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**FINANCE AND BUDGET COMMITTEE
JULY 15, 2009**

SUBJECT: FY10 BUDGET

**ACTION: RECEIVE AND FILE STATUS UPDATE ON STRUCTURAL DEFICIT,
INCLUDING FY10 PROJECTION**

RECOMMENDATION

Receive and file this update on the structural deficit, including FY10 projection.

ISSUE

The Finance and Budget Committee Chair requested this review and update in order to focus attention on the disparity between Enterprise Fund (EF) revenues and expenditures and the factors that lead to this disparity. The review also covers all funding sources that are annually available for EF operations and capital and an assessment of any changes that may affect the FY10 budget that have come to light since the budget was adopted in May 2009.

DISCUSSION

Status

The structural deficit is defined as the result when available revenues *designated* for EF transit operating and capital are less than forecasted expenditures.

Designated revenues for bus include fares and other system generated revenues such as advertising. Formula revenues include formula allocation procedure (FAP) and FAP-type revenues that are designated for bus operations and capital by State law and prior Board actions.

Designated revenues for rail include fares and other system generated revenues such as advertising. Prop A 35% is dedicated to rail operations and capital by the Prop A ordinance. Until FY10, State Transit Assistance (STA) Population share was designated for rail by prior Board direction.

Attachments A1 and A2 show the "structural deficit" charts that have been updated from the proposed budget to the amounts finally approved in the adopted budget. The structural deficit is approximately \$238 million, \$113 million in bus and \$125 million in rail.

The majority of our annual funding comes from our three 0.5% sales taxes. Attachment B shows each of the ordinance categories identifying whether they can be used for EF operating or capital purposes, the amounts allocated to the EF in the FY10 budget, amounts allocated to other funds and any fund balances anticipated to remain at the end of FY10.

Prop C 40% is our funding source of last resort and our primary source to subsidize rail operations in the absence of STA Population share. It can be used for bus or rail transit, operating or capital. In a separate report on this agenda, a detailed listing of projects and programs receiving allocations of Prop C 40% in the FY10 budget is shown. The updated schedule shows an estimated fund balance after encumbrances of \$7 million at the end of FY10.

Reasons for Disparity

The major reasons accounting for the disparity between designated revenues and expenditures are:

- Loss of STA revenue affecting both bus and rail funding. The impact is more dramatic on rail since there is no rail equivalent of bus FAP and FAP-type funding.
- Sales tax losses due to recession.
- More services without commensurate increases in ridership/fare revenue that has been financed by drawing on monies planned for future transit capital projects.
 - Bus service levels increased as result of Consent Decree that added costs but little ridership/revenue gains.
 - New rail service, while generating additional boardings, does not produce proportionate fare revenue increases due to unlimited ride passes.

FY10 Projection

Significant issues affecting the FY10 budget assumptions that have come to light subsequent to the adoption of the budget are:

- Actual sales tax receipts for the economic quarter ended March 31, 2009 were 19.5% less than the same quarter last year. The FY10 sales tax revenue budget is set at FY08 less 10%. Should the recession continue to affect retail sales at this reduced level, a mid-year budget adjustment may be required to recognize reduced regional transit operational funding, including the EF. Such a reduction would require unplanned service level reductions or draws on future transit programs or projects. Final FY09 sales tax revenues will not be known until the

end of September 2009. First quarter FY10 results will be available at the end of December 2009.

- Labor contracts have not yet been finalized and are being extended on day-by-day basis while negotiations continue.
- Measure R funding will become available at the end of September 2009, two months earlier than anticipated in the budget. However, the amounts could be less than expected as described above.

NEXT STEPS

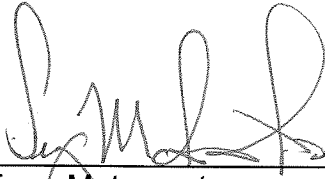
The CEO has initiated an internal budget review panel to review the major assumptions in the FY10 budget in order to provide a sound basis for establishing budget parameters for FY11 and beyond and will begin briefings on these matters this summer.

OMB will report to the Board the status of the FY10 revenue and expenditure budget on a quarterly basis including the status of the sales tax revenues and forecasted expenditures.

ATTACHMENTS

- A. Structural Deficit
 - 1. Bus
 - 2. Rail
- B. Sales Taxes in the FY10 Budget

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Terry Matsumoto
Chief Financial Services Officer and Treasurer



Arthur T. Leahy
Chief Executive Officer

Attachment A-1:

Bus Operating and Capital Structural Deficit Update
(As of June 27, 2009)

(Amount in millions)		FY09 Adopted	FY10 Adopted	Inc/(Dec)	
1	Operating Revenue				
2	Fare Revenue	\$269.2	\$269.3	\$0.1	
3	Advertising and Special Services	22.2	24.5	2.3	
4	Subtotal Operating Revenue	291.4	293.8	2.4	
5					
6	Formula Share Revenues				
7	Local	537.3	467.0	(70.3)	
8	State	99.0	1.8	(97.2)	
9	Federal	150.9	114.2	(36.7)	
10	Subtotal Formula Share Revenues	787.2	583.0	(204.2)	
11					
12	Non Structural Unique Program Grant and Debt				
13	Federal Sec 5309 (CRDP)	1.2	79.7	78.5	
14	PC 10%	2.9	-	(2.9)	
15	Prop 1B Bonds - Union Division	13.5	39.0	25.5	
16	Homeland Security	3.0	1.0	(2.0)	
17	Prop C 40% for Enterprise Fund Debt	14.0	14.0	(0.1)	
18	SFV ROW Maint	3.0	4.2	1.3	
27	CMAQ - Bus Procurement	80.7	45.9	(34.8)	
28	Stimulus	-	42.8	42.8	
29	State TCRP	-	33.4	33.4	
19	Subtotal Non Structural Unique Program Grant and Debt	118.2	260.0	141.8	
20	"Our Means" - Total Resources	1,196.9	1,136.9	(60.0)	
21					
22	Operating and Capital Expenses	1,223.0	1,250.2	27.1	*
23	Structural Deficit	(\$26.2)	(\$113.3)	(\$87.1)	
24					
25	Gap Filling with Board Authorized One Time or Miscellaneous Revenues				
26	Measure R Revenues	-	32.0	32.0	
27	FY08 Surplus from PA40%	-	21.6	21.6	
28	A & C Interest Revenues (FAP)	-	39.4	39.4	
29	Enterprise Fund Interest	0.5	0.5	0.0	
30	General Funds (CNG Fuel Credits)	23.6	10.2	(13.4)	
31	Misc Revs from Legal Settlements, Filing, Fines, etc.	2.1	9.6	7.4	
32	Total Gap Filling	26.2	113.3	87.1	
33					
34	Surplus/(Deficit)	\$0.0	\$0.0	\$0.0	

Attachment A-2:

Rail Operating and Capital Structural Deficit Update
(As of June 27, 2009)

	(Amount in millions)	FY09 Adopted	FY10 Adopted	Inc/(Dec)
1	Operating Revenue			
2	Fare Revenue	\$54.1	\$63.1	\$9.0
3	Advertising and Special Services	4.9	6.2	1.2
4	Subtotal Operating Revenue	59.1	69.3	10.3
5				
6	Formula Share Revenues			
7	Local	90.6	68.5	(22.0)
8	State	85.7	-	(85.7)
9	Non Structural Unique Program Grant and Debt	54.1	37.9	(16.2)
10	Subtotal Formula Share Revenues	230.3	106.4	(123.9)
11	PC 10%			
12	Unique Grant Program	9.8	47.6	37.8
13	"Our Means" - Total Resources	299.2	223.3	(75.8)
14				
15	Operating and Capital Expenses	309.6	347.9	38.2
16	Structural Deficit	(\$10.5)	(\$124.5)	(\$114.0)
17				
18	Gap Filling with Board Authorization			
26	PC 40%	10.5	102.8	92.3
27	CMAQ - Rail Operating	-	11.7	11.7
28	FY08 Surplus	-	10.0	10.0
29	Total Gap Fillings	10.5	124.5	114.0
30				
31	Surplus/(Deficit)	\$0.0	\$0.0	\$0.0

Attachment B:

Sales Taxes in the FY10 Budget

	(Amounts in Millions)	FY09 Adopted				FY10 Adopted				Change in Fund Balances	Bus and Rail Eligible	
		Revenue and Carryover	Expense			Revenue and Carryover	Expense					Fund Balance
			Bus and Rail Operating & Capital	Major Construction	Other Fund		Fund Balance	Bus and Rail Operating & Capital	Major Construction			
1	PROPOSITION A											
2	Prop A Local Return 25% ⁽¹⁾	\$166.4	-	\$166.4	-	\$146.5	-	\$146.5	-	-	-	No
3	Prop A Rail Set Aside 35%	298.1	\$88.2	164.3	\$36.9	229.7	\$64.7	162.6	\$2.3	-	(\$36.9)	Yes
4	Prop A Discretionary (95% of 40%)	311.8	148.7	117.7	45.4	246.9	151.1	74.8	-	\$21.0	(24.4)	Yes
5	Prop A Incentive (5% of 40%)	29.5	-	25.7	3.8	24.5	-	24.5	-	-	(3.8)	Yes
6	Prop A Interest Income	13.4	-	-	13.4	24.3	14.3	5.4	-	4.6	(8.8)	Yes
7	Prop A Admin	55.9	-	50.6	5.3	45.6	-	45.6	-	-	(5.3)	No
8	PROPOSITION A Total	875.0	236.9	524.7	104.8	717.5	230.1	459.5	2.3	25.6	(79.2)	
9	PROPOSITION C											
10	Prop C Local Return 20% ⁽¹⁾	138.0	-	138.0	-	121.5	-	121.5	-	-	-	No
11	Prop C Commuter Rail 10%	114.4	-	88.8	10.4	94.8	-	91.9	2.5	0.3	(10.1)	No
12	Prop C Discretionary 40% ⁽²⁾	486.3	94.4	156.8	235.0	474.9	177.6	174.8	15.5	107.0	(128.0)	Yes
13	Prop C Streets & Hwys 25%	346.6	0.9	235.1	90.7	294.2	-	283.9	10.2	-	(90.7)	No
14	Prop C Security 5%	38.3	26.2	5.8	6.4	37.7	32.6	5.0	-	-	(6.4)	Yes
15	Prop C Interest Income	23.0	-	0.8	22.2	44.1	25.2	9.5	-	9.4	(12.8)	No
16	Prop C Admin	10.5	-	10.5	-	9.3	-	9.3	-	-	-	No
17	PROPOSITION C Total	1,157.2	121.4	635.9	364.8	1,076.4	235.4	696.0	28.3	116.8	(248.0)	
18	MEASURE R											
19	Measure R Admn 1.5 %	-	-	-	-	5.4	-	2.6	-	2.8	2.8	No
20	Measure R Local Return 15% ⁽¹⁾	-	-	-	-	53.4	-	53.4	-	-	-	No
21	Measure R Transit Cap New Rail/BRT 35%	-	-	-	-	124.5	-	18.4	-	106.1	106.1	No
22	Measure R Commuter Metrolink 3%	-	-	-	-	10.7	-	10.7	-	-	-	No
23	Measure R Metro Rail Capital 2%	-	-	-	-	7.1	-	7.1	-	7.1	7.1	No
24	Measure R Highway Capital 20%	-	-	-	-	71.2	-	16.8	-	54.4	54.4	No
25	Measure R Metro Rail New Ops 5% ⁽³⁾	-	-	-	-	17.8	-	17.8	-	17.8	17.8	No
26	Measure R Bus Ops Countywide 20%	-	-	-	-	71.2	32.0	20.4	-	18.8	18.8	Yes
27	MEASURE R Total	-	-	-	-	361.2	32.0	122.2	-	207.0	207.0	
28	Total Sales Tax	\$2,032.2	\$358.3	\$1,160.5	\$469.6	\$2,155.1	\$497.4	\$1,277.7	\$30.6	\$349.4	(\$120.2)	

⁽¹⁾ Eligible for Bus and/or Rail. However, MTA does not directly receive any.

⁽²⁾ \$99.7 million of the fund balances is reserved for other designated uses

⁽³⁾ Only for new Measure R projects