



Board Report

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FINANCE, BUDGET, AND AUDIT COMMITTEE SEPTEMBER 18, 2025

SUBJECT: ADDRESSING THE FISCAL CLIFF - WORKPLAN FOCUS AREA: GENERAL FUND

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE report on Workplan Focus Area: General Fund.

ISSUE

The General Fund is the most flexible funding source available for Metro and can be used to fund projects and programs that are not eligible to be funded by federal, state, and local sales taxes available to Metro. This group of funds has few legal restrictions, commitments or designations for specific uses or purposes. The General Fund is in a downward trend with a projected deficit of \$82.3 million at the end of FY26 and will continue to fall to \$250.6 million by the end of FY30.

With limited resources to mitigate this deficit, other flexible funding sources, like fare revenues and advertising that is prioritized for operations will be needed to replenish the General Fund shortfalls.

BACKGROUND

Metro's prior year near-term forecast signals financial challenges in Metro Transit operations with a cumulative financial gap in Metro Transit of \$100 million by FY27, that grows to \$2.3 billion by FY30 due to major cost drivers projected to outpace sales tax revenue growth under current economic assumptions. Metro will be updating the Near-Term Forecast in January 2026. In addition, Metro is faced with large increasing capital project costs which further aggravate the financial challenges ahead.

At the April 2025 meeting, the Chair of the Finance, Budget, and Audit Committee, Director Sandoval, asked staff to develop a workplan for addressing the fiscal cliff. This report is one of the deep dives to help inform the Board of the challenges Metro is facing with the General Fund. In addition, this report also provides follow-up from requests from the June 2025 Finance, Budget, and Audit Committee.

DISCUSSION

General Fund

Metro's General Fund is in a downward trend (see Attachment B Figure 1) primarily due to the following:

1. Exhaustion of State Traffic Congestion Relief Program (TCRP) funds
2. Declining General Fund revenues due to the falling Low Carbon Fuel Standard (LCFS) prices and the uncertainty of Compressed Natural Gas (CNG) credits
3. Increasing demand on General Fund revenues due to Non-Operations related activities

General Fund Revenues

General Fund revenues include funding that are eligible for all purposes, and the use of these funds are at the Board's discretion. While fare revenues and advertising revenues should be classified as General Fund revenues, Metro prioritizes these revenues for transit operations and is therefore included as Enterprise Fund revenues. The Board has adopted policies that either restrict, limit or prioritize the use of General Fund revenues. In FY26, Metro projects to generate \$31.3 million in General Fund resources from Right of Way (ROW) leases, Low Carbon Fuel Standard (LCFS) Credit sales, Compressed Natural Gas (CNG) credits and Joint Development revenues.

Recent trends indicate that LCFS prices have been declining steadily since 2021. CNG credits continue to decline as the bus fleet transitions to electric and may be eliminated altogether by Congress.

The Metro Joint Development Program is a real estate development program for properties owned by Metro. One of the original goals of the program was to "generate value to Metro based on maximizing ground rent revenues received, or equivalent benefits negotiated, for the use of Metro property." As a result of Board actions over the years, this goal was eliminated and the focus of the program shifted to maximizing benefits to the public in the form of affordable housing (the 10k homes initiative), public amenities or financial return to be reinvested in Transit Oriented Communities activities.

Projects/Programs drawing on General Fund Revenues

Projects or programs that do not have dedicated or other eligible Metro funding sources require General Fund revenues. One of the major draws depleting the General Fund in recent years has been cost increases on underground rail projects, because there is limited eligible capital funding available due to MTA Reform and Accountability Act of 1998 which restricts the use of Prop A and C on underground rail projects. In addition, Figure 2 in Attachment B lists out the various projects and programs currently drawing from the General Fund in FY26.

Property Management

Property Management includes expenditures for Metro owned property, right of way administration, property management general right of way overhead, economic development administration. In FY26, ROW lease revenues are projected at \$12.7 million and joint development revenues are expected to be \$3.3 million. Eligible funding sources are restricted to ROW lease revenues and joint development revenues.

Joint Development

Joint Development (JD) 10k Homes

In response to the countywide housing affordability crisis, the Board established a ten-year goal of completing 10k housing units, at least 5k of which will be income-restricted (the 10k Commitment) by 2031. Expenditures for this program include 10k site administration, site preparation, outreach and engagement, contract negotiations, and environmental assessments, remediation, and demolition. Eligible funding sources are restricted to joint development revenues.

In June 2021, the Board adopted updates to the JD Policy allowing for proceeds from JD projects to be reinvested in Transit Oriented Communities (TOC) activities. From FY21 - FY25, based on Governmental Accounting Standards Board (GASB) Statement No. 87, revenue recognition basis, the JD program has generated \$14.7M, with expenditures totaling \$21.9M, resulting in a deficit of \$7.2M and with deficits forecasted in future years. The current deficits are impacting Metro's General Fund and will require flexible funds to mitigate these shortfalls. The 10K initiative released 20 sites to Metro's developer Bench in FY25, requiring short-term investment in staff and consultants to bring these assets to market. The accelerated delivery of these sites will generate substantial new revenues starting in 2029.

Other Joint Development Expenditures

Includes joint development labor and administration and other joint development-related expenditures from various project sites which are eligible to be funded by Joint Development revenues.

While the Joint Development program generates revenues, currently it is not enough to cover the expenses of the program. If the focus of Board policy shifted from affordable housing to maximizing revenue, a cursory analysis performed by staff indicates that the value of the JD property portfolio, if it was sold, could be between \$586 million and \$733 million.

SEED School & Transit Learning Center

SEED School

In October 2018, the Board approved the programming of \$5 million annually from FY24 - FY35 (cumulatively, up to \$71 million), to support the operations of Los Angeles County's first transportation infrastructure school. In FY26, the additional \$0.2 million expenditure is for independent audits of SEED school funding contributions by Metro and ancillary costs required to provide oversight to Metro's commitment to the SEED school. Because there is no dedicated funding for workforce development initiatives like this one, General Fund revenues are used.

Metro Talent Hub

Metro partnered with the County of Los Angeles and a Developer to build a Metro Training and Innovation Center, known as the Metro Talent Hub, within the mixed-use development of the Vermont and Manchester Transit Priority Joint Development Project. As the project transitions

from capital project to operating project, without any dedicated funding source, the General Fund is used. Metro will see more cost demand in the future fiscal year in this project, as a result, staff continue to seek grant funding opportunities.

Bikeshare & Bike Hub/Lockers

Bikeshare Program O&M

The Metro Bikeshare Program (MBS) is projected to generate \$1.5 million in FY26, comprised of bike share user fees, and bike commercial sponsorship advertising revenue which are not sufficient to cover the program's full operations and maintenance costs of \$22.9 million in FY26. Funding for MBS consists of Measure M 2%, City of Los Angeles subsidy, bike fares, and operating-eligible funds such as General Fund.

Bike Hub/Lockers O&M

Bike Hub/Lockers generates \$10,000 in annual revenues from hub and locker fees. Capital funding has been budgeted for new equipment. However, funding sources to fill the gap for operations and maintenance must come from the General Fund.

While the Bike program generates revenues, it is not enough to cover the expenses of the program.

Union Station

Union Station (East)

The lease and parking revenues are not sufficient to cover the program's full operations and maintenance costs. In FY26, lease and net parking revenues are estimated at \$2.0 million while operating and security expenses are estimated at \$5.2 million, resulting in a \$3.3 million deficit. Operating-eligible funding sources for the Union Station (East) only come from the General Fund.

Union Station (West)

Union Station West generates operating revenues such as lease revenues and common area maintenance (CAM) recoveries. Annual Union Station operating expenses exceed the revenue generated, resulting in a deficit that can only be filled by operating-eligible funds like ROW lease revenues.

Union Station Master Plan

Metro acquired Los Angeles Union Station (LAUS) in 2011 and shortly thereafter initiated a master planning process. The Union Station Master Plan was undertaken at the direction of the Metro Board to study, analyze and evaluate alternatives for addressing current and future transit needs at Union Station, amongst other goals established by the Metro Board. In FY26, a total of \$300 thousand was budgeted for ongoing LAUS Strategic Advisor Support and \$900 thousand for Metro staff labor costs. Eligible funding source is General Fund.

Arts District / 6th St Station

The Arts District/6th St Station is a proposed new B Line (Red) and/or D Line (Purple) rail station that would enhance local and regional transit connections to and from the Arts District, Boyle Heights,

Union Station, and surrounding communities. Although it is a strategic unfunded project and not listed in the Measure M Expenditure Plan, it promises to be one of Metro's most cost-effective rail extensions since it can be delivered at-grade within existing Metro property. Metro received funding support from the City of Los Angeles for a draft Environmental Impact Report and looking ahead into construction, the Los Angeles City Council confirmed that fully funding the Arts District/6th Street Station is the priority for the City of LA's portion of the Central City Area's Subregional Equity Program (SEP) funds. Though \$1 million is budgeted in FY26, according to the City of LA, no funds are available for the Environmental DEIR/FEIR. The City of LA advised to pause the work; therefore, the project is currently on hold.

Sustainability/ZEB & Infrastructure

Sustainability Program

The Sustainability Program generates Low Carbon Fuel Standard (LCFS) and Renewable Index Numbers (RINs) credit revenues which are estimated at \$14.5 million in FY26. The Sustainability Program consists of energy conservative initiatives, sustainability design guidelines, carbon emission greenhouses, and other sustainability related activities. Per Board policy, 20% of revenues generated from the LCFS program can be used for the implementation, operations, and maintenance of sustainability related infrastructure projects.

Zero Emission Buses (ZEB) & Infrastructure

The ZEB & Infrastructure consists of ZEB and Battery Electric Buses (BEB) acquisitions and charging infrastructure. Per Board policy, 80% of LCFS revenues are allocated towards projects that reduce transportation related GHG emissions, prioritizing the J Line (Silver) Zero Emission Bus conversion. As the ZEB and BEB projects ramp up in divisions, the fund balance will soon be depleted.

Committee Follow-up

At the June 2025 Finance, Budget & Audit Committee, the Committee requested additional information on farebox recovery ratio and the identification of core essential services. Below is a discussion of farebox recovery ratio and the core essential services which will be part of a deep dive on transit operations scheduled in October.

Farebox Recovery Ratio

The Farebox Recovery Ratio is a measure of a transit system's operating costs are covered by passenger fares. It is calculated by dividing total fare revenues by total operating expenses. Improving this ratio can be achieved by *decreasing* operating costs and/or *increasing* fare revenues. A higher ratio generally indicates better financial sustainability, as the system relies less on external subsidies to cover its costs. In FY10, Metro's farebox recovery ratio was 26% and in FY25, has fallen to 6.5% as shown in Attachment B Figure 3.

Metro's farebox recovery ratio has been negatively impacted largely by the rising operating costs due to the expanding rail system and the declining fare revenues.

In FY19, Metro generated \$265 million in fare revenues which has fallen to \$173 million in FY25. This

almost \$100 million decline in revenues stems from Metro's reducing fares in FY23 with the implementation of fare capping and with our continued focus on free and reduced fares for those that need it the most. See Attachment A for a comparison of Metro's fares and farebox recovery ratio against peer agencies.

Considerations

With limited and declining General Fund revenues, Metro will use the guiding principles to prioritize investments in preserving essential services and prioritizing quality service. The following areas will need further consideration.

- If no additional funding materializes, assess and evaluate General Fund funded projects and programs for efficiency and scope
- With General Fund falling to deficit position, other flexible funding, such as advertising, fare revenues, and miscellaneous income will have to be used to fund General Fund projects if projects and funding policies continue status quo.
- Evaluate potential to update laws that prohibit certain funds to be used on underground rail projects
- Identify new revenue sources or methods to increase existing sources (fares, advertising, parking, bike, real estate, joint development, etc.)

EQUITY PLATFORM

As the Strategic Work Plan advances, a strong commitment to equity will continue to guide Metro's approach and decisions. The Strategic Work Plan has equity components embedded throughout each of the processes. For example, the development of the budget incorporates an Equitable Zero-Based approach. While addressing public safety, cleanliness, system expansion, labor equity, and environmental sustainability, Metro strives to create a transit system that is not only efficient and safe but also inclusive and equitable for all Los Angeles residents and riders.

Many transit agencies are experiencing fiscal challenges and are responding with service cuts and/or fare increases. However, the Board adopted guidelines in addressing the fiscal cliff aims to avoid reductions to core bus and rail service that disproportionately affects transit dependent riders.

VEHICLE MILES TRAVELED OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit. * Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active

transportation, it is a vital part of Metro operations, as it reflects our commitment to equity and fiscal discipline. Because the Metro Board has adopted an agency-wide VMT Reduction Target, and this item supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

**Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.*

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The considerations support the following Metro Strategic Plan Goal:

Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

NEXT STEPS

Metro will continue to monitor the financial situation and work toward meeting the deliverables of the Strategic Work Plan.. The planned remaining deep dives (Revenues, Capital Projects, Near Term Update) will help guide the development of the FY27 budget.

These deep dives will allow us to plan ahead, making small changes now in the budget that are strategic and not reactive.

Beginning in January, Metro staff will initiate monthly budget updates for the Board. These sessions will provide updates on near-term financial forecasts, emerging fiscal challenges, and a comprehensive overview of the FY27 EZBB process and timeline. These updates will also serve as an ongoing opportunity to incorporate stakeholder feedback and ensure transparency, ultimately informing the final FY27 Proposed Budget, scheduled for Board approval in May 2026.

ATTACHMENTS

Attachment A - Fare Revenues: Bus Fares & Peer Agency Comparisons

Attachment B - Additional Data

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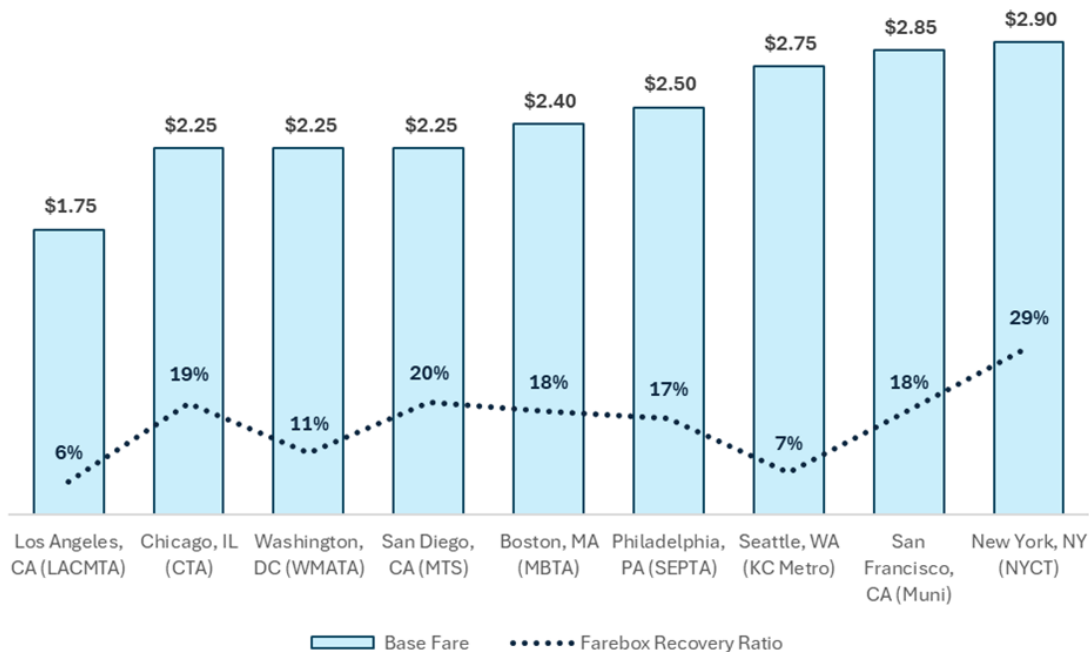
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Fare Revenues: Bus Fares & Peer Agency Comparisons

The table below compares base bus fares and farebox recovery ratios across Metro's peer agencies. The transit agencies selected share similar characteristics to Metro, such as bus and rail service, size, customer base, and/or fare collection technology and fare policies.

Comparison of Base Bus Fares & Farebox Recovery Ratio



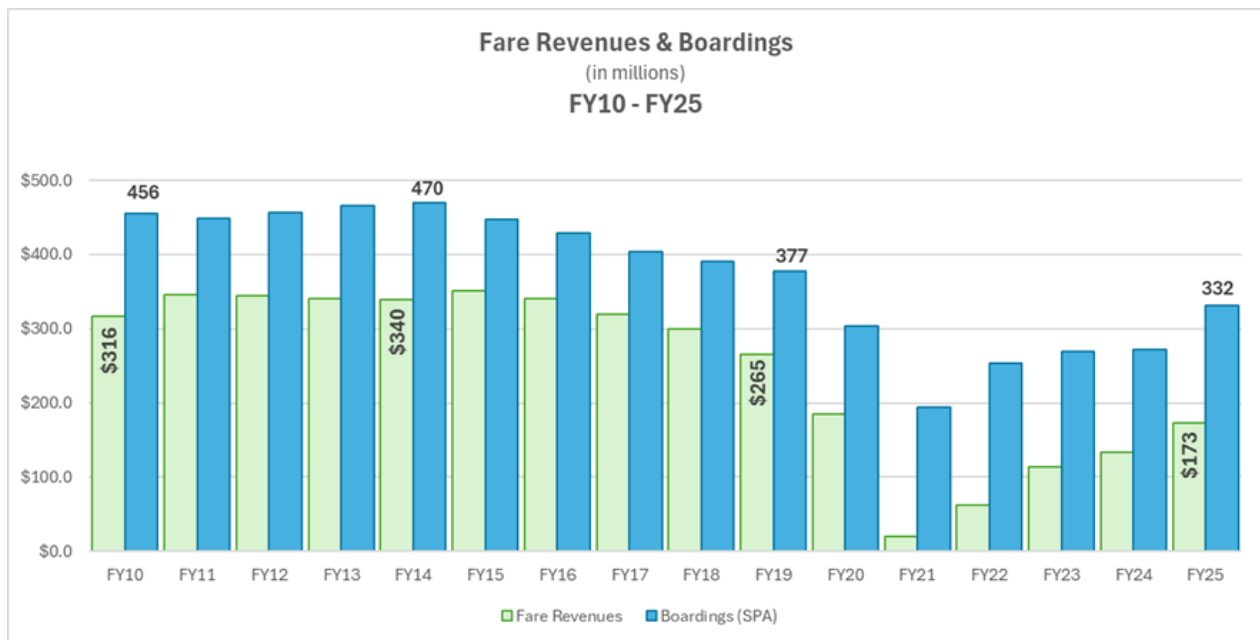
Base Bus Fares

Metro's base bus fare remains the lowest amongst our peer agencies. The base fare of \$1.75 was adopted in FY15. In FY23, the Metro Board adopted a fare change that kept the base fare at \$1.75 but modified the pricing to implement fare capping. The fare change included reducing fares for simplification and maximizing the benefits of fare capping, which resulted in a system where no rider overpays and more frequent riders paying less. Peer agencies have been increasing their fares in recent years:

- WMATA increased fares in 2024 from \$2.00 to \$2.25
- MBTA increased fares in 2024 from \$2.00 to \$2.40
- San Francisco Muni increased fares in 2025 from \$2.75 to \$2.85
- New York (NYCT) increased fares in 2023 from \$2.75 to \$2.90

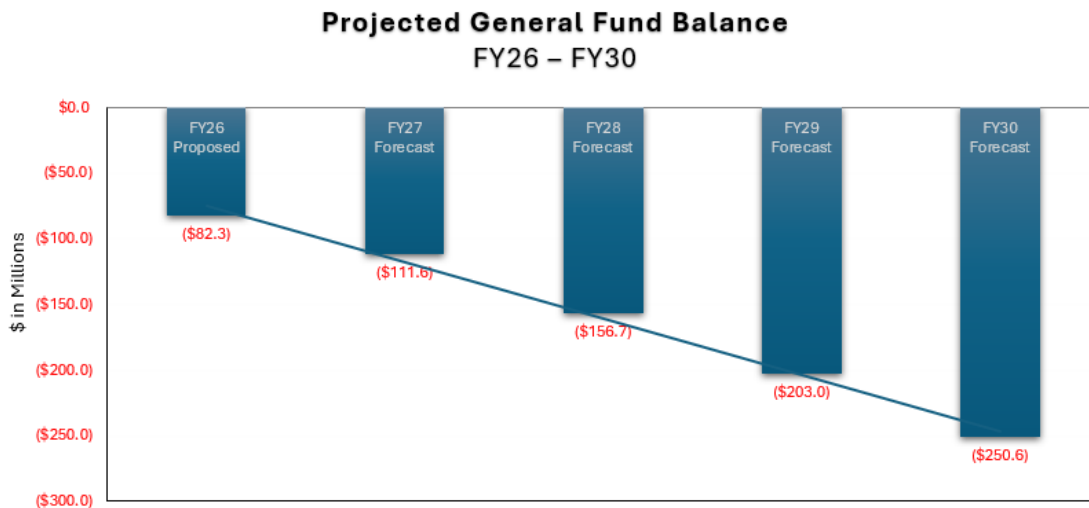
Fare Revenues

Transit agencies nationwide experienced declining ridership since FY14, which worsened from the pandemic. Metro initiated efforts to restore ridership, focusing on those that need it the most, by adopting various fare policies and programs that offered free and reduced fares for riders, through GoPass, LIFE, and Mobility Wallet. Metro also launched Fare Capping, which lowered fares for many riders and provides the ability to pay as you go while earning a day and/or weekly pass. While these programs helped to restore our ridership, our revenues have declined. See the table below.



Additional Data*Figure 1*

Metro's General Fund is in a downward trend and is projected to be in a \$82 million deficit by the end of FY26, which is estimated to grow to a \$250 million deficit by FY30.

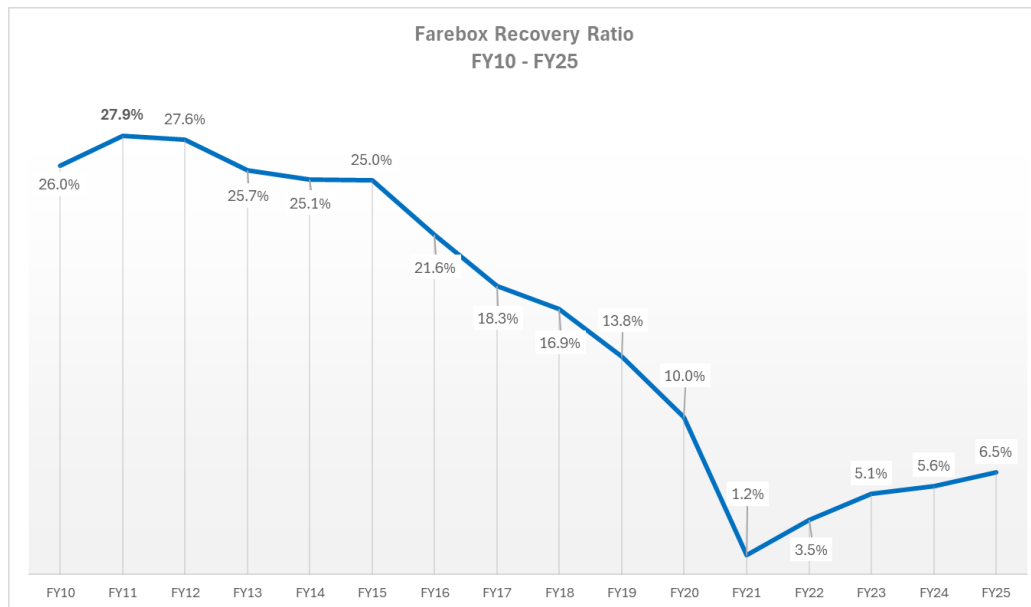
*Figure 2*

Below is a list of the various projects and programs currently drawing from the General Fund in FY26.

FY26 Budget General Fund (\$ in millions)			
Project Name		ROW & Unrestricted	Green
1	Revenue	\$ 16.8	\$ 14.5
2	Expenditures		
3	PROPERTY MANAGEMENT	32.3	
4	JOINT DEVELOPMENT	19.9	
5	SEED SCHOOL & METRO TALENT HUB	6.2	
6	BIKESHARE & BIKE HUB/LOCKERS	9.1	
7	UNION STATION	10.3	
8	ARTS DISTRICT/6TH ST STATION	1.0	
9	SUSTAINABILITY/ZEB & INFRASTRUCTURE		54.3
10	Total Expenditures	\$ 78.8	\$ 54.3
11	Over Draw of General Fund	\$ (61.9)	\$ (39.8)

Figure 3

Metro's farebox recovery ratio was 26% in FY10 and has fallen to 6.5% in FY25, due to the increased operating costs from the expanding rail system and decreased fare revenues.





ADDRESSING THE FISCAL CLIFF – WORKPLAN FOCUS AREA: GENERAL FUND

September 18th, 2025 | FINANCE, BUDGET, AND AUDIT COMMITTEE





This report is the first Deep Dive on the General Fund as outlined in the Strategic Workplan

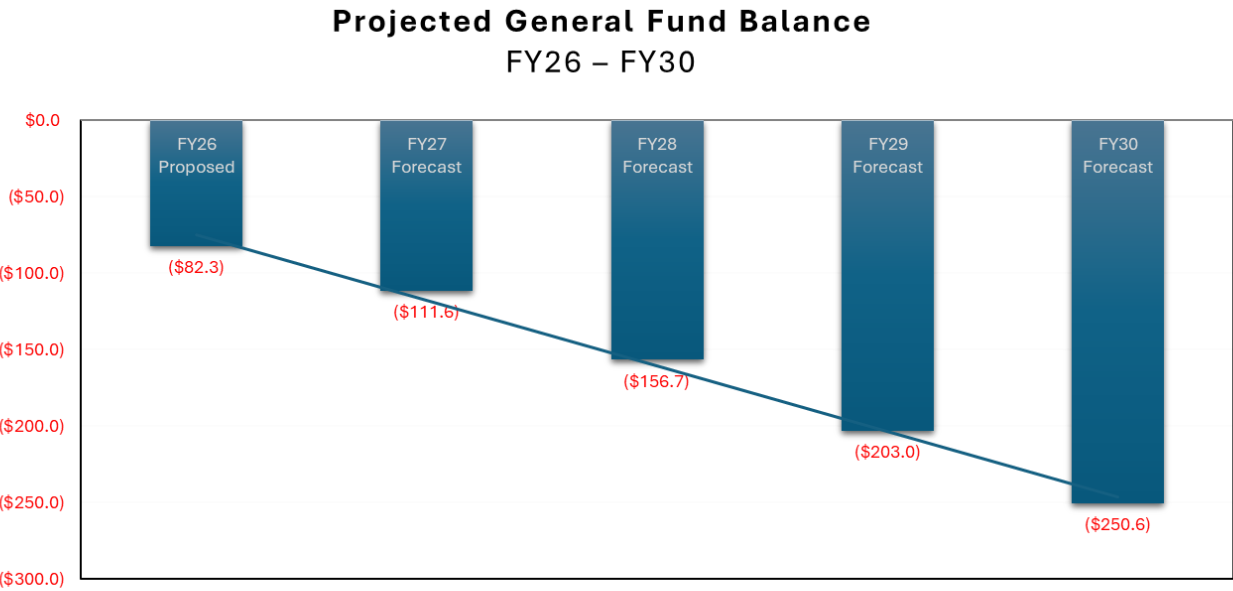
ISSUE

- General Fund is the most flexible funding source available for Metro
 - Few legal restrictions, commitments or designations for specific uses or purposes
- Used to fund projects and programs that are not eligible to be funded by federal, state, and local sales taxes available to Metro
- Also used to cover cost increases on underground construction since Propositions A and C are not eligible per MTA Reform and Accountability Act of 1998
- General Fund is in a downward trend with a projected deficit of \$82.3 million by end of FY26 and will continue to fall to \$250.6 million by the end of FY30
- Other flexible funding sources, like fare revenues and advertising that is prioritized for operations will be needed to replenish the General Fund shortfalls



General Fund revenues include funding that are eligible for all purposes and the use are at the Board's discretion.

Projects/Programs drawing on General Fund Revenues



FY26 Budget General Fund (\$ in millions)			
Project Name		ROW & Unrestricted Green	
1	Revenue	\$ 16.8	\$ 14.5
2	Expenditures		
3	PROPERTY MANAGEMENT	32.3	
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10	Total Expenditures	\$ 78.8	\$ 54.3
11	Over Draw of General Fund	\$ (61.9)	\$ (39.8)

- Projecting negative fund balance of \$82.3 million at end of FY26 and \$250.6 million by the end of FY30
- Flexible funding sources, like fares and advertising revenues will be required to mitigate shortfalls in the General Fund



With limited and declining General Fund revenues, Metro will use the guiding principles to prioritize investments in preserving essential services and prioritizing quality service

The following are areas that will need further consideration:



If no additional funding materializes, assess and evaluate General Fund funded projects and programs for efficiency and scope.



With General Fund falling to deficit position, other flexible funding, such as advertising, fare revenues, and miscellaneous income will have to be used to fund General Fund projects if projects and funding policies continue status quo.



Identify new revenue sources or methods to increase existing sources (fares, advertising, parking, bike, real estate, joint development, etc.)



This is a topic area for an upcoming deep dive.



Evaluate potential modifications to Measure M that can alleviate shortfalls.



This is an area that will be part of the Strategic Workplan.



- Continue to use the Equitable Zero-Based Budgeting (EZBB) framework to develop the FY27 Proposed Budget
- In parallel with proactive oversight of the agency's financial position
- Continue efforts to mitigate financial challenges — all while maintaining alignment with the Board's priorities and direction
- Monthly budget updates for the Board beginning in January
 - Near-term financial forecasts
 - Emerging fiscal challenges
 - Overview of the FY27 EZBB process and timeline