



Board Report

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FINANCE, BUDGET, AND AUDIT COMMITTEE MARCH 20, 2024

SUBJECT: FISCAL YEAR 2025 BUDGET DEVELOPMENT STATUS UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2025 (FY25) Budget Development Status Update.

ISSUE

This report continues the monthly updates to the Board on the FY25 Budget development process, culminating in a planned May 2024 Board Adoption. This report focuses on Metro's diverse portfolio of major infrastructure projects included in Transit Infrastructure Development (TID), Highway Multimodal Development, and Regional Rail Programs. Additionally, this report provides an overview of Metro's Regional Allocation and Pass Throughs (Subsidy) funding programs.

This report also provides an update on Metro's comprehensive budget outreach efforts.

BACKGROUND

The annual budget request reflects the twelve-month financial increments required for advancing through each project's development phase. It serves to monitor the cash flow requirements for activities in each project phase and considers factors such as the existing level of board authorization, the respective project delivery schedule, and the identification of eligible and available funding sources. These funding sources may include Federal, State, and Local grants, sales taxes, and various financing mechanisms.

Most of the projects within the major capital programs adopt a multiyear Life of Project (LOP) budget, which seeks Board approval independently from the annual budget process. The purpose of the LOP budget is to outline the financial resources necessary for the entire duration of the project.

DISCUSSION

Major Capital Investment

LA County's capital expansion plan is one of the nation's most ambitious and transformative transportation construction and enhancements program. The report below covers the following programs:

Transit Infrastructure Development (TID): The FY25 Budget provides funding for planning and constructing new transit projects for LA County per the voter approved Measure R and Measure M sales tax ordinances.

Highway Multimodal Development: The FY25 Budget provides funding from voter approved Measure R and Measure M sales tax ordinances to advance design and construction activities for Multimodal Highway projects in LA County, along with HOV and ExpressLanes and Bus Only Lane projects.

Regional Rail: The FY25 Budget supports commuter rail projects such as Metro-led commuter rail projects and ongoing subsidy support for Metrolink’s operating and State of Good Repair (SGR)/capital components.

The major capital projects typically make up one third of the annual budget. The FY25 Preliminary Budget represents the annual incremental cashflow requirement to advance these capital projects based on the phase of each project.

Transit Infrastructure Development

The Transit Infrastructure Development (TID) Program consists of expansion and enhancements of transit lines outlined in the Measure R (MR) and Measure M (MM) Ordinances, as well as those capital projects critical to operating these expansion lines once in service. These initiatives involve various project development stages, which are divided into planning, construction, and operational phases.

Typically, the planning phase commences with a feasibility study followed by alternative analyses, ultimately leading to environmental clearance and selection of Locally Preferred Alternative by the Board. Subsequently, the project moves into the construction phase before being handed over to Operations upon completion.

Fig 1:

Transit Infrastructure Development

Summary	FY24 Budget	FY25 Preliminary	\$ Change	% Change
1 Transit Construction	\$ 2,240.3	\$ 1,560.3	\$ (680.1)	-30.4%
2 Transit Planning	213.5	439.0	225.5	105.6%
3 Program Support/Admin	19.7	22.5	2.8	14.3%
4 Grand Total	\$ 2,473.5	\$ 2,021.7	\$ (451.8)	-18.3%

For FY25, the preliminary budget for the TID program stands slightly over \$2.0 billion, reflecting a decrease of \$451.8 million or 18.3% compared to the FY24 budget as shown in Figure 1. The decline in the Transit Construction budget can be attributed to the nearing completion of several projects leading to a reduction in cash flow requirements along with the recent openings of the K Line and Regional Connector. In addition, newer projects have not yet progressed into the major construction phase, which is the phase with the highest cost. The FY25 preliminary numbers are still under development and may be updated based on Board actions between now and the FY25 budget

adoption.

The FY25 budget request is geared towards supporting the ongoing construction of key projects such as the Purple Line Extension, Foothill Extension Phase 2B, and Airport Metro Connector, all of which have started to prepare for systems integration. East San Fernando Valley LRT will continue with right-of-way acquisitions and may begin its heavy construction phase in FY25.

On the other hand, there is an increase of \$225.5 million, representing a 105.6% increase, in funding allocated to planning and studies. This reflects increased funding for projects in the environmental and design phase, including the Sepulveda Corridor, Southeast Gateway Line, and the C Line Extension to Torrance project. As these projects progress into the construction phase, there will be a corresponding rise in cash flow requirements.

A more detailed project discussion can be found in Attachment A.

Highway Multimodal Development

The FY25 preliminary Budget of \$602.9 million represents a \$0.7 million or 0.1% increase over the FY24 Budget as shown in Figure 2. The FY25 preliminary budget reflects Metro's ongoing investments in HOV and ExpressLane construction, the expansion of bus-only lanes, subregional street improvements, as well as safety enhancements to freeways, interchanges, and arterial streets.

Further, a March 2021 Board Item (2021-0008) clarified the eligibility criteria for Measure R and M street and freeway projects and broadened the range of safety, pedestrian, and active transportation enhancements that municipalities and partner agencies may incorporate into freeway, surface street and subregional road improvement projects.

In FY25, the Highway Multimodal Development budget supports groundbreaking for the construction phase of the I-105 ExpressLanes project, the expansion of bus-only lanes and bus infrastructure throughout LA County, including customer-oriented amenities to bus stop shelters. This preliminary budget also supports the re-imagining of the I-710 South and I-605 Hot Spots projects, and ongoing construction for the I-5 North (North County) and the SR-57/SR-60 confluence projects.

Fig 2:

Highway Multimodal Development Project (\$ in millions)		FY24 Budget	FY25 Preliminary	\$ Change	% Change
1	Bus Improvements	\$ 12.2	\$ 36.6	\$ 24.4	199.3%
2	Capacity Improvements	185.4	126.0	(59.4)	-32.0%
3	Express/HOV Improvements	105.1	143.5	38.5	36.6%
4	General Planning	4.6	3.2	(1.4)	-30.0%
5	Local Subregion/Street/Safety/Op Improvements	271.1	263.2	(7.9)	-2.9%
6	Property Maintenance	1.2	1.3	0.1	11.1%
7	Traffic Noise Reduction	22.7	29.1	6.4	28.4%
8	Total Highway Multimodal Development	\$602.3	\$ 602.9	\$ 0.7	0.1%

See Attachment B for additional Highway project details.

Multimodal Highway capital projects are subject to market conditions generating cost escalations, namely rising labor and material costs. Unforeseen conditions, extreme weather impacts, and more stringent environmental regulations also pose financial risks to highway construction projects..

Metro Regional Rail

Metro oversees the planning, programming, and implementation of commuter rail projects in LA County that are or will be operated by external agencies such as the Southern California Regional Rail Authority (Metrolink), Amtrak, California High Speed Rail Authority, and commercial freight carriers. Metro also manages and coordinates capital improvement projects along approximately 150 miles of Metro owned, and Metrolink operated railroad right-of-way.

The preliminary FY25 budget of \$56.7 million is a \$101 million or 64.1% decrease from the FY24 Budget. The decrease is primarily driven by reduced cash flow needs for the Link Union Station project, as the project completes a value-engineering process in anticipation of procuring the Construction Manager / General Contractor (CM/GC) contract in FY25. Other decreases are driven by the Rosecrans/Marquardt Grade Separation project, which will achieve substantial completion in FY25. This grade crossing had been rated the number one grade crossing safety concern in the State. This project is on track for completion on time and under budget and represents a major achievement of Metro’s Regional Rail group.

Other major activities include the transition from final design to construction for the Doran Street Grade Separation Project as well as the first segment of the Brighton to Roxford double tracking project in the east San Fernando Valley. The Lone Hill to White double tracking project in the San Gabriel Valley will complete the final design and pursue funds for the construction phase in anticipation of the construction contract procurement.

The Regional Rail group will also advance preliminary engineering for a high-speed rail service from Palmdale via the High Desert Corridor to the future Apple Valley station of Brightline’s high-speed rail

line to Las Vegas, and an in-fill Metrolink station at the LA General Medical Center.

Fig 3:

Regional Rail Project (\$ in millions)	FY24 Budget	FY25 Preliminary	\$ Change	% Change
1 Link Union Station	\$ 96.0	\$ 10.4	\$ (85.6)	-89.2%
2 Rosecrans & Marquardt Grade Separation	29.0	6.0	(23.0)	-79.3%
3 Brighton to Roxford Double Track	10.2	6.7	(3.5)	-34.3%
4 High Desert Corridor	2.8	10.7	7.9	282.1%
5 Doran Street Grade Separation	8.2	7.9	(0.4)	-4.3%
6 Lone Hill to CP White Double Track	5.8	6.7	0.9	15.8%
7 Other Metro Regional Rail	6.0	8.4	2.4	39.3%
8 Total Metro Regional Rail	\$157.9	\$ 56.7	\$(101.2)	-64.1%

Metrolink Commuter Rail

Metrolink is developing its FY25 operating and capital budget. Metro will work with Metrolink and the other partner agencies to align subsidy levels with eligible financial resources.

The combined effects of the pandemic, telecommuting, and inflationary pressure on material and labor costs have impacted commuter rail agencies. While urban transit ridership in Los Angeles County has significantly rebounded, the shift towards telecommuting reduces the fares collected.

Metrolink’s subsidy requirement will be reviewed to maintain a sustainable financial model for LA County’s commuter rail services, within the eligible funding sources available. An update will be included next month to the Board and the final budget will be brought forward for specific Board approval.

Regional Allocations and Pass Throughs

The Regional Allocations and Pass Throughs program represents resources distributed to regional partners to carry out local transportation needs. This component is directly tied to locally imposed and collected sales taxes as well as Metro oversight and distribution of local, State and federal pass-through grant funding. This program includes:

- Pass-through funding awarded to local jurisdictions and municipal and local transit operators through Local Agency Programs (i.e., Local Return) and Regional Transit Funding (i.e. Regional Transit Formula and Access Services).
- Pass-through funding for Major Projects being implemented by local agencies, including the Alameda Corridor East Grade Separation Phase II, Antelope Valley Metrolink Line Projects, Inglewood Transit Connector, and Sankofa Park.
- Grants allocated to local agencies through Other Local Programs such as the Congestion Reduction Demonstration (CRD) Toll Revenue grant program, Open Streets grant program,

Active Transportation Program (ATP), Federal Pass-Throughs, and the Transit Oriented Development (TOD) Planning grant initiative.

The FY25 preliminary budget of \$1.979 billion is a decrease of \$79.1 million, 3.8% below the FY24 Budget as shown in Figure 4. About 84% of this program is comprised of Local Agency Programs and Regional Transit Funding. Current economic conditions are signaling a slowing in sales tax growth for FY25. Thus, direct subsidies, provided by local and State sales tax-based programs that are passed through to Los Angeles County transit operators and local jurisdictions, are expected to decrease slightly. The table below summarizes the FY25 Preliminary Regional Allocations and Pass Throughs Budget.

Fig 4:

Regional Allocations and Pass Throughs					
(\$ in millions)					
	FY24 Budget	FY25 Preliminary	\$ Change	% Change	
1 Local Agency Programs	\$ 962.2	\$ 921.4	\$ (40.8)	-4.2%	
2 Regional Transit	781.3	735.6	(45.7)	-5.8%	
3 Major Projects*	164.3	181.5	17.2	10.5%	
4 Other Local Programs	87.1	82.1	(5.0)	-5.8%	
5 Regional Federal Grants	30.4	23.8	(6.6)	-21.7%	
6 Fare Assistance	32.5	34.3	1.8	5.5%	
7 Program Total	\$ 2,057.8	\$ 1,978.7	\$ (79.1)	-3.8%	

* Still Under Development

Local Agency Programs

The two funding programs that make up Local Agency Programs include Local Return and Transit Development Act (TDA) Article 3 and Article 8 funding. This subprogram will decrease by \$40.8 million, a decrease of 4.2% over the FY24 budgeted amounts. Most of this decrease is due to an estimated reduction of \$32.9 million in sales tax revenue for the Local Return program compared to FY24 amounts for LA County jurisdictions.

Regional Transit Funding, Including Access Services

Similar to Local Agency Programs, Regional Transit Funding programs are projected to decrease during FY25 by \$45.7 million, a 5.8% decrease, primarily from the lower expected sales taxes. This subprogram is comprised of the annual transit formula funding allocated to the Los Angeles County municipal and local transit operators as well as Access Services. Formula programs for the municipal and local transit operators included in this subprogram include Proposition A Discretionary funding, Measure M 20%, Measure R 20%, SB1 State of Good Repair, TDA Article 4, and other fund programs. Staff also continues to work in partnership with the Bus Operators Subcommittee (BOS) and the Local Transit Systems Subcommittee (LTSS) to understand the residual impacts of COVID-19 and to determine the appropriate allocation methodology for the FY25 transit fund allocations.

In addition, preliminary funding of \$169.4 million is proposed for Access Services operations in Los Angeles County, including the direct Metro subsidy to support Access riders on Metrolink within the County, an increase of \$8 million over the FY24 Budget. The final budget amount is subject to

Access Services' final budget request. The main cost drivers that could force Access Services to submit a budget request greater than the preliminary estimate include a backlog in purchasing replacement vehicles due to supply chain disruptions caused by the pandemic and greater than anticipated ridership demand that is currently being experienced in FY24 and could continue into FY25.

Final distribution amounts will be brought forward for specific Board approval in June, detailing subsidy funding amounts for each municipal and local operator, including Access Services and local jurisdictions.

Regional Transit Funding: Major Projects

This subprogram is comprised of the Alameda Corridor East Grade Separation Phase II, the Antelope Valley Line Projects, Inglewood Transit Connector, and Sankofa Park. It is estimated that these multi-year projects will need more funding (10.5%) during FY25 compared to FY24 due to project progress as depicted in Figure 5.

Fig 5:

Major Projects						
(\$ in millions)		FY24 Budget	FY25 Preliminary	\$ Change	% Change	
1	Alameda Corridor East Phase II	\$ 14.1	\$ 14.1	\$ -	0.0%	
2	Antelope Valley Metrolink Line Projects	25.0	16.3	(8.7)	-34.8%	
3	Inglewood Transit Connector*	114.7	150.0	35.3	30.8%	
4	Sankofa Park Project	10.5	1.1	(9.4)	-89.2%	
5	Total	\$ 164.3	\$ 181.5	\$ 17.2	10.5%	

*Still Under Development

Other Local Programs & Regional Federal Grant Programs

Due to the pass-through nature, annual variability of local and federal grant programming, and uses by local jurisdictions, -5.8% or \$5 million less funding is being requested for FY25 activities in the following subprograms: ATP-related grants, Call for Projects, CRD Toll Revenue Grant Program, Federal Earmarks, and TOD Planning Grants. Additionally, a decrease of 21.7% or \$6.6 million less funding is projected for Regional Federal Grants.

Fare Assistance - Low Income Fare is Easy (LIFE) Program

The LIFE program is anticipated to continue to grow during the coming year, and the budget request has increased accordingly to \$34.3 million to support the Board approved expansion and improvements to the program. This represents a 5.5% increase over the FY24 budgeted amount for the program and includes the fare subsidies to transit operators participating in the LIFE program.

FY25 Public Budget Outreach Update

Metro's commitment to public outreach and engagement on the budget development remains strong, with initiatives for FY25 commencing early in the Fall of 2023. In keeping with this commitment, Metro organized a Telephone Town Hall on October 19, 2023.

The engagement process expanded significantly with the My Metro Budget activity - an interactive budget feedback and educational tool - which has garnered over 3,400 responses along with over 2,900 written comments, nearly triple the number of responses from last year. This approach to public engagement is ongoing and will continue to evolve, ensuring that community input is effectively incorporated into budget discussions.

Public participation is an ongoing process that actively seeks to solicit the interests and values of the public in its annual budget through various channels. The budget briefings and key stakeholder meetings bring together members of these groups and the communities they serve at large to share their feedback and budget priorities.

OMB's budget outreach and engagement initiatives spanned the agency, and many Metro departments partnered to help foster collaboration and dialogue around budget-related matters, with safety, service, and cleanliness being key areas of concern. The methods outlined in Attachment C contain updates on all of the outreach activities mentioned in last month's budget update.

EQUITY PLATFORM

The FY25 EZBB development begins with the evaluation process that provides flexibility to focus resources on Metro's core missions, key initiatives, and priorities. Budget Equity is a top priority in the FY25 Budget development as Metro carries out its initiatives and impacts all communities throughout Los Angeles County. Furthermore, the FY25 Budget will align with principles highlighting how public transit can be equitable, sustainable, economically productive, safe, and Americans with Disabilities Act accessible.

As part of the FY25 EZBB evaluation process, the ongoing Metro Budget Equity Assessment Tool (MBEAT) is in its fourth fiscal year of evaluating equity in Metro's Annual Budget. Staff also incorporated a more detailed geographic equity measure into budget development by conducting Equity Focus Communities (EFC) Budget Assessments for both the FY23 Actuals and the proposed FY25 Budget. Once the FY24 Actuals are completed, staff will also conduct an EFC Budget Assessment on that. Implementation of MBEAT and the EFC Budget Assessment will assess budget items for potential equity impacts, benefits access to opportunities, and ability to reduce potential barriers or harms.

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 EZBB process, being mindful of the promise embodied in the two Ordinances and the revenue projections identified in previous month's budget status report.

Next month's budget development update will address Metro Transit Operations & Maintenance, Metro Transit Capital Improvements, Congestions Management, and Planning & Administrations Programs.

ATTACHMENTS

Attachment A - Transit Infrastructure Development Project

Attachment B - Highway Multimodal Development Project

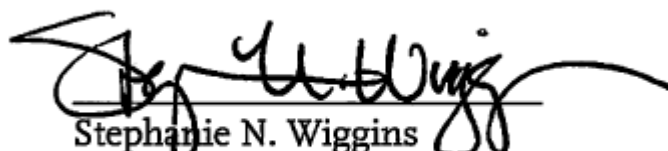
Attachment C - FY25 Budget Outreach

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