ADDRESSING THE FISCAL CLIFF

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

Metro

Near-Term Financial Outlook

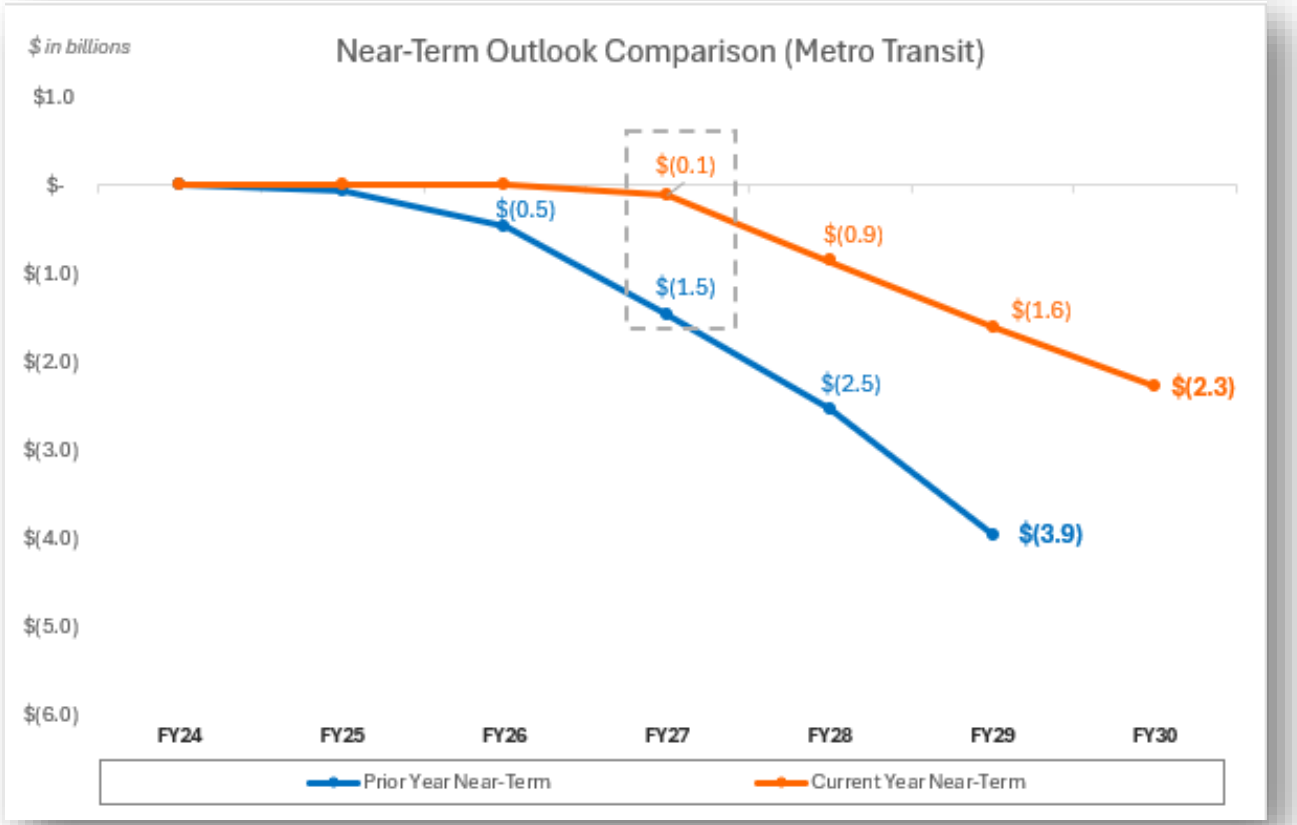
FY 26 Metro

External Pressures

- **Federal Funding Uncertainty**
  - Uncertainty may disrupt long-term financial planning
- **Tariff-Driven Procurement Costs**
  - Raising material and equipment costs
- **Persistent Inflation**
  - Increasing pressure on operating and capital expenses
- **Volatile Funding Environment**
  - Demands adaptable and responsive fiscal strategies

Internal Pressures

- **Rail System Expansion**
  - Adds sustained pressure on capital and operations
- **Rising Capital Costs**
  - Driven by rising construction and material prices
- **Preparation for Mega Events**
  - Short-term resource strain across the agency



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

Focus on 5 key areas:

1. What is driving revenues?
2. What is utilizing flexible funding sources, which includes General Fund?
3. What is driving expenses?
4. How are capital projects putting pressure on the fiscal cliff?
5. What is in place for operational efficiencies?

Eligibility of Funds for Operations (e.g. FY25)

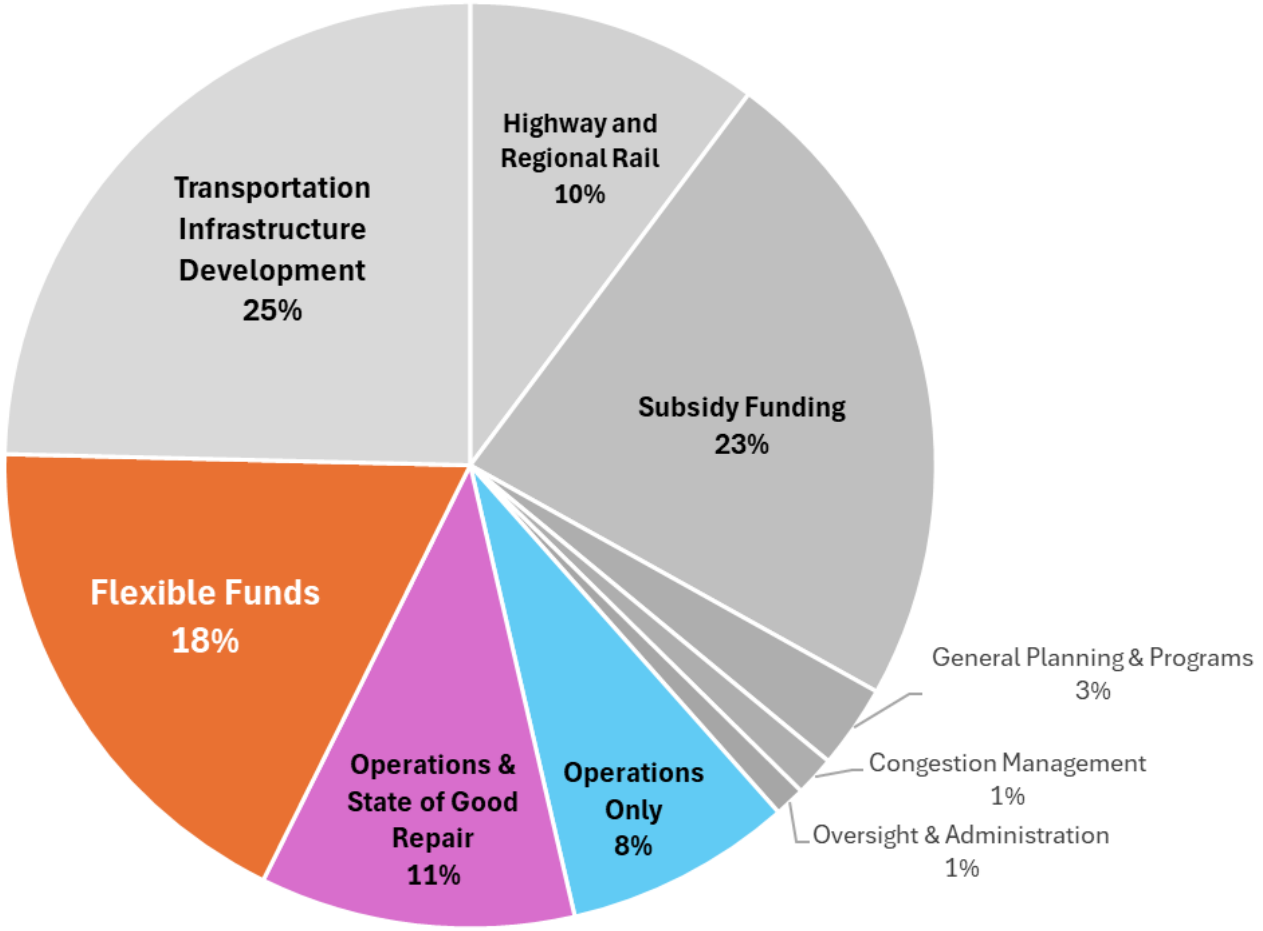
FY 26

- > 130 colors of funds
- < 15 sources are dedicated for operations

8% **of FY25 Resources**
Dedicated for Operations

91% **of Flexible Funds**
Used for Operations & State of Good Repair

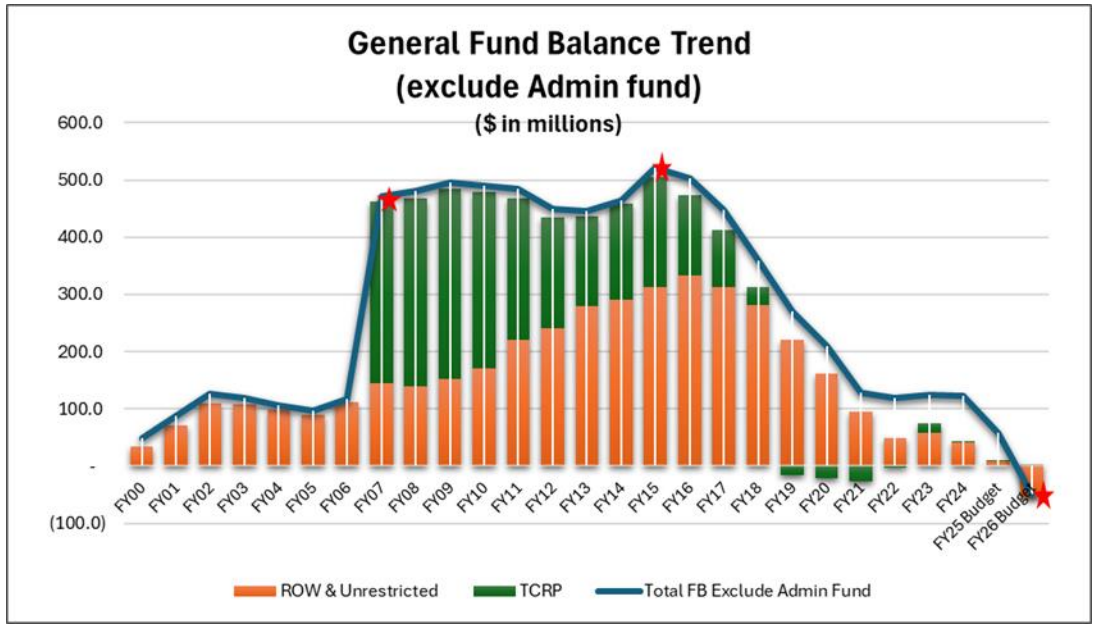
96% **of Operations & State Good Repair funds**
Used for Operations



General Fund

Metro's General Fund

- Covers activities not assigned to other funds
- Projecting negative fund balance at end of FY26

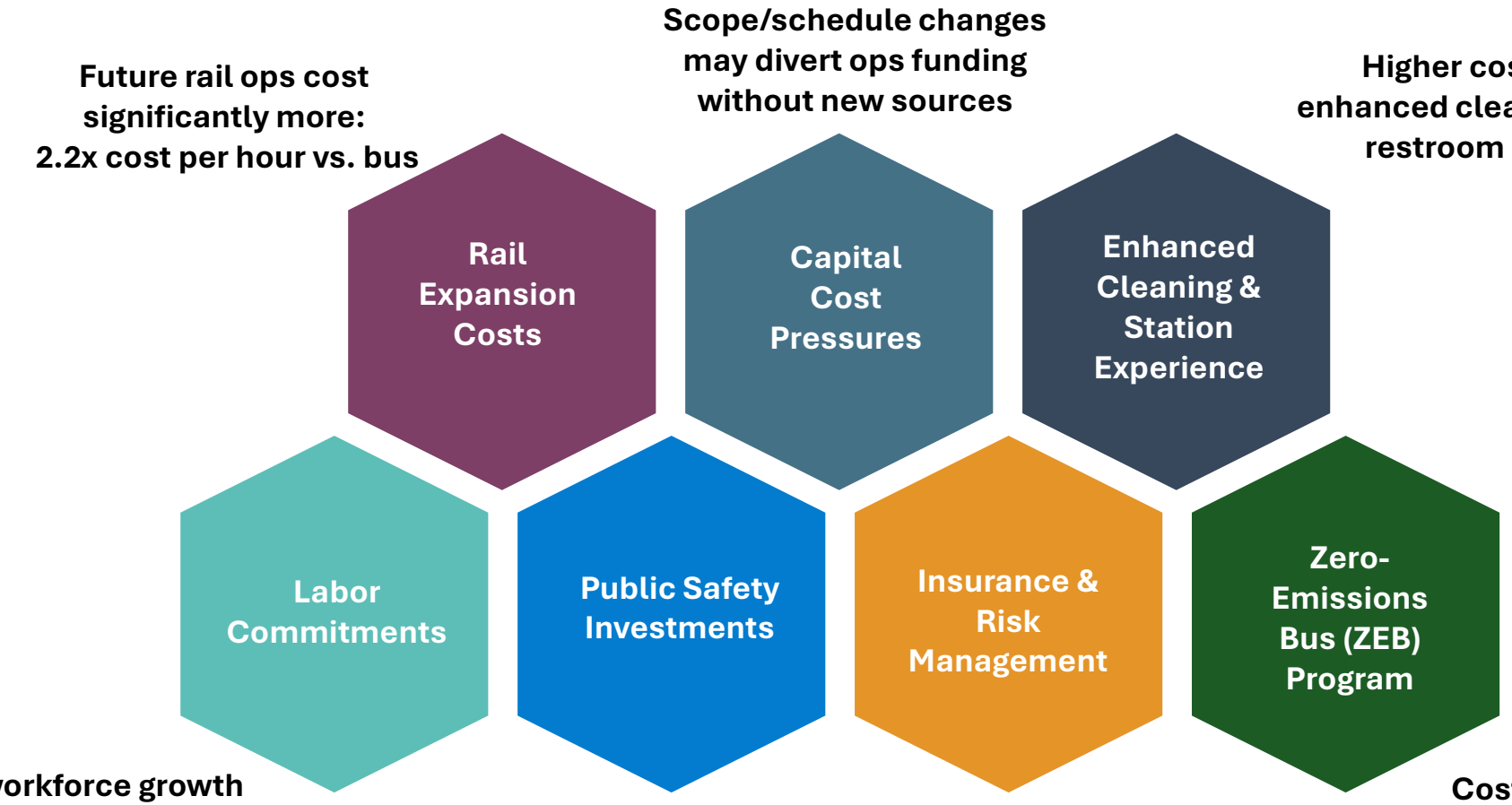


- Downward trend
  1. Revenues declining
  2. Growing demand for unfunded activities

Projects drawing on General Fund

	FY26 Budget General Fund		
	Project Name	ROW & Unrestricted	Green
1	**Revenue**	**$ 16.8**	**$ 14.5**
2	**Expenditures**		
3	PROPERTY MANAGEMENT	38.1	
4	JOINT DEV 10K HOMES	12.2	
5	JOINT DEVELOPMENT	1.9	
6	SEED SCHOOL	6.1	
7	BIKESHARE PRGM O&M	8.2	
8	BIKE HUB/LOCKERS O&M	0.8	
9	GATEWAY CENTER (EAST)	5.7	
10	UNION STATION (WEST)	3.5	
11	UNION STATION (MASTER PLAN)	1.2	
12	THE HOUSING LAB (PILOT)	0.1	
13	ARTS DISTRICT/6TH ST STATION	1.0	
14	TRANSIT LEARNING CENTER	0.1	
15	SUSTAINABILITY Program		19.5
16	ZEB & Infrastructure		34.7
17	**Total Expenditures**	**$ 78.8**	**$ 54.3**
18	**Over Draw of General Fund**	**$ (61.9)**	**$ (39.8)**

Major Cost Drivers



Strategic Workplan

FY 26

- Detailed Report on Capital Cost Escalations
- Short Range Transportation Plan (SRTP)

Summer 2025

Fall 2025

- Commencement of Measure M (MM) Decennial Review and Assessment

- Near-Term Outlook Update: Incorporate most current financial and economic assumptions
- Resources Deep Dive: Including sales tax analysis

Winter 2025

Spring 2026

Equitable Zero-Based Budget (EZBB) Process for FY27 Budget Development:

- Affordability Thresholds based on resources available
- Cost control efforts
- Detailed program evaluations
- Collaborative prioritization

- MM Decennial Consideration

Summer 2026

Ongoing

- Monitor and assess risks, take mitigation actions more immediately as necessary

Guiding Principles

Guiding Principles

- **Preserve Essential Services:**
  - Avoid reductions to core bus and rail service that disproportionately affect transit-dependent riders.
- **Prioritize Quality Service:**
  - Align decision-making with the most urgent concerns of riders that enhance the rider experience.

Measurable Outcomes

- **Increase Ridership:**
  - Invest in improvements that have a measurable effect on growing systemwide ridership.
- **Reduce Crime & Enhance Safety:**
  - Fund initiatives that decrease criminal activity and enhance rider perceptions of safety.

Adopt Guidelines for Addressing the Fiscal Cliff

- Apply results-driven financial framework that prioritizes investments
- Guidelines work toward maximizing effectiveness of available resources
- Critical time for Board to consider major decisions to mitigate projected deficits in the coming years