



**FINANCE AND BUDGET COMMITTEE**  
**February 20, 2008**

**SUBJECT: FINANCIAL STABILITY POLICY**

**ACTION: AMEND THE FY09 BUSINESS PLANNING PARAMETERS**

**RECOMMENDATION**

Amend the FY09 Business Planning Parameters (Section B1 in the Financial Stability Policy) sales tax revenue assumption from 3% growth over the FY08 budget to 1.1% growth over the estimated FY08 actuals and lower the consumer price index (CPI) forecast from 2.45% to 1.84%.

**ISSUE**

In January, the Board adopted the Business Planning Parameters to assist staff to develop the FY09 budget and funding marks for Los Angeles County Metropolitan Transportation Authority and the region. The sales tax growth forecast by UCLA and Muni Services (a forecasting consultant that we use) prior to January, was 3% over the FY08 adopted budget. This rate was also consistent with the County of Los Angeles and the City of Los Angeles' forecast when we polled them in December.

Subsequently, we have received the first quarter receipts from the State Board of Equalization (SBOE) and revised forecasts from UCLA, indicating that growth is likely to be less than 3% over the current year's budget.

**DISCUSSION**

The latest forecast published by UCLA and received in February 2008, lowered the growth rate of taxable sales for FY08 to .96% growth over the FY07 receipts. Additionally, UCLA reduced its growth forecast for FY09 to 1.1% over their FY08 forecasted receipts and reduced its CPI estimate. Although we have not yet received the second quarter payments for FY08, we are currently under budget after the first quarter and first quarter cash receipts were slightly less than the same period last year. We expect to receive the second quarter payment in March 2008.

Based on this new information, we have re-forecasted both FY08 and FY09. We now estimate that FY08 Prop A and C funds will be approximately \$3 million under budget and TDA funds will be approximately \$4 million under budget.

For FY09, the change between the previously adopted 3% growth is \$14.6 million less each for Prop A and C revenues and \$10.9 million less for TDA funds. These reductions are more than offset by the FY09 estimate received from the State Controller in February for State Transit Assistance (STA) funds which has increased from the previous FY09 forecasted \$89 million to \$227 million. This estimate may be revised when the Governor submits his update proposal and will not be final until after the State's budget is adopted.

The proposed change of the CPI from the previous UCLA forecast of 2.67% to 1.8% will result in \$1.6 million less Prop A40% and \$2.5 million less Prop C40% to be allocated to the municipal operators and us through the Formula Allocation Procedure (FAP) than had been proposed in the ten-year forecast. This is because the FAP provides an increase each year that is equal to CPI for each of the programs, such as, Bus Systems Improvements, Transit Systems Expansion, and Proposition A40% Discretionary. The attached table summarizes the sales tax receipts and forecasts for FY07-FY09.

If we lower the revenues prior to budget development, we can be sure to match the expenses to the available revenues. This avoids having to make mid-year budget reductions due to unrealized revenues. If we receive more revenues than budgeted in the fiscal year, we will program them to all operators in the subsequent budget year.

### **FINANCIAL IMPACT**

Reducing the FY08 sales tax budget is not expected to impact the overall budget. The total forecast reduction of Prop A, Prop C, and TDA in FY08 and FY09 is \$47 million. The total forecast increase of STA funds is \$177 million for a net gain of \$130 million. This adjustment will impact both the ten-year forecast and the Long Range Transportation Plan (LRTP) because the sales tax forecast is less than the sales tax revenues that have been included in both plans for FY09. However, since the LRTP is a long term look, it is too soon to predict any changes over the 20+ year LRTP horizon.

### **ALTERNATIVES CONSIDERED**

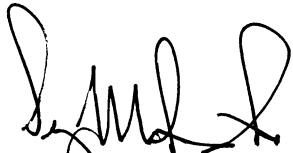
The Board could choose not to revise the forecast at this time. This alternative is not recommended because all county operators need guidance as soon as possible to develop their budgets for FY09.

### **NEXT STEPS**

Distribute the proposed funding marks to all regional operators and incorporate changes into the FY09 proposed budget.

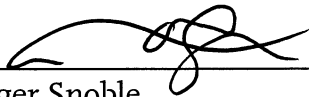
Attachment

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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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Roger Snoble  
Chief Executive Officer

# ATTACHMENT

LACMTA  
 Sales Tax Assumption Change  
For Use in FY09 Proposed Budget  
 (Amounts in 000's)

	Fiscal 07 Actual	FY08 Adopted Budget	FY08 Estimate	Budget Planning Parameters	FY09 Proposed	Ten-Year Forecast	
1							1
2							2
3	<u>3 Sales Tax Revenues</u>						3
4	\$ 686,167	\$ 694,193	\$ 692,754	\$ 715,019	\$ 700,444	\$ 721,952	4
5	686,308	694,281	692,897	715,110	700,588	722,043	5
6	344,867	352,373	348,178	362,944	352,043	366,463	6
7	<u>1,717,343</u>	<u>1,740,848</u>	<u>1,733,829</u>	<u>1,793,074</u>	<u>1,753,075</u>	<u>1,810,458</u>	7
8							8
9	<u>9 State Transit Assistance (STA)</u>						9
10	191,074	57,058	96,570	89,100	227,142	89,100	10
11							11
12	<u>\$ 1,908,416</u>	<u>\$ 1,797,906</u>	<u>\$ 1,830,399</u>	<u>\$ 1,882,174</u>	<u>\$ 1,980,217</u>	<u>\$ 1,899,558</u>	12