Metro
Los Angeles County
Metropolitan Transportation Authority
One Gateway Plaza
Los Angeles, CA 90012-2952
213.922.2000 Tel
metro.net

FINANCE AND BUDGET COMMITTEE
~~JANUARY 20, 2005~~
FEBRUARY 17, 2005

SUBJECT: FY05 BUDGET AMENDMENT

ACTION: AMEND THE FY05 BUDGET

RECOMMENDATION

A. Approve the transfer of $19.2 million of local funds from the capital program to the operating program.
B. Amend the FY05 budget to add up to $8.2 million of General Fund revenues to the Enterprise Fund for additional bus operations fuel costs and up to $8 million of Proposition A 35% funds for rail operations.
C. **Eliminate 14 positions as a result of the capital program changes.**

ISSUE

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is facing an FY05 budget shortfall of approximately $42.2 million. This shortfall is caused by lower than projected passenger fare revenues and higher than planned expenses for fuel, PL/PD insurance claims, and workers' compensation costs. Staff is proposing that the shortfall be mitigated through a combination of solutions including reducing expenses, deferring capital projects, and adding revenue to the Enterprise Fund from fund balances.

DISCUSSION

The fare revenue for the first five months of FY05 is approximately $9 million under budget. We expect this trend to continue through the fiscal year, and therefore project a revenue shortfall of about $20 million for the year.

As reported in the FY05 first quarter report, operating expenses are projected to end the year $22.2 million over budget. Trending the first quarter experience with fuel throughout FY05, indicates that fuel will be over budget by $8 million. During the first quarter of FY05, several prior period bus accident claims settled at higher values than originally estimated. These claims will add $6 million to the FY05 budget. Even though workers' compensation claims and lost work days are under budget and less than prior years, costs are greater than budget and greater than last year due to rising medical and indemnity costs. Also, we have not been able to attract or keep bus operators and will be forced to use overtime to deliver service. With significant market competition from both ports and Transit Security Administration, the pool of qualified candidates for operators has dwindled. When consent decree service was implemented in December, we were short 140 operators. The need to fill assignments will result in increased utilization of overtime until we can recover from the shortage. With the current recruitment rates offset by attrition, we do forecast to have sufficient labor to cover assignments until June. This will result in an increase of $4.2M in overtime. All other budgeted expenses are tracking right on budget.

The solutions to the fare revenue shortfall and expense overruns are to reduce operating expenses by $6.8 million (including non-contract vacancy savings of $300,000), defer $19.2 million of capital projects and transfer the funding to operating, add $8 million of Prop A 35% rail revenues to mitigate the rail fare revenue shortfall and to add $8.2 million of General Fund revenues to mitigate the fuel increases. The Prop A 35% funds are set aside for rail purposes and are available from prior year sales tax receipts.

The following table summarizes the changes:

($ in thousands)	Bus	Rail	Total
Revenue Shortfall	$9,000	$11,000	$20,000
Expense Overrun			
Fuel	8,000		8,000
Operator overtime	4,200		4,200
PL/PD & Workers Comp	9,000	1,000	10,000
Changes Required to Balance Budget	**$30,200**	**$12,000**	**$42,200**
Operating Expense Reductions	2,500	4,000	6,500
Non-Contract Vacancy Savings	300		300
Capital Project Deferrals	18,200	1,000	19,200
Subtotal Expense Reductions	**21,000**	**5,000**	**26,000**
Revenue Increases			
Prop A 35%		8,000	8,000
General Fund Revenues	8,200		8,200
Transfer PC5% funds from rail to bus	1,000	(1,000)	-
Total of Reductions and Revenue Increases	**$30,200**	**$12,000**	**$42,200**

Staff will also bring a proposal to the board to approve advertising on the Metro Rapid buses that may bring an additional $400,000 of revenues to the Enterprise Fund thereby lowering the General Fund Revenue requirement to $7.8 million.

Staff has identified 14 positions which can be eliminated as a result of the capital program changes.

FINANCIAL IMPACT

These actions will increase the operating expenses by $15 million from $990 million to $1,005 million. The capital fund expenditures and revenues will be decreased by $19.2 million from $754.4 million to $735.2 million. The Prop A 35% and General Fund balance will be decreased by $8 million and $8.2 million respectively. Lowering the rail expenditures allows the transfer of the Prop C5% funds from rail operations to bus operations; there is no impact on fund balances with this transfer.

NEXT STEPS

Continue to monitor progress on the FY05 budget and report to the board quarterly.

Richard Brumbaugh
Chief Financial Officer

Roger Snoble
Chief Executive Officer