CITY OF LOS ANGELES
INTER-DEPARTMENTAL MEMORANDUM

Date: March 27, 2024

To: Honorable City Council
c/o City Clerk, Room 395, City Hall
Attention: Honorable Heather Hutt , Chair, Transportation Committee

From: Laura Rubio-Cornejo, General Manager
Department of Transportation

Tomas Carranza (Mar 27, 2024 18:44 PDT)
on behlaf of LRC

Subject: **PROPOSITION A STATUS AND FORECAST FOR TRANSIT SERVICES**

SUMMARY

The Los Angeles Department of Transportation (LADOT), in coordination with the City Administrative Officer (CAO), prepared an updated forecast (2023 Forecast) of the City's reserves for Proposition A (Prop A). This forecast accounts for changes that have occurred since the City adopted the comprehensive Transit Service Analysis (TSA) of DASH, Commuter Express, LA Now, and Cityride Dial-a-Ride services pursuant to City Council (C.F. 18-0244) in 2018. It describes the structural deficit of Prop A with a potential list of cost saving measures for Council and Mayor consideration.

RECOMMENDATION

That the City Council:

1. DIRECT LADOT to pause further roll out of the TSA Service Plan (i.e., increased service frequencies and new routes for DASH services) that are not obligated to be implemented under existing Funding Agreements;
2. DIRECT LADOT to initiate a revised TSA to identify potential service changes that would reduce ongoing operational expenses. The revised TSA should consider responding to the changing demand of transit due to the COVID-19 pandemic. LADOT should base the revised analysis on performance data, rider surveys, adopted guidelines, and performance metrics that City Council already approved pursuant to Council File 18-0244;
3. DIRECT LADOT to evaluate the current free-fare practices on DASH to report their benefits and impacts on revenue, ridership experience, and safety;
4. DIRECT LADOT with the CAO to identify new funding sources for transit services and transit capital necessary to electrify the transit fleet and meet useful life benchmarks; and
5. DIRECT LADOT with the CAO to identify additional cost savings from Prop A.

BACKGROUND

Prop A is the primary funding source for the City's transit services, including DASH, Commuter Express, CityRide Dial-a-Ride, LA Now, and the Senior/Youth Transportation Charter Bus Program, and other related support programs including Metro Bikeshare operations and maintenance, and the local required match for regional Metro subway and rail capital projects within City limits.

In 2015, LADOT contracted services with Transportation Management and Design, Inc. (TMD), to conduct a comprehensive Transit Service Analysis of the City's DASH, Commuter Express, and Cityride Dial-a-Ride services. The TSA, adopted by Council in 2018, included a financial forecast of Phase 1 elements, such as increases in service frequencies of all DASH lines to 15-minute headways, expanding service hours, launching four new Community DASH routes (Phase 1), and launching the LA Now On-Demand demonstration pilot (TSA Service Plan). Phase 2 services were not included in the 2018 financial forecast but were planned for a later date when the City could identify another available ongoing funding source.

DISCUSSION

The attached report provides an overview of specific changes that have affected the City's transit operations since the last TSA, including impacts from the COVID-19 pandemic. It summarizes the funding impacts of continuing with the previously planned 2018 TSA service changes and the changes that have impacted LADOT's Prop A reserves. LADOT drafted this Report in coordination with the CAO, submitted the attached report to the Mayor pursuant to the Executive Directive (ED) 3 review process based on the policy and financial significance to City operations, and worked closely with the Mayor's Office before providing these recommendations to Council.

FINANCIAL IMPACT

The forecast assumes that initiating the remaining service commitments under the TSA would result in a negative $51 million funding balance in Prop A at the end of FY 23-24 if no further adjustments were made to reduce transit programs costs. This would result in a General Fund impact of about $51 million in FY 23-24 to cover projected transit expenditures, plus additional General Fund impact in future budget years.

LRC:JWK:ds
Attachments

CITY OF LOS ANGELES
INTER-DEPARTMENTAL MEMORANDUM

Date: October 23, 2023

To: The Honorable Karen Bass, Mayor
Office of the Mayor
Attention: Heleen Ramirez, Legislative Coordinator

The Honorable City Council
c/o City Clerk, Room 395, City Hall
Attention: Honorable Bob Blumenfield, Chairman, Budget and Finance Committee

From: Laura Rubio-Cornejo, General Manager
Department of Transportation

Subject: **PROPOSITION A STATUS AND FORECAST FOR TRANSIT SERVICES**

SUMMARY

This report provides an updated forecast (2023 Forecast) of the City's reserves for Proposition A (Prop A) to account for changes that have occurred since the City adopted the comprehensive Transit Service Analysis (TSA) of DASH, Commuter Express, LA Now, and Cityride Dial-a-Ride services pursuant to City Council (C.F. 18-0244) in 2018 and to address the structural deficit of Prop A with a potential list of cost saving measures for Council and Mayor consideration.

RECOMMENDATION

1. DIRECT LADOT to pause further roll out of the TSA Service Plan (i.e. increased service frequencies and new routes for DASH services) that are not obligated to be implemented under existing Funding Agreements;
2. DIRECT LADOT to initiate a revised TSA to identify potential service changes that would reduce ongoing operational expenses. The revised TSA should consider responding to the changing demand of transit due to the COVID-19 pandemic. LADOT should base the revised analysis on performance data, rider surveys, adopted guidelines, and performance metrics that City Council already approved pursuant to Council File 18-0244;
3. DIRECT LADOT to evaluate the current free-fare practices on DASH to report their benefits and impacts on revenue, ridership experience, and safety;
4. DIRECT LADOT with the CAO to identify new funding sources for transit services and transit capital necessary to electrify the transit fleet and meet useful life benchmarks; and
5. DIRECT LADOT with the CAO to identify additional cost savings from Prop A.

BACKGROUND

Los Angeles voters approved Prop A in 1980, creating a half-cent sales tax dedicated to funding transportation projects, plans for a rail system, improved bus services, and subsidized fares across the County. LADOT is a recipient of two of the three buckets that Prop A funds that include:

- 25 percent of the sales tax allocated to jurisdictions based on their percentage share of the population
- 40 percent of the sales tax that Metro allocates directly to select transit operators in LA County to offset costs of their transit operations.

Prop A is the primary funding source for the City's transit services, including DASH, Commuter Express, CityRide Dial-a-Ride, LA Now, and the Senior/Youth Transportation Charter Bus Program, and other related support programs including Metro Bikeshare operations and maintenance, and the local required match for regional Metro subway and rail capital projects within City limits.

LADOT faces complex challenges in sustaining the balance of Prop A funds due the growing operational costs of the City's transit services. Rising fuel costs, increases in driver wages, and inflationary pressures on parts and supplies have contributed to a significant increase in yearly operating expenditures. In addition, the substantial costs associated with transitioning to an electric bus fleet, including the investment in charging infrastructure, and the purchase price of electric buses themselves are further increasing costs. Previous estimates of the financial trajectory for Prop A did not incorporate these increased costs, and no longer reflect the financial reality for this funding source.

In 2015, LADOT contracted services by Transportation Management and Design, Inc. (TMD), to conduct a comprehensive Transit Service Analysis of the City's DASH, Commuter Express, and Cityride Dial-a-Ride services. This analysis was conducted to respond to changes in demographics, population, land use, and new and planned bus and rail transit lines. Based on TMD's findings, the TSA recommended expanded service times and increased frequencies, as well as launching new Community DASH services in two separate packages of routes that were differentiated based on expected funding availability:

- Phase 1 routes: Sylmar, Pacoima, Canoga Park, and Boyle Heights West.
- Phase 2 routes: Mission Hills, Van Nuys, North Hills, Sun Valley, Elysian Park/Cypress Park, North Hollywood, and Glassell Park/Highland Park.

In 2018, Council adopted the TSA, which included a financial forecast of Phase 1 elements, such as increases in service frequencies of all DASH lines to 15-minute headways, expanding service hours, launching four new Community DASH routes (Phase 1), and launching the LA Now On-Demand demonstration pilot (TSA Service Plan). Phase 2 services were not included in the 2018 financial forecast but were planned for a later date when the City could identify another available ongoing funding source.

The TSA approved by Council in 2018 predated the City's commitment to an all-electric bus fleet by 2028 and did not contemplate the added costs associated with a complete fleet transition. Since the TSA was approved, the COVID-19 pandemic negatively impacted ridership and shifted labor relations, which has also impacted both the revenue generation and cost of operating existing transit service and expansion as identified in the TSA. These and other costs associated with the TSA plan have far outpaced the incoming revenues, and there is no longer enough projected Prop A funding to implement the remaining scope of the TSA plan while also funding other programs that currently rely on Prop A.

As directed by the Budget and Finance Committee, this report provides an overview of specific changes that have occurred since the last TSA, including impacts from the COVID-19 pandemic. Although LADOT received one-time federal emergency assistance to help support increases in driver wages and offset the impacts of forgone fare revenue, we do not foresee a long-term stable funding source to supplement existing annual revenues received from Prop A. In light of these challenges, LADOT seeks to establish a long-term plan for funding and operational adjustments that continue to ensure safe, reliable transit services for all. This report summarizes the funding impacts of continuing with the previously planned 2018 TSA service changes and the changes that have impacted LADOT's Prop A reserves.

DISCUSSION

Since the TSA was approved in 2018, LADOT has launched some Phase 1 elements of the TSA service plan including extended service hours on most DASH routes, the new Sylmar Community DASH route, and the LA Now on-demand pilot demonstration. This year, LADOT also launched the North Hollywood Community DASH service identified under Phase 2 of the TSA. The Department has since delayed aspects of the TSA Service Plan due to driver shortages created by the competitive bus operator industry, further amplified by LADOT contracts that no longer offer drivers prevailing wages.

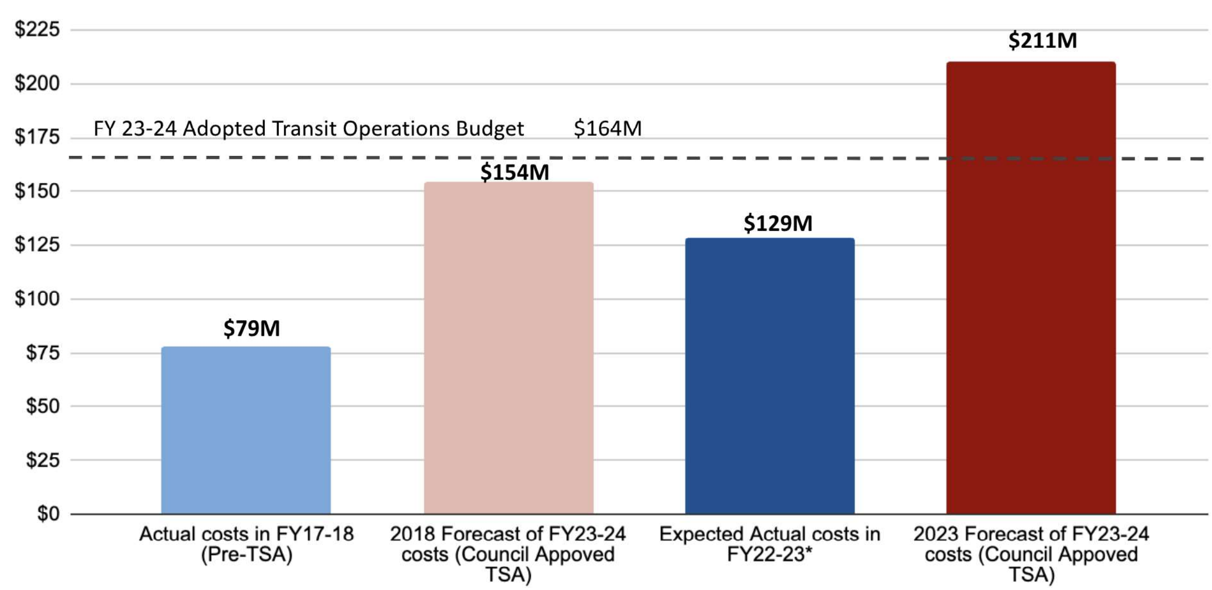
The COVID-19 pandemic created nationwide shifts in the transit industry that have put many agencies on the precipice of a fiscal cliff. These new stresses challenge how LADOT plans and funds transit services generally, and more specifically challenges the Department's budget for planned services using Prop A. As a result, implementing the remaining elements of the TSA is projected to create a deficit in Prop A funding. The three main challenges are 1) the rising costs in essential factors of transit operations and capital, such as driver wages, fuel, and equipment; 2) the ability to respond to shifting ridership demands while maintaining reimbursable revenue from formula funds; and 3) the changing expectations around fare collection. The following examples highlight major costs associated with transit that have increased since 2018, and **Attachment A** describes these challenges in depth.

- **Driver Wages:** In 2018 drivers for LADOT operator contracts were paid $14 an hour as an average starting wage. The starting wage for bus drivers for the Los Angeles County Metropolitan Transit Authority (LA Metro) is $23 an hour.

- **Fuel Costs:** The average CNG cost across LADOT's four maintenance yards has risen by 50 percent over four years (from January 2019 to December 2022). Compressed Natural Gas (CNG) increased 62 percent from 2018 to 2022 in the North Yard.
- **Bus costs:** LADOT spent $469,000 per new bus in 2017, the last time LADOT purchased a CNG-fueled bus while a new battery electric bus is now expected to cost $950,000 per bus. In addition, the initial procurement of battery electric buses (BEBs) has a shorter operable range than the CNG buses they are replacing, which means that LADOT will need to replace at 2:1 ratio for those BEBs that will be serving longer routes.

LADOT prepared an updated financial forecast that estimates what it would cost today to implement the remaining elements of the TSA service plan considering the City's electrification goals, ongoing fare suspension, and the rising operations and capital costs that have broadly impacted the transit industry post-pandemic. **Figure 1** below provides the updated forecasted costs to operate transit services if LADOT were to implement the full TSA Service Plan at the beginning of FY 23-24. This forecast frames 2023 costs relative to how much LADOT spent (in 2018 dollars) to operate transit before the TSA, how much LADOT assumed would spend to operate the full TSA at this point in time when City Council adopted the TSA, and how much LADOT expects to spend to operate transit last year (FY 22-23)[1]. The horizontal line presents the $163.8 million the City allocated to transit operations in the final FY 23-24 Budget, Proposition A Local Transit Assistance (PALTA) Fund.

Figure 1. LADOT Forecasted and Actual Transit Operations Costs (in $ millions)



When the TSA was approved in 2018, the City spent $79 million on transit operations to operate the then existing transit plan and anticipated spending $154 million at this time, in FY

[1]* Since the adoption of the TSA, LADOT has extended service hours to existing DASH lines and launched two new DASH services (Sylmar and North Hollywood) increasing revenue service miles and hours by 12 and 13 percent respectively from pre-TSA service levels.

23-24 to operate the TSA. With LADOT having already implemented some routes and expanded hours, LADOT would have spent $129 million to operate transit in FY 22-23 if fully staffed with drivers. This forecast projects that the Council-approved TSA Service Plan would now cost the City $211 million to operate if LADOT launched the remaining TSA services beginning FY 23-24 including both initiating four new routes and expanding frequencies on all DASH services to 15 minute headways. The increase in drivers' competitive wage and rising fuel costs are a number of factors that have led to an increase in costs to operate the TSA above what LADOT expected in 2018. Of the remaining TSA components, launching remaining routes is expected to cost $20.4 million while adding TSA service frequencies would cost $61.9 million.

Table 1 and **Figure 2** below provide the total line items of the forecast for FY 23-24 considering all revenues the City receives to fund transit operations, transit-related programs, and capital investments; all forecasted expenditures if LADOT were to have initiated the remaining TSA at the beginning of this fiscal year; and the expected end-year balance.

Table 1. Estimated balance FY 23/24	**FY 23-24**
a. Beginning Cash Balance	$ 91,620,000
b. Ongoing Revenue Available for Transit Operations	$ 198,400,000
c. Capital Grant Reimbursements	$ 16,500,000
d. Total Available Revenue (a+b+c)	**$ 306,500,000**
e. Ongoing Operational and Program Expenditures (with TSA)	$ 300,400,000
f. One-time Capital Expenditures	$ 57,200,000
g. Total Expenditure (e+f)	**$ 357,600,000**
h. Adjusted End Cash Balance (d-g)	**($ 51,100,000)**

Categorizing revenue and expenses as either ongoing or one-time is useful in evaluating financial stability since it informs LADOT's expectations of committed revenues available to meet ongoing service commitments as distinct from periodic or one-time capital funding obligations (e.g. electrification) and revenues that the City receives from grants the City pursues to fund capital investments.

Ongoing revenues include:

- the portion of Prop A Local Return distributed to the City based on population;
- the combined formula discretionary funds from Prop A, Prop C, Measure R, and Measure M sales tax and SB1 gas tax that are set aside to pay for transit operations in LA County; and
- transit fares and advertising.

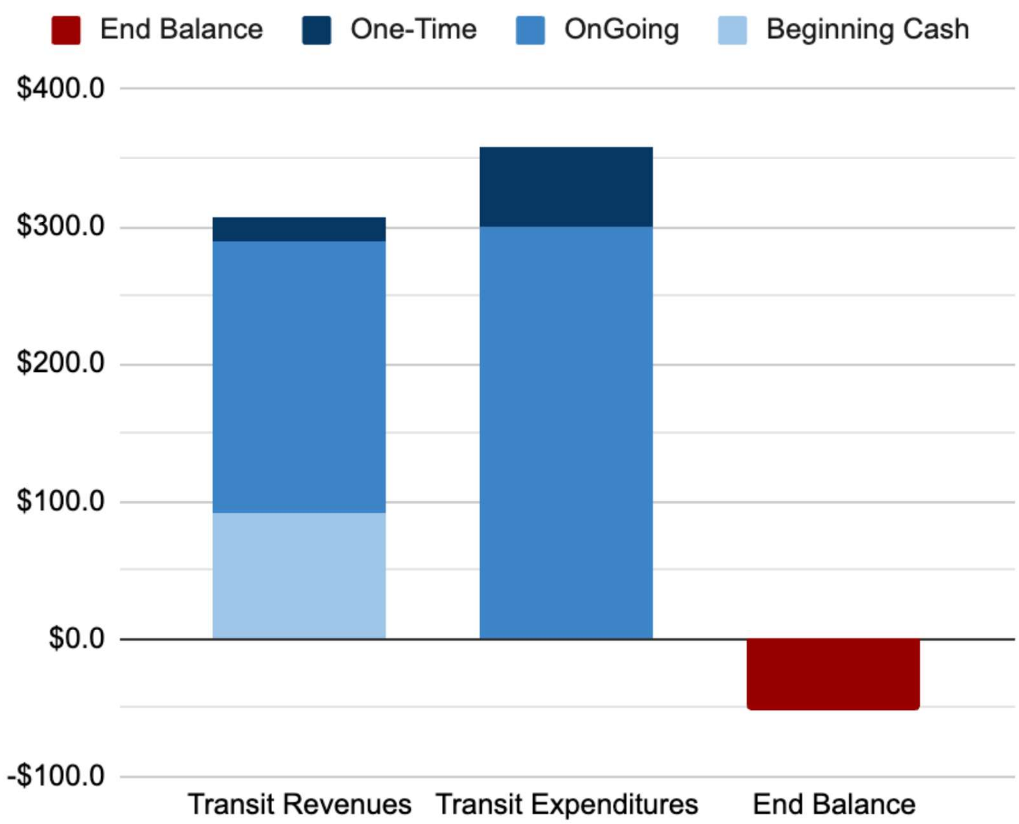
Ongoing expenditures include:

- transit operations; (e.g., running buses, maintaining buses and service yards, etc.); and

- transit-related programs (e.g., transit marketing, local share of Metro rail stations, bike share operations and maintenance, Downtown Streetcar operations, wages and benefits of transit related workers in City Departments, etc.).

Conversely, one-time revenues include formula and competitive state and federal grants that finance transit capital investments, largely on a reimbursement basis, while one-time capital expenditures include electrification infrastructure and replacement of assets, such as buses or maintenance facilities, that are at the end of their useful life.

Figure 2. Forecasted Revenues, Expenditures, and End Balance for FY 23/24 (in millions)

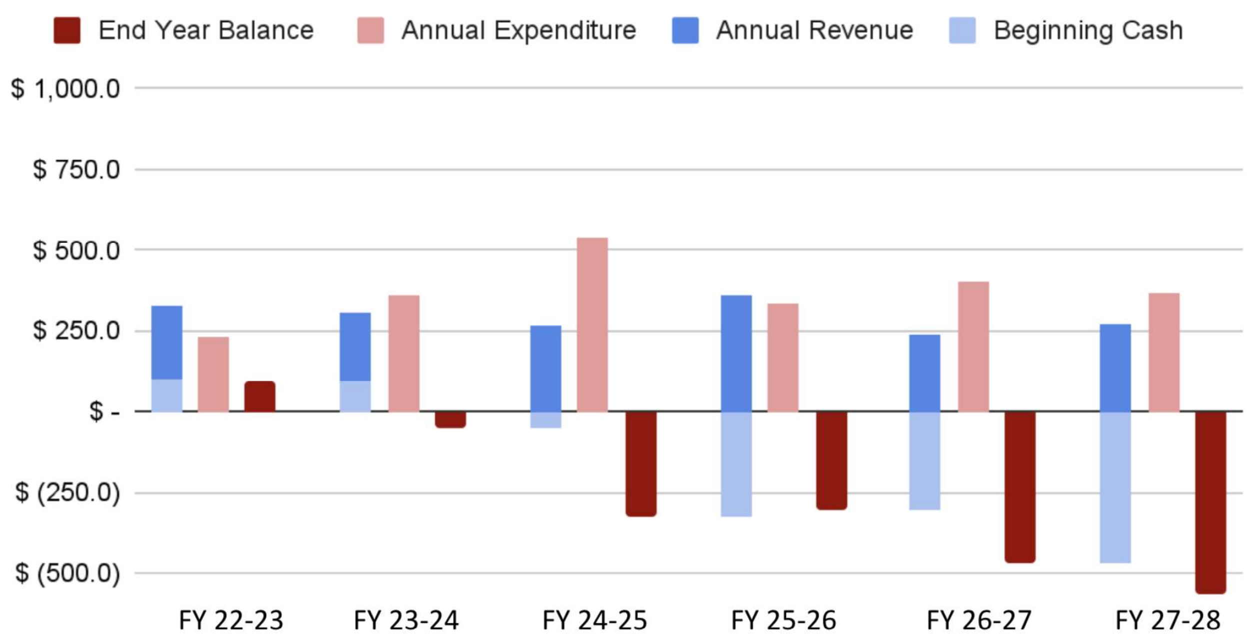


Total transit expenditures would result in a negative $51.1 million cash balance at the end of FY 23-24 if no further adjustments were made to reduce programs costs that the City relies on from Prop A and other transit revenues to fund. **Figure 2** shows the amount of ongoing expenditures exceeding ongoing revenues largely contributes to the structural imbalance. **Table 2** below shows If no adjustments were made to ongoing expenditures (line e. From **Table 1** above) while pursuing the TSA Service Plan, ongoing expenditures would exceed ongoing revenue (line b. From **Table 1** above) by $102 million, which would quickly deplete and run up a negative cash balance.

Table 2 FY 23/24 Forecasted Structural Deficit	**FY 23-24**
b. Ongoing Revenue Available for Transit Operations 2023 Forecast	$ 198,400,000[2]
e. Ongoing Operational and Program Expenditures 2023 Forecast with TSA	$ 300,400,000[3]
Surplus (Shortfall) - 2023 Forecasted	($102,000,000)[4]

Figure 3 below shows the negative balance increasing every year as a consequence of annual expenditures exceeding annual revenues. This forecast assumes the City would spend 70 percent of these expenditures on operator contracts while also continuing to fund other transit-related programs from Prop A. **Attachment B** lists the largest of the other ongoing expenditures, which include programs that compete for Prop A Local Return revenues that the City receives to fund transit. LADOT is seeking direction to reduce the expected ongoing expenditures in order to maintain a positive Prop A fund balance. Various suggestions and options for Council and Mayor considerations to reduce the structural deficit are presented in **Table 3** below.

Figure 3. 6-Year Forecasted Funding Balance (in millions) Assuming Full TSA



[2] LADOT estimates $1.4 million in additional ongoing revenue in this forecast than the $197 million reported in the FY 2023-24 Budget. Metro has awarded additional Prop A funds reserved for 'Tier 2' operator services than Metro originally forecasted in the Draft Formula Allocation Proposal.

[3] This forecast estimates $26.4 million additional ongoing expenditures than the $274 million approved in the FY 2023-24 Budget. These additional ongoing expenditures that this forecast assumes include: reserving funds for operations and maintenance of Downtown Streetcar, LA Now capital and start-up costs, the lease and startup costs of a new transit store, fuel costs associated with operation of recently procured 130 new battery electric buses, in addition to higher costs associated with operating expansion services as approved in the TSA.

[4] The $102 million structural shortfall is greater than the $77 million structural shortfall previously reported in the FY 23-24 Budget. The difference is due to updated assumptions LADOT made of ongoing revenues and expenditures in preparing this forecast. See footnote 2 and 3.

This structure operations imbalance further implies an unsustainable funding shortfall since LADOT also relies on ongoing Prop A revenues to front fund and match both formula and competitive capital grants (considered here as on-time revenues and expenditures) that LADOT needs to electrify the transit fleet by 2028 and replace buses and other transit assets within their useful life. **Attachment B** explains expenditure assumptions LADOT made in preparing the 2023 Forecast. A full 10-year 2023 Forecast, partially represented in **Figure 3** above, is provided as **Attachment C**.

Additional Investment Needs - Electrification and Expansion

That forecasted operational expenditures are above the revenues available from Prop A restricts the ability of LADOT to set aside needed funds for capital procurement. While LADOT relies on State and Federal grants to procure buses and develop and upgrade the maintenance yards, those grants require LADOT to rely on Prop A Local Return to provide the needed matching as well as front funds since they are paid out on a reimbursement basis. The 2023 forecast accounts for the full LADOT Transit's capital funding requirements that are informed by the three following needs:

- Procure more buses and purchase and upgrade facilities to meet LADOT's expanded TSA Service Plan;
- Maintain reliability and safe operation of all transit capital assets; and
- Meet the City's electrification goals as stated in the Mayor's Executive Directive (ED) 25, L.A.'s Green New Deal.

To accomplish these goals, LADOT estimates the following funding needs to fully electrify the fleet through FY 2029-30:

Battery Electric Buses (BEBs)	$495.0 million
Facility Upgrades with Charging Infrastructure	$139.2 million
TOTAL	$634.2 million

LADOT typically relies on a mix of formula and competitive federal grants to procure buses and to upgrade facilities, and most grants require a minimum 20 percent local match. This means that LADOT would need to reserve $126.84 million in local funds from through FY 2029-30 (or $14 million per year) just to cover the local match that is required for Federal Transit Administration (FTA) grants. This assumes that LADOT would completely rely on 80 percent grant funding for electrification and bus procurement. LADOT would need to set aside front funds for the 80 percent to be reimbursed by the grant, which would restrict the use of one-time reimbursable capital revenues from spending on operations and other programs. The need to set aside funds for one-time capital expenses affirms the need to reduce ongoing expenditures by $103.8 million per year to be within the available ongoing revenues. LADOT would need to reserve $5 million per year to cover the 20 percent required local match and reserve a minimum of $16 million continually available to front fund expenditures just to access the formula annual capital 5307 funds that FTA allocates to LADOT, currently estimated at $16 million per year.

NEXT STEPS

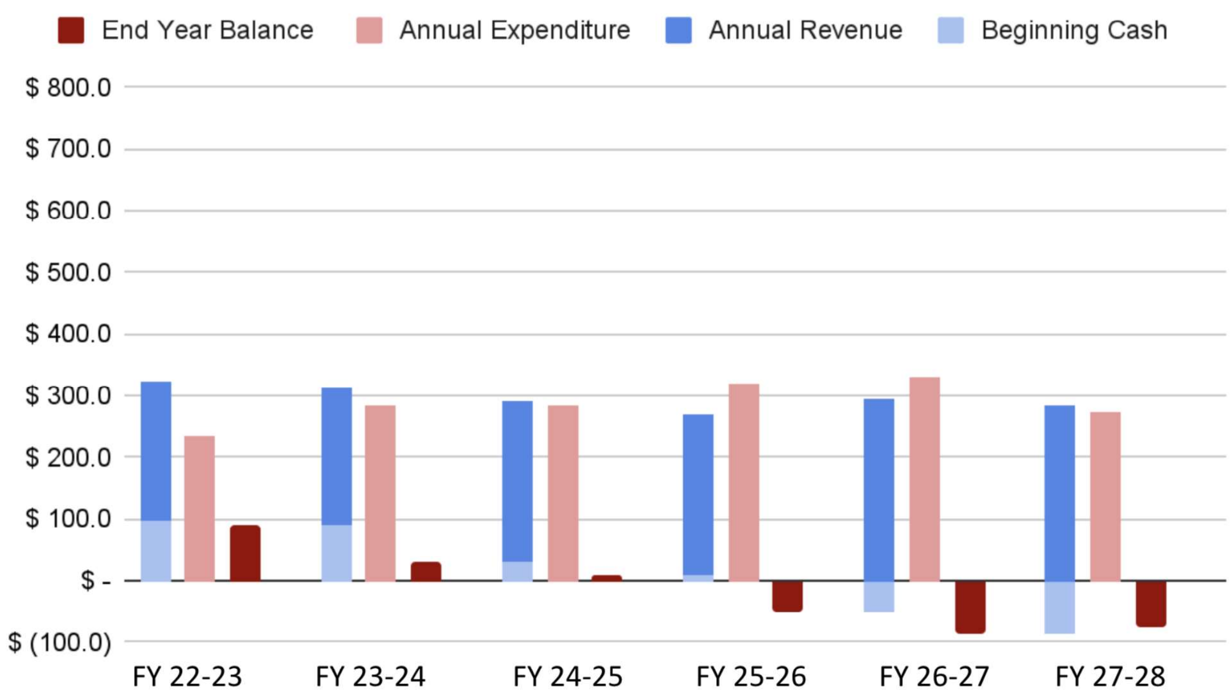
Table 3 lists solutions that LADOT could pursue to reduce fiscal liabilities and restore the health of Prop A. This includes shifting funding obligations of transit-related programs to other fund sources, pausing most of the remaining TSA roll-out, operating a smaller vehicle fleet, and evaluating resuming fare collection on DASH. **Figure 4** below provides an alternative 6-year forecast if LADOT were to implement these options pursuant to City Council direction. Pursuing this direction would not solve the long-term structural imbalance since ongoing costs would still exceed ongoing revenues by $31.3 million dollars in FY 2023-24 alone. However, it would make a sizable impact and would delay when Prop A would see a negative balance to FY 2025-26. Implementing some or most of these solutions would buy LADOT the necessary time needed to conduct a revised TSA and present City Council with a revised transit service plan that most effectively meets the City's transit service goals while not exceeding the ongoing revenues.

Table 3. Estimated Potential Cost Saving Options to reduce the Structural Deficit

Expenditure Adjustment Options	Annual Saving (*unless other noted)
Shift Funding for 3% Measure R Rail Matching Funds	$25 Million
Shift Funding for Bikeshare Operations and Maintenance	$10 Million
Shift Funding Commitment for Downtown Streetcar - Ongoing	$6 Million*
Pause TSA non-grant obligated frequencies and route expansion	$52 Million
Restore DASH fares	$10 Million

*Expenses not currently included in FY 23-24 Budget though were included in the 2023 Forecast

Figure 4. 6-Year Forecasted Funding Balance (in millions) of Implementing Cost Saving Options



See **Attachment D** for more detail of the estimated potential cost saving options to reduce the structural deficit.

The 2018 Forecast predicted that annual LADOT transit expenses required to operate the TSA Service Plan would exceed available revenue by FY 2019-20. The lower cost of running bus service below the contracted operational revenue hours as a result of driver shortages and the one-time infusion of COVID-related federal funds pushed back that timeline. However, LADOT is now under grant obligations to launch services as committed in the TSA and now expects to operate at a large deficit as a result of changes in cost assumptions in fulfilling the TSA Service Plan as outlined in this report. LADOT presents potential options to reduce the forecasted structural deficit of $102 million per year while continuing to cover the costs of operations and other contractual obligations while achieving the City's transit goals, including fleet electrification.

FINANCIAL IMPACT

This forecast assumes that initiating the remaining service commitments under the TSA would result in a negative $ 51 million funding balance in Prop A at the end of FY 23-24 if no further adjustments were made to reduce transit programs costs. This would result in a General Fund impact of about $51 million in FY 23-24 to cover projected transit expenditures, plus additional General Fund impact in future budget years.

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Attachments
Attachment A - Costs Impacts of Pandemic-Related Disruptions to Operations
Attachment B - 2023 Forecast Expenditure Assumptions
Attachment C - 10-Year 2023 Forecast
Attachment D - Estimated Potential Cost Saving Options to reduce the Structural Deficit

Attachment A - Costs Impacts of Pandemic-Related Disruptions to Operations

Rising Operator Costs - Driver Shortages

Driver shortages impact the entire service lines of the LADOT Transit system. Total operational costs are forecasted to increase, partly due to hourly rate increases which are, in turn, due to the need to pay drivers more to operate at the anticipated service levels. Since 2020, changes in labor markets have negatively impacted transit agencies' and operators' hiring and retention rates nationwide, which led to driver shortages for these transit agencies, including LADOT. While LADOT's hourly rates were more competitive when their contracts were executed, they are no longer consistent with inflation and starting wages at competing agencies and are now the lowest in the region. **Table A1** shows the starting driver wages for bus drivers at other comparable operators in the region. The starting wage for bus drivers for the Los Angeles County Metropolitan Transit Authority (LA Metro), the largest operator in the region, is now $23 an hour.

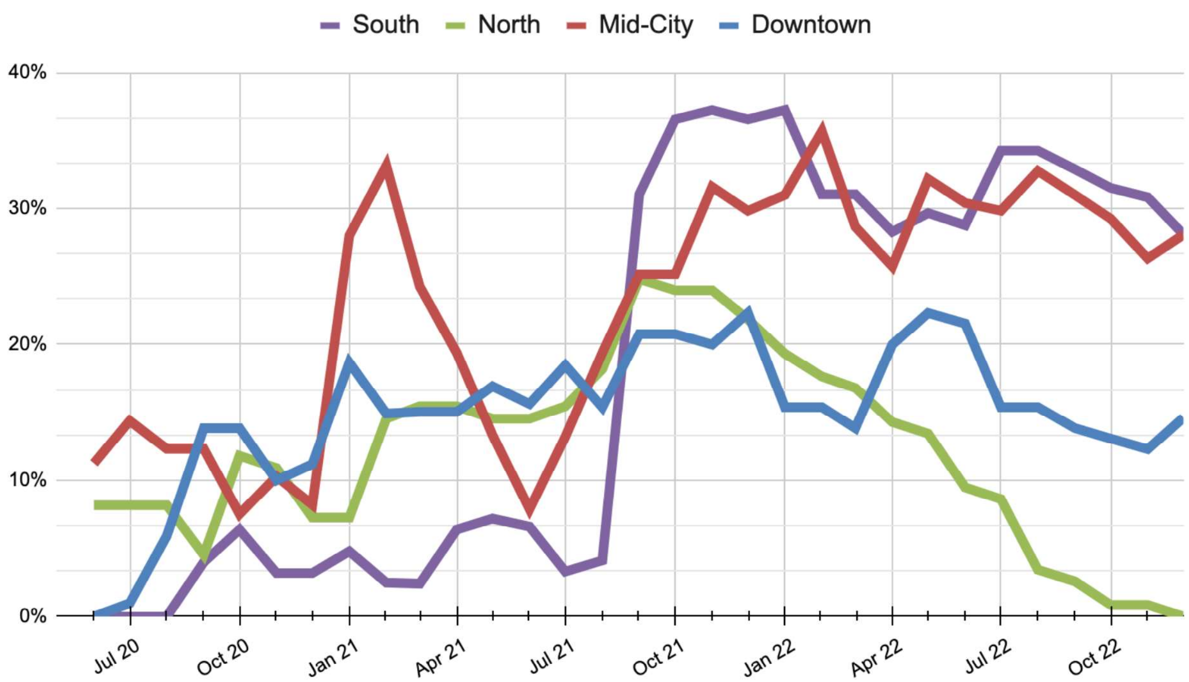
Table A1. Comparative Driver Wage of Regional Operators

Rate	Agency	Year	Type of service
$ 23.00	LA Metro	2023	Fixed
$ 21.00	OCTA	2022	Fixed
$ 22.00	Riverside (Microtransit)	2022	Microtransit (small vehicles)
$ 19.50	Riverside	2022	Paratransit
$ 19.25	LA Access - Antelope Valley	2022	Paratransit
$ 18.00	LADOT Transit	2023	Fixed

Source: Transdev, LADOT, and LA Metro

Most LADOT Transit operating yards continue to be short-staffed, and there are not enough backup drivers available to cover each route, leading to widespread missed trips and delays for riders. Driver shortages peaked in late 2021, with 135 drivers short for December 2021, as shown in **Figure A1** below. LADOT's contracted transit operator, MV Transportation Inc., and its subsidiary relied on various driver recruitment strategies such as sign-on bonuses, attending hiring fairs and events, and providing flexible training schedules. Driver availability improved slightly to a shortage of 92 drivers as recently as January 2023.

Figure A1. Driver Shortages Per Month by Region/Contract (DASH and Commuter Express)



Driver shortages led to a continued rate of missed trips, undermining system reliability for transit riders. From 2020 to 2022, DASH experienced an increase of over a 20-fold (2,043 percent) in total missed trips, with a nearly 9-fold increase (884 percent) in total missed trips for Commuter Express services and a nearly four-fold increase (389 percent) in total missed trips for Dial-a-Ride services. June 2022 was the worst month over the last two years, with 12,634 missed trips for all DASH services.

At the time of the 2018 Forecast, the contracted LADOT Transit drivers were paid $14 an hour as an average starting wage while $18 an hour is the current starting wage. The 2023 Forecast assumes the award of two new operations contracts in FY 2023-24 that include a requirement for a minimum wage of $23 an hour for revenue vehicle operators and accounts for cost differential since FY 2018-19, when the last contract was awarded. For the purposes of this forecast, LADOT has included the differential rates to those current contracts to bring the driver wages that are currently being paid up to the minimum wage of $23, which is supported by a one-time infusion of Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funds.

Shifting Ridership Demand

Following the declaration of a state of emergency due to the COVID-19 pandemic in March 2020, LADOT Transit reduced DASH operating hours, limited passenger capacity on buses, cut the frequency of Commuter Express routes in half and suspended LAnow and a small number of shuttle services and DASH routes (such as short line or special destination versions of other routes). Currently, LADOT is running full service; however, due to the lack of available drivers, an average of 15 percent of scheduled

DASH trips citywide were not delivered, resulting in missed trips and longer wait times for Transit passengers.

Table A2 annual passenger trips from FY 2018-19 to FY 2022-23, which demonstrates the large fluctuation in ridership from before and during the pandemic. Total system-wide ridership in FY 20-21 fell 51 percent from FY 18-19 levels. This decline was not equal in all service lines. Ridership declined 78 percent on all Commuter Express services in this period while ridership declined 49 percent on DASH services on average over this period. Ridership has since started to recover, returning to 80 percent of the pre-pandemic ridership levels systemwide, though the recovery has been slower on Commuter Express services still at 56 percent pre-pandemic ridership levels, which is likely due to employers normalizing remote work policies even as the pandemic has subsided.

Table A2. Annual Unlinked Passenger Trips

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
DASH	17,467,068	12,899,620	8,830,412	12,629,788	14,285,566
Commuter Express	1,563,113	1,109,805	343,617	629,977	873,176
Systemwide	19,289,462	14,270,854	9,400,661	13,491,041	15,424,048

Nationwide, transit providers are grappling with changes in ridership demand, given that telecommuting and returning to work impose changes in demand on the system(s). While most transit agencies intend on returning to full, pre-pandemic service levels sometime after 2023, the services provided may change, with lower demand in employment centers for white-collar workers who may continue to telecommute. However, essential workers, who comprise the majority of LADOT riders, work in person and are likely not to have vehicle access. Their demand for neighborhood travel and connectivity to trunk line services remains steady. At the same time, the Community DASH services that are likely to serve the essential workers the most are not funded equally as compared to Commuter Express services through the portion of Prop A discretionary revenue sources that are distributed to operators, also known as the Formula Allocation Plan (FAP). In effectuating any service adjustments in response to budget limitations, LADOT will need to carefully evaluate the services to identify those that are most essential to maintain system reliability to those who depend on transit the most as distinct from services that have adjusted to a new normal of lower transit demand.

Rising Costs - Fuel and Capital Costs

In addition to drivers' wages, rising fuel costs have contributed to rising costs of transit operations where the average CNG costs across LADOT's four maintenance yards have risen by 50 percent over four years (from January 2019 to December 2022). Compressed Natural Gas (CNG) increased 62 percent from 2018 to 2022 in the North Yard. While rising expectations of higher drivers wages and rising fuel costs lead to rising ongoing operator costs, supply chain shortages and inflation have led to increased cost of buses and equipment LADOT needs to procure to maintain a safe fleet and meet the City's electrification goals. The costs to procure new battery electric buses increased between 12 percent to 47 percent in the last three years. LADOT spent $468,987 per bus in 2017, the last time LADOT purchased a CNG-fueled bus for DASH service while a new battery electric bus for DASH service is now expected to cost $950,000 per bus. LADOT facilities managers are seeing increasing costs to equipment and labor needed to electrify our maintenance yards. Costs for supporting electrical equipment including switchgear, wiring, and transformers increased by 30 to 50 percent between 2020 and 2022. Costs for the chargers themselves increased by 10 to 20 percent over this same period. Labor costs have also increased relative to inflation in the 10 to 20 percent range.

COVID 19 Pandemic and Suspending Fare Collection

In March 2020, LADOT ceased collecting fares on the DASH system as part of efforts to minimize contact between passengers and bus drivers and to help prevent the spread of COVID-19. In FY 2018-19, LADOT Transit collected $12.6 million in total fare-based revenues (including fare reimbursements from other agencies), which was 8.6% of the projected total revenue allocated for transit in the adopted budget. LADOT also collects revenue from other agencies that reimburse the City for their patrons that use their fare media when riding the DASH, including Metrolink, Access Services, and reimbursements through EZ Pass. LADOT received one-time disbursements from the federal government to offset the financial impacts of the COVID-19 pandemic, which include suspending the collection of fares. They include:

<u>FY 2020-21</u>

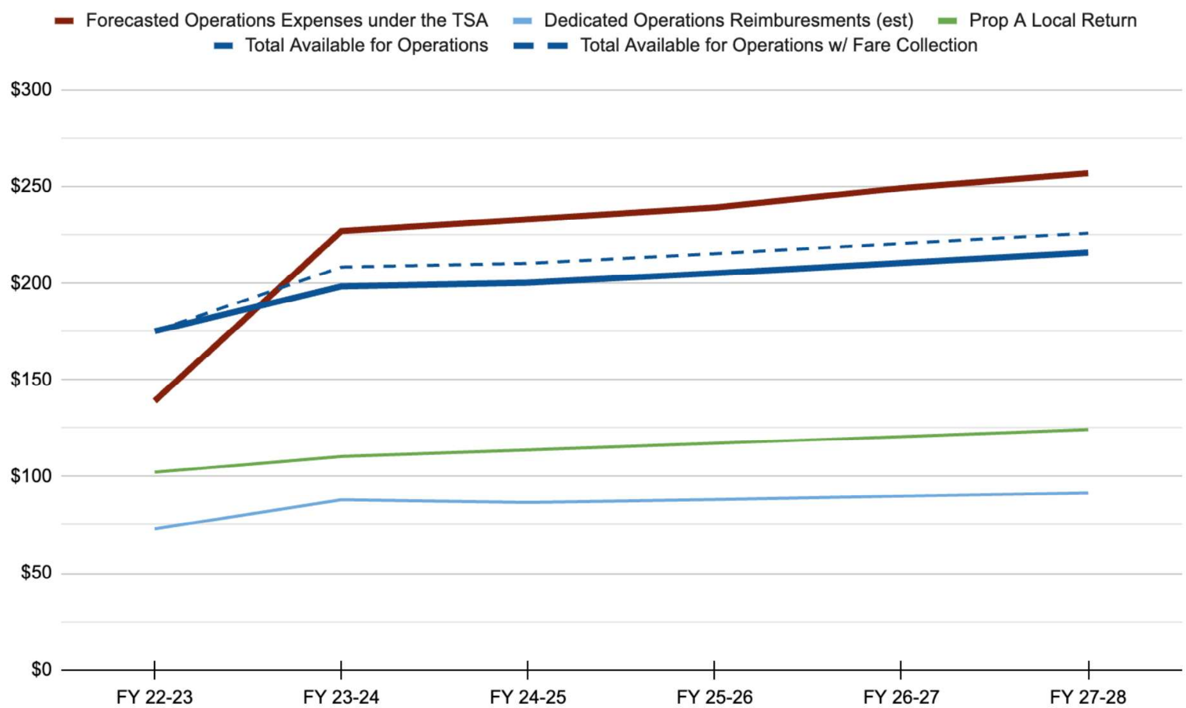
- $15,831,270 in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds

<u>FY 2021-22</u>

- $31,490,569 in American Rescue Plan Act (ARPA) funds, and
- $19,594,100 in Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funds

The suspension of fare collection was intended to temporarily reduce unnecessary contact with essential workers during high periods of community transmission of the COVID-19 virus. The support of the federal government to offset pandemic-related cost impacts were just one-time contributions. In the future, if LADOT does not resume the collection of fares, LADOT would forgo an estimated $12.6 million in total fare-based revenues per year. With or without fare collection, operational expenses are increasing at a faster rate than can be meaningfully addressed by fare collection, as illustrated in **Figure A2**.

Figure A2. Forecasted Operational Expenditures under the TSA and Available Revenue (in Millions)



Attachment B - 2023 Forecast Expenditure Assumptions

The following table lists the largest ongoing expenditures other than those expended on transit operations assumed in this forecast.

Support Programs	**Ongoing Costs on Prop A**
Downtown LA Streetcar	The Prop A Forecast assumed continual allocation of just $6 million a year to pay a portion of Downtown Streetcar operating costs. According to the CAO's funding assumptions in the joint CAO and LADOT 2013 Downtown Streetcar Funding Report (2013 Funding Report) - Council File (CF) 11-0329-S7, the CAO expected it would cost $8.1 million to operate the Downtown Streetcar in FY 2023-24 net estimated fare revenue and the cost would escalate to $11.3 million in FY 2031-32. The City allocated $6 million per year from FY 2016-17 to FY 2019-20, accumulating $24.5 million in Prop A reserves to fund future operations prior to the adoption of the FY 2023-24 Budget.
Measure R Three Percent Match	$25 million per year through FY 2024-25 and then $3 per year through FY 2027-28 when the Agreement (Council File 13-0337) expires
Metro Bike Share Operations and Maintenance	$8.5 million per year for 60 percent funding share of costs

The 2023 Forecast also assumes:

- a driver wage increase to $23 an hour which is the local industry average;
- LADOT will not resume collecting fares on DASH services; and
- the initiation of the new Sylmar and North Hollywood Community DASH services, which were included in Phase 1 and Phase 2 packages in the TSA respectfully and were already in operation for at least a portion of FY 22-23, and
- Metro continues to fund a portion of the operating costs for three services established by the Consent Decree that combined, are a total estimate of $4.5 million annually for the following services:
    - Community DASH Pico Union/Echo Park (Line 601)
    - Community DASH El Sereno/City Terrace (Line 602)
    - Commuter Express 422 - USC to Thousand Oaks (Line 422)

Attachment C - 10-Year 2023 Forecast

PROPOSITION A 10 YEAR FORECAST -- DASH SERVICE IMPROVEMENTS AND PHASE ONE EXPANSION

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2022-23 Estimated	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Cash Balance	**332.1**	**326.7**								
Prior Years Unexpended Appropriations		**(235.1)**								
Adjusted Beginning Cash Balance	**$ 332.1**	**$ 91.6**	**(51.1)**	**(327.6)**	**(302.2)**	**(467.3)**	**(562.9)**	**(643.5)**	**(763.3)**	**(902.6)**
Revenue										
Prop A Sales Tax Receipts (1)	**$ 102.3**	**$ 110.4**	**$ 113.7**	**$ 117.1**	**$ 120.6**	**$ 124.2**	**$ 128.0**	**$ 131.8**	**$ 135.8**	**$ 139.8**
Prop A, MTA reimbursements (2)	$ 67.8	$ 82.7	$ 84.2	$ 85.9	$ 87.6	$ 89.3	$ 91.1	$ 92.9	$ 94.8	$ 96.7
Advertising Revenue	$ 0.8	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0
Other Revenue										
Prop A, Farebox Revenue(4)	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6
Prop A, Farebox Revenue new service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Prop A, Transit Scrip	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2
Interest	$ 3.0	$ 3.1	$ 0.2	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other - MTA Bus Passes	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5	$ 0.5
Salvage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Grants (3)	51.1	16.5	62.8	156.6	25.3	54.2	31.4	11.3	5.4	23.4
Total Receipts	**$ 226.3**	**$ 214.9**	**$ 263.1**	**$ 361.8**	**$ 235.7**	**$ 269.9**	**$ 252.8**	**$ 238.3**	**$ 238.3**	**$ 262.1**
Total Revenue	**$ 558.4**	**$ 306.5**	**$ 212.0**	**$ 34.3**	**$ (66.5)**	**$ (197.4)**	**$ (310.1)**	**$ (405.2)**	**$ (525.1)**	**$ (640.4)**
City Transit Service(5)	$ 139.1	$ 226.9	$ 233.0	$ 239.1	$ 249.2	$ 256.9	$ 260.6	$ 268.8	$ 278.9	$ 287.0
Other Transit Expenditures										
Specialized Transit(5)(6)	$ 29.8	$ 22.4	$ 22.6	$ 23.3	$ 24.0	$ 24.7	$ 25.4	$ 26.1	$ 26.9	$ 27.6
Transit Capital(7)	$ 10.6	$ 57.2	$ 231.9	$ 43.3	$ 96.2	$ 51.9	$ 17.3	$ 31.8	$ 39.2	$ 6.3
Support Programs (8)	$ 46.4	$ 51.1	$ 52.1	$ 30.8	$ 31.4	$ 32.0	$ 30.1	$ 31.4	$ 32.5	$ 31.3
Reserve for Future Transit Services	$ 5.8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Expenditures	**$ 231.7**	**$ 357.6**	**$ 539.6**	**$ 336.5**	**$ 400.8**	**$ 365.5**	**$ 333.4**	**$ 358.1**	**$ 377.5**	**$ 352.2**
Balance	**$ 326.7**	**$ (51.1)**	**$ (327.6)**	**$ (302.2)**	**$ (467.3)**	**$ (562.9)**	**$ (643.5)**	**$ (763.3)**	**$ (902.6)**	**$ (992.6)**
Debt Service					-	$ -	$ -	$ -	$ -	$ -
Balance	**326.7**	**$ (51.1)**	**$ (327.6)**	**$ (302.2)**	**$ (467.3)**	**$ (562.9)**	**$ (643.5)**	**$ (763.3)**	**$ (902.6)**	**$ (992.6)**

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Attachment D - Estimated Potential Cost Saving Options to reduce the Structural Deficit

- *Shift the Metro Measure R Three Percent Local Match Contribution to another fund source and seek credit for the regional projects constructed within City limits which meet the first/last mile criteria - **Current costs of*** **$25 million per year**

  LADOT's Proposed FY 2023-24 budget included $25 million in Prop A funds to meet the City's required local match for Metro as currently negotiated. The CAO could explore other funding sources that could pay for the City's Three Percent Local Match. Furthermore, LADOT has worked with Metro to scope several First-Last Mile (FLM) Plans for stations. LADOT could clarify the FLM investments that would be eligible to count for the Three Percent matching funds the City is responsible to contribute to transit capital projects within City limits funded by Measure R. This Agreement expires in FY 2027-28.

- *Shift the Metro Bike Share Operations and Maintenance to another fund source, such as developer funded incentives - **Current costs of $8.5 million per year***

  Under agreement with LA Metro, the City of Los Angeles contributes 65 percent of costs to operate and maintain the Metro Bike Share system within the City of Los Angeles boundaries. The City could re-negotiate the funding split with Metro that supports operations and maintenance of Metro's bike share system within the City. Another option could be to collaborate with real estate developers to fund to install and operate bike share stations that serve their property. City works with developers through compliance with the California Environmental Quality Act (CEQA), or Transportation Specific Plans to contribute funding to public projects that would address the impacts of their development projects. Once the amended Transportation Demand Management (TDM) ordinance takes effect, LADOT could provide a TDM compliance option for real estate developers to contribute to a trust fund that funds operations and maintenance costs to support a bike share system that serves their projects instead of relying on Prop A.

- *Shift the Downtown Streetcar to another funding source - **Pre-COVID estimated expenditure of $6 million per year to operate service***

  In their joint 2013 Downtown Streetcar Funding Report (2013 Funding Report) - Council File (CF) 11-0329-S7, the CAO and LADOT recommended reliance on Measure R 15 % Local Return funds for a 23 year period, between FY 2016-17 and FY 2038-39, to support on-going operations and maintenance of the Downtown Streetcar. At the time of the 2013 Funding Report, LADOT expected the Downtown Streetcar to begin operating by 2016. The CAO and LADOT recommended against relying on Prop A to fund streetcar operations citing an expected $25.8 million shortfall in Prop A starting in FY 2021-22 that did not include funding the Downtown Streetcar. The 2013 Funding Report also assumed no savings in eliminating Downtown DASH services since the City is able to nearly fund Downtown DASH operations from 40 percent of the Prop A funding that Metro specifically allocates to municipal operators for eligible services, also known as the Funding Allocation Procedure (FAP). Notwithstanding the recommendation, the

City allocated $6 million per year from FY 2016-17 to FY 2019-20, accumulating $24.5 million in Prop A reserves to fund future operations prior to the adoption of the FY 2023-24 Budget.

Prior to resuming Prop A fund annual operation costs of the Downtown Streetcar, LADOT could consider the expected performance of the Downtown Streetcar in a revised assessment of all transit services (revised TSA) that the City could operate relying on Prop A. The revised TSA could evaluate the efficacy of available revenue sources to fund transit services and performance outcomes that consider both adopted City performance metrics and FTA mandated equity criteria relative to all available transit options in the downtown Los Angeles (DTLA) service area. Such analysis should consider changes in transportation demand after COVID-19 pandemic and mobility services that did not exist when Fehr and Peers originally conducted the Streetcar Alternatives Analysis.

- Pause TSA Non-Grant Obligated Frequencies and Route Expansion - ***Cost Saving of $52 million per year***

  LADOT Transit could reduce ongoing forecasted costs by maintaining the current service frequencies and hours of operation. Forgoing non-grant obligated TSA service frequencies and routes would reduce ongoing annual operating costs by $52 million. LADOT has limited options to not pursue the TSA service commitments since LADOT applied and were awarded competitive funds based on operating new services. LADOT is obligated to initiate some new DASH services due to commitments under existing grant agreements.

- *Evaluate impacts of various fare policies* - ***Pre-COVID19 fares were $10 million per year***

  LADOT ceased collecting fares to reduce the spread of COVID-19 amongst riders and drivers. In FY 2018-19, LADOT Transit collected $12.6 million in total fare-based revenues (including fare reimbursements from other agencies), which was 8.6% of the projected total revenue allocated for transit in the adopted budget. If decision makers were to make fareless permanent, LADOT could further evaluate funding options to offset the impacts of going fareless fare. Alternatively, LADOT could reinstate fare collection on DASH services. Ridership on the DASH is currently about 80 percent from pre-pandemic levels, so no more than $10 million should be expected in revenue assuming LADOT reinstates the pre-pandemic fare rates. In either scenario, FTA requires LADOT to conduct a fair equity analysis to ‘evaluate the effects of fare changes on low-income populations in addition to Title VI-protected populations’ (FTA Circular 4702.1B, Chapter IV-19). FTA requires a fair equity analysis of all fare changes regardless of the amount of increase or decrease.

- *Revisit existing transit services using LADOT’s adopted Performance Index Methodology to further adjust low performing transit service, or consider converting the lowest performing fixed schedule services to on-demand services* - ***Cost saving TBD***

  Since LADOT led the 2018 TSA, major forces have impacted service assumptions for LADOT and the transit industry nationwide. The advent of enabling working from home on a regular or part-time basis is now a new normal for significant workforce segments. These trends have disrupted normal commute patterns as known prior to the COVID-19 pandemic with largest impacts to LADOT's Commuter Express services. LADOT should revisit the service analysis to consider optimizing low-performing services in terms of cost-effectiveness (operators' cost per passenger mile) or service effectiveness (passengers per revenue hour) across all it's service lines identifying those that continue to see ridership stagnate based on post-COVID-19 travel trends. LADOT would identify if the City is obligated to execute a transit service regardless of its service performance if it received Local, State, or Federal funds to procure buses to operate the service.

Further, LADOT staff will consider how adjusting transit services may impact the revenues received from Metro through the Formula Allocation Plan (FAP) for operating those services. Some LADOT Transit services are reimbursed by the FAP differently depending on if they are included in services that Metro allows LADOT to include as an Eligible Operator to receive FAP funds, which includes most or all Commuter Express services. In FY 2023-24, formula-based accounts for an estimated 42 percent of funds LADOT receives from Metro that are eligible to be spent on public transit operations. If a revised service plan were to impact LADOT's formula that establishes these revenues, LADOT could engage Metro through participation on the Bus Operators Subcommittee (BOS) to identify mitigating options to stabilize FAP-derived revenue that Metro allocates to LADOT.

Further, LADOT would need to account for future ongoing operational costs needed to operate the Downtown Streetcar as part of the cost assumptions expected to be paid by Prop A if the City seeks to continue to fund Downtown Streetcar operations and maintenance from Prop A.