



Board Report

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FINANCE, BUDGET, AND AUDIT COMMITTEE APRIL 17, 2024

SUBJECT: FISCAL YEAR 2025 BUDGET DEVELOPMENT STATUS UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE on Fiscal Year 2025 Budget Development Status Update.

ISSUE

This report continues a series of monthly updates on the FY25 Budget development process, culminating in a planned May 2024 Board Adoption. The report focuses on the key areas of Metro's Transit Operations and Maintenance (O&M) Program and Transit Capital Improvement Projects (CIP) to maintain transit infrastructure in a state of good repair. These two programs combined make up 36% of Metro's total budget.

Additionally, an overview of Congestion Management, General Planning and Programs, and Oversight and Administration, which make up about 5% of Metro's total budget are included to complete the program budget discussions for the FY25 Budget development process. A recap of the Special Board Budget Workshop and the latest update regarding Metro's comprehensive budget outreach efforts are also included in this report.

BACKGROUND

This preliminary budget serves as the annual cash flow of expenditures and revenues required to advance Transit Operations plans, fulfill Operations and Maintenance needs, repair and upgrade Transit Infrastructure, and enhance the customer experience. While the Operations and Maintenance and Capital Improvement Project budgets reflect this annual cash flow, Capital Improvement Projects (CIP) are controlled at a Life of Project (LOP) budget level.

DISCUSSION

Metro Transit Operation and Maintenance Program Overview

To attract and retain riders, Metro's Transit O&M program aims to provide best in class transit service by continuing NextGen service improvements, enhancing customer experience, reimagining public safety, and making transit accessible and affordable. To achieve these goals, the FY25 Preliminary O&M Budget is \$2.65 billion, an increase of 11.4% or \$272.4 million over the FY24 Budget, as shown in Figure 1 below. It includes funding to support the delivery of 8.8 million Revenue Service Hours (RSH) to operate Bus and Rail services, as well as the Metro Micro pilot program.

Figure 1:

| | FY24 Budget | FY25 Preliminary | \$ Change | % Change | % of Total |
|--|-------------------|---------------------|-----------------|--------------|---------------|
| Operations & Maintenance (\$ in millions) | | | | | |
| 1 Bus | \$ 1,533.0 | \$ 1,754.8 | \$ 221.8 | 14.5% | 66.2% |
| 2 Rail | 806.2 | 855.0 | 48.8 | 6.1% | 32.2% |
| 3 Metro Micro | 40.1 | 41.9 | 1.8 | 4.4% | 1.6% |
| 4 Operations & Maintenance Total | \$ 2,379.3 | \$ 2,651.7 | \$ 272.4 | 11.4% | 100.0% |
| Cost per RSH | | | | | |
| 6 Bus | \$ 215.3 | \$ 245.2 | \$ 29.8 | 13.9% | |
| 7 Rail | \$ 535.4 | \$ 609.4 | \$ 74.0 | 13.8% | |
| 8 Metro Micro | \$ 147.2 | \$ 154.2 | \$ 7.0 | 4.8% | |

Note: Totals may not add up because of rounding.

Wage increases for AFSCME, ATU, TCU and Teamsters are not included in the FY25 Preliminary Budget numbers pending the conclusion of Collective Bargaining Agreement negotiations.

Service Plan Assumptions

The Board-approved service plan is the foundation for estimating all costs required to operate the system for the coming fiscal year. The bus service plan has undergone a transformation through NextGen to create an all day, fast, frequent, and reliable bus network. In FY25, Metro plans to operate 7.16 million RSH, reflecting a 3.6% increase over the FY24 estimated actuals. Efforts will continue the expansion of more than 50 miles of new bus lanes and implementing speed and reliability improvements that reduce travel time for riders.

The FY25 rail service plan encompasses 1.40 million rail RSH for four light rail lines (A, C, E, K), and two heavy rail lines (B, D). The plan improves service frequency, particularly during off-peak hours, to adapt to current ridership patterns. The proposed rail service plan will see an increase of 198 thousand RSH or 16.4% compared to FY24 estimated actuals.

The rail service plan includes the highly anticipated addition of the LAX/Metro Transit Center (AMC) and the Aviation/Century stations along the K-Line in FY25. This will allow the K-Line extension to connect with the C Line. In addition, Around 81 thousand pre-revenue service hours for testing are also planned for the Purple Line Extension Phase 1 (PLE1) and A-Line (Foothill) Pomona extension. Specific resource requirements to operate both the new K-Line AMC station and Emergency Operations Center, as well as pre-revenue for both the PLE1 and Foothill Pomona Extension, will be brought to the Board for separate approval and a budget amendment.

Metro Micro

Metro Micro's preliminary budget increases by 4.4% or \$41.9 million and includes staffing and contracted expenses to operate 271.4 thousand RSH. See Attachment A for additional Bus, Rail, and Metro Micro budget details.

Increased Budget Resource Allocation for Enhanced Customer Experience

Station Experience

The pilot station intervention strategies at Westlake/MacArthur Park Station were extremely effective, resulting in a reduction in crime and loitering at the station. The CEO established a "Station Experience" unit to expand these strategies and elevate public safety, cleanliness, operations, and customer experience throughout all Metro stations and transit centers. Stations are being evaluated to determine the types of strategies to be implemented.

The FY25 Preliminary Budget expands the station experience activities to include more stations for a total budget of \$9.9 million. 10 new FTE's will be added and \$7.5 million is allocated in the CIP program to address these efforts, as shown in Figure 2 below.

Cleaning

The FY25 Preliminary Budget includes \$255.4 million for comprehensive cleaning activities, reflecting a 14.4% increase or \$32.2 million over FY24. This includes the addition of 165 new staff to be deployed directly to clean and upkeep bus and rail vehicles, stations, stops and facilities. The Room-to-Work program, established to provide career opportunities to unhoused riders, will continue to provide part-time custodial cleaning positions at rail stations. Figure 2 summarizes the increases in FTE and budget request from FY24 to FY25.

Figure 2:

| (\$ in Millions) Area | FY24 FTE | FY25 FTE | Change | % Change | FY24 Budget | FY25 Preliminary | Change | % Change |
|--|-------------|--------------|------------|--------------|-----------------|---------------------|----------------|--------------|
| Buses | 388 | 400 | 12 | 3.1% | \$ 75.2 | \$ 79.8 | \$ 4.6 | 6.1% |
| Trains | 164 | 210 | 46 | 28.0% | 32.2 | 39.7 | 7.5 | 23.4% |
| Facilities | 108 | 108 | 0 | 0.0% | 30.5 | 29.9 | (0.5) | -1.7% |
| Stations | 237 | 334 | 97 | 40.9% | 80.7 | 91.7 | 11.1 | 13.7% |
| Stops | 23 | 23 | 0 | 0.0% | 4.3 | 4.3 | 0.03 | 0.8% |
| Station Experience | 2 | 12 | 10 | 500.0% | 0.4 | 9.9 | 9.6 | 2695.0% |
| Cleaning & Station Experience Total | 922 | 1,087 | 165 | 17.9% | \$ 223.2 | \$ 255.4 | \$ 32.2 | 14.4% |

Note: Totals may not add up due to rounding

See Attachment B for more details on cleaning and station experience efforts.

Public Safety

One of the top priorities for Metro and our riders is safety. Metro's Reimagining Public Safety Framework outlines a multi-layered approach to enhance public safety on the system. This multi-layered approach includes private and Metro transit security officers (TSO). Fifty-three additional Metro TSOs are included in FY25 Preliminary Budget to ensure weekend and late-night coverage on

Metro systems. The other requests allow more dedicated bus-riding teams, transit ambassadors, and Community Intervention Specialists (CIS). As a cornerstone of the interconnected multi-layered public safety strategies, the Homeless and Mental Health Outreach budget request ensures that appropriate personnel are deployed to address specific safety and law enforcement issues. The FY25 Preliminary Budget for Public Safety includes \$354.1 million, a 9.9% increase from the FY24 Budget, shown in Figure 3 below.

Figure 3:

| | Public Safety Resource Deployment (\$ in millions) | FY24 Budget | FY25 Preliminary | \$ Change | % Change |
|---|---|-----------------|---------------------|----------------|-------------|
| 1 | Transit Ambassadors ⁽¹⁾ | \$ 23.5 | \$ 33.3 | \$ 9.8 | 29.5% |
| 2 | Homeless/Mental Health Outreach | 25.2 | 25.2 | (0.1) | -0.2% |
| 3 | Metro Transit Security ⁽²⁾ | 50.9 | 57.9 | 7.1 | 12.2% |
| 4 | Private Security | 43.5 | 43.6 | 0.1 | 0.3% |
| 5 | Law Enforcement | 175.8 | 194.1 | 18.3 | 9.4% |
| 6 | Public Safety Resource Deployment Total | \$ 318.9 | \$ 354.1 | \$ 35.2 | 9.9% |

Note: Totals may not add up due to rounding.

⁽¹⁾ Includes Street Teams, Community Intervention Specialists (CIS), and expansion of the Ambassador breakrooms and deployment sites in FY25.

⁽²⁾ Includes salary, fringe benefits, workers' compensation, and other indirect costs.

Metro Transit Capital Improvement Program (CIP) Budget

The CIP program goal is to methodically renew and improve Metro Transit Systems while maximizing scarce bus and rail capital resources. The CIP budget focuses on maintaining, upgrading, and modernizing assets and infrastructure to provide high quality and reliable transit services. Capital asset improvements within this budget include the implementation of new technologies, rolling stock purchases, rolling stock modernization, station improvements, and other components.

The FY25 CIP program preliminary budget requests \$530.6 million to maintain Metro's bus, rail, regional, and critical information systems needed to manage and monitor system-wide performance. The budget reflects the necessary cash flow to complete FY25 milestones and deliverables. A profile of the CIP program is shown in figure 4 below.

Figure 4:

| | Capital Category (\$ in millions) | FY24 Budget | FY25 Preliminary | \$ Change | % Change | % of Total |
|----|--|-----------------|---------------------|------------------|--------------|---------------|
| 1 | Fleet Procurement | \$ 70.1 | \$ 48.3 | \$ (21.8) | -31.1% | 9.1% |
| 2 | Fleet Maintenance | 44.1 | 48.6 | 4.5 | 10.1% | 9.2% |
| 3 | Facilities Improvements | 21.0 | 44.8 | 23.8 | 113.0% | 8.4% |
| 4 | Bus Subtotal | \$ 135.2 | \$ 141.7 | \$ 6.4 | 4.8% | 26.7% |
| 5 | Fleet Procurement | \$ 32.8 | \$ 59.8 | \$ 27.1 | 82.5% | 11.3% |
| 6 | Fleet Maintenance | 136.2 | 94.0 | (42.2) | -31.0% | 17.7% |
| 7 | Facilities Improvements | 8.7 | 8.8 | 0.0 | 0.5% | 1.7% |
| 8 | Wayside Systems | 52.3 | 63.2 | 10.9 | 20.8% | 11.9% |
| 9 | Rail Subtotal | \$ 230.0 | \$ 225.7 | \$ (4.2) | -1.8% | 42.5% |
| 10 | Regional and Hubs | \$ 34.0 | \$ 42.3 | \$ 8.3 | 24.3% | 8.0% |
| 11 | Technology | 66.0 | 72.1 | 6.1 | 9.2% | 13.6% |
| 12 | Non MR/MM Major Construction | 61.5 | 39.9 | (21.6) | -35.1% | 7.5% |
| 13 | Non-Revenue Vehicles | 12.7 | 9.0 | (3.7) | -29.3% | 1.7% |
| 14 | Other Asset Improvements Subtotal | \$ 174.2 | \$ 163.2 | \$ (10.9) | -6.3% | 30.8% |
| 15 | Total Proposed CIP Budget | \$ 539.4 | \$ 530.6 | \$ (8.7) | -1.6% | 100.0% |

Note: Totals may not add up due to rounding.

Metro will continue working toward achieving a zero-emission bus (ZEB) fleet in the coming years. This effort will require a \$3.5 billion to \$4.0 billion investment in buses and charging infrastructure. Although there is a decrease in bus acquisition expenditures this year, new zero emission bus acquisitions are in the pipeline and will increase as available technology and manufacturing capacity permit. A majority of the Bus Fleet Procurement, line 1 in figure 4, and Facilities Improvements, line 3 in figure 4, are dedicated to ZEB. See Attachment C for additional CIP budget details.

Total Bus Investment

Metro prioritizes bus investment beyond Transit O&M program and service level. A comprehensive Total Bus Investment includes not only the cost of the operations, maintenance, but also NextGen initiatives, capital improvements, planning and construction efforts, as well as other customer experience initiatives and studies. The FY25 Preliminary Budget requests \$2.2 billion in total bus investments as shown in Figure 5.

Figure 5:

| | Bus Investments (\$ in Millions) | FY24 Budget | FY25 Preliminary | \$ Change | % Change | % of Total |
|---|-------------------------------------|-------------------|---------------------|-----------------|--------------|---------------|
| 1 | Bus Operations & Maintenance | \$ 1,533.0 | \$ 1,754.8 | \$ 221.8 | 14.5% | 78.6% |
| 2 | Bus NextGen | 49.6 | 44.6 | (5.0) | -10.1% | 2.0% |
| 3 | Bus Capital Improvements | 140.4 | 159.6 | 19.2 | 13.7% | 7.1% |
| 4 | Bus Transit Construction & Planning | 151.6 | 246.8 | 95.2 | 62.8% | 11.1% |
| 5 | LIFE Program/Bus | 25.4 | 27.1 | 1.7 | 6.7% | 1.2% |
| 6 | Total of Bus Investments | \$ 1,900.0 | \$ 2,232.8 | \$ 332.9 | 17.5% | 100.0% |

Note: Totals may not add up because of rounding.

See Attachment D for additional Bus Investment details.

General Planning & Programming, Congestion Management, and Oversight and Administration

Figure 6:

| Expenditures by Program Type (\$ in millions) | | FY24 Budget | FY25 Preliminary | \$ Change | % Change | % of Total |
|--|-----------------------------|-----------------|---------------------|-----------------|--------------|---------------|
| 1 | General Planning & Programs | 237.4 | 228.8 | (8.6) | -3.6% | 2.7% |
| 2 | Congestion Management | 130.7 | 124.4 | (6.3) | -4.8% | 1.5% |
| 3 | Oversight & Administration | 84.3 | 90.2 | 5.9 | 7.0% | 1.1% |
| 4 | Total | \$ 452.4 | \$ 443.5 | \$ (9.0) | -2.0% | 5.2% |

General Planning & Programming

The FY25 Preliminary Budget for General Planning & Programming (GPP) totals \$228.8 million, a decrease of 3.6% or \$8.6 million from FY24. This program encompasses a wide range of activities supporting the agency's goal of delivering improved mobility and sustainability. Changes in the GPP budget reflect right-sizing resource requests based on the current burn rate and project status. These activities include long-range and systemwide financial planning, grants management, new and enhanced transit infrastructure planning, Metro's bike program, unsolicited proposals/public private partnerships (P3), sustainability, joint development efforts and Union Station upgrades.

Congestion Management

The FY25 Preliminary Budget for Congestion Management totals \$124.4 million, a decrease of 4.8% or \$6.3 million from FY24. The program consists of four major groups: ExpressLanes, Freeway Service Patrol (FSP), Motorist Services, and Rideshare Services. The expenditure decrease in FY25 is mainly due to the completion of the Transponder Replacement Project in FY24.

Oversight and Administration

The FY25 Preliminary Budget for Oversight and Administration totals \$90.2 million, a 7.0% increase or \$5.9 million increase from FY24. This program enhances customer experience through public safety, such as the mystery rider program to support fair and equitable fare compliance, ADA accessibility, and riders with limited English proficiency. Metro is also creating a digital roadmap to enhance the customer experience with new technology platforms.

Special Board Budget Workshop

On Friday, March 29, 2024, a Special Board Budget Workshop was held at Los Angeles County Arboretum in the Ayres Hall. The workshop provided the Board with in-depth information leading to the forecasted financial outlook. The workshop afforded the Board an opportunity to take a holistic and comprehensive approach to review the economic context in Los Angeles County and its impact on Metro's operating program delivery resulting in a projected near-term operational deficit.

Setting the tone with the recent Los Angeles County travel trends, economic challenges, and Metro's path to restore, expand, and enhance transit services, the workshop linked specific causes of cost increases and revenue-generating opportunities to four policy focus areas that impact the operating financial outlook:

1. Environmental Sustainability
2. Universal Basic Mobility
3. Putting People First
4. Revenue Stream and Strategies

Each focus area provided the Board with nationwide statistics and actual financial data for a broader spectrum of Board member discussions facilitated by McKinsey Consulting. The Board was able to identify other areas for Metro staff to explore and request additional information to help prioritize policy decisions.

Early & Expanded Public Engagement Update

Metro is committed to reflecting the perspectives of its diverse community in the annual budget. Public engagement began proactively in the Fall of 2023 and consistently throughout the process. Metro believes that the most powerful tool is the voice of its riders, stakeholders, and the public. The FY25 My Metro Budget activity has received over 4,250 responses, tripling last year's input.

Two CEO Telephone Town Hall (TTH) events are scheduled this budget season. The first TTH was held in October 2023, and attendees had the opportunity to share their concerns and suggestions, which were documented and considered during the FY25 Budget development. The next TTH is scheduled for April 16, 2024. Senior Metro Leadership will share updates on FY25 initiatives and address key public concerns.

In April and May, Metro staff will continue engaging stakeholders through extended outreach meetings to gather additional feedback and insight. See further details on the Outreach and Engagement efforts in Attachment E.

DETERMINATION OF SAFETY IMPACT

This recommendation will not have an impact on safety standards at Metro.

EQUITY PLATFORM

Metro's Transit Program focuses on Bus and Rail service, customer experience initiatives, and public safety enhancements. Customer engagement efforts to develop the budget were inclusive, with marketing to reach residents in Equity Focus Communities (EFCs) and other diverse riders. This portion of the budget considers the comments received from riders about safety, cleanliness, frequency, and reliability. The proposed FY25 service plan and budget emphasizes putting people first- riders, stakeholders, and employees while providing equitable, sustainable, economically productive, safe, and accessible service.

This budget works to expand and enhance the system by implementing service that meets customer demand. It also funds ADA accessible and expansive services, like Metro Micro to better serve all communities' unique transit needs. Additionally, the budget considers Metro's Reimagining Public Safety campaign for homeless and mental health outreach, as well as safety and security with the expansion of Transit Ambassadors and Metro Transit Security.

Metro engaged riders, stakeholders, and the broader public early in the budget process, starting with public meetings, Telephone Town Halls, and the My Metro Budget engagement tool. The Telephone Town Hall meetings dialed out to 100% of EFCs. The My Metro Budget tool is available in Spanish and English to engage and educate the public. These tools are available at all times. An additional

Telephone Town Hall meeting will be held on April 16th, and the results will be analyzed by staff to develop strategies for continued improvement of Metro Transit programs and initiatives.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports the following Metro Strategic Plan Goal:

Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

NEXT STEPS

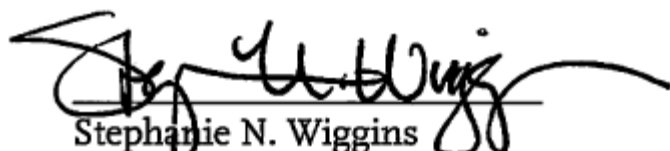
Staff continues to review and refine the FY25 Preliminary Budget as it advances through the process, being mindful of the promise embodied in the Service Plan and Capital Improvement Plan, as well as planned Agency-wide initiatives. The FY25 Proposed Budget will be published on April 30, 2024. A public hearing will be held on May 15, 2024, for the Board's consideration to adopt the Proposed FY25 Budget on May 23, 2024.

ATTACHMENTS

Attachment A - Metro Transit O&M - (Budget and Service Plan)
Attachment B - Station Experience and Cleaning Initiatives
Attachment C - Metro Transit Capital Improvement Projects Details
Attachment D - Total Bus Investments
Attachment E - Early, Improved & Expanded Public Engagement Update

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