



FINANCE AND BUDGET COMMITTEE
JANUARY 17, 2007

SUBJECT: BUSINESS PLANNING PARAMETERS

ACTION: ADOPT THE FY08, FY09, AND FY10 BUSINESS PLANNING PARAMETERS

RECOMMENDATION

Adopt the FY08, FY09, and FY10 Business Planning Parameters as outlined in Attachment A.

ISSUE

This report sets forth the major assumptions for development of the FY08 budget and for planning for the FY09 and FY10 budgets.

DISCUSSION

The Financial Stability Policy states that by February of each year the Board will establish Business Planning Parameters for management to use as a framework for developing the following year's budget. The Budget Planning Parameters are to include the farebox recovery ratio for the upcoming year, sales tax growth assumptions, and other key performance measurement goals.

The Business Planning Parameters outlined in Attachment A are based on the Ten-Year Forecast presented to the Board in October 2006 and the proposed Three-Year Deficit Reduction Strategy. Highlights of the parameters are the following:

- Sales tax revenues continue to grow at the 20-year historical average
- Fare increases consistent with the three-year deficit reduction strategy
- The proposed fare per boarding for FY08 is \$.76
- Service hours decrease consistent with the Metro Connections plan and for lowest performing ridership lines
- Seat capacity increases with purchase of articulated buses
- Non-contract salary increases consistent with unions in FY08 and FY09. All increases in FY10 at CPI
- Expenses increase at CPI
- The farebox recovery ratio grows to 37% in three years

ALTERNATIVES CONSIDERED

The Board could choose not to adopt the Business Planning Parameters as presented in Attachments A or could choose to adopt different parameters. The budget planning process for the FY08 Metro budget will begin in January with expenditure targets set by Executive Management in February. If the Board does not adopt the Business Planning Parameters, it could delay the budget development schedule.

FINANCIAL IMPACT

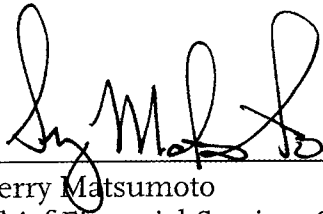
Adoption of the Business Planning Parameters will provide guidance to Metro employees as we develop the upcoming fiscal year budget. These parameters will result in a budget that is constrained to the available revenues.

NEXT STEPS

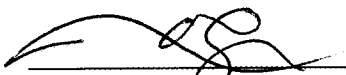
Incorporate the Board adopted Business Planning Parameters into the FY08 budget, future budget planning documents and the Long Range Transportation Plan.

Attachment

Prepared by: Office of Management and Budget



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Roger Snoble
Chief Executive Officer

Attachment A:

**BUSINESS PLANNING PARAMETERS
FY08, FY09, FY10**

	ASSUMPTIONS	FY07	FY08	FY09	FY10	COMMENTS
1	Revenues (Dollars in Millions)					
2	Sales Tax Revenues (A,C,TDA)	1,674	1,738	1,804	1,872	20-year historical average
3	% Growth Rate Change		3.8%	3.8%	3.8%	
4	State Transit Assistance (STA)	68	203	77	79	STA windfall in FY08 only
5	Fare Revenues	279	339	395	473	Fare increases in October FY08, July FY09, and July FY10
6	% Fare Revenue Change (excludes Boardings Growth)		19.5%	15.0%	15.2%	Based on proposed 3-Year Deficit Reduction Plan
	Fare Per Boarding	0.59	0.76	0.92	1.18	
7	Bus Advertising Revenues	16.1	16.7	15.8	15.5	Revenues decrease as number of peak buses decrease
8	Orange Line Advertising Revenues	0.1	0.1	0.4	0.4	
9	Light Rail Advertising Revenues	0	1.1	1.1	1.1	
10	Heavy Rail Advertising Revenues	0	0.9	0.9	0.9	
11	Total Advertising Revenues	16.2	18.8	18.2	17.9	
12	Service Delivery (Amount in Thousands)					
13	Bus Revenue Service Hours (RSH)	7,667	7,554	6,789	6,741	Reductions for Metro Connections and for lowest performing ridership lines
14	Orange Line RSH	84	84	84	84	
15	Light Rail RSH	388	393	392	455	Service added for Eastside Ext
16	Heavy Rail RSH	261	270	268	284	
17	Total RSH	8,400	8,301	7,533	7,564	
18	% RSH Change					
19	Bus Seat Capacity	104,400	108,240	108,105	108,185	
20	% Seat Capacity Change		4%	0%	0%	
21	Bus Boardings	381,113	362,092	344,685	317,110	Bus boardings are impacted by opening the rail line in FY10.
22	Orange Line Boardings	5,147	4,890	4,655	4,283	
23	Light Rail Boardings	41,778	41,183	39,591	42,616	
24	Heavy Rail Boardings	38,868	39,442	38,289	37,692	
25	Total Boardings	466,906	447,607	427,220	401,700	
26	% Boardings Change		-4.1%	-4.6%	-6.0%	
27	Expenses (Dollars in Millions)					
28	CPI		2.3%	2.2%	2.4%	UCLA Forecast
29	Fuel Costs	60	54	52	52	Department of Energy; FY07 actual experience
30	% Change		-10.0%	-3.7%	0.0%	
31	Employee Salaries	1,063	1,100	1,144	1,171	Non-contract consistent w/Union Contracts for FY07, FY08, FY09; CPI for FY10
32	% Salary Change	3.0%	3.5%	4.0%	2.4%	
33	Employee Benefits	217	239	263	289	
34	% Benefits Change	10.0%	10.0%	10.0%	10.0%	
35	Farebox Recovery Ratio		29.0%	33.2%	37.4%	Total fares divided by total forecasted expenses