

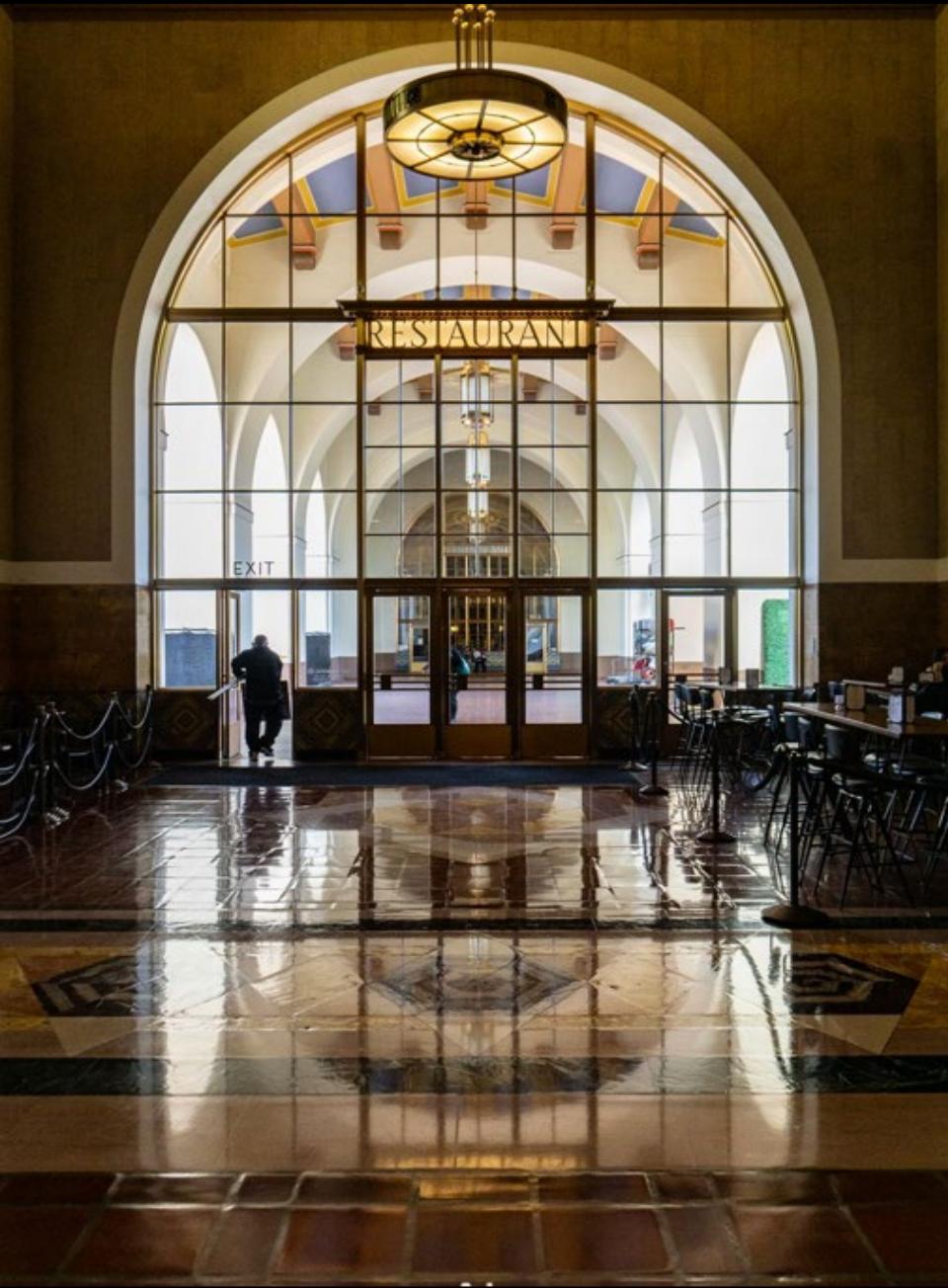


FISCAL YEAR 2027 BUDGET DEVELOPMENT PROCESS

January 2026 | Finance, Budget and Audit Committee



Metro



- FY27 Near-Term Financial Outlook
 - Near Term Outlook
 - Sales Tax Revenues
 - Grant Resources
 - Cost Growth Drivers
 - Additional Risks and Challenges
- FY27 Mitigation Strategy
- Budget Outreach & Engagement
- Next Steps

Near-Term Financial Outlook

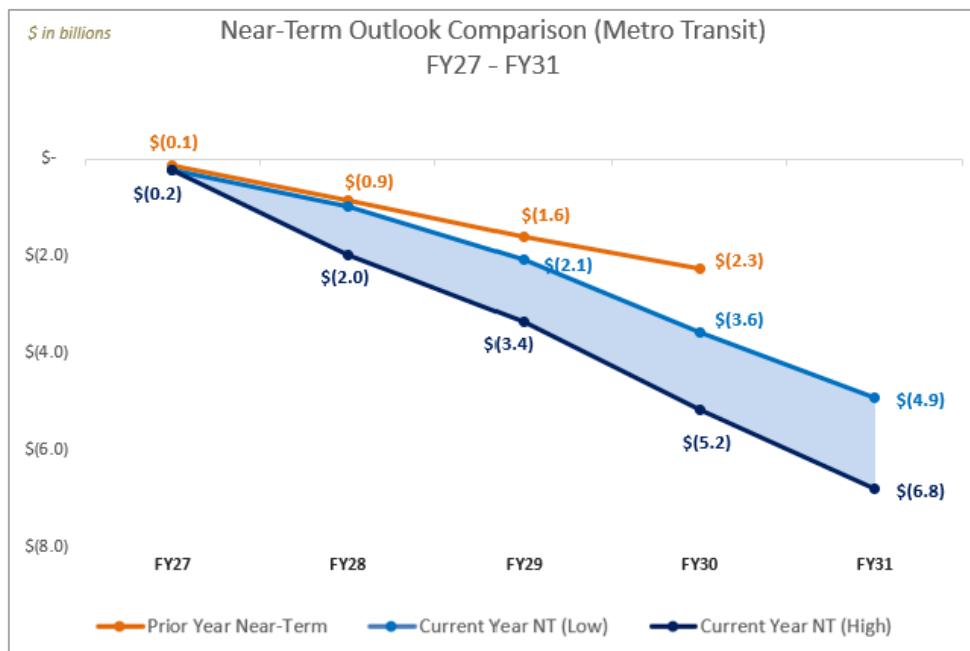
FY
27

M Metro



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- The projected deficit shows a less favorable trajectory compared to prior year's forecast resulting in:
 - FY28 the deficit widens from \$0.9 billion to as much as \$2.0 billion
 - Looking ahead, Metro projects a cumulative financial gap in the range of \$3.6 to \$5.2 billion by FY30
- However, targeted budgeting efforts are continuously pursued per the Equitable Zero-Based Budgeting (EZBB) process to mitigate its effects



Note: These figures do not include cost assumptions for the 2028 Games.

Financial challenges driven by:

01

Sales tax revenue projection **drops 7%** compared to prior year's forecast

02

Overall grant resources are projected to **decrease by up to 12%** relative to the prior year's forecast

03

Continued cost growth, including labor, fuel and energy costs, and capital investments

04

Fund balances continue to be depleted amid a growing transit system and rising operational demands

Sales Tax Revenues



Accounts for about two-thirds of the overall resources



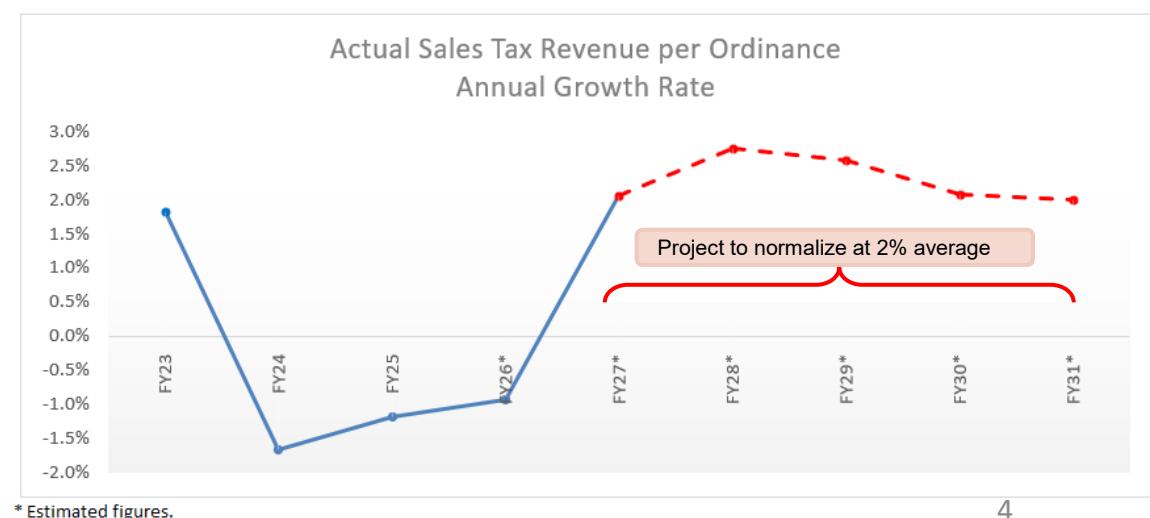
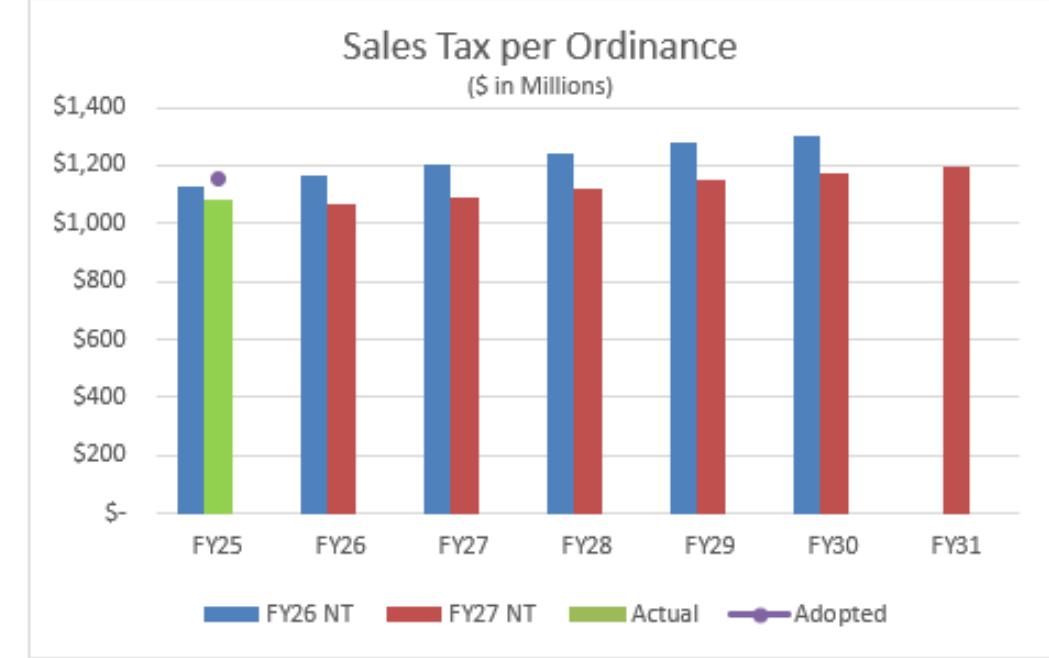
Total projection drops 7% (\$2.4B) compared to prior year's forecast

- FY25 Actuals came in 6.6% below budget, resulting in a lower base for the current near-term
- Economic uncertainties
- Stagnant elevated interest rates
- Shift from taxable goods to non-taxable services
- Volatile energy prices with growing ZEV sales



Assume gradual economic recovery to begin in FY27

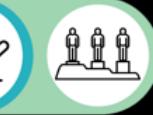
- Sales tax growth to normalize at 2% average from FY27 to FY31
- Consistent with leading regional forecasts



Grant Resources

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Overall grant resources decreased in a range of 8% to 12% compared to prior year's forecast

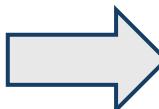
Federal grant funds savings for Operations is being accelerated in usage due to depletion of one-time stimulus funding by FY27

Administrative changes in allocation of federal transportation programs

Federal funding uncertainties

- Reauthorization
- Guidance and eligibility changes

State SB125 -ZETCP funding freeze or delay

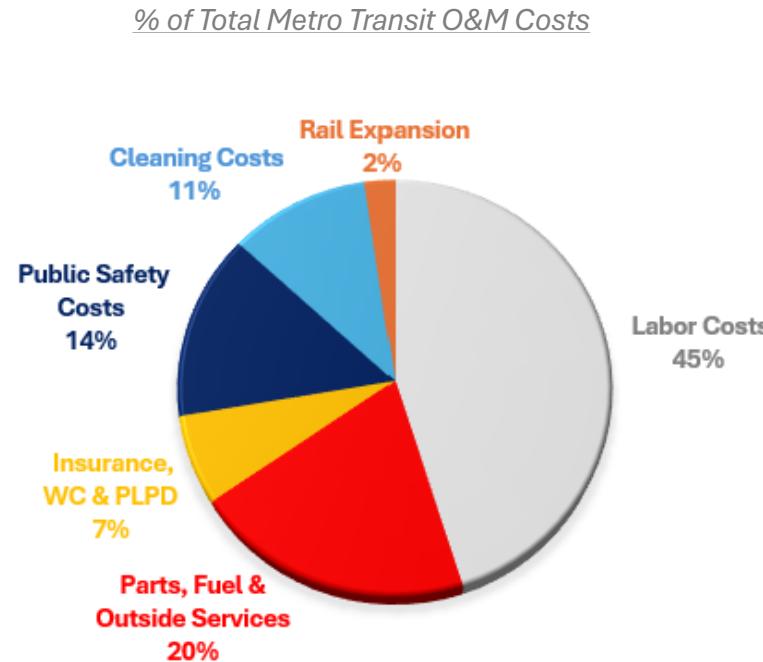


Carryover (savings) accumulated due to draw down of one-time COVID relief fund in FY21 and FY22.



The Agency's Near-Term Outlook through FY31 includes continued cost growth in:

- Metro Transit Operations & Maintenance (O&M) AND
- Capital Improvement Program (CIP)



Major cost growth drivers as a percentage of total Metro Transit O&M costs

Average Annual Growth Over the Next 5 Years

ZEB & Infrastructure –

17.5%

Metro's accelerated Board goal of achieving a zero-emission fleet by 2035 puts further strain on funding needs, for maintaining existing assets in a state of good repair.



Insurance, WC, PL/PD –

7.6%

Incremental growth in insurance premiums, workers' compensation (WC) and property liability and property damage (PLPD) costs due to higher loss payment projections and set up of Department of Public Safety (DPS).



Public Safety – 6.2%

Public safety resource deployment costs projected to grow at an average annual rate of 6.2% due to establishment of DPS



System Expansion – 9.0%

At least one major rail opening per year for next few years leading up to the 2028 Games.



Cleaning – 9.9%

Station Innovation Experience & cleaning frequency with continued investments in expanding rail system.



Labor Costs – 8.3%

Union labor costs have had a historical growth of 5% per year, that is expected to continue over the next 5 years given the recent union contract negotiations.



Parts, Fuel and Outside Services – 2.5%

Metro preliminary cost inflation projection and contract services.



Sales Tax – 2.3 %

Economy is volatile and sales tax revenues are trending down





**Internal
and
Structural
Risk Factors**

- **Operational Cost Growth from System Expansion**
 - ❖ *Depletion of Ops Eligible Funding: ~40% gap in FY27 and growing through FY31*
- **Limited Rail Operations Funding with Expansion**
 - ❖ *Depletion of rail balances after FY27*
- **Olympic Readiness without Assured Supplemental Funding**
 - ❖ *Substantial fiscal and operational risks*

- **Limited Eligible Funding for Underground Construction**
 - ❖ *Closing out and operationalize PLE1, 2, and 3*
- **Capital Cost Risks**
 - ❖ *Continued cost increases from project scope changes and delays may divert funds from bus and rail operations*
 - ❖ *Unfunded projects for system expansion integration also compete for operating funding*

**Geopolitical
Instability**

Volatile geopolitical conflicts can strain financial planning and long-term capital budgets

**Tariff
Escalations
and
Import Costs**

May materially escalate costs and project budgets

**Volatility in
Federal
Funding
Streams**

Uncertainty around Federal transit grants and infrastructure programs

**Persistent
Inflationary
Pressures**

Cost escalation across labor, construction, and operations

Public Outreach & Stakeholder Engagement

Calendar

FY
27

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September



- Launched My Metro Priorities @ September 13th Youth Council Summit
 - **NEW** youth-focused outreach tool

October



- Distribution of Info Cards
 - GoPass
 - Other Metro outreach events
- My Metro Priorities eblast to Transportation Career Academy Program (TCAP), ELT/MIP (Metro entry level and intern staff program)

November



- Launched My Metro Budget Activity
 - Multiple eblasts
- Present to Youth Council & SEED School

December



- Begin Social Media Campaign for My Metro Budget Activity
 - Facebook, Instagram, LinkedIn, Nextdoor
- Distribution of Info Cards
- Regional Service Councils - Meet & Confer
 - All five regions

January



- Distribution of Info Cards
 - LIFE
 - Blue Shirts (Station Staff)
 - Other Metro groups (ongoing)
- Content Creator video
- Multiple eblasts

- Continued My Metro Budget activity promotion via eblast
- Promotion to new Youth Council cohort
- Departments receive internal dashboard

- Community Advisory Committee
- Distribution of Info Cards to Girls Empowerment Summit (WGGC)

- Regional Service Council Meetings
 - In all five regions
- Council of Government (COG) Meetings

- Technical Advisory Committee
- Valley Industry & Commerce Association
- Local Transit Systems Subcommittee
- Accessibility Advisory Committee
- **Budget Public Hearing**

- Launch public facing dashboard results



February

March

April

May

June

Note: This is a draft. Updated as additional meetings are scheduled.



Budget Development Parameters:

- Sales Tax Forecast, Resources Assumption
- Cost Inflation Estimate

Feb



Infrastructure Planning and Construction:

- Transit Infrastructure Expansion
- Multimodal Highway Investments, Regional Rail
- Regional Allocations and Pass-Throughs

Mar



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

Apr



FY27 Budget: Public Hearing and Board Adoption

May