STUDY SESSION

Joint Study Session of
Valley Metro RPTA and Valley Metro Rail

Date:
January 21, 2021

Starting Time
10:00 a.m.

Location:
Valley Metro
VIA Webex
Phoenix

If you require assistance accessing the meetings on the 10th floor, please go to the 14th floor or call 602.262.7433.
Study Session Notice & Agenda

January 14, 2021

Joint Study Session Agenda
Valley Metro RPTA and Valley Metro Rail
Thursday, January 21, 2020
10:00 a.m.
Via Webex

Study sessions provide a less formal setting for the Boards of Directors to discuss specific topics, at length, with each other and Valley Metro staff members. Work study sessions provide an opportunity for staff to receive direction from the Boards and for the public to observe the discussions.

1. Valley Metro Budget Background and Assumptions

The study session will include a discussion of the budget process and key budget assumptions.

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print or flash drive) are available upon request. For further information, please call Valley Metro at 602-262-7433 or TTY at 602-251-2039. To attend this meeting via teleconference, contact the receptionist at 602-262-7433 for the dial-in-information. The supporting information for this agenda can be found on our web site at [www.valleymetro.org](http://www.valleymetro.org).
Study Session Background

DATE
January 14, 2021

STUDY SESSION ITEM 1

SUBJECT
Valley Metro Budget Background and Assumptions

BACKGROUND | DISCUSSION
The study session will include a discussion of the budget process and key budget assumptions.

Revenues
There are four main sources of revenue for Valley Metro: Public Transportation Funds (Prop 400), member city contributions (local revenues), federal revenues and fare revenues. The study session presentation will review assumptions for these sources.

Public Transportation Fund (PTF)
Proposition 400, which passed in 2004 and took effect in January 2006, provides funding to Valley Metro to support regional transit. This includes bus and paratransit operations, regional services, planning and administration. It also supports the capital program, including fleet purchases, facilities improvements, other regional improvements, such as the new fare collection system, and light rail construction.

The COVID-19 public health emergency has created much uncertainty with future economic activity. Economic stimulus provided by Congress has provided significant relief and continued stimulus from the federal government will help support economic activity that generates tax revenues. However, there is still significant uncertainty about the short and long term effects on revenues. To be prepared for the uncertainty around tax revenues, staff prepared three different forecasts for budget purposes. In addition to the official forecast from ADOT, this will provide flexibility as we continue to monitor revenue trends through the current fiscal year. PTF revenues through December 2020 are significantly above budget, almost $7 million. If the trend were to be maintained, the revenues generated would be in line with the forecast created before the pandemic.

Local Revenues
Local revenues are a significant source of funding for Valley Metro. They account for approximately half of the funding needed for bus and paratransit operations, and all the funding for light rail and streetcar operations. Valley Metro staff has requested information on local revenues from member city staff and will update the Board on
revenue trends with the cities. Currently, local revenues reported are trending higher than budget, although every city’s experience is different.

**Fare Revenues**
Fare revenues in the current fiscal year are approximately 16% of what they were collecting pre-pandemic. This is largely due to the reduction in ridership and the more relaxed fare enforcement in place for the pandemic. We anticipate returning to full fare enforcement, including front door boarding on the bus system, in FY22. A ridership recovery plan is being implemented to support and encourage riders to return to the transit system. As a result, the fare revenue forecast will be higher than the current experience, but not back to pre-pandemic levels in FY22.

**Federal Revenues**
Federal revenues are another significant source of funding for Valley Metro, particularly for the capital budget. However, they have become much more important in the operating budget in the current fiscal year and in planning for FY22. Congress provided direct support to public transportation through the CARES Act and more recently the CRRSAA. This support is intended to help transit operators maintain service levels despite any reduced fare and local tax revenues. These federal funds have offset the significant loss of fare revenue, and reduced the net cost of services which are funded with PTF and local revenues.

**RPTA Budget**
The majority of the operating budget, approximately 86%, is dedicated to transit operations. The key drivers of service costs are contractual commitments to service providers and miles of service or trips provided. Staff will discuss these assumptions for fixed route bus and demand services. Contingency planning is on-going to address any future declines in PTF and local revenues. Given the current trend in PTF revenues and the additional federal support, it is not necessary for budget purposes to plan for any service reductions for PTF funded service in FY22. Valley Metro’s service planning staff is working very closely with cities to identify any service changes needed to meet local budget needs.

**VMR Budget**
The majority of the VMR operations budget, approximately 80%, is for light rail and streetcar operations, maintenance and security. Much of this cost in related to contractual commitments related to operations, cleaning and safety. Valley Metro conducts maintenance in-house, which is different than how RPTA contracts are structured.

The capital budget is largely driven by the major capital construction projects.
CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

ATTACHMENT
None
FY22 Budget Development

January 21, 2021

Budget Process
Committees

- **Financial Working Group**
  - Staff from member cities, typically finance or transit staff
  - Provide detailed review of assumptions

- **Audit and Finance Subcommittee**
  - Oversight and guidance to staff on budget assumptions and development
  - Recommendation to Boards

- **Board of Directors**
  - Review and approve annual operating and capital budget

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**Budget Timeline**

<table>
<thead>
<tr>
<th>Dates</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Sep - Nov</td>
<td>Budget development with division input</td>
</tr>
<tr>
<td>October</td>
<td>Preliminary operating budgets provided to FWG</td>
</tr>
<tr>
<td>Dec - Jan</td>
<td>Continue to refine inputs and develop documents</td>
</tr>
<tr>
<td>February</td>
<td>Annual budgets presented to FWG</td>
</tr>
<tr>
<td>March</td>
<td>Committee cycle for Budget review</td>
</tr>
<tr>
<td>April 15th</td>
<td>Member City Comments due</td>
</tr>
<tr>
<td>May</td>
<td>Committee cycle for Budget Adoption</td>
</tr>
</tbody>
</table>
Preliminary Budgets

• Define Inputs/Assumptions
  • Planned service
    • Miles, boardings, fare revenues
  • Operations & Maintenance Staffing
  • Strategic Initiatives
  • Contingency

• Goals
  • Provide “not-to-exceed” amount
  • Fit within your budget process

• Delivered to cities on October 31
Revenue Forecasts

Operating Revenue

**Federal**
- Minimal CARES Act funds carried over
- CRRSAA (CARES 2) funds *NEW*
- Other federal increase 1.5% from FY21

**Prop 400**
- PTF – 4 forecast alternative scenarios
  - Developed due to uncertainty

**Local Revenues**
- Member city contributions to fund service

**Fare Revenues**
- Ridership and fare
CARES Act Overview

• Provided $25 billion for public transportation
  • Intended to support on-going operations
    • Maintain workforce, fund additional expenses, address economic conditions and lost revenues
    • Allocated to regions by FTA using existing formulas

• MAG developed allocations for local operators
  • Phoenix-Mesa UZA
  • Avondale-Goodyear UZA

• ADOT allocated funds to rural operators

CRRSAA Overview

• Provides $14 billion for public transportation
  • Intended to support on-going operations
    • Maintain workforce, fund additional expenses, address economic conditions and lost revenues
    • Allocated to regions by FTA using existing formulas
      • Urbanized areas have caps on amounts

• MAG allocates funds to local operators
  • Use same methodology as CARES Act funds
  • Phoenix-Mesa UZA: $85.26 million
  • Avondale-Goodyear UZA: No additional funding
Transit Funding Distribution

MAG: Phoenix-Mesa UZA

<table>
<thead>
<tr>
<th>Operator</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRRSAA Apportionment</td>
<td>$85,260,499</td>
</tr>
<tr>
<td>Rail sub-allocation</td>
<td>$20,418,620</td>
</tr>
<tr>
<td>Bus sub-allocation</td>
<td>$64,841,879</td>
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</table>

Operator

<table>
<thead>
<tr>
<th>Operator</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Valley Metro Rail</td>
<td>$20,418,620</td>
</tr>
<tr>
<td>City of Glendale</td>
<td>$478,539</td>
</tr>
<tr>
<td>City of Peoria</td>
<td>$219,886</td>
</tr>
<tr>
<td>City of Phoenix</td>
<td>$43,285,259</td>
</tr>
<tr>
<td>City of Scottsdale</td>
<td>$1,017,611</td>
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<tr>
<td>Valley Metro RPTA</td>
<td>$19,840,493</td>
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</table>

Allocations estimated by Valley Metro staff

Application of Revenues

<table>
<thead>
<tr>
<th>FY21 Adopted Budget</th>
<th>Fixed Route</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation Services</td>
<td>$85,228,000</td>
<td>$29,610,000</td>
</tr>
<tr>
<td>Facility Maintenance</td>
<td>3,613,000</td>
<td>-</td>
</tr>
<tr>
<td>Administrative Support</td>
<td>2,172,000</td>
<td>1,782,000</td>
</tr>
<tr>
<td>Total Operating Costs</td>
<td>91,013,000</td>
<td>31,392,000</td>
</tr>
</tbody>
</table>

Less Fare Revenue  2,179,000  |

Costs eligible for Federal Funds  88,834,000  31,392,000  

Less CARES Act Revenue  37,628,000  5,002,000  
Less Other Federal  4,738,000  1,600,000  
Net Costs - PTF/Member City Funded  46,468,000  24,790,000  

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Proposition 400
Transportation Excise Tax

½ cent sales tax, 20 year life, Jan 2005 – Dec 2025

• Public Transportation Fund (PTF) – 33.3%
• Regional Area Road Fund (RARF) – 66.7%

Revenue Forecast

• ADOT manages forecast process
  • Risk Analysis Process (RAP)
    • Econometric model
    • Independent variables for each category of tax
  • RAP Panel discussion
    • Panelists are experts in various fields and provide forecasts for the independent variables
  • Forecast published in September or October each year
    • Most recent forecast published in September 2020
COVID Impacts

• Forecast considerations
  • Three scenarios developed by staff in August 2020
  • ADOT updated forecast in September 2020
  • Monitoring revenues through FY21

• Final budget in May 2021
  • Will use forecast reflecting current trends
  • Present conservative budget that reflects appropriate revenue forecast
# PTF Forecasts

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2020 Official Forecast</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
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<tbody>
<tr>
<td>2021</td>
<td>$170.82</td>
<td>$165.25</td>
<td>$158.48</td>
<td>$151.72</td>
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<tr>
<td>2022</td>
<td>$178.21</td>
<td>$173.94</td>
<td>$159.40</td>
<td>$144.70</td>
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<tr>
<td>2023</td>
<td>$188.53</td>
<td>$184.74</td>
<td>$163.50</td>
<td>$140.91</td>
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<tr>
<td>2024</td>
<td>$197.72</td>
<td>$196.11</td>
<td>$173.57</td>
<td>$143.00</td>
</tr>
<tr>
<td>2025</td>
<td>$207.98</td>
<td>$209.13</td>
<td>$185.09</td>
<td>$150.27</td>
</tr>
<tr>
<td>2026</td>
<td>$127.30</td>
<td>$130.41</td>
<td>$113.73</td>
<td>$92.52</td>
</tr>
<tr>
<td>TOTAL 22-26</td>
<td>$899.75</td>
<td>$894.33</td>
<td>$795.30</td>
<td>$671.40</td>
</tr>
</tbody>
</table>

## FY21 PTF Revenues

<table>
<thead>
<tr>
<th>Month</th>
<th>FY 20 Actuals</th>
<th>FY 21 Budget</th>
<th>FY 20 Actuals</th>
<th>Budget Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>13,247,508</td>
<td>13,572,827</td>
<td>14,716,415</td>
<td>1,143,588</td>
</tr>
<tr>
<td>August</td>
<td>13,123,348</td>
<td>13,095,124</td>
<td>14,644,448</td>
<td>1,549,324</td>
</tr>
<tr>
<td>September</td>
<td>13,343,646</td>
<td>13,372,281</td>
<td>14,439,173</td>
<td>1,066,892</td>
</tr>
<tr>
<td>October</td>
<td>13,174,681</td>
<td>13,343,325</td>
<td>14,728,743</td>
<td>1,385,418</td>
</tr>
<tr>
<td>November</td>
<td>13,846,014</td>
<td>13,615,463</td>
<td>14,378,010</td>
<td>762,547</td>
</tr>
<tr>
<td>December</td>
<td>14,071,530</td>
<td>13,902,679</td>
<td>14,886,458</td>
<td>983,779</td>
</tr>
<tr>
<td>Totals YTD</td>
<td>$80,806,727</td>
<td>$80,901,699</td>
<td>$87,793,247</td>
<td>$6,891,548</td>
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<tr>
<td>Totals Fiscal Year</td>
<td>$163,533,938</td>
<td>$166,800,000</td>
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</table>
FY21 PTF Trend

Local Revenue Trends
Service Contingency Plans

- Scenario 1 – defer SRTP improvements beyond prop 400
- Scenario 2 – 15% services/operations cut and 5% cuts to fleet, regional services, and mobility services
- Scenario 3 – 30% services/operations cut and 10% cuts to fleet, regional services, and mobility services
  - Revenue miles to be determined by Service Planning Group
  - Detailed mileage assumptions to cities in December

Fare Revenues

- FY21 below budget
  - Currently 16% of pre-pandemic levels
  - Rear door boarding
  - Lower ridership – 67% of pre-pandemic levels

- FY22 budget forecasts higher revenues
  - Return to fare enforcement
  - Ridership projected at 80% of pre-pandemic levels
Ridership Recovery Plan

• Phased approach
• Surveys
• Communication Plans
• Front Door Boardings

Uses of Funds
RPTA Budget Overview

Operating Budget FY21

- Operations $136 M
  - Fixed Route Bus Service
  - Paratransit and RideChoice Services
  - Vanpool Service
- Regional Services $14 M
  - Customer Call Center, Mobility Center
  - Marketing, Web Site

RPTA Budget Overview

Operating Budget

- Commute Solutions $1.3 M
- Planning $2.0 M
- Executive Office/Admin $4.1 M
- Pass-through Funds $39 M
  - Salary, fringe, overhead for VMR staff
  - Lottery Funds
RPTA Budget Overview

Capital Budget

- Regional Fleet $50 M
  - Buses, paratransit, vanpool, non-revenue
- Regional Facilities and Admin $4 M
- Other Regional Projects $1 M
- Member Agency Disbursements $6 M
- Debt Service $25 M
- Pass-Throughs $54 M

Fixed Route Cost Drivers

- FY21 Budget - $104 million
- Service contracts – 86% of costs
  - Miles operated
  - Cost per mile
- Fuel – 6% of costs
- Facilities maintenance – 5% of costs
- Administrative support – 3% of costs
## Base Service Levels

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Locally Funded Service</th>
<th>PTF Funded Service</th>
<th>Total Revenue Miles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Circulator</td>
<td>Express</td>
<td>Local</td>
</tr>
<tr>
<td>Phoenix</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>First Transit</td>
<td>1,673,573</td>
<td>55,276</td>
<td>4,100,028</td>
</tr>
<tr>
<td>Total Ride</td>
<td>916,305</td>
<td>27,563</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>2,589,877</td>
<td>82,838</td>
<td>4,100,028</td>
</tr>
</tbody>
</table>

FY21 Budgeted Miles used as base

## Contract Rates – East Valley Bus

[Graph showing cost per mile for Circulator, Local, and Express services from FY22 to FY26. A note indicates a new contract with unknown rates.]
Contract Rates – West Valley Bus

Fixed Route Bus

Fuel
- Natural gas and diesel fuel are fairly stable
- Usage directly related to miles operated

Facilities
- Mesa and Tempe Bus Operations & Maintenance
  - 3-5% increase from FY21 budget
Demand Services Cost Drivers

• FY21 Budget - $31 million

• Service contracts – 92% of costs
  • Trips provided – estimated 677,000
  • Cost per trip

• Fuel – 5% of costs

• Administrative support – 4% of costs

Contract rates – Demand Services

Potential Contract Restructure
Revenue Forecasts

Federal Funds
- No CARES Act funds carryover
- CRRSAA funding *NEW*
- Other federal increase 1.5% from FY21

Fares
- Ridership and fare

Advertising
- Contract currently being renegotiated
- Conservative in FY22
CRRSAA Allocations

Total Allocation: $20,418,700

<table>
<thead>
<tr>
<th>By Member City</th>
<th>Mileage</th>
<th>Allocation</th>
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<tbody>
<tr>
<td>Phoenix</td>
<td>1,868,600</td>
<td>$10,844,400</td>
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<tr>
<td>Tempe *</td>
<td>998,900</td>
<td>$5,797,100</td>
</tr>
<tr>
<td>Mesa</td>
<td>650,800</td>
<td>$3,777,200</td>
</tr>
<tr>
<td></td>
<td>3,518,300</td>
<td>$20,418,700</td>
</tr>
</tbody>
</table>

* Tempe mileage includes 8 months of Streetcar operations

Fare Revenues

- **FY21 below budget**
  - Currently 16% of pre-pandemic levels
  - Lower ridership – 43% of pre-pandemic levels
  - Visual fare enforcement

- **FY22 budget forecasts higher revenues**
  - Return to full fare enforcement
  - Ridership projected at 80% of pre-pandemic levels
## Application of Revenues

<table>
<thead>
<tr>
<th>Application of Revenue</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>$15,930,000</td>
</tr>
<tr>
<td>Vehicle Maintenance</td>
<td>9,780,000</td>
</tr>
<tr>
<td>Maintenance of Way</td>
<td>13,558,000</td>
</tr>
<tr>
<td>Administrative Support</td>
<td>9,959,000</td>
</tr>
<tr>
<td>Security</td>
<td>8,489,000</td>
</tr>
<tr>
<td><strong>Total Light Rail Operations Costs</strong></td>
<td><strong>57,716,000</strong></td>
</tr>
</tbody>
</table>

| Less Fare Revenue            | 2,710,000  |
| Costs eligible for CARES Act | 55,006,000 |
| CARES Act Revenue            | 42,961,000 |
| Other federal funds          | 1,546,000  |
| Advertising revenue          | 275,000    |
| **Net Costs - Member City Funded** | **10,224,000** |

## VMR Budget Overview

### Operating Budget

- **Rail Operations**
  - Light Rail and Streetcar Operations
  - Light Rail and Streetcar Maintenance
  - Safety and Security
- **Project Development**
  - Corridor Planning and Development
  - System Planning

**FY21**

- **Rail Operations**: $58 M
- **Project Development**: $12 M
VMR Budget Overview

Operating Budget
- Agency Operations
  - Executive Office
  - Administrative Support

FY21
- Agency Operations: $1.8 M

Rail Transportation

Headways
- 12 minutes assumed
- Currently operating 15 minutes

Alternate Concepts Inc.
- Rates up 6% in existing contract

Propulsion Power
- APS – 4% increase in rates
- SRP – 3% increase in rates

Contingency
- 5% initially, will be refined for final budget
Safety and Security

Allied Universal

- Current contract expires 6/30/21
- Procurement on-going
- Estimated 5% increase over existing contract rates
  - Will be refined when contract is awarded

LRV Inspections Per Month

<table>
<thead>
<tr>
<th>Scheduled LRV Inspections</th>
<th>Hours Each</th>
<th># per Month</th>
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<tbody>
<tr>
<td>10 Year Inspections</td>
<td>111</td>
<td>4</td>
</tr>
<tr>
<td>180 Day Inspections</td>
<td>56</td>
<td>4</td>
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<tr>
<td>Quarterly Inspections</td>
<td>30</td>
<td>8</td>
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<tr>
<td>Monthly Inspections</td>
<td>6</td>
<td>30</td>
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<tr>
<td>Daily Inspections</td>
<td>.65</td>
<td>1,066</td>
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<tr>
<td>Total Inspections</td>
<td></td>
<td>1,112</td>
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</table>

Total of 1,781 hours for vehicle inspections each month.
## Overhaul Resource Hours

<table>
<thead>
<tr>
<th>Units</th>
<th>Hours/Unit</th>
<th>Overhauled Item</th>
<th>Total Hours</th>
<th>On Going</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td><strong>5 Year Overhauls</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>28</td>
<td>Friction brakes and related components</td>
<td>336</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>6 Year Overhauls</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>40</td>
<td>Pantograph</td>
<td>2,080</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td><strong>10 Year Overhauls</strong></td>
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<tr>
<td>36</td>
<td>50</td>
<td>Gear units</td>
<td>1,800 X</td>
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<tr>
<td>5</td>
<td>16</td>
<td>Couplers</td>
<td>80 X</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>5</td>
<td>Door Operating Units</td>
<td>125</td>
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<td></td>
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<td><strong>15 Year Overhauls</strong></td>
<td></td>
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<tr>
<td>2</td>
<td>1000</td>
<td>LRV Mid-Life</td>
<td>2,000</td>
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<tr>
<td></td>
<td></td>
<td><strong>1 Time</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>2</td>
<td>Line Filter Choke</td>
<td>64</td>
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<tr>
<td>14</td>
<td>20</td>
<td>Communication System Replacement</td>
<td>280</td>
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<td></td>
<td></td>
<td><strong>Total Hours</strong></td>
<td><strong>6,765</strong></td>
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</table>

- **Total Hours Ongoing Overhauls**: 1,880 Hours
- **Total Hours New Overhauls**: 4,885 Hours
- **Total Hours All Overhauls**: 6,765 Hours

## Reduced Frequency

- **Operations**
  - Reduction in operators: $972,000
  - Reduced propulsion power needs: $403,000
- **Maintenance – no change**
- **Security – no change**
- **Insurance – no change**

- **Total Budget Reduction**: $1,375,000
Streetcar Operations

New Staffing Necessary for Operations
- Operators and supervisors from ACI contract
- At least 2 Track Maintainers
- At least 2 Traction Power Technicians

“Revenue” Start Date
- Sep/Oct 2021

Fares
- Initial free fare period

State of Good Repair

- FY22 from current CIP
  - Locally funded major items include:
    - Replace non-revenue vehicles (5)
    - Repaint Kinkisharyo Fleet LRVs (14)
    - Repaint passenger stations (7)
    - Asphalt Repairs and Resealing
      - OMC, Park and Rides, Substations/Signal Buildings
    - Continue installing station fencing at locations with high pedestrian crossings (4)