

**Board Report**

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**FINANCE, BUDGET, AND AUDIT COMMITTEE
NOVEMBER 21, 2024**

SUBJECT: PREPARATION FOR INITIATING THE FY26 BUDGET DEVELOPMENT PROCESS

ACTION: ORAL REPORT

RECOMMENDATION

RECEIVE oral report on the preparation for initiating the FY26 budget development process.

ISSUE

This report will give an assessment on the key developments in the cost growth drivers for Metro Transit since the March 2024 Special Board Workshop. This, along with an assessment of sales tax revenues, will be incorporated in the near-term outlook in January as Metro advances its preparations in developing the FY26 Budget.

This year's annual budget development process will aim to address some of the critical challenges raised during the workshop and lay the foundation for the implementation of the Equitable Zero-Based Budgeting (EZBB) process.

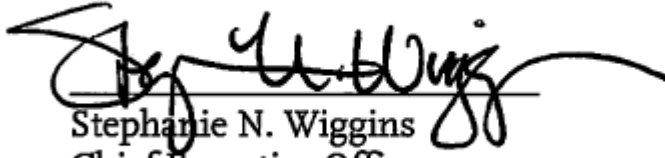
EQUITY PLATFORM

As we move forward with the development of the FY26 Budget, our commitment to equity will continue to guide our approach and decisions. While addressing public safety, cleanliness, system expansion, labor equity, and environmental sustainability, we strive to create a transit system that is not only efficient and safe but also inclusive and equitable for all Los Angeles residents and riders. In the coming months, as we look at our seven cost drivers, we will make sure to consider impacts, especially to riders and marginalized communities, and seek options that maximize benefits for them.

Additionally, Metro's EZBB processes will undergo enhancements following the recent awarding of a contract for an Agency-wide Budget Equity Assessment. The assessment will refine Metro's budget tools and process to better incorporate both procedural and distributional equity considerations, extending beyond the analysis of impact or proximity to Equity Focus Communities (EFCs).

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PREPARATION FOR INITIATING THE FY26 BUDGET DEVELOPMENT PROCESS

Finance, Budget and Audit Committee

November 21, 2024



Meeting Agenda

- FY24 Year End Preliminary Budget Results
- Metro Transit Cost Growth Drivers
 - Recap
 - Assessment
- Transit Infrastructure Development
- Other Programs
- Revenue Assessment
- Next Steps

FY 2024 Year End Preliminary Budget Results

- FY24 Preliminary net results total nearly \$403 million, which is mostly attributed to:
 - **Capital Projects:** project delays and invoice timing in MM, MR, Highway Multimodal, and Regional Rail projects. Majority of the projects are dedicated Ordinance projects with committed funds and cannot be repurposed without explicit Board authorization.
 - **Regional Allocations, Operations, and Debt:** invoice timing from local agencies and contractors, delays in drawdowns of regional subsidies; principal and interest payments were lower due to bond refunding and no new issuance of short-term notes for Debt Service.

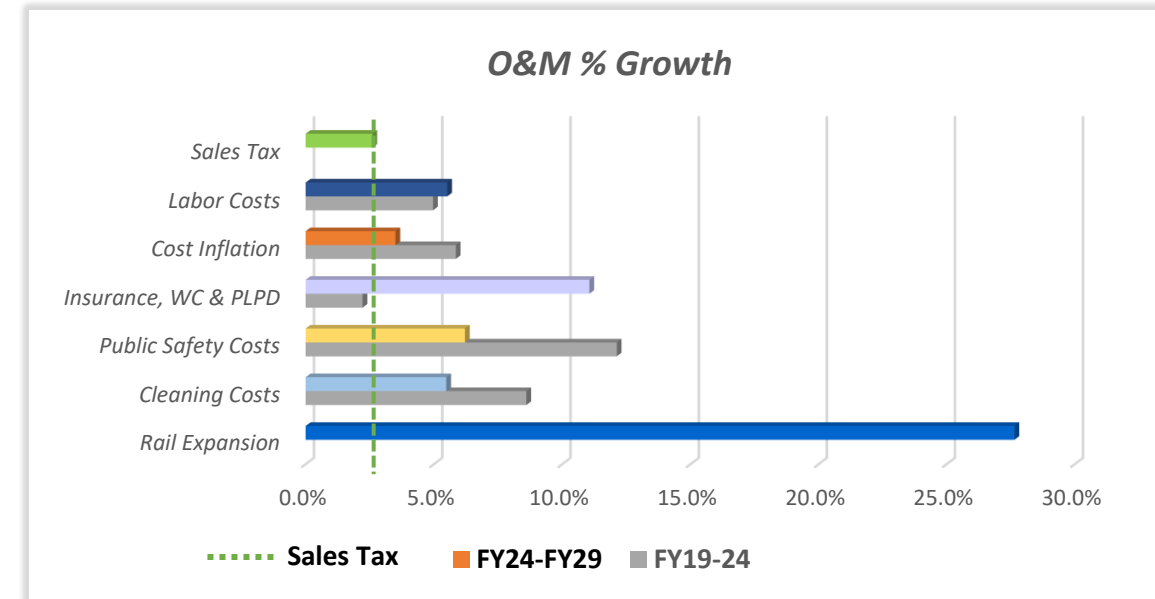
Revenues/ Expenses (\$ in millions)	YTD June 30, 2024			
	Budget	Actual	Variance	% of Budget
1 Sales Tax and Operating Revenues	\$ 5,963.1	\$ 5,769.5	\$ (193.6)	96.8%
2 Reimbursement Revenues ¹	3,385.3	1,982.4	(1,402.9)	58.6%
3 Total Revenues	9,348.4	7,751.9	(1,596.5)	82.9%
4 Total Expenses/Expenditures	9,348.4	7,349.1	1,999.3	78.6%
5 Net Total/Results	\$ -	\$ 402.8	402.8	

¹ Includes federal, state and local grant, bond proceeds, and prior year commitments.

Cost Growth Drivers for Metro Transit Operations from Board of Directors Workshop (Mar 2024)

- At the March Board of Directors workshop, Metro presented its Near-Term outlook on Metro Transit Operations & Management (O&M) and the following significant cost growth drivers:

- Labor costs
- Cost inflation for parts, fuel, power and contract services
- Insurance, Workers' Comp and PLPD
- Public safety
- Cleaning
- Rail expansion



- Historical growth rates have been trending up and are expected to grow over the next five years
- Every cost growth driver is anticipated to grow at a faster rate than sales tax revenues
- The forecast includes recent cost control measures from Equitable Zero-Based Budgeting (EZBB) process

Assessment of Major Cost Growth Drivers

Labor Costs and Collective Bargaining Agreements

- New CBAs with ATU, TCU, and AFSCME

System Expansion

- LAX/Metro Transit Center
- Launch of new Aviation/Century station
- Metro Center
- Rail to Rail

Cleanliness and Station Experience Expansion

- Lighting and Ventilation
- Surveillance systems
- Elevator Open Door Program
- Restroom facilities

Public Safety Update

- Transit Community Public Safety Department
- Concealed Weapons Detection Pilot Program
- Fare Enforcement: Tap-to-Exit and Taller Fare Gates Pilot



WC, PLPD and Insurance Market Premiums

- WC Division partnering with Bus Operations, Corporate Safety, and the Return-to-Work Program
- Return-to-Work program has enhanced transitional duty opportunities
- Request for Proposal (RFP) for insurance services to mitigate cost of insurance driven by hard market

Zero-Emissions Bus (ZEB) and Infrastructure

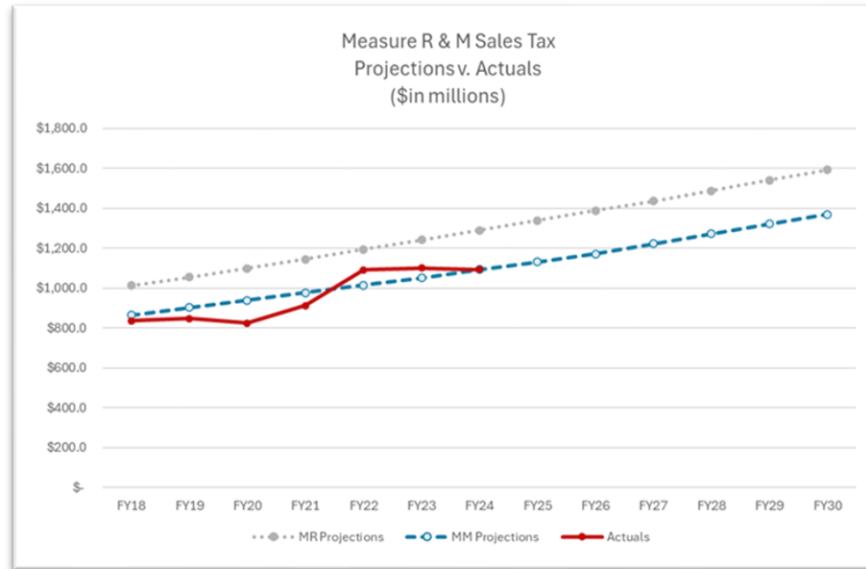
- Request for Proposal (RFP) to procure 1,980 zero-emissions buses (ZEBs) and related infrastructure by 2035

Major Capital Project Risks

- Ongoing management of cost escalations in major capital projects
 - Scope modifications
 - Schedule changes
 - Project close-out risks

Transit Infrastructure Construction

- Annually assess the financial risks stemming from Transportation Infrastructure Development (TID) as it continues to build out the ordinance approved major construction projects



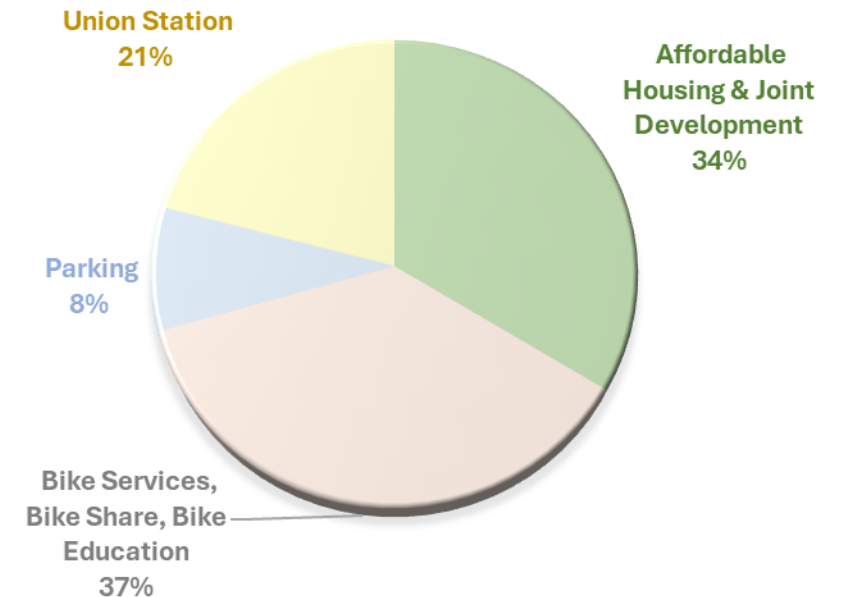
Actual to MR/MM Ordinance Projections

- MR actuals below ordinance projections by \$2.3B since inception FY10
 - MM actuals are closer to ordinance projections, falling short by over \$136M from FY18 (inception) through FY24
- The Agency conducts regular project reviews to mitigate the challenges of cost escalations that stem from TID programs due to:
 - Scope modifications
 - Schedule changes and
 - Project close-out risks
 - Metro continues to compete for capital investment grants, which are not always awarded and often include operational and local match funding requirements

Other Programs Impacting Metro Transit Funding

- Metro utilizes resources for a wide range of activities that support the goal of delivering improved mobility, sustainability, and financial and technical support to Metro's partners throughout the Los Angeles County region
- Programs that do not have sufficient dedicated funding and compete with Metro Transit for funds include:
 - Affordable housing and joint development efforts
 - Metro's bike and active transportation program
 - Operating and maintaining Union Station
 - Parking
- **2028 Olympic and Paralympic Games:** Metro is dedicated to balancing investments for the 2028 Games while improving the quality of transportation services for the community

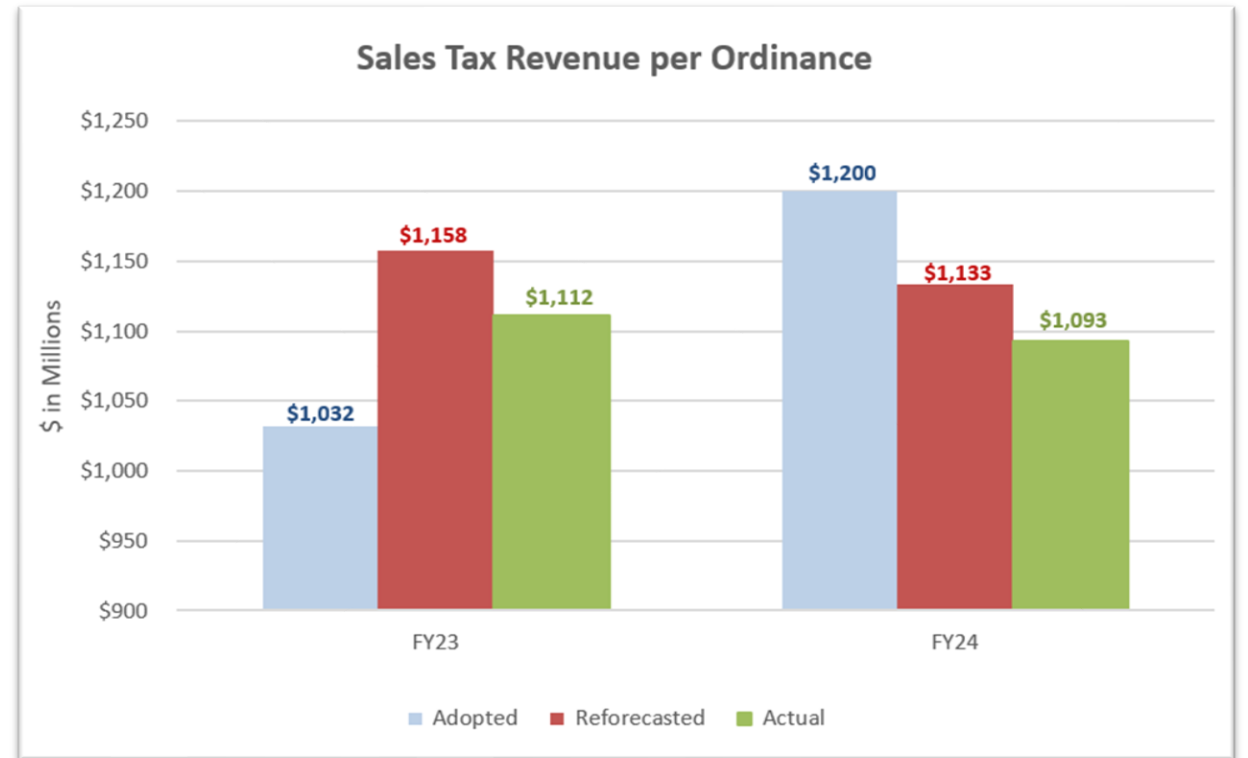
Other Program Costs



Revenue Assessment

FY24 Year-End Actual Sales Tax Receipts

- **Adopted Budget:** \$1,200 million (per ordinance)
- **Reforecasted:** \$1,133 million
- **Actual Receipts:** \$1,093 million
 - 3.5% below Reforecast
 - 8.9% below Adopted
- **Factors contributing to Lower Sales Tax Revenue**
 - Aggressive interest rate hikes by the Federal Reserve to combat persistent inflation
 - Increased borrowing costs for consumers and investors
 - Decline in countywide population
 - Political uncertainties impacting economic stability
 - Rising unemployment rates contributing to a slowing economy



FY25 Budget Sales Tax Update

- **Adopted Budget:** \$1,156 million (per ordinance)
- **Projected Year-End Range:** \$1,040 - \$1,130 million (Expected to fall 2% to 10% below budget)
- The projection for FY26 to FY30 will be conducted once the second quarter FY25 data becomes available, which is anticipated in January 2026.

Next Steps – January 2025



Updated Near-Term Financial Outlook

- Major Cost Drivers
- Revenue Projections



FY26 EZBB Development Process and Schedule



FY26 Equity Budget Tools



Public Outreach and Engagement