



Board Report

File #: 2024-0227, File Type: Public Hearing

Agenda Number: 15.

**BUDGET PUBLIC HEARING  
FINANCE, BUDGET, AND AUDIT COMMITTEE  
MAY 15, 2024**

**SUBJECT: FISCAL YEAR 2025 (FY25) PROPOSED BUDGET**

**ACTION: APPROVE RECOMMENDATIONS**

**RECOMMENDATION**

CONSIDER:

- A. ADOPTING the proposed FY25 Budget as presented in the budget document (provided in a separate transmittal and posted on [metro.net <https://www.metro.net/about/financebudget/>](https://www.metro.net/about/financebudget/));
  - 1. AUTHORIZING \$9.0 billion annual consolidated expenditures to achieve goals and objectives set forth by the Board adopted mission and goals;
  - 2. AUTHORIZING a total of 11,283 FTEs, of which 9,275 are Represented FTEs and 2,008 are Non-Represented FTEs;
  - 3. AUTHORIZING an average 4% performance-based merit increase for Non-Represented employees;
  - 4. AMENDING the proposed budget to include \$16.4 million for the federal fund awarded to Metro from the Reconnecting Communities and Neighborhoods (RCN) grant for the first set of projects from the Games Mobility Concept Plan;
  - 5. AMENDING the proposed budget to include \$3.5 million in FY25 for the Operations Central Instruction (OCI) project and approve a Life-of-Project (LOP) budget of \$24.5 million, which will centralize training and onboarding for Bus Operators and essential front-line staff;
  - 6. APPROVING the Life of Project (LOP) budgets for new capital projects; new capital projects with LOP exceeding \$5.0 million are presented in Attachment B;
  - 7. AMENDING the proposed budget to include any Board approved actions currently under consideration from now to the end of the fiscal year (June 30, 2024);

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- B. APPROVING the programming of \$10 million in Measure M funds for the SR-71 Project to support design activities for the SR-71 North Segment project; and
- C. APPROVING the Reimbursement Resolution declaring Metro's intention to issue debt in FY25 for capital projects, as shown in Attachment C, with the provision that actual debt issuance will require separate Board approval.

## **ISSUE**

California Public Utilities Code Section 130105 requires Metro to adopt an annual budget to manage the revenues and expenses of the Agency's projects and programs. The budget is the legal authorization to obligate and spend funds and to implement Board policy. It includes all operating, capital, planning and programming, subsidy funds, debt service requirements, and general fund activities for the fiscal year. The legal level of control is at the fund level. Total annual expenditures cannot exceed the final appropriation by the Board at the fund level except for capital expenditures, which are authorized on a life of project basis.

On April 30, 2024, the FY25 Proposed Budget was made available to the public at [www.metro.net](http://www.metro.net) <<http://www.metro.net>>, in printed copies through the Records Management Center (RMC) at [RMC@metro.net](mailto:RMC@metro.net) <<mailto:RMC@metro.net>>, and on the plaza level of the Gateway building. The public hearing is scheduled for May 15, 2024. On April 15, 2024, advanced public notifications of the Budget Public Hearing were issued through advertisements posted in more than ten news publications and in various languages.

## **BACKGROUND**

In preparation for the FY25 Budget development process, the Office of Management and Budget (OMB) provided an oral report of financial context and outlook to the Board on October 18, 2023. Since January 2024, staff have provided the Board with status updates on the FY25 Budget development process. An extensive public outreach process was also launched in October 2023 with the first of two telephone town halls to communicate the budget proposal and collect public comments for consideration in the budget development.

In addition, to be fully transparent in the proposed budgetary use of the public transportation funds, staff also conducted multiple briefings and discussions with Board Staff and stakeholder groups, including the Community Advisory Council, Regional Service Councils, Technical Advisory Committee, Policy Advisory Committee, Accessibility Advisory Committee, etc. Please see attachment A for Early, Expanded and Improved Public Outreach Report.

This is the final series of monthly updates to the Board on the FY25 Budget development process, culminating with our FY25 Budget recommendation for Board Adoption. This report wraps up the framework for the annual budget development, with the primary objective to advance Metro's transit and transportation goals, with an equity lens, in a fiscally sound and financially responsible manner.

## **DISCUSSION**

Metro has developed a culture focused on equity, fiscal discipline, and cost mitigation. Metro staff will continue to preserve sound financial planning to implement transit capital investments and operating plans.

The Equitable Zero-Based Budget (EZBB) process continues to drive this year’s annual budget development process as a cost control tool integrating an equity lens to develop a fiscally responsible budget. This budget facilitates a collaborative approach across Metro’s departments. Incorporating the feedback heard through Metro’s expanded public outreach efforts, every department aligns with strategic priorities and allocates available resources based on Metro’s mission, core focuses, and agency strategic imperatives.

The proposed \$9.0 billion budget for FY25 is balanced and focused on a service plan to support system expansion, customer experience enhancements in safety and cleanliness, maintaining assets in a state of good repair and resumes Metro’s core business of planning, operations, and construction activities.

**FY25 Proposed Budget can be accessed at:**

<https://budget.metro.net/download/fiscal-year-2025-proposed-budget-book.pdf>

**Resources Summary**

The FY25 Proposed Budget ensures that resources are available to meet the planned Metro program and project delivery schedules for the upcoming fiscal year. Revenue projections are based on the current socio-economic conditions, such as the continuing impacts of decades-high inflation, flattened economic growth projections in FY25, leading regional forecasting sources, and recent transit system usage.

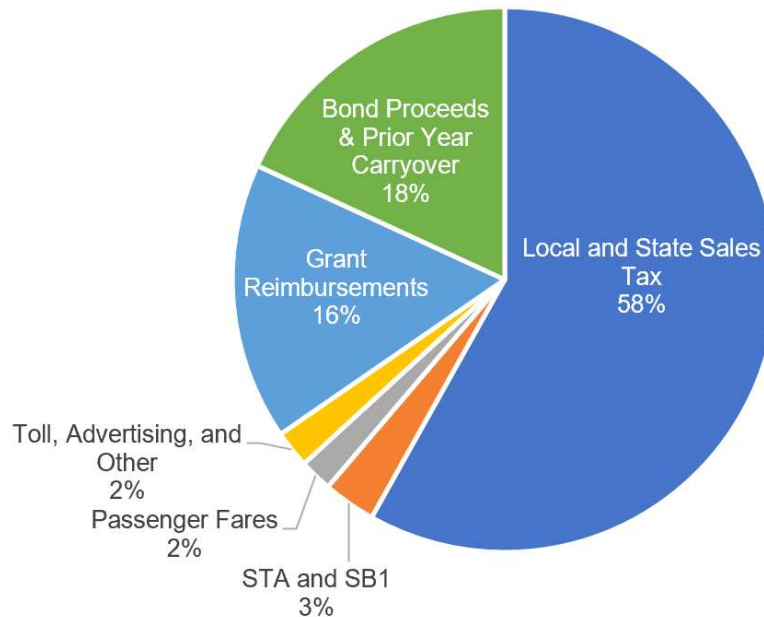
The total FY25 Proposed Budget planned resources are \$8.95 billion, which is 4.3% less than the FY24 Budget. The 3.7% projected decrease in sales tax revenues is due to the lower than budgeted FY24 year to date actual receipts.

	Resources (\$ in millions)	FY24 Budget	FY25 Proposed	\$ Change	% Change
1	Local and State Sales Tax	\$ 5,400.0	\$ 5,202.0	\$ (198.0)	-3.7%
2	STA and SB1	214.6	279.6	65.0	30.3%
3	<b>Sales Tax and STA/SB1 Revenues Subtotal</b>	<b>\$ 5,614.6</b>	<b>\$ 5,481.6</b>	<b>\$ (133.0)</b>	<b>-2.4%</b>
4	Passenger Fares	146.8	174.6	27.7	18.9%
5	Toll, Advertising, and Other	184.0	196.9	12.9	7.0%
6	<b>Operating &amp; Other Revenues Subtotal</b>	<b>\$ 330.8</b>	<b>\$ 371.5</b>	<b>\$ 40.7</b>	<b>12.3%</b>
7	Grant Reimbursements	1,735.0	1,472.4	(262.6)	-15.1%
8	Bond Proceeds & Prior Year Carryover <sup>(1)</sup>	1,667.9	1,623.6	(44.3)	-2.7%
9	<b>Capital &amp; Bond Resources Subtotal</b>	<b>\$ 3,403.0</b>	<b>\$ 3,096.0</b>	<b>\$ (306.9)</b>	<b>-9.0%</b>
10	<b>Resources Total</b>	<b>\$ 9,348.4</b>	<b>\$ 8,949.1</b>	<b>\$ (399.2)</b>	<b>-4.3%</b>

<sup>(1)</sup> Represents use of Bond Proceeds and sales tax revenues received and unspent in prior years.

Note: Totals may not add up due to rounding.

Resources % of FY25 Budget



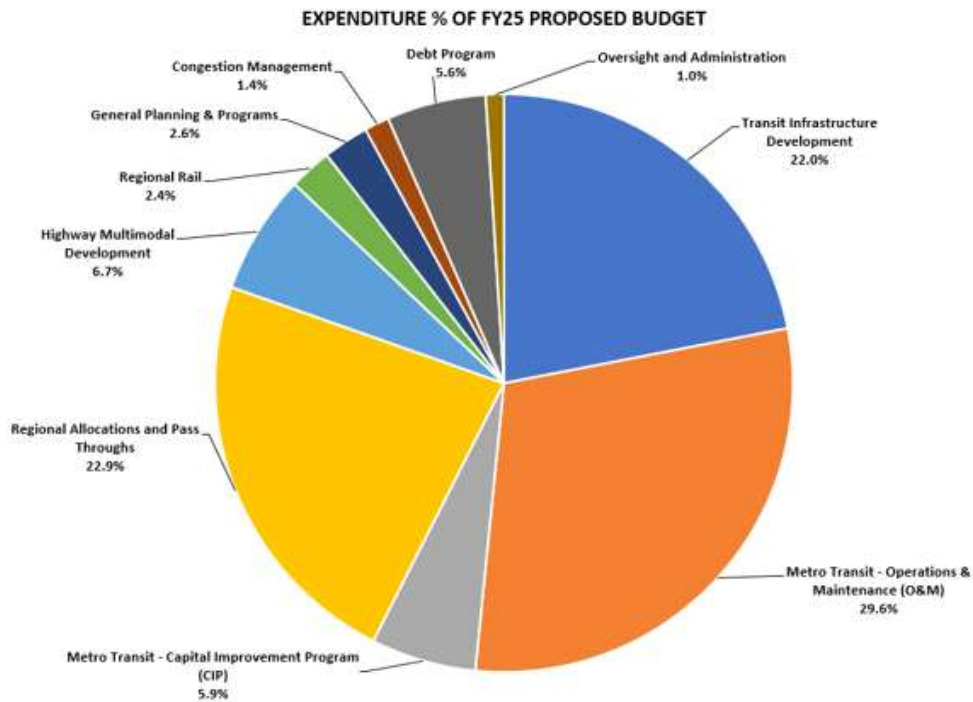
**Expenditure Summary**

The proposed budget of \$8.95 billion is aligned with Board priorities and validated by public outreach comments of improved customer experience and service, as well as providing reliable daily service and public safety through an equity lens. It continues to expand Metro’s Transit Infrastructure and to plan for countywide mobility needs. Each program, function, and department budget were developed accordingly to reflect the new economic realities and progress on projects.

The decline in capital expenses is attributed to several projects nearing completion, resulting in a decrease in cash flow requirements along with the recent openings of K Line and Regional Connector. Operating expenses increased with continued investment to attract and retain riders by continuing NextGen service improvements to provide all day, fast and frequent services, enhancing customer experience, reimagining public safety, and making transit accessible and affordable. The table below illustrates the expenditures by program type in FY25 Proposed Budget.

Expenditures by Type (\$ in millions)	FY24 Budget	FY25 Proposed	\$ Change	% Change
1 Transit Infrastructure Development	\$ 2,496.8	\$ 1,964.9	\$ (531.9)	(21.3)%
2 Highway Multimodal Development	618.1	599.8	(18.3)	(3.0)%
3 Metro Transit - Capital Improvement Program (CIP)	539.4	526.8	(12.5)	(2.3)%
4 Regional Rail	314.5	214.0	(100.5)	(32.0)%
<b>5 Total Capital Expenses</b>	<b>\$ 3,968.8</b>	<b>\$ 3,305.5</b>	<b>\$ (663.3)</b>	<b>(16.7)%</b>
6 Metro Transit - Operations & Maintenance (O&M)	2,379.4	2,651.7	272.4	11.4%
7 Congestion Management	130.7	124.4	(6.3)	(4.8)%
8 General Planning & Programs	237.4	228.8	(8.6)	(3.6)%
9 Oversight and Administration	84.3	90.2	5.9	7.0%
<b>10 Total Operating Expenses</b>	<b>\$ 2,831.8</b>	<b>\$ 3,095.2</b>	<b>\$ 263.4</b>	<b>9.3%</b>
11 Regional Allocations and Pass Throughs	2,058.0	2,051.2	(6.8)	(0.3)%
12 Debt Program	489.8	497.3	7.5	1.5%
<b>13 Grand Total</b>	<b>\$ 9,348.4</b>	<b>\$ 8,949.1</b>	<b>\$ (399.2)</b>	<b>(4.3)%</b>

Note: Totals may not add up because of rounding.



### Full-Time Equivalent (FTE) Summary

The FY25 Proposed Budget includes 11,283 FTEs, an increase of 400 FTEs from FY24. FTE additions include 107 Non-Represented (60 are mostly cost-neutral by shifting from temporary to permanent, and 47 are new) and 293 Represented.

Non-Represented FTEs for FY25 total 2,008; which includes an additional 107 new positions to serve the following areas (see the table below):

- Mega Project Resource Model (consultant conversions)
- Enhance the Transit Rider Experience including Cleaning and Station Experience Initiatives
- Valuing the Workforce
- Operational Efficiencies
- Administration, Financial Sustainability, and Legal Compliance
- Joint Development and Better Mobility
- Capital Project Support

Agencywide FTEs: Non-Represented	Mega Project Resource Model	Transit Rider Experience	Valuing the Workforce	Operational Efficiencies	Joint Dev & Better Mobility	Admin, Fin & Legal	Capital Project Support	New Positions	Cost Neutral	FY25 Additions
1 Chief Executive Office & Chief of Staff						1	3	4	1	5
2 Chief People Office			9					9	8	17
3 Chief Safety Office			4					4		4
4 Customer Experience Office		2						2	5	7
5 Operations		4		1			1	6		6
6 Office of Strategic Innovation		1					1	2		2
7 Planning And Development					3	1	1	5	7	12
8 Program Management	5							5	24	29
9 Strategic Financial Management		2	2	3		1		8	14	22
10 Board Of Directors: Ethics, Inspector General, & Office of the Board Administration						2		2	1	3
11 Grand Total	5	9	15	4	3	5	6	47	60	107

Represented FTEs for FY25 total 9,275; which includes 293 new positions for the following:

- Expand cleaning efforts on both Bus and Rail systems, including hot spots and end of line.
- Improve the Station Experience through environmental design and care first strategies.
- Provide operational support by aligning security resources to Metro’s high visibility and vulnerable areas with Bus Riding Teams and providing presence on the K Line and Regional Connector.
- Increase efforts to address critical State of Good Repair work for A Line, B Line, C Line, and Heavy Rail Mid-Life, and other capital projects.
- Preventative maintenance work on bus and rail system.
- Expansion of TAP Operations Call Center.
- Support logistics for bus storeroom and rail warehouses, ITS Divisions support, and Employment Processing Center.

Agencywide FTEs: Represented	Cleaning	Station Experience	Bus Riding Teams and Safety	SGR Efforts	Preventative Maintenance	TAP Ops Call Center	Logistics, ITS Div Support, Emp Processing Ctr	New Positions
1 Chief People Office							2	2
2 Chief Safety Office			53					53
3 Customer Experience Office						5		5
4 Operations	155	8		42	25			230
5 Strategic Financial Management							3	3
6 Grand Total	155	8	53	42	25	5	5	293

**Labor Summary**

The FY25 Proposed Budget reflects wage increase for the represented union group SMART, per its Collective Bargaining Agreement (CBA). The FY25 Proposed Budget does not yet include wage increases for Metro’s four other represented union groups, AFSCME, ATU, TEAMSTERS, and TCU,

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as collective bargaining is underway. Once CBAs have been established, the FY25 Adopted Budget will be amended.

An average 4% performance increase, consistent with the annual wage increase portion of the SMART CBA, is included for non-represented employees to be distributed on a merit-based system,

Health and welfare benefits for represented employees are determined by their respective CBAs. Non-represented employees receive medical and dental benefits at the carrier contract rates previously approved by the Board.

### **Budget Amendments through June 30, 2024**

The proposed budget shall include any Board approved actions currently under consideration, from now to the end of the fiscal year (June 30, 2024).

### **Life of Project (LOP) Budgets**

The Board must approve new capital projects with LOP budgets exceeding \$5.0 million as separate Board actions.

Attachment B includes a detailed listing of new capital projects for FY25 with LOP budgets over \$5.0 million. These new capital projects in the FY25 Proposed Budget include Division 8 Charging Infrastructure, Rail Facility Maintenance & Improvements, Bus Division Improvements V, Rail Station Improvements, Union Station Gateway (USG) Electrical and Security System, Resilience Charging System, Metro A Line (Blue) Train Control (TC) Cases and Hawk Event Recorder, FY25 Non-Revenue Vehicle Equipment Replacement, Metro B (Red) and D Line (Purple) Auxiliary Room CCTV Alarms, Maintenance of Way Training Facility, Metro B Line (Red) Protective Relay, Video Management Security (VMS) Intelligence System, TAP Plus Salesforce Integration, and A Line Foothill Extension 2B Alignment Integration.

### **Programming Action**

The FY25 Proposed Budget currently has \$30 million for SR-71 South Segment Project which will be adjusted to provide \$10 million for the SR-71 North Segment project and \$20 million for the SR-71 South Segment Project.

### **Reimbursement Resolution**

Per Federal tax law, bond proceeds can only be used for capital expenditures incurred after the issuance of bonds. Metro must pass a resolution indicating the intent to issue bonds at a later date in order to reimburse expenditures incurred prior to the bond issuance. See Attachment C for Reimbursement Resolution.

### **Debt Program**

Debt financing is a cash management and budget tool Metro uses to help deliver projects. Debt issuance is authorized by applicable state and federal legislation and the local sales tax ordinances. The Board-adopted Debt Policy establishes prudent guidelines for the issuance and management of

debt following industry best practices and ordinance-specific affordability limits.

Debt is not an additional source of revenue. It must be paid back with interest using existing and predetermined funding sources, in most cases, local sales tax revenues. However, it is a way to spread out the impact of large spikes in capital costs over multiple years. For this reason, most of Metro's large projects have utilized or are expected to use debt financing to facilitate project delivery.

As of July 2024, Metro has approximately \$4,853.0 million of outstanding long-term debt. The annual debt service cost in FY25 is estimated at \$493.8 million, an increase of 1.6% over the FY24 Budget of \$486.1 million, according to the debt service schedule. In FY25, it is anticipated that Airport Metro Connector, Westside D Line (Purple) Sections 1, 2, & system integration, Division 20 Portal Widening, Gold Line Foothill Extension, E Line Eastside Light Rail Phase 2, East San Fernando Transit Corridor, Regional Surface Transportation and Local Traffic System, and various other projects will utilize bond proceeds from the issued debt.

### **DETERMINATION OF SAFETY IMPACT**

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

### **FINANCIAL IMPACT**

The FY25 Proposed Budget (provided in a separate submittal) at \$9.0 billion is balanced. The proposed budget demonstrates Metro's ongoing commitment to meeting its capital and operating obligations, which is essential in receiving subsidies from federal and state governments and to administer regional transportation funding to local cities and municipal operators.

### **EQUITY PLATFORM**

Per Board direction, Metro has annually applied the Metro Budget Equity Assessment Tool (MBEAT) to its budget requests for operations costs and capital projects since the FY21 budget process. The FY25 EZBB MBEAT continues to identify potential impacts on marginalized communities and highlights budget requests that advance equitable community outcomes for each Metro department. With this data, staff are better equipped to identify opportunities to incorporate equity iteratively and intentionally into Metro programs and services.

The EZBB process also utilized Metro's EFC Budget Assessment process, a geographic equity analysis that was introduced in 2022 for the FY23 approved budget. The EFC Baseline Assessment was conducted to identify whether Metro's budget is proportionately investing in benefits to EFCs, which comprise approximately 40% of Los Angeles County. In year three, the FY25 EFC Assessment of Metro's budget investing in benefits to EFCs is 28.1 percent targeted benefits, representing close to \$2.8 billion, and 45.5 percent indirect benefits, representing just under \$4.2 billion. The slight decrease of 1.5% vs. year two in targeted benefits, as illustrated by the table below, is due to the decline in cashflow expenses for major construction projects approaching completion, such as the Airport Metro Connector (AMC) project, Foothill A Line Extension and Segment A of Rail to Rail.



	FY24 EFC Assessment (Year 2)	FY25 EFC Assessment (Year 3)	% Change FY24 vs. FY25
Targeted Benefits	29.6%	28.1%	-1.5%
Indirect Benefits	45.6%	45.5%	-0.1%
<b>Total EFC Benefits</b>	<b>75.1%</b>	<b>73.6%</b>	<b>-1.6%</b>

Staff also aligned their FY25 department budgets towards budget Equity Principles that support Metro’s Equity Platform framework. Budget highlights that support these four principles were included in the FY25 Proposed Budget (pg. 8 - 10) earlier this month.

**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.

**ALTERNATIVES CONSIDERED**

The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro’s goal of improving transportation in Los Angeles County.

**NEXT STEPS**

Upon Board authorization and adoption of the FY25 Proposed Budget, Metro will make funds available for the planned transit and transportation programs outlined in the proposed budget document and program funding to regional transit/transportation partnering agencies, cities, and recipients.

Staff will closely monitor the financial situation and provide regular performance updates to the Board.

**ATTACHMENTS**

FY25 Proposed Budget can be accessed at:

<https://budget.metro.net/download/fiscal-year-2025-proposed-budget-book.pdf>

Attachment A - FY25 Public Outreach (Public Comments)

Attachment B - FY25 New Capital Projects

Attachment C - FY25 Reimbursement Resolution

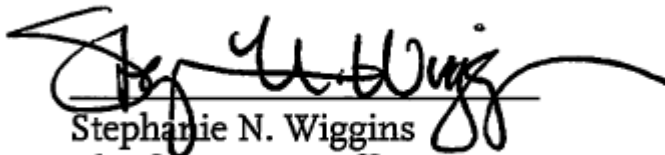
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