



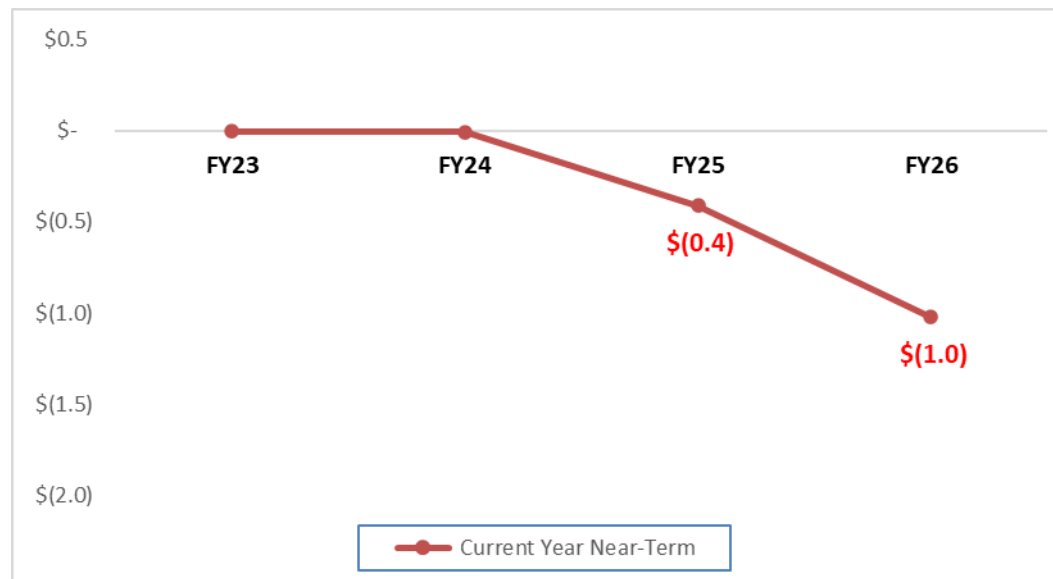
FY24 Budget Development Update

Finance, Budget and Audit Committee

February 15, 2023

Financial Outlook Challenges

- Metro's Near-term Affordability gap starts in FY25 and widens to \$1.0B by the end of FY26
 - Continue to recover from pandemic-induced changes
 - No more one-time federal stimulus funding
- **Transit:** Growing costs driven by escalating electrification efforts, costs with new lines opening, and incremental costs for new initiatives
- **Transportation Infrastructure Development (TID):** Additional risks beyond FY26 due to projected overruns exceeding what is available in dedicated funding
- Metro is not immune to the financial pressures and challenges facing the industry, making it imperative that every dollar is budgeted and spent wisely



Metro and Leading Forecasts in LA County

- Metro's economic sector model was updated to project sales tax revenues in FY24 using the following assumptions:
 - Growth is projected to slow dramatically in the first half of FY24 and begin a gradual recovery in the second half of the year
 - No recession is anticipated; however, there is a greater downside risk than in the last two years
 - Inflation will continue to fall but remain above Fed targets and recent historical levels
- Staff also ran a multiple regression analysis of Metro sales tax receipts
- Both sets of results were compared with leading local economic forecasts

FY24 Sales Tax Revenue Projection by Economic Sector by Quarter, based on Year-over-Year Quarterly Growth

	Q1Δ	Q2Δ	Q3Δ	Q4Δ	AnnualΔ
General Retail	4.5%	3.6%	5.1%	4.3%	4.3%
Food Products	4.6%	3.5%	5.9%	5.9%	4.9%
Transportation	3.2%	3.1%	2.6%	4.9%	3.5%
Construction	2.0%	2.1%	3.9%	5.4%	3.4%
Business To Business	1.5%	1.5%	1.4%	2.2%	1.7%
Miscellaneous	1.3%	1.7%	1.6%	2.1%	1.7%
Total	3.4%	2.9%	3.8%	4.4%	3.6%

Regression Analysis Result

Fiscal Year	Estimated Unemployment Rate (in %)	Estimated CPI	Estimated LA County Population (in Thousand)	Estimated Wayfair Impact (\$ in Million)	Total Estimated Sales Tax per Ordinance (\$ in Million)
FY24	5	323	9,865	\$ 203	\$ 1,200



FY24 Resources Summary – Preliminary Estimate

- FY24 sales tax revenue is anticipated to grow 3.6% from \$1,158 million (reforecast) to \$1,200 million per ordinance
- STA and SB1 revenues based on state projections
- FY24 fare revenues expected to be \$146 million; assumes implementation of the Board approved Fare Policy changes and a modest 3% growth in ridership
- Toll, Advertising, and Other FY24 revenue estimates are projected to increase to \$183 million
- No additional federal stimulus is assumed in FY24.

Resources (\$ in Millions)		FY23 Reforecast	FY24 Assumption	% Change
1	Sales Tax and TDA Revenues ⁽¹⁾	\$ 5,211.0	\$ 5,400.0	3.6%
2	STA, SB1 STA and SB1 SGR Revenues ⁽²⁾	225.6	214.6	-4.9%
3	Passenger Fares ⁽³⁾	118.5	146.8	23.9%
4	Toll, Advertising and Other ⁽⁴⁾	169.0	183.0	8.3%
5	ARPA ⁽⁵⁾	1,239.5	-	-100.0%
6	Subtotal Resources	\$ 6,963.6	\$ 5,944.4	-14.6%
7	Grant Resources ⁽⁶⁾	1,180.7	TBD	
8	Bond Proceeds and Prior Year Carryover ⁽⁶⁾	1,174.3	TBD	
9	Total Resources	\$ 9,318.6	TBD	

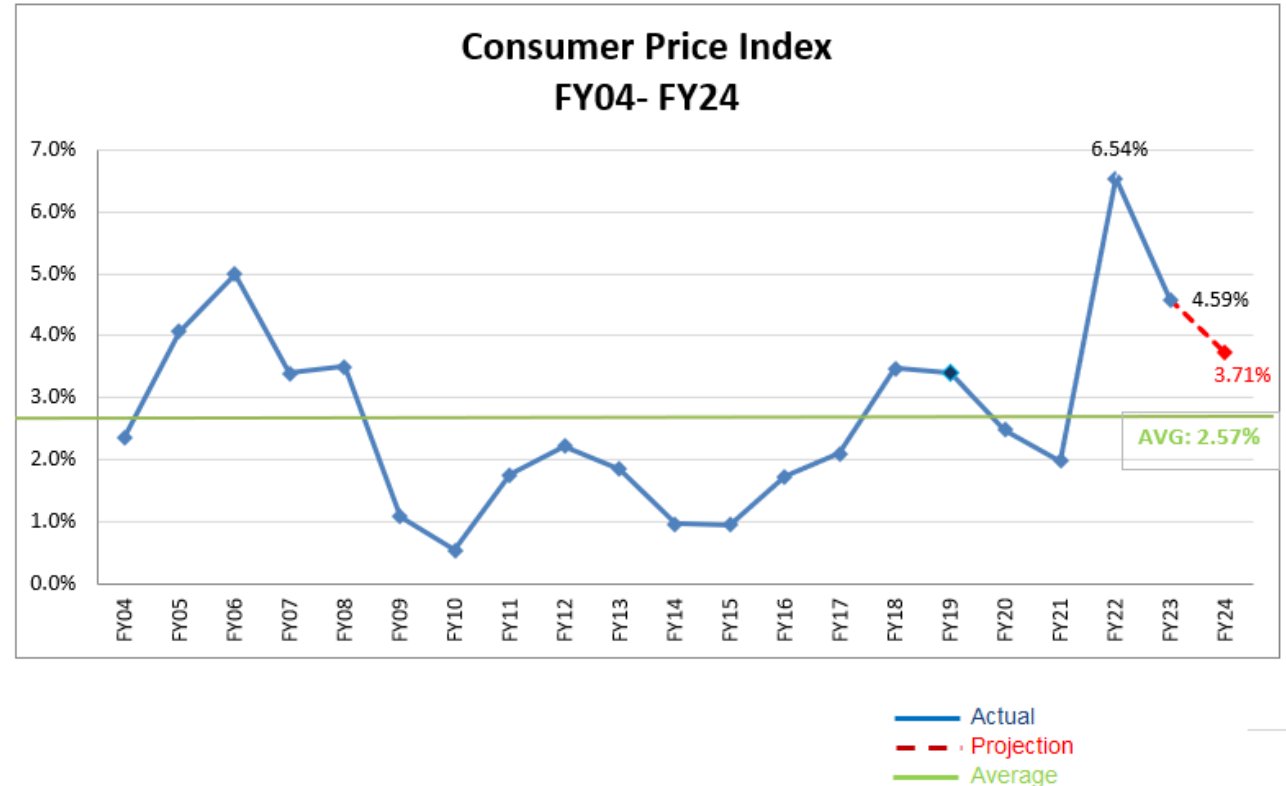


Key Considerations:

- Grant Resources: IIJA, Governor Newsom's proposed budget (FY24 estimates are TBD)
- Bond Proceeds and prior year carryover: Debt will be used as a last resort to mitigate the shortfalls in CIP, Transit Construction and Highway activities, and will be determined as the FY24 budget is developed. Prior year carryover will adhere to funding eligibility

Cost Inflation – Consumer Price Index (CPI)

- CPI measures the average change in prices for a basket of consumer goods
- The Federal Reserve has been taking aggressive measures to slow the economy to combat high inflation
- CPI is expected to slow in FY24 to 3.71% outpacing the projected sales tax revenue growth at 3.60%



Forecast Source	FY18	FY19	FY20	FY21	FY22	FY23	FY24
1 Actual	3.48%	3.40%	2.48%	2.30%	6.54%	4.59% ⁽¹⁾	
2 Metro	1.75%	2.25%	2.28%	2.30%	2.00%	3.30%	3.71% ⁽²⁾
3 UCLA	2.78%	2.42%	2.60%	2.19%	1.68%	3.78%	3.71%
4 Beacon Economics	2.00%	2.15%	1.83%	2.30%	2.07%	3.86%	2.36%

⁽¹⁾ Reforecasted figure based on FY23 YTD actual. FY23 Adopted Budget is 3.30%.

⁽²⁾ FY24 Assumption.

Other Expenses and Financial Risks

Collective Bargaining Agreements (CBAs)

- Metro's labor and fringe benefit costs will adhere to respective CBAs

Escalated Costs for Projects and Services in FY24

- Higher prices: Tight labor market, rising demand for goods, and supply chain disruptions
- CPI in FY24 is anticipated to be above the historical average

Financial Risks

- Slowing of sales tax and other resources
- Federal stimulus funds exhausted
- Higher debt borrowing costs
- Electrification efforts
- Heightened security/cleaning efforts
- New continued costs of rail line openings
- New Initiatives



Public Outreach & Stakeholder Engagement



October 2022

- **Telephone Town Hall**
- Launch My Budget Tool
Available in 9 Languages



November 2022

- Social Media launch My Metro Budget Marketing

December 2022

- **EFC engagement** for My Metro Budget – physical marketing cards



January 2023

- **Telephone Town Hall**
- Regional Service Council Budget Briefing



WE ARE HERE

February 2023

- Community Advisory Council - Tentative

March 2023

- Community Advisory Council
- **Telephone Town Hall**
- Policy Advisory Council



April 2023

- San Gabriel Valley COG
- Bus Operators Subcommittee
- Regional Service Council, Budget Briefing
- Streets & Freeways
- Community Advisory Council – General

May 2022

- Technical Advisory Committee
- Valley Industry and Commerce Association
- Local Transit Systems Subcommittee
- San Gabriel Valley COG
- Bus Operators Subcommittee
- Accessibility Advisory Committee
- **Budget Public Hearing**

Note: Updated as additional meetings are scheduled.



ONGOING PUBLIC PARTICIPATION

Schedule & Next Steps



- Near-Term Update
- FY24 EZBB
- Prelim. Sales Tax & CPI Forecast
- Public Outreach & Engagement



- Sales Tax Forecast, Resources Assumptions
- Cost Inflation Estimates
- Other Expense Assumptions



- Transit Infrastructure
- Multimodal Hwy Investments
- Regional Rail
- Regional Allocations & Pass-Throughs



- Metro Transit - Operations & Maintenance (O&M) and Capital Improvement Program (CIP)
- Congestions Management
- Planning & Administration



- Consolidated Agency-wide Expenses & FTEs
- Proposed Budget Book
- Public Hearing
- Board Adoption