INTER OFFICE MEMO

To: Administration & Finance Committee **Date:** September 24, 2020

From: William Churchill, Assistant General Manager of Administration **Reviewed by:**

SUBJECT: Conducting Scenario Planning in reaction to Challenges Presented by the COVID-19 Crisis

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Background:

In September staff presented the board with an update to the FY21 budget demonstrating sales tax revenues for the final quarter of FY20 came in at forecasted levels. The FY21 budget was developed in part using MTC projections that assume TDA would be down 25% and STA would be down 40% as compared to FY20. Should these projections become reality the Authority would likely have to cut services provided at a volume similar to the cuts in response to the economic disaster of 2008. However, since fourth quarter FY20 revenues remained strong and there is little to no data informing staff regarding the first and second quarters of FY21 it is impossible to know exactly what the financial prognosis truly is. Additionally, LA Metro in working with their county has been actively evaluating sales tax data which suggest their shortfall will be closer to 11%.

Since it is impossible to know how long the pandemic will persist and our ability to effectively gauge its negative impact on our local and state economies combined with the uncertainties of potential financial relief provided by state or federal governments, the Authority is faced with an unknown future. It was suggested that staff examine the potential for scenario planning to help contend with such an obscure future.

Staff has prepared this document to examine the potential for scenario planning: developing a robust set of service plans to match multiple future outcomes. It must be noted that such an endeavor would require significant time and effort similar in scope to the development of the Short Range Transit Plan (SRTP).

Service Assumptions:

Staff has developed three primary scenarios for the Boards consideration for further examination with the goal of capturing the most likely future financial outcomes and how the Authority could deal with them. The categories are driven from a perspective of financial health and are broken into three categories:

1. The Authority is Financially Healthy
2. The Authority is financially strained requiring service reductions
3. The Authority is in profound financial trouble

In evaluating the approach in the first two scenarios staff has made a number of fundamental assumptions, a goal of financial health through FY 2026 while maintaining a TDA reserve and maintain a justifiably sufficient service to the community. In addition, these scenarios recognize there is a foundation of expenses that cannot be decreased such as the PERS retirement liability, Workers Compensation, General liability premiums, open claims, utility expenses and others. It should also be noted staff has determined it is not viable to seek a Bridge Loan since the Authorities primary revenues are generated from sales tax not property tax.

The third scenario assumes there is insufficient revenue to warrant the continuation of operations and examines the potential for the dissolution of the Authority. Staff assumes bankruptcy is not an option since PERS represents the only real creditor to the Authority, therefore there is no real financial advantage to seeking such an option.

Scenario I – Generally Everything is Fine:

This scenario assumes TDA and STA revenue shortfalls do not drop nearly as much as the budget forecast predicts. For example, if TDA and STA lose 5% and 10% respectively and if the Authority receives more state or federal funds, currently not authorized, combined these two situations could negate the need for any service reductions for the next four years. Staff anticipates we will know by December what the TDA and STA revenues will likely be.

Although additional federal revenue is not likely to come this year, if at all, it is important to know as of Monday September 28th the House has introduced another stimulus package containing $32 billion for transit. If this bill becomes law the Authority would receive a similar amount or greater than the $11.8 million received from the CARES Act. If not passed this year there is a chance it could pass by February making Scenario I a possibility.

Given the current FY21 budget forecast the Authority would require approximately $25 million to remain financially healthy through FY26 while maintaining our normal non-COVID service levels. This does not take into account the significant reduction in expense in FY20 nor the ongoing reduced service levels in FY21 resulting from COVID-19.

Scenario 2- Revenues are significantly Eroded and Significant Service Reductions are Inevitable

This scenario assumes that a state or federal bailout is not forthcoming and the two primary sources of revenue, TDA and STA, have been significantly reduced from pre-COVID projections. Staff has broken this scenario into three potential proposals:

1. Significant Reduction: close to 30,000 fewer revenue hours.
2. Large Reduction: over 40,000 revenue hours reduction.
3. Extreme Reduction: close to 60,000 revenue hours reduction.

The previously described options prioritize essential services based on current regional efforts as well as retains all pre-COVID school services.

Since the current budget forecast assumes the MTC projections for both TDA and STA, staff has already advanced Scenario 2 to O&S to begin the public process preparing the way for service reductions.

Scenario 3- Revenue Shortfall Assumptions are Correct or Worse with no Additional Financial Assistance: Required Service Reductions are so Extreme that County Connection may not be viable

This Scenario assumes the revenue assumptions are correct, a transit stimulus package is not approved and the Authority does not immediately implement service reductions leading to a situation where so little service could be provided as to question the viability of continuing to operate.

In this scenario, staff assumes there will be insufficient funds to make payroll by late summer or early fall 2022. To fully ferret out all the required steps and components of implementing such a scenario will require significant support and legal advice from the County Connection legal team. Staff is currently not in a position to advise the board on some of the legal nuances that would be required to resolve issues such as ongoing PERS retirement liability as well as FTA ramifications for the liquidation of assets purchased with federal dollars prior to being fully amortized. The following expenses would continue assuming no service is provided until dissolution is resolved:

1. PERS – will vary pending on remaining staff but a minimum of the Unfunded Actuarial Liability which is $538K in FY 2021 and is expected to grow $200K annually.
2. Insurance – will vary but will still have workers compensation and general liability premiums and open claims to resolve.
3. Utilities – will vary but currently around $365K for electric, gas, water and phones

Additionally, the board would have to contend with a number of greater policy decisions regarding disposition of the Facility, should the facility be sold, leased or given to another transit authority with the goal of restoring transit services sometime in the future.

It is important to recognize that a complete shutdown of the system will come with a number of significant expenses, a layoff is generally coupled with a severance package, significant attorney expenses as well as a robust public process and marketing effort to inform the public of the cessation of services to name a few. Staff would begin the process of working with the three bargaining unions to implement layoffs in January of 2022 and then identify a small team that will be responsible for the following efforts:

1. Implementation of a formal Public Process
2. Development of a Marketing effort
3. Vehicle Disposal
4. Disposal of maintenance Equipment, computer equipment and furniture
5. Disposition of facilities (i.e. would facilities be offered to another transit Authority with the goal of providing services in central county at a future date)
6. Legal efforts related to dissolution of JPA, ongoing PERS liability expenses

Leveraging the Scenarios:

Under each of the previously mentioned scenarios there are things the Authority can control and things that cannot be controlled. In addition to what the Authority can control staff has identified a number of tasks worthy of continued effort:

1. Lobby state and federal legislators to provide more funding to avert service reductions
2. Work with funding partners to help support their goals in order to receive some of their flexible funding to support Authority services
3. Leverage County and member jurisdiction social and economic goals by reorienting our services to meet those needs

To what extent these efforts will help our financial outlook will require further discussions with a number of organizations, legislators and partners likely taking many months if not years to completely develop.

Options:

1. Provide staff with feedback and forward to the full board for discussion
2. Provide staff with feedback and refer back to the committee for further discussion and staff direction
3. Receive staff report and take no further action

Financial Implications:

Financial implications depend upon which scenario's are developed and ultimately pursued as previously listed. In order to help determine which scenario would be chosen a dashboard of indicators will be created, maintained and provided to the committee on a regular basis.

Action Requested:

Staff requests the committee discuss this report and choose one of the prior mentioned options.

Attachments:

None