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Metro

FINANCE AND BUDGET COMMITTEE
MARCH 18, 2009

SUBJECT: STRUCTURAL DEFICIT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file this report on closing the enterprise fund structural deficit without the use of Measure R funds by 2011.

ISSUE

In connection with various items regarding a Measure R Bus Service Improvement Plan (BSIP), the Board directed that the CEO "include...a plan to close the enterprise fund structural deficit without the use of Measure R funds by FY 2011, if possible." Responses to the balance of BSIP requests are included in separate reports to the Measure R Project Delivery and Operations Committees in March 2009.

DISCUSSION

For the purpose of this analysis, the term structural deficit means that the revenues and subsidies that are specifically assigned to bus and rail operations are less than the cost of providing the current level of service. These subsidies do not include any Measure R monies.

Exhibit 1 shows that the structural deficit for FY10 is estimated to be $231 million, assuming that Measure R funds are allowed to backfill the fare revenue lost as a result of the Board's deferral of the previously approved FY10 fare increase. If the revenue service hours are not adjusted and labor costs not kept at FY09 levels as shown on Exhibit 1, the deficit could be as much as $255 million. The deficit will continue to grow over time if the costs of providing service increase faster than the growth in system fare revenues, sales tax subsidies and system generated revenues, such as advertising.

Several prior Board approved actions prevent the implementation of remedial measures necessary to close the deficit entirely by FY11. Three significant prior decisions include:

Deferral of FY10 fare increase
Consent Decree New Service Plan
Union contracts

The deferral of the FY10 fare increase and five year freeze on senior/disabled, K-12 and college passes adds $32 million to the deficit in FY10 if Measure R funds are not allowed to backfill the fare revenue loss. The freeze on reduced fare products adds $8 million a year to the deficit during the remaining four years of the freeze. This deferral and freeze are part of Measure R and cannot be changed within FY10.

The New Service Plan requires the maintenance of peak bus seat capacity through November 2010, in FY11. Therefore, any bus service reductions during FY10 would be limited to weekend, early, late and mid-day service. The New Service plan has been approved by the Federal Court and any changes to the plan would have to be approved by the Court.

Provisions of the labor contracts do not allow us to give service areas away to other operators and restrict our ability to layoff represented workers. Labor contracts expire June 30, 2009, and renegotiation efforts will begin this spring.

Fares

Exhibit 2 shows that in order to resolve the structural deficit solely by increasing fares for regular riders, assuming a continued freeze on reduced fare categories, the base fare would have to increase to $2.75 from the current $1.25, a 220% increase. All other regular pass and zone prices increase proportionally. The analysis does not consider "distanced based" charges for riding transit since we cannot amend the Measure R provision within FY10. Additionally, we would need significant policy input from the Board in order to develop meaningful pricing/revenue generation scenarios for distance-based fares.

Bus Service

Exhibit 3 shows that in order to resolve the structural deficit solely by reductions in bus service, over 3.6 million revenue service hours (RSH) would have to be cut at the marginal rate. Because we are committed to maintaining peak seat capacity under the New Service Plan, reductions can only be made in off-peak service. All weekend, early morning, evening, late night and owl would be eliminated with some thinning during the mid-day service. Exhibit 4 shows the profile of bus service by service category. The marginal rate is used since all infrastructures must be maintained to provide the breadth of weekday peak coverage.

The "full cost" column on Exhibit 3 is premised on the notion that we are able to abandon entire service areas. Therefore, we can expect to resolve the deficit at the fully burdened cost only if we were able to close the infrastructure and save virtually all of those fixed costs. The resulting reduction is about 2.3 million RSH. Roughly, the magnitude of this reduction would be to abandon all bus service south of the I-10 to County line, thereby, eliminating the entire Gateway Cities and Southbay Sectors and closing divisions 1, 2, 5 and 18. This hypothetical scenario recognizes that Santa Monica, Culver City, Torrance, Gardena, Beach Cities, Palos Verdes, Long Beach, Norwalk, and Montebello operate in that geographic area and may be partially able to pick up abandoned riders with the FAP freed up.

Rail Service

The entire rail operating budget for FY09 is approximately $250 million. Of the money used to pay for rail operations, only $10 million could be used to pay for bus operations. Therefore, shutting down the entire rail system would be insufficient to resolve the structural deficit. Additionally, if we were not to operate the Gold Line Eastside Extension, we would face the possibility of having to return $490 million to the FTA. Eastside operating costs are planned to be paid from CMAQ monies for its first three years of operations and therefore does not impact the structural deficit during this period. Exhibit 5 shows the profile of rail service by service category.

Fund Balances

Exhibit 6 shows the June 30, 2009, projected balances of funds that are eligible to be used for bus and rail operations. These fund balances are programmed for future projects and programs in the long range transportation plan, pre-Measure R. Use of these fund balances to balance annual deficits is "one-time" in nature and, therefore, not a solution to the structural deficit. However, utilizing some fund balances and effectively deferring projects and programs, will allow more time to implement a balanced strategy of service cuts and restructuring and fare revenue increases.

Summary

Due to the existing constraints on service and fare changes and the large order of magnitude of changes that would be needed, the structural deficit cannot be resolved in FY10.

The solution to solving the deficit must be a balance of strategies employed over a period of time. Reasonable fare increases combined with service restructuring that addresses ridership in the areas where it is most needed is the goal in fashioning any plan to resolve the structural deficit. Furthermore, the plan to solve the deficit should be implemented incrementally over a period of several years to allow for economic recovery and completion of Measure R infrastructure improvements. However, the transition period will be limited by the amount of fund balances available to cover annual operating deficits until the structural deficit is resolved.

Exhibits

1. FY10 Forecast Structural Deficit
2. Fare Structure to Close Deficit
3. Bus Service Reductions to Close Deficit
4. Bus Service Profile
5. Rail Service Profile
6. Estimated FY09 Year End Fund Balances

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Exhibit 1: FY10 Forecast Structural Deficit

	(Amounts in Millions)	Forecast	One Time	Structural
1	Deficit per Ten-Year Forecast	($134.1)		($134.1)
2				
3	Increase to Deficit			
4	Cancellation of Fare Increases	(32.0)	(32.0)	
5	State Budget Estimate of STA (Metro's Share)	(78.7)		(78.7)
6	Sales Tax Reforecast			
7	TDA	(37.5)		(37.5)
8	PC5 Security	(4.5)		(4.5)
9	PA35 Rail	(36.1)	(36.1)	
10	Subtotal Increase to Deficit	(188.8)	(68.1)	(120.7)
11				
12	Revised FY10 Deficit	(322.9)		
13				
14	Decrease to Deficit			
15	Measure R Funding to Backfill Fare Revenue Loss	32.0	32.0	
16	Prop 1B for Bus Rebuild Program and Contract Service Bus Buy	36.3	36.3	
17	Prop C 40% for Rail Operating (Substitute for STA and PA35)	76.6	76.6	
18	DWP Settlement to Fund Operating Expenses	8.2	8.2	
19	CNG Fuel Credit Extension	5.1	5.1	
20	Reduction of 160K Duplicative Bus RSH (@$90.22/RSH)	11.7		11.7
21	Assumed No Wages Increases	12.2		12.2
22	FY08 Budget Savings	31.6	31.6	
23	Reduce Capital Program	18.0	18.0	
24	Subtotal Decrease to Deficit	231.7	207.8	23.9
25				
26	Revised Deficit after Decreases	($91.2)	$139.7	($230.9)

Exhibit 2: Fare Structure to Close Deficit

1	Structural Deficit	($230.9)

	(Amounts in Millions)	Reduced Fare Freeze	Regular Fare	Total
2	FY10 Fare Revenue	$49.0	$293.0	$342.0
3	Revenue Increase to Mitigate Deficit	$0.0	$230.9	$230.9
4	Revised Revenue	$49.0	$523.9	$572.9
5	Rate of Fare Revenue Increase	0%	79%	
6				
7	Boardings:			
8	FY10 Brdgs (5.5% inc FY09)	168.2	347.0	515.1
9	Model (-2.3% per 10% fare incr)	0%	-18%	
10	Brdg Loss	-	(62.9)	(62.9)
11	Revised Brdgs	168.2	284.1	452.2
12				
13	Revised Fare/Brdg	$0.29	$1.84	$1.27

		Reduced Fare Freeze	Regular Fare	Total
14	Revised Fare/Brdg	$0.29	$1.84	$1.27
15	Fare Efficiency FY08			
16	FY08 Fare/Brdg		$0.88	
17	FY08 Base Fare		$1.25	
18	Efficiency		71%	

	Resulting Fare Structure	Result	Rounded
20	Estimated Base Fare: (Fare/Brd) / (Fare Efficiency)	$2.61	$2.75
21	Day (5/1.25=4)	$10.44	$11.00
22	Weekly (17/1.25=13.6)	$35.49	$37.50
23	Monthly (62/1.25=49.6)	$129.42	$136.50
24	EZ (70/1.25=56)	$146.12	$154.00
25	Sr Cash (.55/1.25=.44)	Frozen	Frozen
26	Sr Day (1.80/1.25=1.44)	Frozen	Frozen
27	Sr Monthly (14/1.25=11.2)	Frozen	Frozen
28	Sr EZ (35/1.25=28)	Frozen	Frozen
29	K-12 (24/1.25=19.2)	Frozen	Frozen
30	College (36/1.25=28.8)	Frozen	Frozen

Exhibit 3: Bus Service Reductions to Close Deficit

	(Dollars in Millions)	Full Cost @ $127.44/RSH	Marginal @ $90.22/RSH
1	Service Reductions	2,298,500	3,652,000
2	Service Reduction Rate	30%	47%
3	Savings	$292.9	$329.5
4			
5	FAP Loss @ 25%	($42.0)	($66.7)
6	Rev Loss @ 25%	($20.1)	($31.9)
7	Savings offsets	($62.1)	($98.6)
8			
9	Recovered Deficit	$230.9	$230.9

Exhibit 4: Bus Service Profile (Revenue Service Hours)

	Bus Revenue Service Hours		RSH	%
1	Weekdays			
2	Pre-dawn	2am-6am	450,000	5.8%
3	AM Peak	6am-9am	1,450,000	18.6%
4	Mid-day	9am-3pm	1,850,000	23.7%
5	PM Peak	3pm-6pm	1,450,000	18.6%
6	Evening	6pm-2am	950,000	12.2%
7	Owl	2am- 5am*	50,000	0.6%
8	Weekdays Total		6,200,000	79.5%
9				
10	Saturdays		850,000	10.9%
11				
12	Sunday		750,000	9.6%
13				
14	Total Bus Revenue Services		7,800,000	100.0%

* when the bus pull out is prior to midnight

Exhibit 5: Rail Service Profile (Revenue Vehicle Service Hours)

	Revenue Vehicle Service Hours		Blue	Green	Gold	Red / Purple	System	%
1	Weekday Service							
2	Early AM	Open-5:30a	10,425	4,210	6,268	12,514	33,417	4.6%
3	AM Peak	5:30a-9:30a	46,776	18,891	28,125	56,148	149,940	20.6%
4	Mid-Day	9:30a-3:00p	41,128	16,610	24,729	49,369	131,835	18.1%
5	PM Peak	3:00p-7:00p	46,776	18,891	28,125	56,148	149,940	20.6%
6	Evening	7:00p-9:00p	12,967	5,237	7,797	15,565	41,565	5.7%
7	Night	9:00p-close	13,603	5,494	8,179	16,329	43,605	6.0%
8	Weekday Service Total		171,673	69,332	103,224	206,073	550,302	75.6%
9								
10	Saturday		25,593	8,693	19,140	29,687	83,113	11.4%
11								
12	Sunday		26,613	9,696	21,522	33,112	90,943	12.5%
13								
14	Special Event		450	20	1,000	2,000	3,470	0.5%
15								
16	Total Rail Vehicle Service Hours		224,329	87,741	144,886	270,872	727,828	100.0%

Exhibit 6: Estimated FY09 Year End Fund Balances

	Fund	Fund Balance	Fund Balance Designations	Eligible for Bus and Rail Operations	Notes
	Prop A				
1	Prop A 35% Rail	$19.8	$19.8	-	
2	Prop A 40% Discretionary	40.8	40.8	-	1
3	Prop A Interest	23.7	-	$23.7	6
4	Subtotal Prop A	84.3	60.6	23.7	
5					
6	Prop C				
7	Prop C 40% Discretionary	155.2	73.8	81.4	1,3,4,5
8	Prop C 5% Security	7.3	7.3	-	
9	Prop C Interest	42.9	-	42.9	6
10	Subtotal Prop C	205.4	81.1	124.3	
11					
12	TDA				
13	TDA Article 4	99.8	99.8	-	1,3
14	TDA Interest	8.3	-	8.3	2
15	Subtotal TDA	108.1	99.8	8.3	
16					
17	STA				
18	STA Revenue Share	21.0	21.0	-	1
19	STA Population Share	-	-	-	
20	Subtotal STA	21.0	21.0	-	
21					
22	TCRP	329.6	329.6	-	7
23					
24	Sales/Leaseback	27.3	27.3	-	8
25	ROW/Lease	60.6		60.6	
26	Employee Activities	0.7		0.7	
27	General Fund	58.3	1.5	56.8	5
28					
29	Total Fund Balances Available	$1,314.1	$883.4	$430.7	

Notes
1 Prior year undrawn amounts for Muni Operators
2 Subject to FAP distribution
3 Prior year Metro Capital - will be considered for FY09 STA shortfall
4 Designated for Eastside Enhancements
5 FY09 Budget amendment for increased debt expense
6 Subject to "fair share" distribution if used for bus
7 Designated for State approved capital projects
8 May be required to conclude SILO agreements