




**June 17, 2019**

**To:** Members of the Board of Directors

**From:** Jennifer L. Bergener, Managing Director 

**Subject:** Fiscal Year 2019-20 Budget Amendment and Fiscal Years 2019-20 and 2020-21 Business Plan Amendment

### **Overview**

The Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency's Fiscal Year 2019-20 budget and the fiscal years 2019-20 and 2020-21 business plan were approved by the Board of Directors on March 18, 2019. The business plan was submitted to the Secretary of the California State Transportation Agency on March 29, 2019, prior to the April 1 deadline. In order to incorporate the federal fiscal year 2019-20 revenue and expense forecast received from Amtrak on April 1, 2019, the California State Transportation Agency has allowed for a revised budget and resubmittal of the business plan by June 30, 2019, for final approval.

### **Recommendations**

- A. Amend the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency's Fiscal Year 2019-20 revenue and expense budget to reflect the revised Amtrak operating revenue and expense forecast and other adjustments.
- B. Amend the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency's business plan for fiscal years 2019-20 and 2020-21 to reflect the revised budget.
- C. Direct staff to submit the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency revised business plan for fiscal years 2019-20 and 2020-21 to the Secretary of the California State Transportation Agency for approval.
- D. Authorize the Managing Director to make amendments to the Master Fund Transfer Agreement annual supplements for fiscal year 2019-20 operating funds, minor capital improvement projects funds, administrative, and marketing funds.
- E. Authorize the Managing Director to approve total advertising expenditures to exceed \$100,000 in Fiscal Year 2018-19 and Fiscal Year 2019-20 each with Facebook and Google for digital ad placements.

### ***Background***

On March 18, 2019, the Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) Board of Directors (Board) approved the LOSSAN Agency's annual business plan for fiscal year (FY) 2019-20 and FY 2020-21 (Business Plan) including the LOSSAN Agency FY 2019-20 budget. Included in both the adopted budget and the Business Plan is funding for administrative and marketing services in the amount of \$6,878,548, as well as \$36,220,600 for net train operations (including estimate for additional round trips, cost sharing revenue for retimed trains and transit connectivity programs), and \$500,000 for minor projects. The adopted budget also includes revenues and expenses related to grant programs in the amount of \$12,000,000. The adopted budget included in the business plan for Amtrak operations was based on preliminary cost estimates available at the time of adoption and consistent with Board approved budget assumptions.

The LOSSAN Agency received Amtrak's Federal FY (FFY) 2019-20 operating revenue and expense forecast on April 1, 2019. Based on updated information provided in the forecast, as well a separate estimate Amtrak developed for an additional round trip between San Diego and Los Angeles, the LOSSAN Agency seeks to amend its FY 2019-20 budget and the FY 2019-20 and FY 2020-21 Business Plan for final submittal to the California State Transportation Agency (CalSTA).

### ***Discussion***

The LOSSAN Agency's FY 2019-20 adopted operating budget includes \$28,829,491 for net Amtrak operating costs. This amount reflects \$119,652,691 in total Amtrak operating expenses, less \$90,823,200 in total revenue. In addition, the operating budget includes an estimate of \$8,388,384 for additional roundtrips (13<sup>th</sup> roundtrip between San Diego and Los Angeles, 6<sup>th</sup> roundtrip between San Diego and Goleta, and a 3<sup>rd</sup> roundtrip between San Diego and San Luis Obispo), and \$180,000 for emergency bus bridge services and the continuation of the transit transfer program. The budget also includes a revenue contribution of \$1,177,275 from the Santa Barbara County Association of Governments for the estimated cost of re-timed trains to facilitate the morning peak-period service. Additional expenses and revenues for \$500,000 are included for minor capital projects, consistent with prior year approved amounts.

The FY 2019-20 adopted budget includes \$4,878,548 for administrative services and \$2,000,000 for marketing services. Additionally, the budget includes \$12,000,000 for various grant programs.

### **Proposed Budget Amendment**

A budget amendment for FY 2019-20 is proposed in order to incorporate the FFY 2019-20 Amtrak operating forecast. The total proposed amendment reflects a reduction in net Amtrak operating expenses and State funding for net Amtrak operating expenses of \$5,699,592. This includes an increase to net operating costs of \$1,573,972 by incorporating Amtrak's forecast. It also includes a decrease to the original 13<sup>th</sup> round trip estimate (which included a full round trip to San Luis Obispo) at \$8,388,384 down to \$1,114,820. Amtrak provided a separate estimate for the 13<sup>th</sup> round trip between San Diego and Los Angeles, with a net cost of \$1,114,820. While it is the intent of the LOSSAN Agency to implement the additional round trip service north of Los Angeles to San Luis Obispo, staff will come back to the Board for additional budget authorization once host rail road approval is granted and necessary equipment is identified to extend the service. The FFY 2019-20 operating forecast was created by Amtrak using FFY 2018 actuals, which includes a 0.7 percent revenue increase and overall route cost increase of 4.2 percent from FFY 2018.

Additional proposed changes in operating expenses for FY 2019-20 include a reduction of \$20,000 for the continuation of the transit transfer program. The LOSSAN Agency has been given approval to use remaining 2016 Transit and Intercity Rail Capital Program (TIRCP) grant funds for the continuance of the program through December 2019. State funds will be needed to continue the program through the end of the fiscal year, which is estimated to be \$40,000 and included in the transit connectivity and integration budget (the adopted budget included \$60,000).

Proposed changes to the FY 2020-21 budget are estimated based off the FY 2019-20 adopted budget and proposed changes. The FY 2020-21 budget will be brought to the Board for annual approval as part of the FY 2020-21 and FY 2021-22 Annual Business Plan.

### **Administrative Funds**

The proposed FY 2019-20 budget amendment for administrative expenses is an increase of \$360,000 which includes \$210,000 in professional services to be re-budgeted for the San Diego County layover and maintenance facility study. The increase also includes \$127,000 to allow for the ability to hire the remaining three vacant positions at a salary between midpoint and top of range, as well as insurance (\$15,000) and travel (\$8,000) increases. This will give maximum flexibility to attract the most qualified staff in today's competitive market. The increase in insurance and travel line items are due to the increase in the level of staff over previous fiscal years. Funding from the State will be requested for the \$210,000 needed to roll over or re-budget the funds already approved by the State for the San Diego County layover and maintenance facility study. The remaining

proposed increase in administrative services of \$150,000 will be fully funded by interest earnings.

The proposed FY 2019-20 budget amendment for marketing revenues and expenses is an increase of \$1,450,000, for the use of prior year marketing roll over funds. The use of these funds will include a broad range of activities from communicating critical rider information and engaging with audiences through various channels to launching new service promotions and working to increase revenue related to key business objectives. Additional marketing staff focuses will be on promoting Pacific Surfliner ridership by implementing programs designed to strengthen the Pacific Surfliner brand, build a strong online presence, improve the customer experience, add value for passengers, and leverage strategic partnerships. The use of marketing prior year roll over funds have been previously approved by the State and included as part of the FY 2019-20 budget assumptions.

#### Grant Programs

The proposed FY 2019-20 budget amendment for grant programs revenues and expenses includes an increase of \$1,567,000 associated with TIRCP grant programs. The estimated increase is for host railroad incentive and maintenance agreements, which will be funded by TIRCP grant revenue. The budget amendment also includes a reduction of \$1,500,000 in both revenues and expenses associated with the central coast layover facility expansion project for FY 2019-20, which is re-budgeted in FY 2020-21 due to the project schedule.

A summary of the proposed FY 2019-20 budget amendment is presented in Attachment A, and a summary of the overall proposed FY 2019-20 and FY 2020-21 Business Plan amendment is presented in Attachment B. The proposed amendment to the Business Plan for FY 2020-21 reflects increases in operating expenses, revenues, and administration funding consistent with FY 2019-20 budget assumptions. The FY 2020-21 annual budget will be brought to the Board for annual approval as part of the FY 2020-21 and FY 2021-22 Annual Business Plan.

The LOSSAN Agency bylaws authorize the Managing Director to make disbursements of funds up to \$100,000 each, or as otherwise directed by Governing Board resolution. The LOSSAN Agency places digital advertisements with Google and Facebook on a monthly basis, and while individual monthly payments are under \$100,000 each, the cumulative payments made in a given fiscal year will likely exceed \$100,000. Moving forward, the LOSSAN Agency will include authorization for the Managing Director to approve total advertising expenditures to exceed \$100,000 for Google and Facebook on an annual basis with the approval of the annual fiscal year budget.

***Summary***

The proposed Fiscal Year 2019-20 proposed budget amendment decreases the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency Fiscal Year 2019-20 net operating revenue and expense budget by \$5,719,592 (which includes \$5,699,592 in net Amtrak operating expenses and State funding for net Amtrak operating expenses, as well as \$20,000 for transit connectivity and integration). The proposed amendment increases administration revenues and expenses by \$360,000 (which includes State provided funding increase of \$210,000 plus interest revenue increase of \$150,000), as well as increases marketing revenue and expenses by \$1,450,000 due to the use of prior year surplus. The proposed amendment also increases net grant revenues and expenses by \$67,000. Upon Board approval, an updated Fiscal Year 2019-20 and Fiscal Year 2020-21 Business Plan will be submitted to the California State Transportation Agency.

***Attachments***

- A. Fiscal Year 2019-20 Proposed Budget Amendment, Revenues and Expense Detail
- B. Fiscal Year 2019-20 and Fiscal Year 2020-21 Proposed Business Plan Amendment

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