0M or 9.1% due to the worldwide price reductions in fuel.
- Security increased by \$0.8M or 4.9% due to increases by the Sheriff's Department.

- Utilities and Leases decreased by \$0.8M or 21.1% primarily as a result of telecom expense being moved to a systemwide expense category this year.
- Station Maintenance increased by \$3.0M or 139.3% due to increased Union Station Common Area Maintenance.
- Rail Agreements increased by \$1.4M or 25.9%, as a result of the AAR index driven by inflation to over 20%.

MOW has increased by \$2.1M or 4.1% from the FY23 Budget primarily as a result of the increase of the Herzog costs by \$2.5M or 7.2%, offset by a reduction in estimated Extraordinary Maintenance charges and the transfer of Holiday pay (\$0.3M) to an Indirect Administrative category.

Administration and Services have increased from FY23 Budget by \$3.3M or 6.1%. The primary drivers of this increase are:

- A decrease to Operations Salaries & Benefits for \$0.7M or 3.8%, as a result of the movement of Holiday pay to Indirect Administrative category;
- An increase to Operations Non-Labor Expense of \$0.8M or 7.1%, driven by \$1.3M for the New Mobile Ticketing System (Deferred from last year), offset by reductions to Hardware/Software purchases;
- An increase of \$3.1M or 14.4% in charges to Indirect Administrative costs is the result of:
 - \$1.0M telecom costs transferred to this category (offsetting decrease in utilities);
 - \$1.4M transfer of Holiday Pay to this category (offsetting decrease in Salaries and Wages for Operations and in MOW);
 - \$0.7M increase to Interns, Grads on Career Track, Job Core.

Total Insurance and Legal expense have increased by \$1.0M or 5.4% from the FY23 Budget, Property and Liability Insurance premiums are higher by \$0.8M or 4.7%, while Claims Administration increased by \$0.3M

Member Agency Operating Support

Member Agency support is required to fund the difference between the total costs of operations and available revenues. The Proposed FY24 Budget estimates total Member Agency support is needed in the amount of \$250.7M, an increase of \$20.9M, or 9.1% more than the FY23 Budget.

The Budget Summary Comparison (Attachment F) includes a year-over-year comparison of net operating support by Member Agency. In response to Member Agency requests, this schedule reflects the FY24 Proposed member support in whole dollars which are required to create Member Agency Board requests.

ARROW Service Budget

At the request of the San Bernardino County Transportation Authority, staff will be submitting a request for a continuing appropriation resolution for approval to cover the 1st Quarter FY2024 expenses for Arrow Service. The Proposed FY24 Budget for Arrow Service will be submitted no later than October 31, 2023.

A separate board item will be submitted to request a Continuing funding resolution for the first

quarter of FY24, to provide funds until such time as an annual budget for FY24 can be brought to the Board.

Capital Program Budget

State of Good Repair (SGR)

The Proposed FY24 Proposed Budget was developed based on the Metrolink Rehabilitation Plan (MRP) which was created in fulfillment of the Transit Asset Management (TAM) requirement, and to address the Authority's SGR needs. The MRP addresses two critical elements:

Backlog: Total cost of renovating all assets to achieve a current SGR

SGR: Annual cost of keeping assets in a State of Good Repair

The FY24 budget request addresses only the SGR or annual cost of keeping assets in a State of Good Repair. The Proposed FY24 Budget does not address the current backlog which is estimated to be over \$768M.

The SGR authorization request for FY24 was identified as necessary investments to maintain a SGR. These projects total \$129.8M. The projects are presented by Member Agency, by Line, and by individual project with locations and descriptions in Attachment G.

New Capital

The New Capital authorization request for FY24 was identified as necessary for safe and efficient rail operations. These projects total \$20.3M. The projects are presented by Member Agency, by Line, and by individual project with locations and descriptions in Attachment H.

Multi-year Forecasts

Operating Budget Forecasts for FY25, FY26, FY27 and FY28 were transmitted to the Member Agencies for their approval and programming on May 26, 2023, with the transmission of the Proposed FY24 Budget. The four- year forecasts will only be considered for adoption individually during the applicable year.

Upon approval by the Board, the Proposed FY24 Budget will be transmitted to Member Agencies for consideration and adoption.

Operating Budget Attachments

The attachments as listed below provide additional detail on the FY24 Proposed Budget for Operating as described:

- Attachment A - KPMG/Sperry Capital Ridership Forecast
- Attachment B - FY24 Proposed Operating Budget with Comparison to FY23
- Attachment C - Historical Actual and Budgeted Operating Statements
- Attachment D - FY23 Proposed Operating Budget by Member Agency
- Attachment E - FY23 Proposed Operating Budget by Line
- Attachment F - History of Actual and Budgeted Operating Support by Member Agency

Capital Program Budget Attachments

The attachments as listed below provide additional detail on the FY24 Proposed Budget for the Capital Program as described:

- Attachment G - FY24 Proposed SGR Projects by Member Agency, Line, and Project Detail List
- Attachment H - FY24 Proposed New Capital by Member Agency, Line, and Project Detail List
- Attachment I - FY24 Proposed Capital Program Cashflow

Four Year Forecast Attachments

- Attachment K - FY25 Forecast
- Attachment L - FY26 Forecast
- Attachment M - FY27 Forecast
- Attachment N - FY28 Forecast

Salary Resolution Attachments

- Attachment SR - FY24 Salary Resolution
- Attachment SR-1 - Proposed FY24 Salary Grade & Range Structure
- Attachment SR-2 - Proposed FY24 Budgeted Position Roster
- Attachment SR-2 - Proposed FY24 Classification and Salary Plan

Budget Impact

Board approval of this item will result in the Adoption of the FY24 Proposed Budget and provide the fiscal authority for the FY2023-24 Operating and Capital Program Budgets.

Next Steps

May - June:

- Presentations at Member Agency Boards and Committees as requested.
- Consideration and Adoption of FY24 Budget by Member Agency Boards

June 23: Request for Adoption of Proposed FY24 Budget by SCRRRA Board of Directors

Prepared by: Christine J. Wilson, Senior Finance Manager

Approved by: Arnold Hackett, Chief Financial Officer

Attachment(s)

[Attachment A - Ridership Recovery Forecast](#)

[Attachment B - FY24 Proposed Operating Budget](#)

Attachment C - Historical Actual and Budget

Attachment D - FY24 Proposed Operating Budget by Member Agency

Attachment E - FY24 Proposed Operating Budget by Line

Attachment F - History of Actual and Budgeted Operating Support

Attachment G - FY24 Capital Projects SGR

Attachment H - FY24 Capital Projects New Capital

Attachment I - FY24 Capital Projects SGR and New Capital Cashflow

Attachment K - FY25 Forecast

Attachment L - FY26 Forecast

Attachment M - FY27 Forecast

Attachment N - FY28 Forecast

Attachment SR - FY24 Salary Resolution - Effective 7-1-23

Attachment SR-1 C-1 - Proposed FY24 Salary Grade Range Structure - Effective 7-1-23

Attachment SR-2 C-2 - Proposed FY24 Budgeted Position Roster - Effective 7-1-23

Attachment SR-3 C-3 - Proposed FY24 Classification and Salary Plan - Effective 7-1-23

Presentation - Proposed FY24 Budget