



FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

January 2025 | Finance, Budget and Audit Committee





1. Near-Term Financial Outlook

- Near Term Outlook Deficit
- Revenue and Resource Summary
- Cost Growth Drivers Summary

2. Additional Risks and Challenges

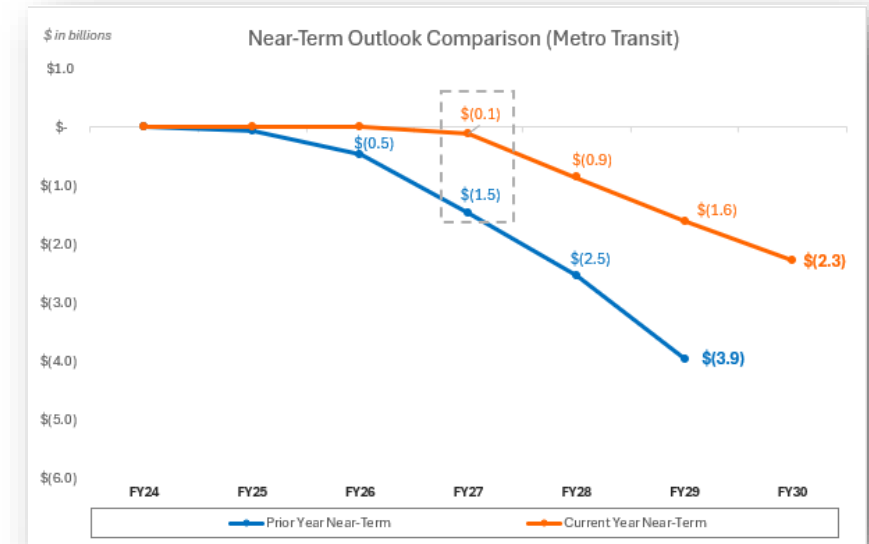
3. FY26 Equitable Zero-Based Budgeting (EZBB)

4. Next Steps



FOR INTERNAL USE ONLY

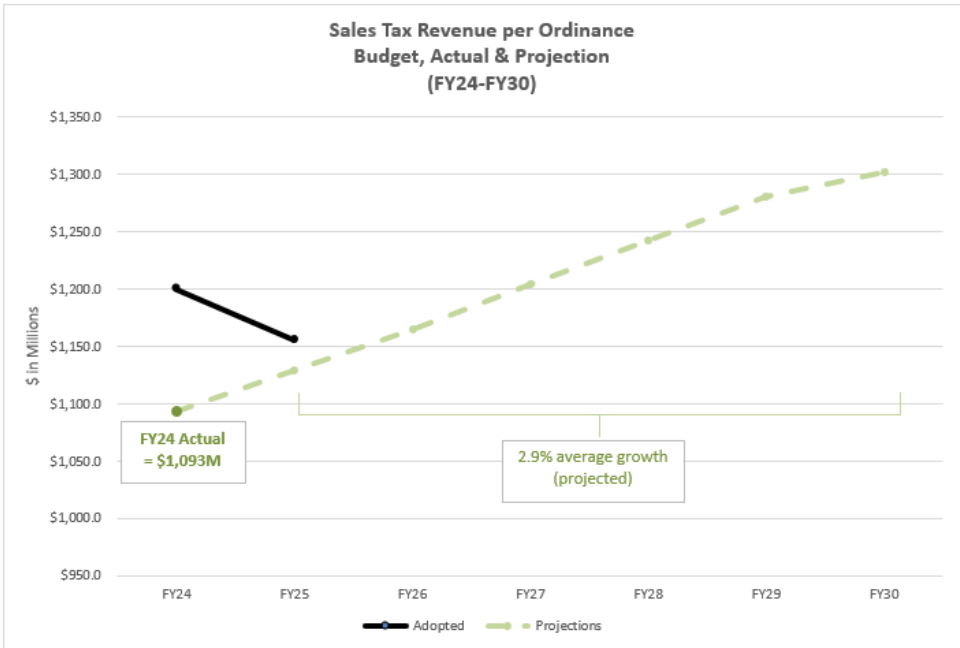
- The Agency has improved **prior year's Near-Term** cumulative gap of \$1.5 billion in FY27 to \$0.1 billion per **current year's Near-Term** outlook as a result of:
 - Board approved policy changes with newly established Transit Community Public Safety Department (TCPSP)
 - Zero-Emissions Bus (ZEB) & infrastructure revised forecast
 - Incremental grant revenues from SB125 ZETCP
 - Constrained and prioritized budgeting efforts through the Equitable Zero-Based Budgeting (EZBB) process
 - Delayed spending on capital projects based on year-end actuals
- However, a cumulative gap of \$900M remains by FY28 growing to \$2.3 billion by FY30 between the two programs:
 - Metro Transit Operations & Maintenance (O&M): cumulative \$1.3 billion deficit through FY30
 - Metro Transit Capital Improvement Program (CIP): cumulative deficit of \$1.0 billion through FY30



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

Near-Term Resource Projections

FOR INTERNAL USE ONLY



- FY24 year-end actual receipts fell short of budget (-8.9%) indicating a slow down in sales taxes
 - Shift in spending to non-taxable items
 - Slow down in spending in autos and gas
- Economic slowdown is expected to continue into the first half of FY25 but gradually improve over time
- FY25 year-end receipts expected to fall short of budget
- FY26 projected as a moderate growth over the FY25 Reforecast
- More information will be provided next month

Resources (\$ in Millions)	FY25 Reforecast	FY30 Estimate	Current Near-term 5-year Outlook (FY25-FY30)	Average Annual Growth Rate	Prior Near-Term 5-year Outlook (FY24-FY29)	\$ Change	% Change
Local Revenues							
1 Sales Tax (PA, PC, TDA, STA & SB1)	\$ 5,359.8	\$ 6,174.6	\$ 34,745.2	2.9%	\$ 35,564.4	\$ (819.2)	-2.3%
2 Fare	180.5	210.3	1,209.2	3.4%	1,091.1	118.1	10.8%
3 Advertising, Toll, and Other Revenues	191.0	339.7	1,519.4	12.4%	1,036.9	482.5	46.5%
4 Total Local Revenues	\$ 5,731.3	\$ 6,724.6	\$ 37,473.9	3.2%	\$ 37,692.4	\$ (218.5)	-0.6%
Grant Resources							
5 Federal, State and Local Grants	\$ 1,779.9	\$ 3,297.7	\$ 18,076.9	18.9%	\$ 16,742.5	\$ 1,334.4	8.0%
6 Total Grant Resources	\$ 1,779.9	\$ 3,297.7	\$ 18,076.9	18.9%	\$ 16,742.5	\$ 1,334.4	8.0%

Near-Term Assumptions:

- Projecting average annual growth of 2.9% over the near-term
- Improved fare revenues with the growth in ridership, opening of new rail lines, implementation of fare capping and fare policies
- Additional advertising revenues with the implementation of the Metro Transportation Communications Network (TCN) digital billboard advertising program
- Increase in toll rates and I-105 ExpressLanes to begin service in FY29
- Increased grant resources with SB125 Formula-based Transit and Intercity Rail Capital Program (TIRCP) and Zero Emission Transit Capital Program (ZETCP) grants



FOR INTERNAL USE ONLY

- The Agency’s Near-Term Outlook through FY30 includes continued cost growth in Metro Transit Operations & Maintenance (O&M) and Capital Improvement Program (CIP)

5 Year Near-Term Outlook						
Cost Growth Drivers <i>(in \$Millions)</i>	FY25	FY30	Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate (FY24-29)	
	Adopted	Forecast			Rate	% Change
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%
Parts, Fuel & Outside Services	714.1	961.4	5,019.4	6.1%	3.5%	2.6%
Public Safety	351.2	420.5	2,472.8	3.7%	6.2%	-2.5%
Cleaning	248.0	347.5	1,794.1	7.0%	5.5%	1.5%
Insurance, WC, PL/PD	192.3	253.6	1,336.7	5.7%	11.1%	-5.4%
System Expansion	15.2	113.0	457.2	7.0%*	7.2%	-0.2%
TOTAL O&M	\$ 2,709.3	\$ 3,655.1	\$ 19,228.1	6.2%	6.5%	-0.4%
ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%

* System expansion growth based on total rail.

- While every operational cost growth driver is anticipated to grow at a faster rate than sales tax revenues at 2.9%, there are a few areas where the growth has slowed:
 - Public Safety** due to Board Approval in establishing the Transit Community Public Safety Department (TCPSPD)
 - Insurance/WC/PLPD premiums** by reinstating the Operations Safety Steering Committee (OSSC), which meets quarterly to review risk exposure trends and evaluate mitigation measures
 - Zero-Emissions Bus (ZEB) & infrastructure** costs due to forecast revision



FOR INTERNAL USE ONLY

5 Year Near-Term Outlook						
Cost Growth Drivers (in \$Millions)	FY25 Adopted	FY30 Forecast	Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate (FY24-29)	
					% Change	% Change
Labor Costs	\$ 1,188.5	\$ 1,559.1	\$ 8,148.0	5.6%	5.5%	0.1%
Parts, Fuel & Outside Services	714.1	961.4	5,019.4	6.1%	3.5%	2.6%
Public Safety	351.2	420.5	2,472.8	3.7%	6.2%	-2.5%
Cleaning	248.0	347.5	1,794.1	7.0%	5.5%	1.5%
Insurance, WC, PL/PD	192.3	253.6	1,336.7	5.7%	11.1%	-5.4%
System Expansion	15.2	113.0	457.2	7.0%*	7.2%	-0.2%
TOTAL O&M	\$ 2,709.3	\$ 3,655.1	\$ 19,228.1	6.2%	6.5%	-0.4%
ZEB and Infrastructure	\$ 107.8	\$ 436.9	\$ 2,133.3	32.3%	54.7%	-22.4%

* System expansion growth based on total rail.

- The remaining cost growth drivers are relatively flat or growing due to increased investments:
 - **Labor Costs** remain relatively flat even after incorporating the increases in the latest collective bargaining agreements starting in the current fiscal year and for the next five years
 - **Parts, Fuel & Outside Services** growth driven by high inflation, propulsion power, utilities, other parts & supplies and professional services
 - **Cleaning Costs** are driven by Metro’s strategic investment in the expansion of its Station Experience initiatives and implementing technological innovations (i.e., Intelligent Cleaning Equipment (ICE) auto-scrubbers, Elevator Open Door Program, etc.)
 - **System Expansion** remains relatively flat with annual openings through FY30, which will strengthen connectivity and enhance integration across our transit network



FOR INTERNAL USE ONLY



- As Metro works to mitigate the cost growth drivers presented in the Near-Term Outlook, there are additional risks and challenges that have not been quantified in the current forecast.
- These additional risks that may impact the Agency in the Near-Term include:
 - Geopolitical uncertainty
 - Potential increases on tariffs and impact to Metro's purchase price
 - Change in tax exemption status
 - The availability and impact of traditional Federal programs and grants
 - Ongoing inflationary pressures
- Internal factors that also add financial pressure to the Agency include:
 - Operating Metro's expanding rail system in the future will be more costly than operating the same level of service today
 - Ongoing financial risks that stem from capital cost increases which may impact operations eligible funding
 - Preparation for the 2028 Olympic and Paralympic Games in absence of additional funding presents significant challenges



FOR INTERNAL USE ONLY



- FY26 EZBB objectives:
 - Collaborate internally and with the Board of Directors to implement cost controls and develop a balanced budget with limited resources
 - Continue efforts to mitigate and defer the Near-Term deficit
 - Manage through economic slowdown that is expected to continue into the better part of FY26
 - Continue to invest in the major cost growth drivers
- Development of program budgets will consider:
 - Actual spending trends
 - Capital project cashflows based on phase and schedule
 - Sustaining levels of bus and rail service as well as adjusting for new rail openings
 - Agency priorities that require continuous investment



Budget Development Parameters:

- Sales Tax Forecast, Resources Assumption
- Cost Inflation Estimate

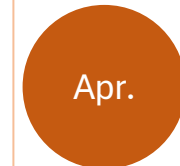


Infrastructure Planning and Construction:

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



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



FY26 Budget: Public Hearing and Board Adoption

