



# FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS – NEAR-TERM OUTLOOK AND ANTICIPATED CHALLENGES

February 2025 | Finance, Budget and Audit Committee







## 1. Near-Term Financial Outlook

- Near Term Outlook Deficit
- Cost Growth Drivers Summary

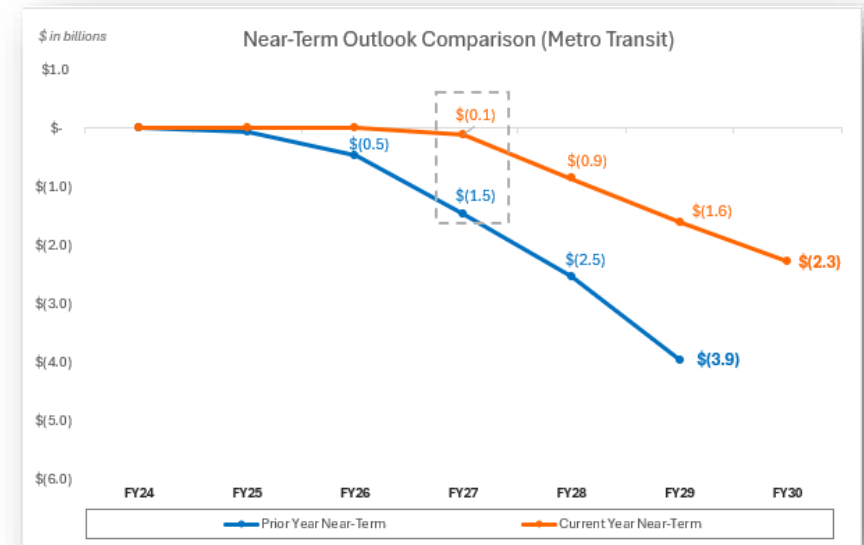
## 2. Additional Risks and Challenges

## 3. FY26 Equitable Zero-Based Budgeting (EZBB)

## 4. Next Steps



- 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:
  - 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
  - Board approved policy changes with newly established Transit Community Public Safety Department (TCPSP)
- 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.



5 Year Near-Term Outlook							
Cost Growth Drivers (in \$Millions)			Current Near-Term Outlook (FY25-30)	Avg Annual Growth Rate (FY25-30)	Avg Annual Growth Rate (FY24-29)		% Change
	FY25 Adopted	FY30 Forecast					
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





- 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



- 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



## 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.



## FY26 Proposed Budget:

- Public Hearing and Board Adoption

May