



File #: 2024-0214, File Type: Oral Report / Presentation

Agenda Number: 1.

**SPECIAL BOARD BUDGET WORKSHOP
MARCH 29, 2024**

SUBJECT: BOARD WORKSHOP - OPERATING BUDGET IMPACTS

ACTION: RECEIVE ORAL REPORT

RECOMMENDATION

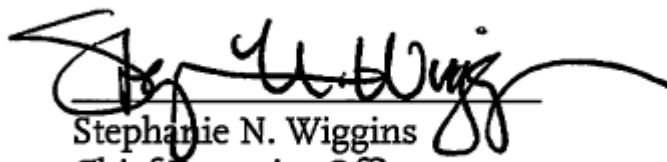
RECEIVE oral report on the operating budget impacts. The workshop will provide the Board with in-depth information on the forecasted operational impacts and take a holistic and comprehensive approach to review the economic context in Los Angeles County.

ATTACHMENTS

Attachment A - File ID: 2023-0601- Presentation

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Stephanie N. Wiggins
Chief Executive Officer

Preparation for Initiating the FY25 Budget Development Process

Finance, Budget, Audit Committee

October 18, 2023

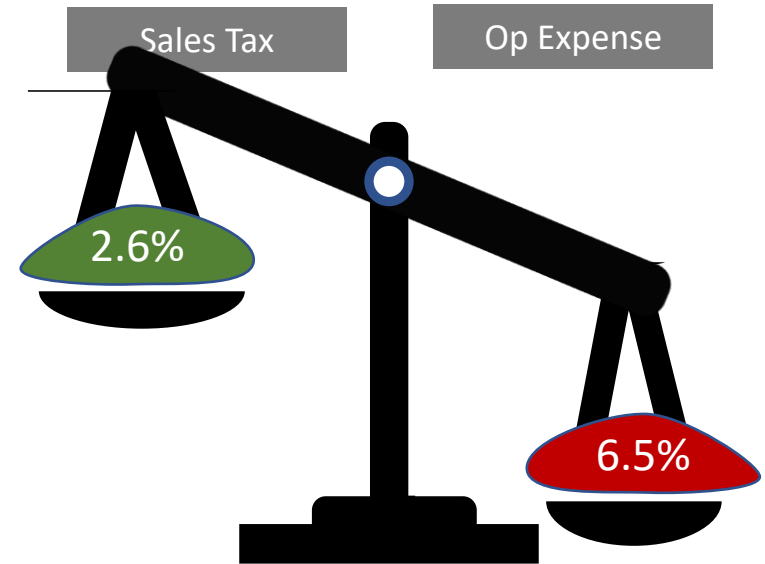


Meeting Agenda

- Metro Transit Cost Growth Drivers
 - Labor
 - Parts, Fuel, Power and Contract Services
 - Insurance Premiums
 - Public Safety, Law Enforcement
 - Cleaning
 - Rail Expansion
 - Electrification
- Transit Infrastructure Construction Risks
- Other Programs Challenges
- Equitable Zero-Based Budgeting (EZBB) & Next Steps

Metro Transit Expense Financial Outlook (FY24 – FY29)

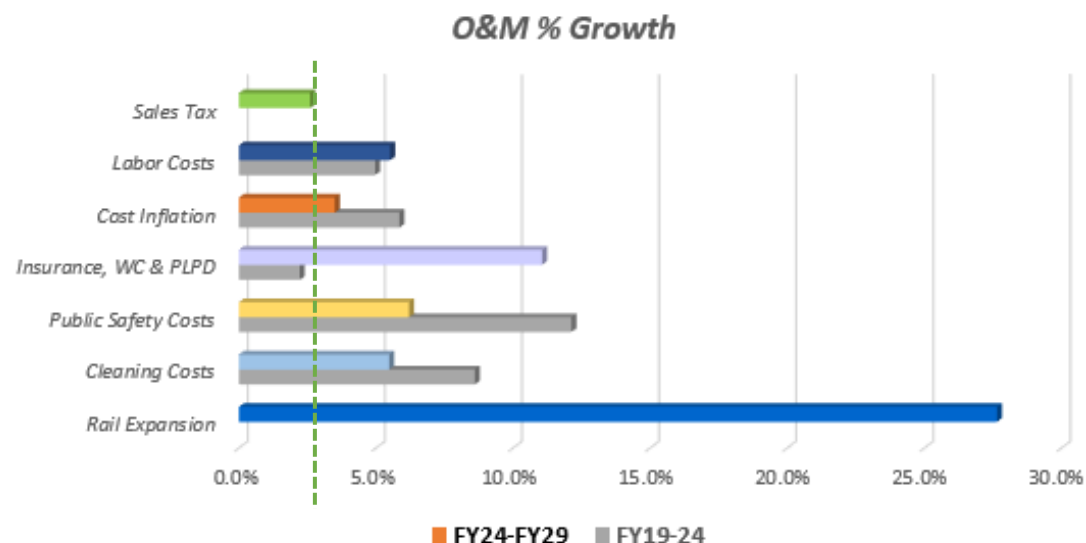
- Exhaustion of one-time federal stimulus funding that was used to balance budgets the last 3 years
- Operating cost growth (6.5%) is increasing faster than sales tax and operating revenues (2.6%):
 - Escalating labor, insurance and cost inflation to run current level service
 - Operating an expanding rail system
 - Incremental costs for enhancing safety and cleaning with no offsetting cost savings
- Major investments in Capital Improvement Program (CIP) for electrification efforts



Cost Growth Drivers for Metro Transit Operations

- The Agency's Near-Term Outlook on Metro Transit Operations & Management (O&M) includes significant cost growth drivers:

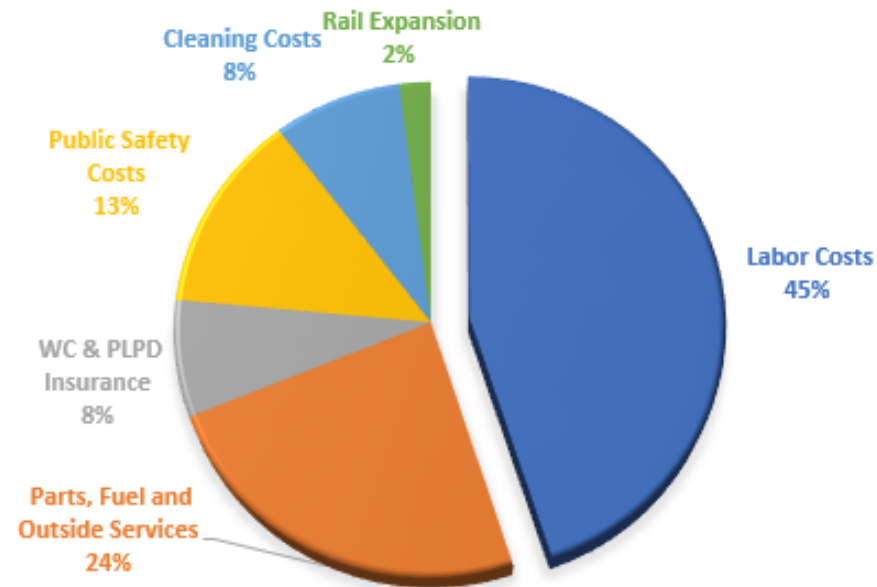
- Labor costs
- Cost inflation for parts, fuel, power and contract services
- Insurance, Workers' Comp and PLPD
- Public safety
- Cleaning
- Rail expansion



- Historical growth rates have been on the high side and expected to continue the trend over the next five years. The forecast includes recent cost control measures from EZBB
- Every cost growth driver is anticipated to grow at a faster rate than sales tax revenues

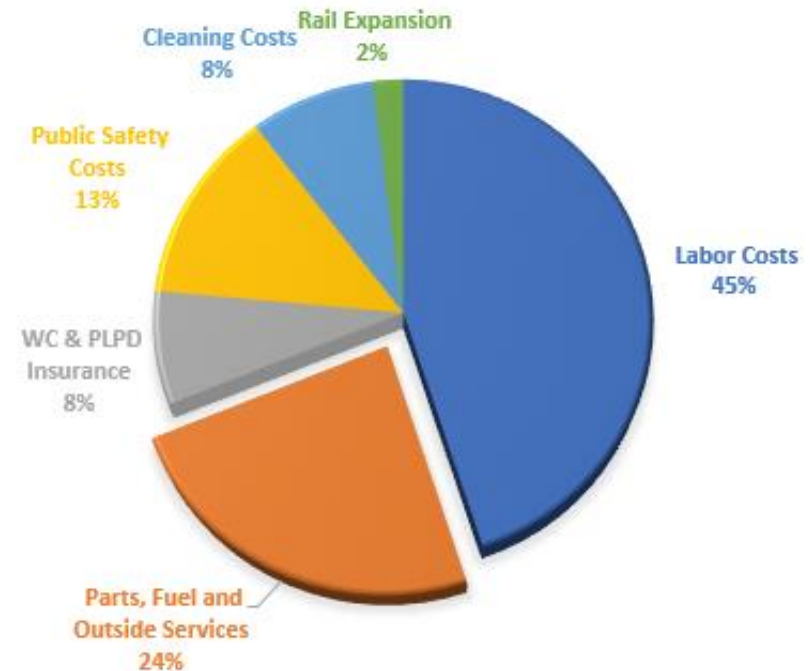
Cost Growth Driver - Labor Costs

- Total operating labor costs make up 45% of total Metro Operations costs
- Labor costs have had a historical growth of 5% per year
- Labor cost inflation assumptions include the latest SMART contract from July 2022
- A projected trend for growth is anticipated for the next 5 years and subject to change based on the upcoming negotiations for the remaining Collective Bargaining Agreements



Cost Growth Driver - Parts, Fuel and Outside Services

- Total operating costs for parts, fuel, power and contract services make up 24% of total Metro Operations costs
- An average 6.0% growth per year over the last five years attributed to:
 - Historical high rates on CNG fuel and propulsion power
 - Parts and supplies growth due to supply chain constraints
 - Contract services from labor shortage challenges and record high inflation
- An average 3.5% future growth per year for the next five years due to new rail service, station maintenance, and CPI cost increases

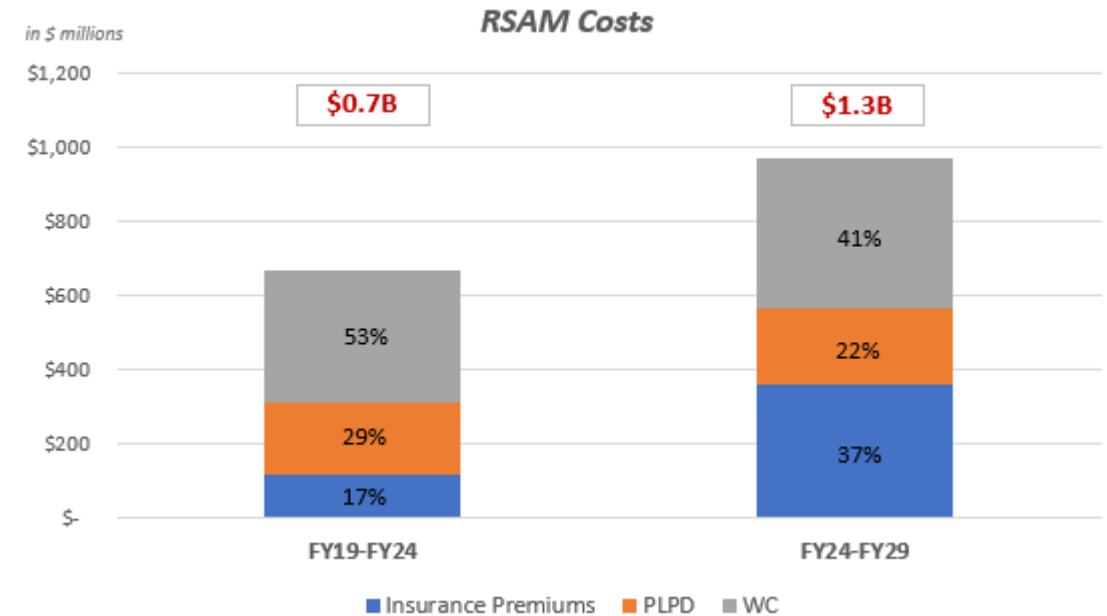


Cost Growth Driver – Insurance, Workers’ Comp and PLPD

- Total insurance, workers’ compensation and PLPD costs make up 8% of total Metro Operations costs

- Insurance premiums have experienced a double-digit growth per year over the last five years due to:

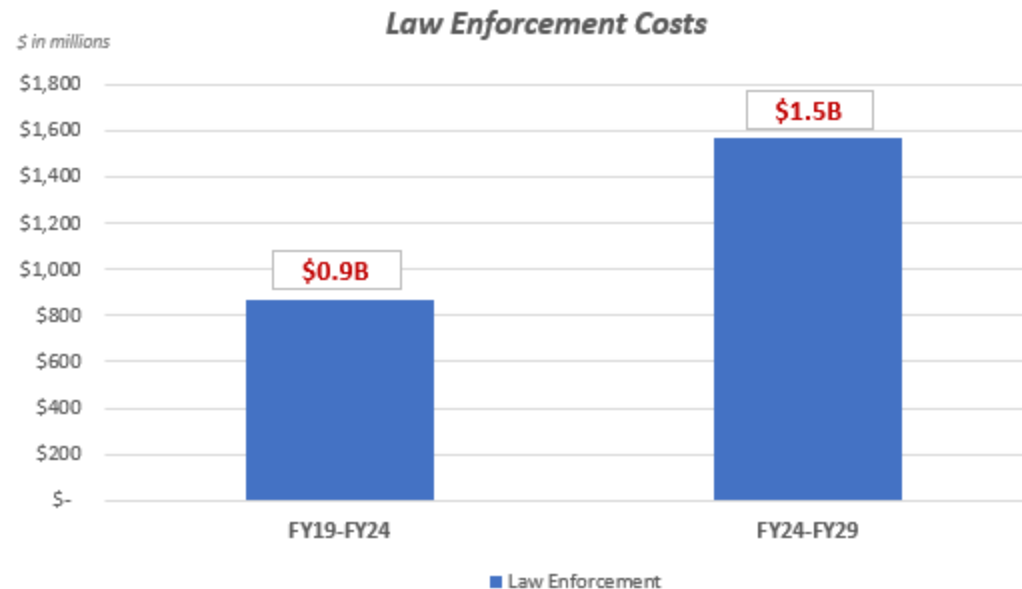
- Insurance market industry has hardened due to string of natural disasters and extensive losses experienced
- Additional assets to insure due to an expanding rail system



- An average 20% growth per year for the next five years for insurance premium costs is projected due to the trend of the insurance market industry, making up 37% of the total costs in the next five years

Cost Growth Drivers - Public Safety, Law Enforcement Costs

- Public safety costs make up 13% of total Metro Operations with law enforcement costs as the biggest driver (about 65% of the total)
- Last five-year contract value of \$870M vs. a possible estimated \$1.5B for next five years based on the historical cost growth by continuing existing practice
- Total law enforcement costs will nearly double the next five years vs. last five years

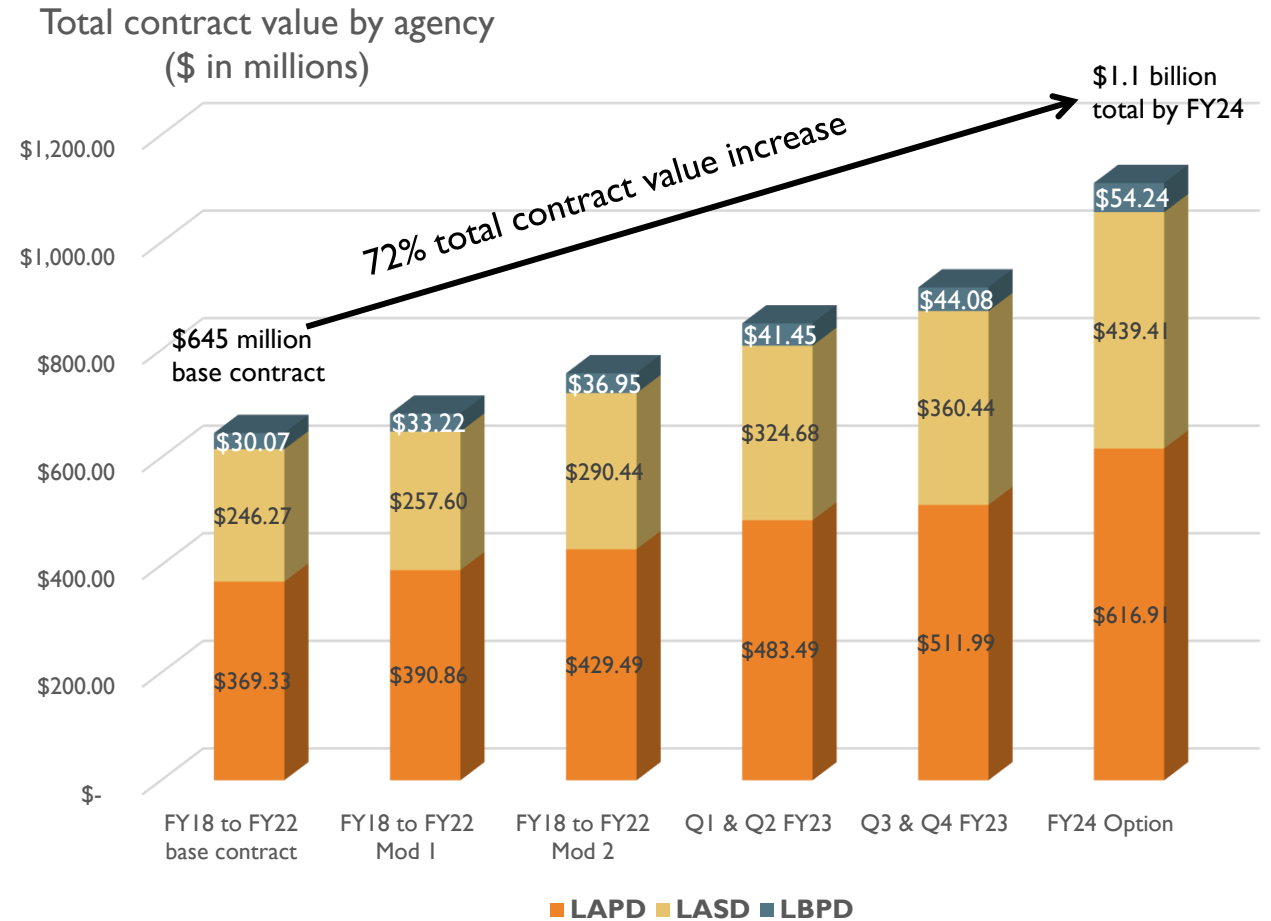


LAW ENFORCEMENT CONTRACT VALUE FY18 TO FY24 BY AGENCY

Current multi-agency law enforcement contract value changes from FY18 to FY24:

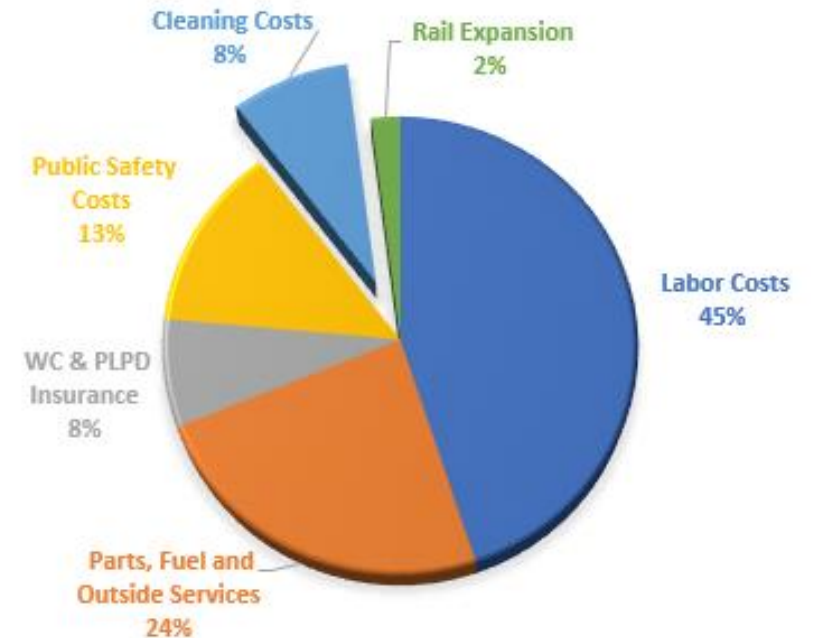
Increase \$ in millions	LAPD	LASD	LBPD	Total
FY18 to FY22 base contract	\$ 369.33	\$ 246.27	\$ 30.07	\$ 645.7
FY18 to FY22 Mod 1	\$ 21.53	\$ 11.33	\$ 3.15	\$ 36.0
FY18 to FY22 Mod 2	\$ 38.63	\$ 32.84	\$ 3.73	\$ 75.2
Q1 & Q2 FY23	\$ 54.00	\$ 34.24	\$ 4.50	\$ 92.7
Q3 & Q4 FY23	\$ 28.51	\$ 35.76	\$ 2.63	\$ 66.9
FY24 Option	\$ 104.92	\$ 78.98	\$ 10.16	\$ 194.1
Total Contract Value	\$ 616.91	\$ 439.41	\$ 54.24	\$ 1,110.6
Total % increase	67%	78%	80%	72%

Metro System Increase	FY18 to FY24
Law Enforcement Contract CAGR (Compound Annual Growth Rate)	9.5%
All other Metro Contract CAGR	5.7%
Bus and Rail Operating Budget CAGR	5.9%



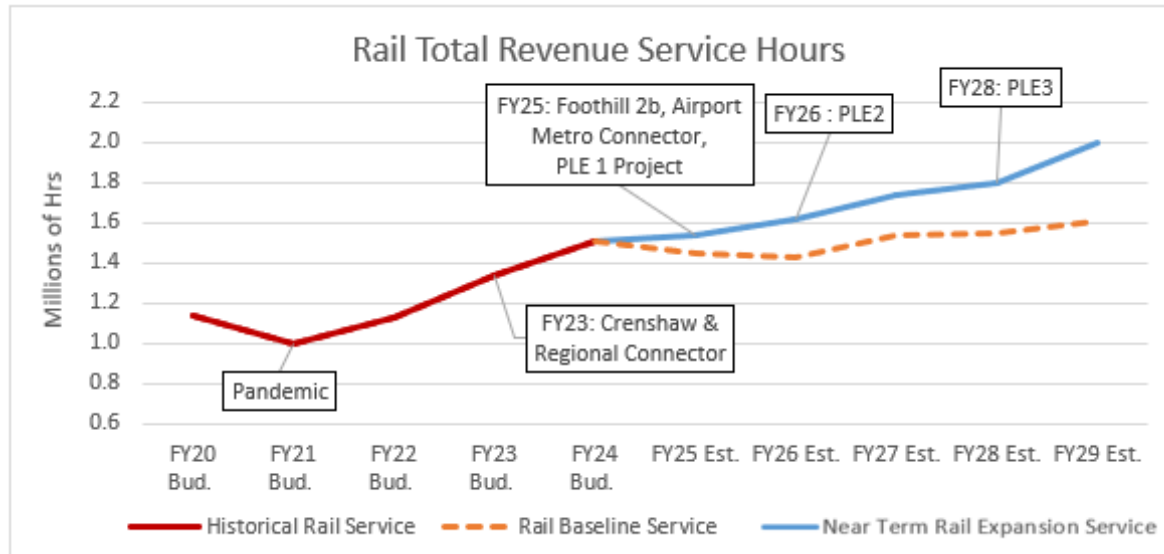
Cost Growth Driver - Cleaning

- Cleaning costs make up 8% of total Metro Operations costs
- An average 8.6% growth per year over the last five years attributed to homeless crisis and opioid epidemic challenges, along with the pandemic.
 - Roving cleaning teams
 - Custodial staff
 - Part-time custodial Room to Work participants
 - Frequent “in-line” and mid-day bus interior cleaning
 - End of line cleaning on rail, station hotpots and other activities
- An average 5.5% growth per year for the next five years is projected due to continuing to deliver a cleaner system and improve customer experience



Cost Growth Driver - Rail Expansion

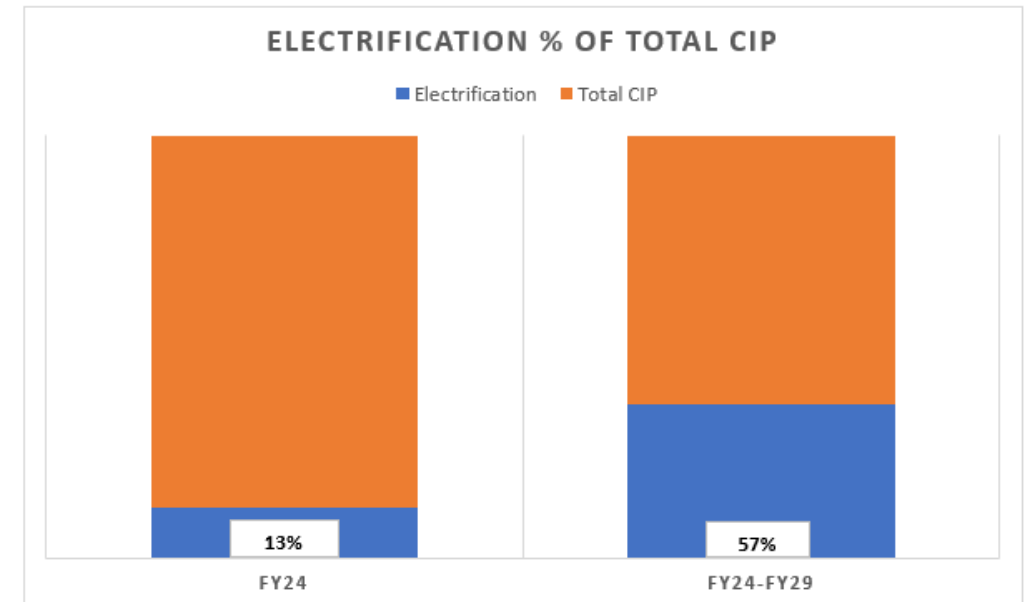
- Metro is undergoing a major rail expansion network with the anticipated opening of Foothill Phase 2B, Airport Metro Connector, Purple Line Extensions 1, 2, and 3
- Anticipated operating and maintenance cost of integrated regional facilities (i.e., Airport Metro Connector (AMC))
- The cumulative incremental cost for the expansion is projected at \$342 million, or 27.6% per year average growth from FY24 through FY29
- The average cost of running 1 hour of rail is 2.4x more than operating 1 hour of bus service



Major Investments in Capital Improvement Program (CIP)

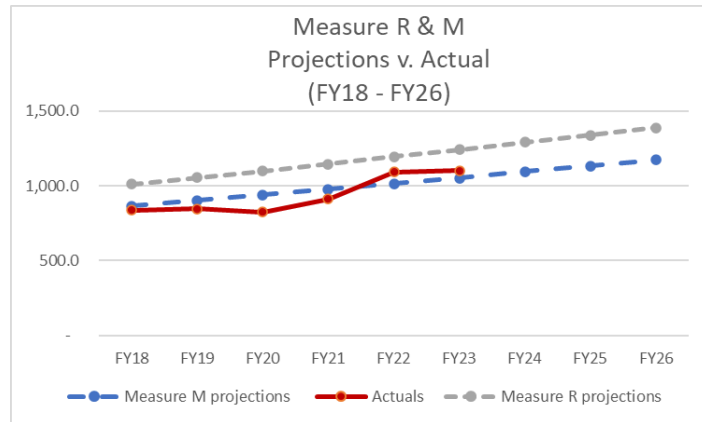
- Electrification Goal

- The implementation of the zero-emission bus program is a significant capital cost to meet the State of California's 2040 mandate for eliminating the use of hydrocarbon fueled buses
- Metro's Near-Term Outlook assumes an accelerated goal of achieving a zero-emission fleet by 2030, which includes procuring zero-emissions Battery Electric Buses (BEB) and related electric charging infrastructure
- This effort will require a minimum investment of \$4.3 billion in buses and charging infrastructure through 2030
- In today's budget, electrification makes up 13% of the total CIP program and that would need to grow to be 57% over the next five years to meet the 2030 goal. Note: external funding has not been secured and would require deficit spending
- New zero emission bus acquisitions and supporting infrastructure development will proceed as available technology and funding permit



Transit Infrastructure Construction Risks

- Metro recognizes the additional financial risks stemming from Transportation Infrastructure Development (TID) as Metro continues to build out the ordinance approved major construction projects

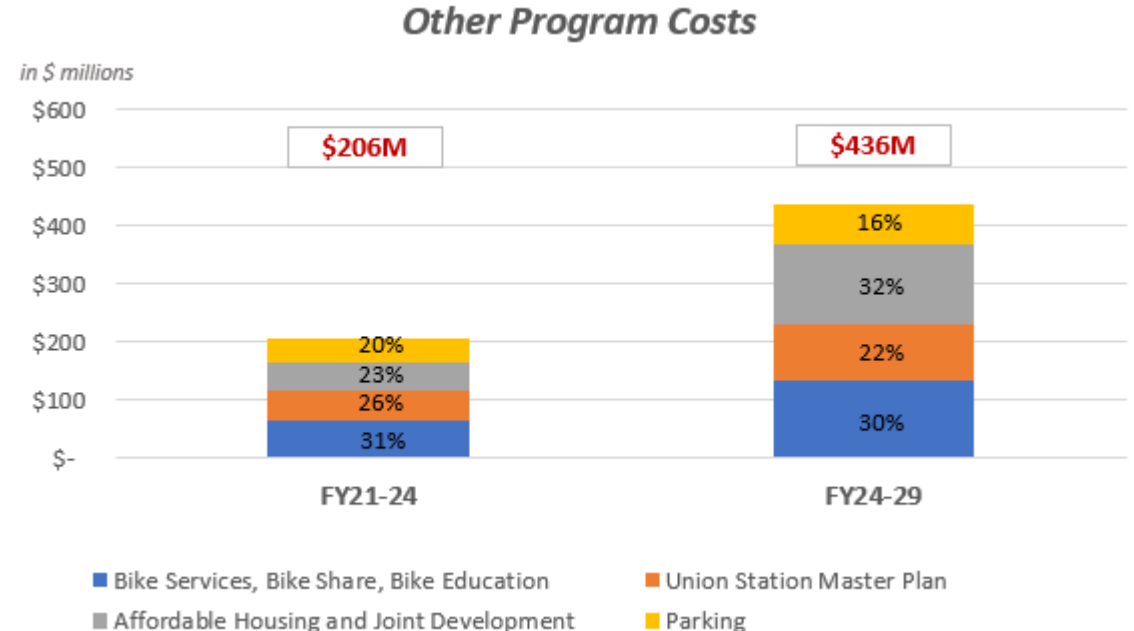


Actual to MR/MM ordinance projections

- Expenditure Plans – specify projects and funding caps
 - MR actuals below ordinance projections by \$1.9B since inception in FY10
 - MM actuals are closer to ordinance projections the largest variance during the pandemic years, falling short by over \$200 million from FY18 (inception) through FY22
- Metro continues to compete for capital investment grants, which are not always awarded and often include significant operational and local match funding requirements
 - The ongoing financial risks that stem from TID programs may take away funding currently eligible for bus and rail operations, if no alternative funding source is identified. These include:
 - Higher bid prices and cost increases due to a tighter labor market and rising demand for goods
 - Project cost overruns due to scope and schedule changes, and additional close out risks
 - Limited options and funding for cost increases on underground projects
 - Additional debt issuances must be repaid with interest

Other Programs Indirectly Impacting Metro Transit Funding

- Metro utilizes resources for a wide range of activities that support the goal of delivering improved mobility, sustainability, and financial and technical support to Metro's partners throughout the Los Angeles County region
- Programs that do not have sufficient dedicated funding and indirectly compete with Metro Transit for funds include:
 - Metro's Bike and Active Transportation program
 - Operating and maintaining Union Station
 - Affordable housing and joint development efforts
 - Other projects without dedicated funding
- These programs are estimated to grow at a 4.6% average annual rate over the next five years, outpacing sales tax growth of 2.6%



Next Steps

- Metro will continue utilizing the EZBB process to develop the FY25 budget given the near-term outlook challenges
 - Strengthen cost controls and balance the budget by staying within our cost & equity parameters
 - Evaluation of pilot programs based on aligned strategic imperatives and priorities
 - Partner with the Board of Directors to identify mitigation strategies

Near-Term Outlook

Forecasting and Mitigation

Outreach

Early, comprehensive and thorough outreach plan

Equity Review

Equity process through EFC assessment and MBEAT



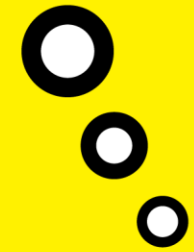
Financial and Cost Management

Cost control task forces and mitigation and financial accountability through quarterly reviews

Holistic Program Reviews

Program reviews to promote collaboration on prioritization and trade-offs

- The CEO will make prioritization and trade off recommendations to the Board going into the FY25 budget development process
- Regular budget briefings will also be provided to the Board while integrating feedback for the final FY25 Budget approval in May 2024



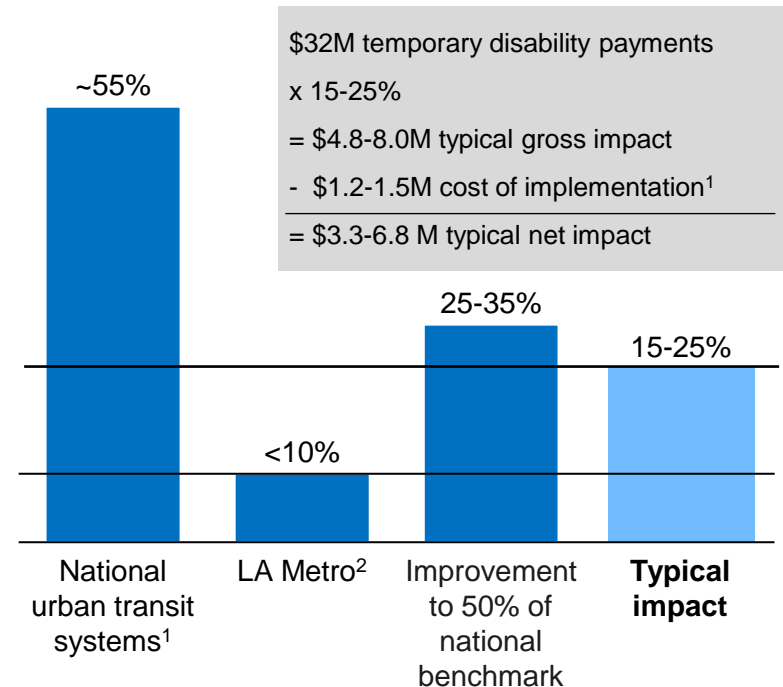
Putting People First



WC: There may be opportunity to improve return-to-work rate, accelerate implementation of captive insurance structure, and contract with MPN

Enhancing return-to-work programs could present \$3.3-6.8M potential impact

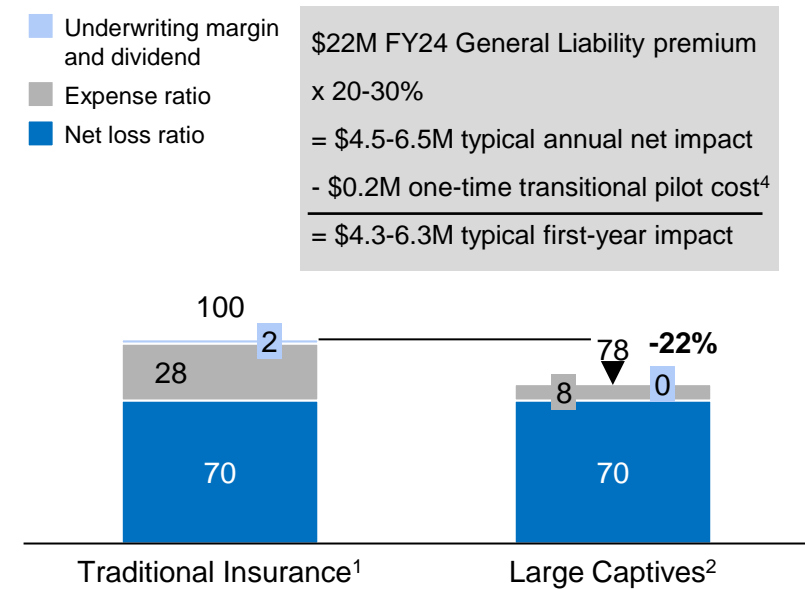
Return-to-work rate, % of employees



In 2021-2022, ~55% of urban transit systems employees returned to work **within 30 days after injury**

Implementing captive insurance structure could present \$4.3-6.3M potential impact

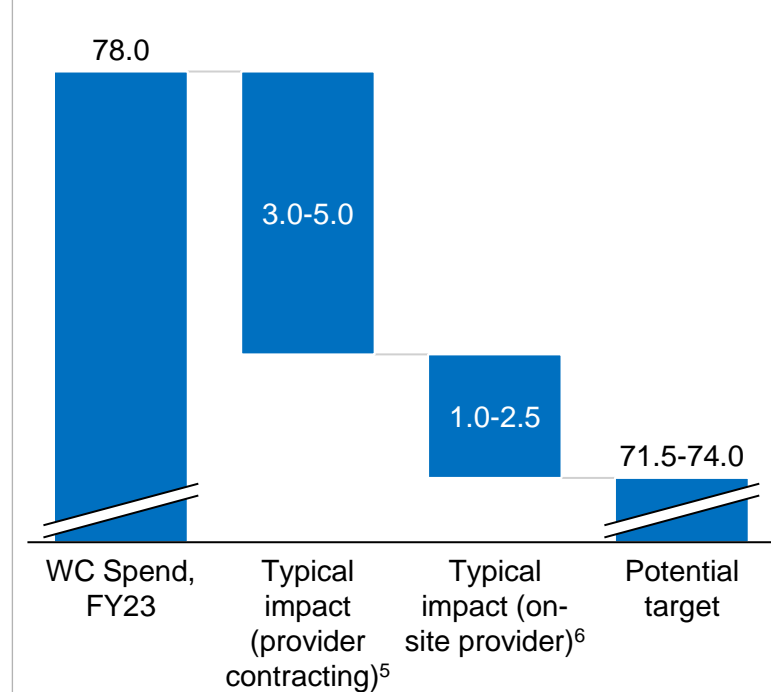
Total cost of insurance, % of premium



Typical captives can save **20-30%** of commercial insurance premium cost, translating to **\$4.5-6.5M** annually at the size of LA Metro general liability cost before transitional pilot cost

Contracting with Medical Provider Network could present \$4.0-7.5M potential impact




Workers' Compensation spend, \$M



Source: LA Metro Discussions in December 2023 and January 2024, LA Metro data, external expert interviews

1. Based on 2021-2022 Bureau of Labor statistics survey of Occupational Injuries and Illnesses Data for Urban Transit Systems (NAIC 4851), including mixed mod transit, commuter rail, bus transit systems; does not include inter-urban and rural bus transportation (NAIC 4852), taxi and limousine services (NAIC 4853), or school and employee bus transportation (NAIC 4854)
2. Based on interview. Currently return-to-work dates are not easily accessible by Operations. There are ~50 employees participating in transitional duty (<10%), out of 650+ employees on occupational leave
3. Estimated based on additional 8-10 case managers, assuming average full-onboarded cost of \$150,000 per FTE, based on LA Metro discussions
4. One-time transitional pilot cost consists of 1 FTE plus additional fees and broker expenses based on LA Metro discussions
5. Calculated using 2023FY Workers' Compensation, assuming 15-25% reduction of the \$20M medical cost based on industry benchmarks for savings from in-network versus out-of-network providers
6. Calculated using 2023FY Workers' Compensation, assuming 2-5% reduction of the \$52M medical and temporary disability payment cost

Increase in insurance costs are reflective of overall market conditions, primarily driven by increase in property and general liability pricing

	Forecasted cost trend for next 5 fiscal years ²	Market pricing trend and drivers	Projected national pricing trend by major broker agencies
Property	20% ¹ <i>Forecasted by LA Metro based on historical experience in the last 5 years</i>	 Continued double-digit increases, driven by increased re-insurance costs, catastrophic losses, and inflation	WTW: 1-10% (non-CAT), 10-25% (CAT) Marsh: 14-19% AON: 11-30%
General liability		 Market pricing increasing moderately, driven by inflationary environment and headwinds from recent large losses	WTW: 1-4% Woodruff Sawyer: 3-8% AON: 1-10% <i>Pricing trends can vary significantly by industry due to risk exposure</i>
Cyber		 Stabilizing market pricing with increased number of companies offering coverage and more capacity available from insurers	WTW: -5% to +5% Marsh: -6% to -4% AON: Flat

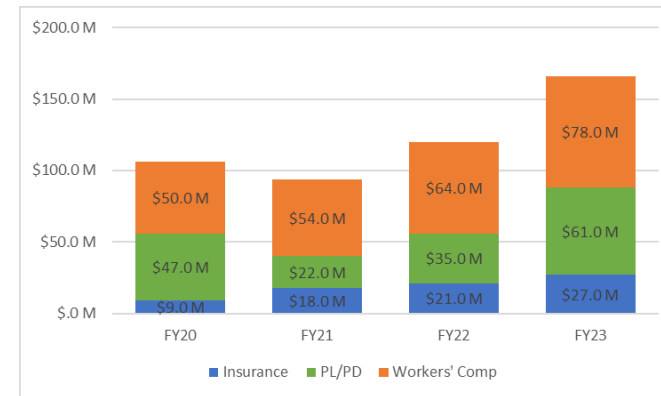
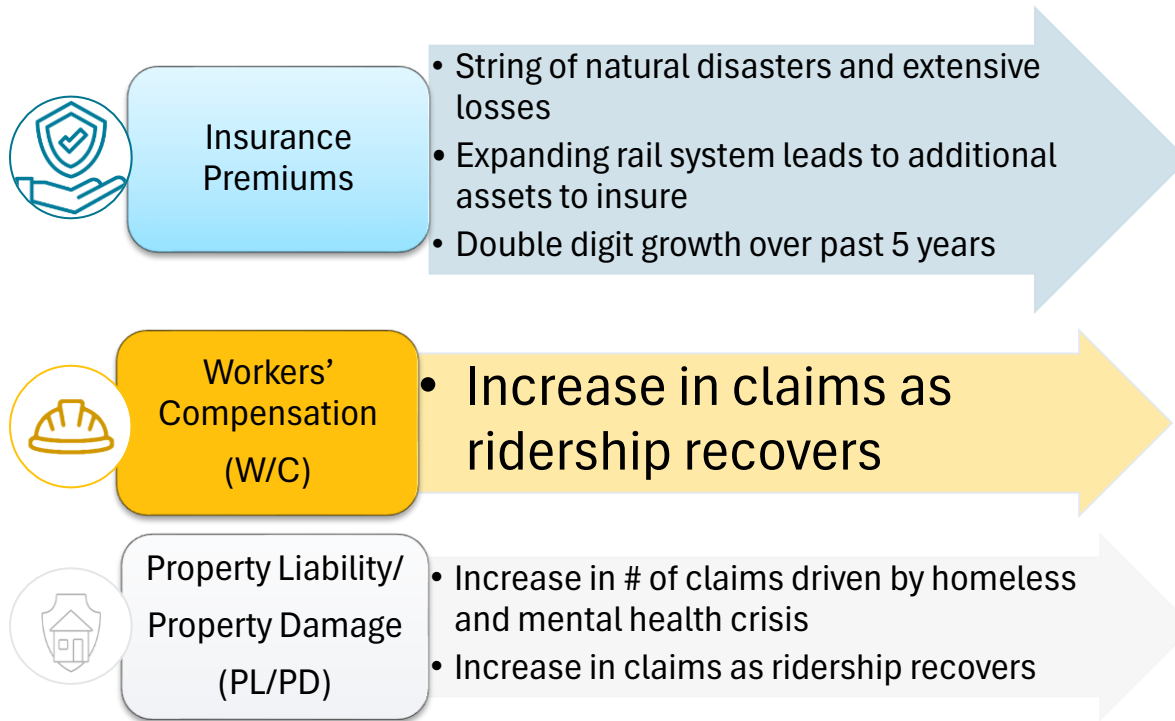
1. LA Metro data on FY24 spend and spend forecast received as of 12/22/23 (RM Programs Costs Analysis 10.27.23 v3 w.o.n..pptx)

2. Projected YoY increase for next 5 years

RISK MANAGEMENT Cost Growth Drivers

8% of Total Metro Operating Costs

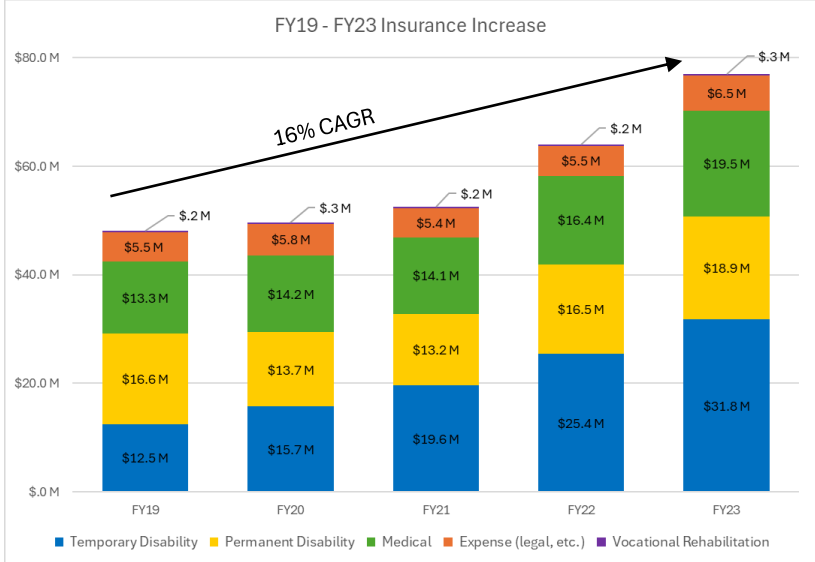
Insurance market industry has hardened due to string of natural disasters and extensive losses experienced



Industry trends project
20% increase each year
for next 5 years

Workers' Compensation- Root Cause and Mitigation

Root Cause	Mitigation Strategy
Assaulted	<ul style="list-style-type: none"> Bus Barrier Prototype Pilot De-Escalation Training Bus Riding Teams (SSLE)
Continuous Trauma	<ul style="list-style-type: none"> Ergonomics Policy Ergonomic Assessments Available Through Corporate Safety Ergonomics Training Information Distribution
Collision	<ul style="list-style-type: none"> Injury/accident Investigation Training in Development Left -Side Mirror Repositioning Pilot Bus-rear reflective tape pilot Evaluation of High Frequency Left-Turn Accident Locations
Driving	<ul style="list-style-type: none"> Monthly Safety Materials to Operators SmartDrive Reviews by Operations SAFE-7 Hazard Near-Miss Program and Reporting System Recent Creation of SAFE-7 Dashboard
Mental Strain	<ul style="list-style-type: none"> Wellness Program: Fitness Program, Health Fair and Gyms Mental Health Support: EAP, Counseling Services and Health Benefits Distressing Events Training in Development



RETURN TO WORK Enhance Return to Work Program

Contract with Medical Provider Network



Mitigation Measures: Implemented & Next Steps

Implemented

M Initiatives

- Robust Safety Program
- Initiatives aimed at incident prevention
- Collision prevention
- Post-incident programs
- Safety culture
- Insurance cost controls

McKinsey & Company

Recommendations

- Adopt best practices
- Accelerate 4 in-flight initiatives
- Consider agency wide support of new ways of collaboration across departments
- Consider additional allocation of resources to specific priority initiatives

Next Steps

Monitor Mitigation Efforts

- Expand Bus Riding Teams to combat BO assaults
- Bus Barrier Prototype Pilots
- De-Escalation Training
- Collaboration with Divisions
- Nurture Safety Culture

Accelerate in-flight Initiatives

Initiative	Speed to Impact	Typical Impact
<i>Operations</i> Enhance Return to Work Program	12-24 months	\$3- 6.8M
<i>RSAM</i> Captive Insurance Structure	24+ months	\$4.3- 6.3M
<i>RSAM</i> Contract with Medical Provider Network	24+ months	\$4- 7.5M
Agency-wide Focus on Safety Culture	12-24 months	\$4.9- 8M



Operations and Facility Needs

to support major capital projects

1 New Bus/Rail Operations Control Center

- Division 10 selected as site for building new Bus/Rail Operations Control Center
- Opportunity: make needed upgrades



2 Improve & Centralize Operations Central Instruction (OCI)

- OCI training increased since pandemic
- OCI decentralized with training at multiple locations to accommodate demand
- Benefits of Centralized OCI Campus



3 Countywide Service Support System(C3S): Infrastructure Maintenance & Engineering Decentralization

- Airport Metro Connector **K D C** opening from now to 2028
- Establish a Westside HQ first

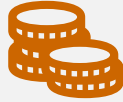


Discussion Questions

1. On a scale of 1 to 5, 1 being the most important, rank the strategies you would like Metro to explore to address this area of focus.
2. What other information do you want Metro to provide so you can prioritize this policy decision?
3. Do you have any other policy or strategy ideas you would like Metro to consider on in this area of focus?

Revenue Streams and Strategies

Revenue Sources



Currently, over 100 different funding sources (color of money). Metro's primary source of revenues are sales taxes.

Transit Operations Eligible



Only roughly 30% is available for Transit Operations






Possible Revenue Streams



Advertising & Corporate Sponsorship, Fares, ExpressLanes and Tolling, and Congestion Pricing.

ADVERTISING POLICY: CURRENT & POTENTIAL REVENUES GOVERNED BY METRO POLICIES & STATE LAWS



Policy or CA Law	FY25 Annual Revenue (current)	Policy changes	Timeframe (FY25 - FY28)	
CA Bus & Prof Code §5405.6	\$2.0 M	+ \$35.5 M	24-36 months	
Additional Revenue Opportunities	-	+ \$20.5M	12-24 months	
Commercial Sponsorship	\$2.0 M	+ \$11.0 M	6 months	
System Advertising	\$27.0 M	+ \$4.7 M	3 months	
Total	\$31.0 M	+ \$71.7 M	3-36 months	



Me



Coors Beer (DART)



MAX - Culver City Station



Door Dash - Bike Share



Transport for London



ATMs in Tokyo Metro (Japan)

INTEGRATED EVENT PROGRAM



Integrated Ticketing Major Events

- OSI, TAP, and CX collaborating to develop integrated ticketing solutions
- To enhance an event goers experience in preparation for Los Angeles' major upcoming events



Why Integrated Ticketing?

- Encourages event goers to choose public transit over driving or car-sharing by offering the convenience of a single ticket for their entire journey
- Enables customers to bundle event and transit tickets in one purchase alongside their concert ticket with parking or shuttle service



Pilot Goals

- Boost transit ridership during special events by offering:
 - › Seamless ticket delivery
 - › Incentives for using public transit
- Grow leisure travel ridership
- Inform LA28 and World Cup Integration Approach



Future Opportunities

Long-term goal to modernize Metro fare payment system in advance of major events

Pursue

- [LA28 Collaboration](#) - Continue collaboration and inclusion in the pilot project team to ensure interoperability with newly selected ticketing partners.
- [Phase 2 SMART Grant](#) – Metro will plan to apply for \$15 M grant for Countywide implementation of integrated ticketing.
- [Open Payments](#) – TAP Plus system upgrades will enable pilots with large-scale event venues which will enable customers to use their credit/debit cards to ride the system.

ExpressLanes & Tolling

I-110 and I-10 Current Facilities

3 Rounds of Net Toll Revenue Grants

- 57 projects funded for \$112M communities within 3 miles of the ExpressLanes

\$79.5 M allocated

- 10 years of incremental transit service Metro J (Silver) Line, Foothill Silver Streak and 699, Gardena Lines 1x and 2, Torrance Line 4

\$20 M to Caltrans

- Highway ITS and Landscaping Improvements along ExpressLanes

Program operating costs: \$35M annually

- staffing, maintenance, back office, account services, and roadside systems

Program Features

- Low Income Assistance Plan
- Non-Revenue Plan
- Transit Rewards Program
- Carpool Loyalty Program

Generate > \$65M annually

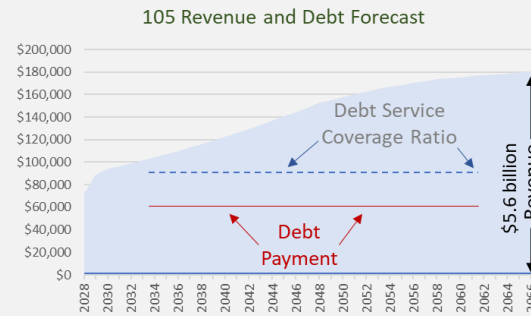


Metro

FUTURE

I-105 Project

- 16-mile corridor from I-405 to Studebaker Road just east of I-605
- Construction set to begin fall 2024, segment 1 open by 2028
- Project cost: \$1.0 to \$1.4 Billion



Generate > \$100M annually by 2032

\$5.6B (40 years)

I-405 Sepulveda Pass ExpressLanes and I-10 ExpressLanes Extension

- Draft environmental document scheduled for circulation in late 2024
- Public hearings and extensive public outreach will occur during draft circulation
- Final environmental expected Summer/Fall 2025

Recent and future initiatives

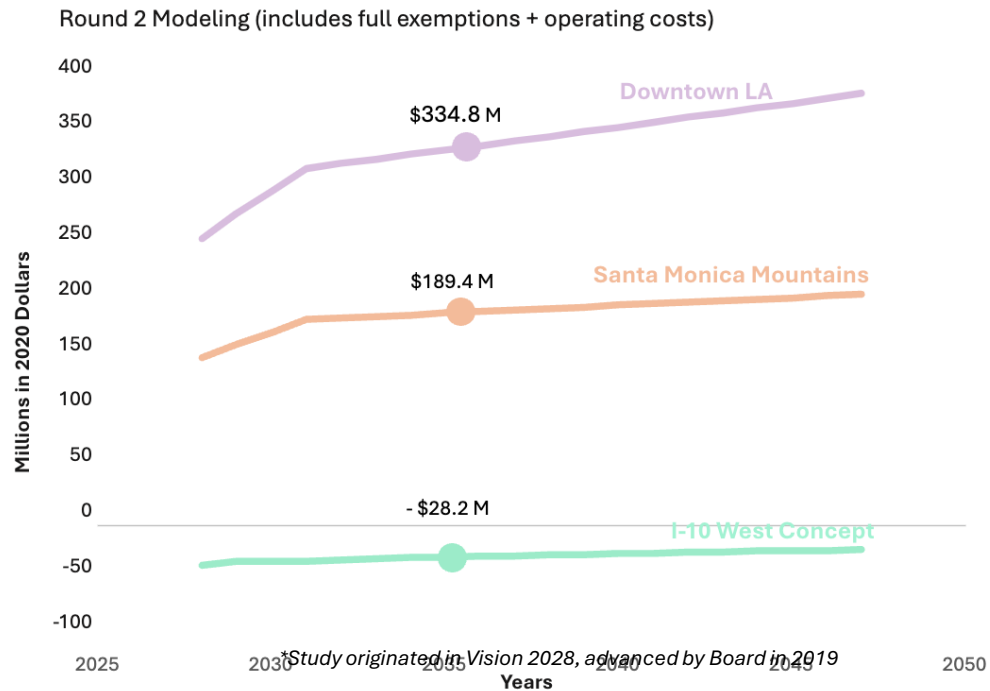
- Pay as you Go (PAYGO)
- Potential HOV2+ to HOV 3+ for Toll Free
- New Transponder Technology (6c transponder to support state interoperability)
- Occupancy Detection System (Video Occupancy Enforcement)

CONSIDER

Increasing share of Net Toll revenues allocated to Metro

Feasibility Study of Congestion Pricing + Reinvestment + Assistance According to Traffic Reduction Study

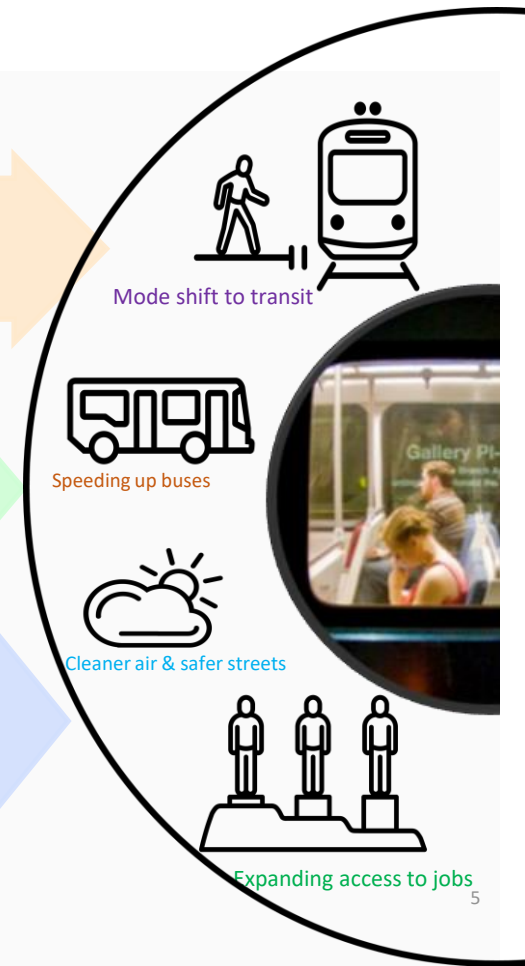
Estimated Annual Net Revenue



Affordable pricing reduces traffic & gets people moving.

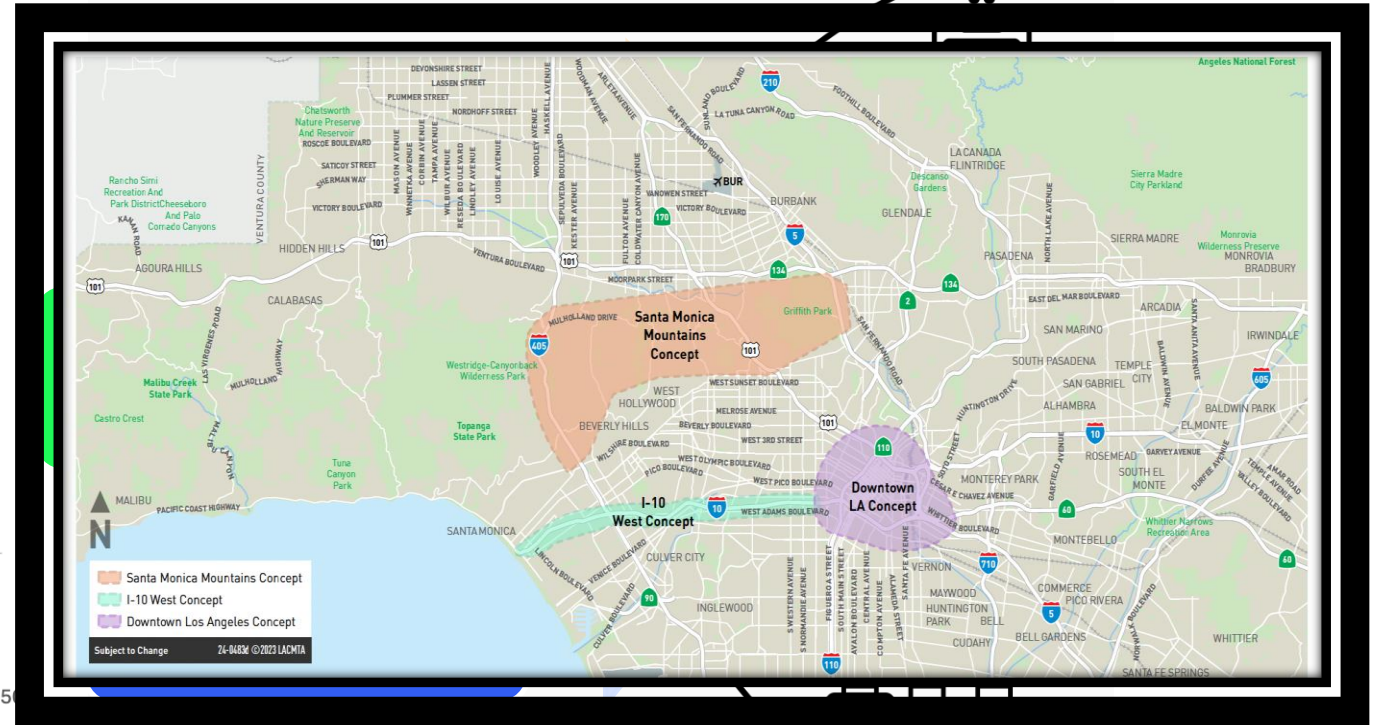
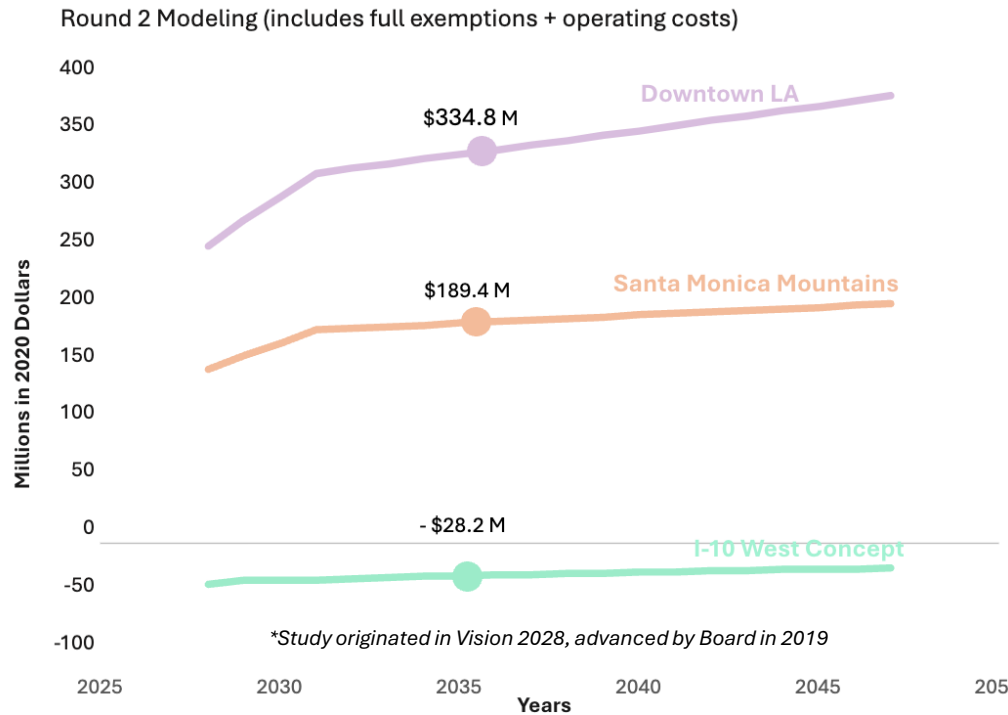
Net revenues are invested into communities to provide improved and new transportation.

Low-income assistance & equity strategies ensure people are not left behind.



Traffic Reduction Study – Concept Overview

Estimated Annual Net Revenue



Expanding access to jobs

6



Study is focused on these potential areas



Which of these new revenue opportunities are you most interested in exploring?

- A. Changes in Advertising Policy
- B. Integrated Ticketing
- C. Direct more net toll revenue to Operations
- D. Continue to study congestion pricing
- E. None of the above

Discussion Questions

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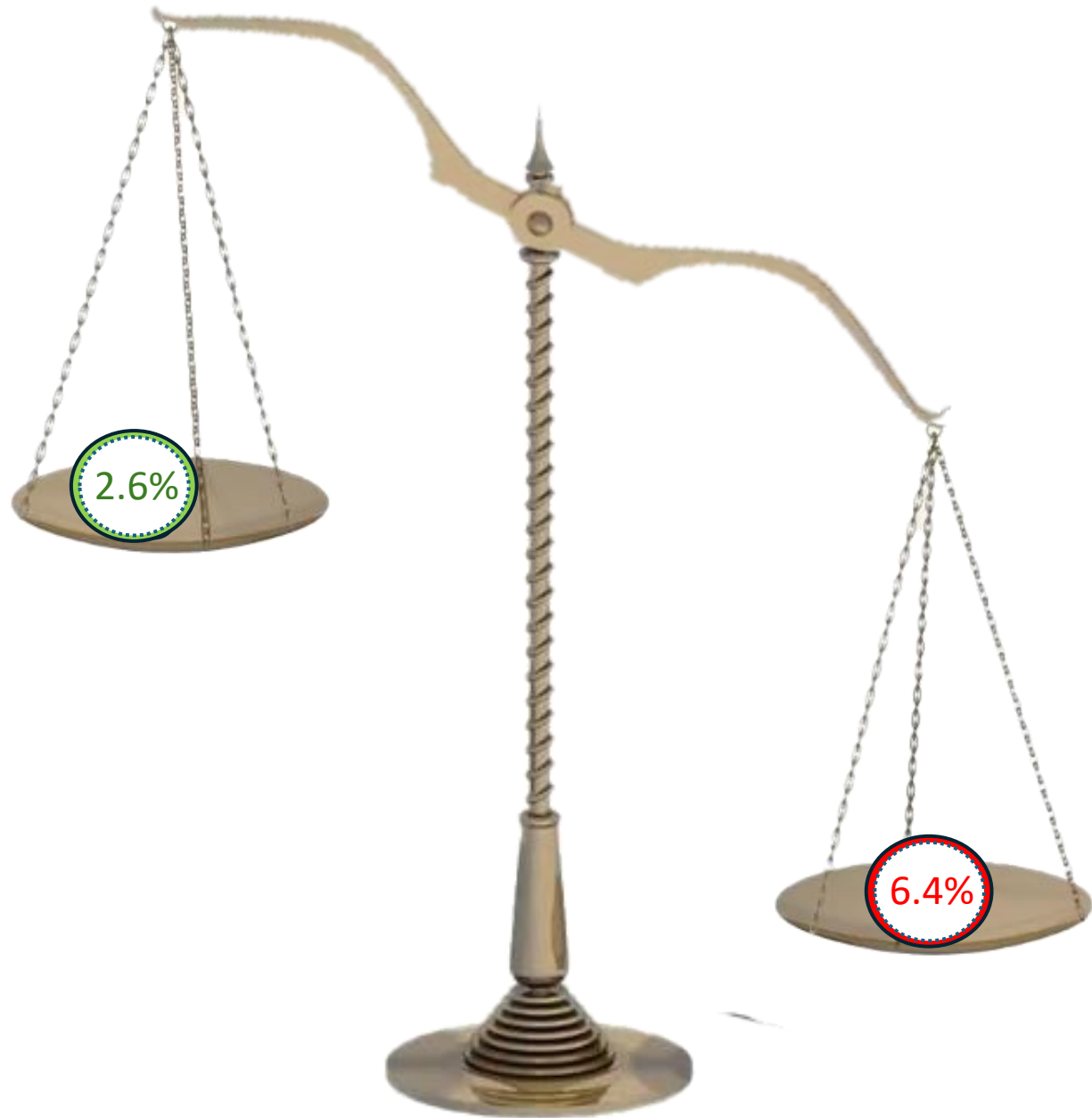


Given what you've heard today, which of the five Vision 28 goals are most important?

- A. Provide high-quality mobility options that enable people to spend less time traveling.
- B. Deliver outstanding trip experiences for all users of the transportation system.
- C. Enhance communities and lives through mobility and access to opportunity.
- D. Transform LA County through regional collaboration and national leadership.
- E. Provide responsive, accountable, and trustworthy governance within the Metro organization.

Closing Remarks



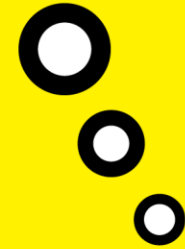


Resource

Expense



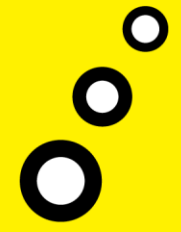
Deficit
Reduction
- 42%



Board Budget Workshop

March 2024

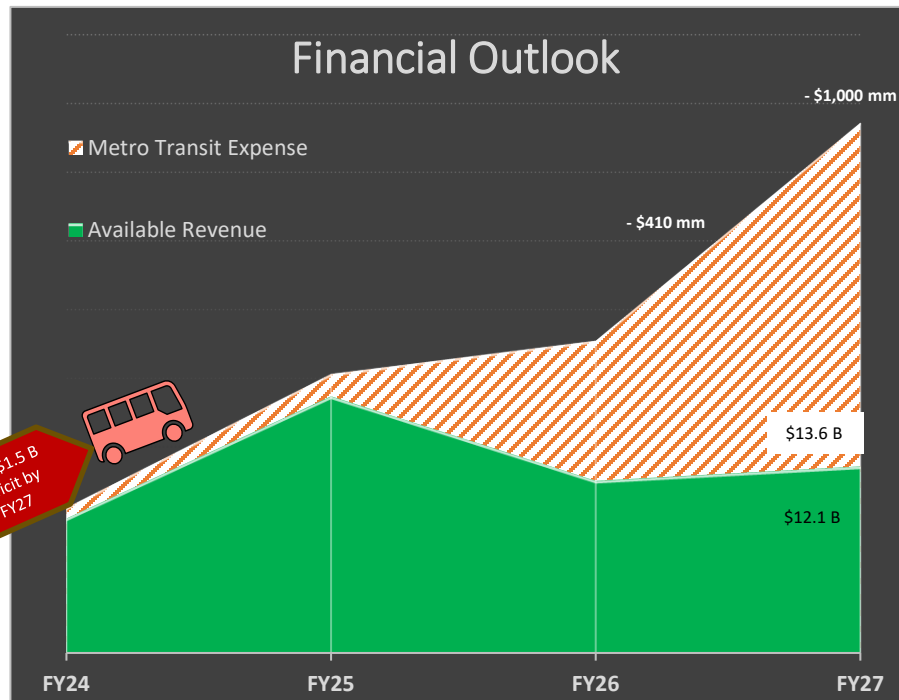




Why We Are Here



Refresher: Financial Outlook in October 2023



Reduced Revenue



Growth in Operating Costs

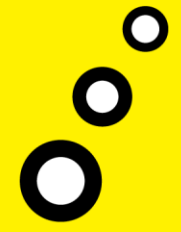


Planned Major Investment in CIP

Sales Tax

Ops Expense





How Did We Get Here

Measure M

2016
to
2017

1990
2005
2010
2015
2020
2025
2030



Measure M:
Collaborative
Expansion
Plan

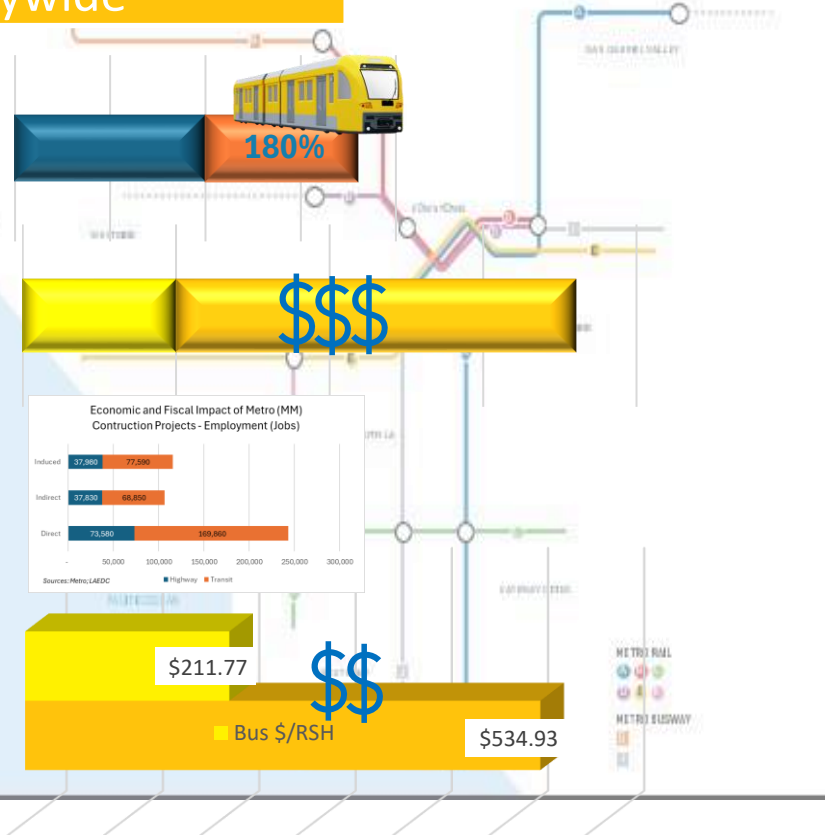
Measure M Sales Tax Continues Measure R on its path to accelerate Expansion of Transit Network Countywide

Since Measure R and Measure M,
Metro Rail miles adds 80%, or 61
miles, by 2028

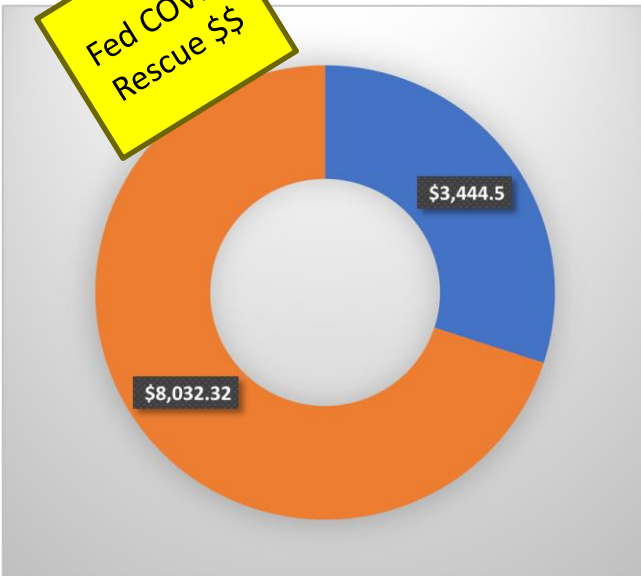
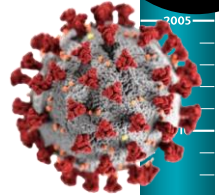
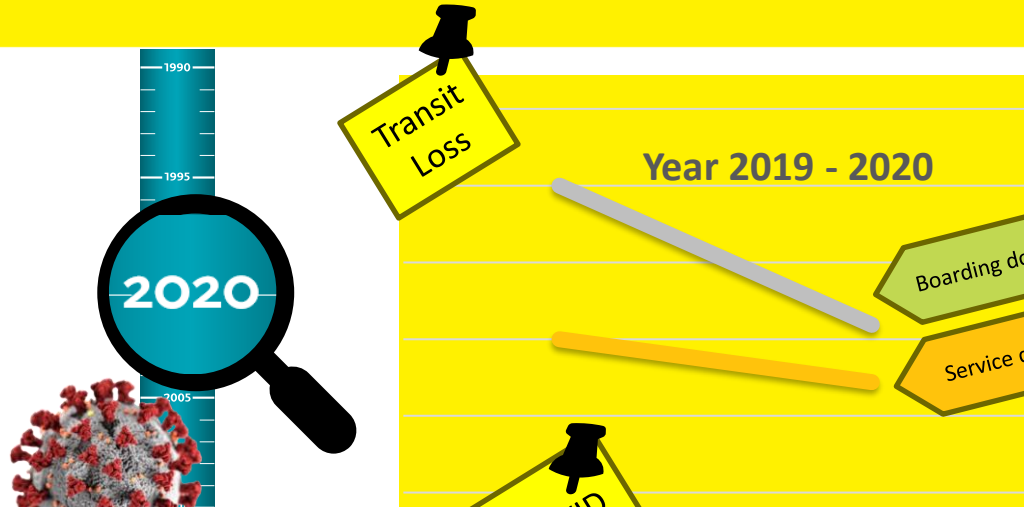
Metro Transit Assets grow by
261%, from \$5.3 billion to an est.
\$21 billion by 2027

Creates 465k + Local
Employment/Jobs

However, Rail Service is more
expensive to operate than Bus
Service



COVID Lockdown: A Reset Button for a New Transit Environment



Metro Ops Rev \$ Loss

COVID Loss	\$427
No Fare Collection	\$426
Actual	\$647

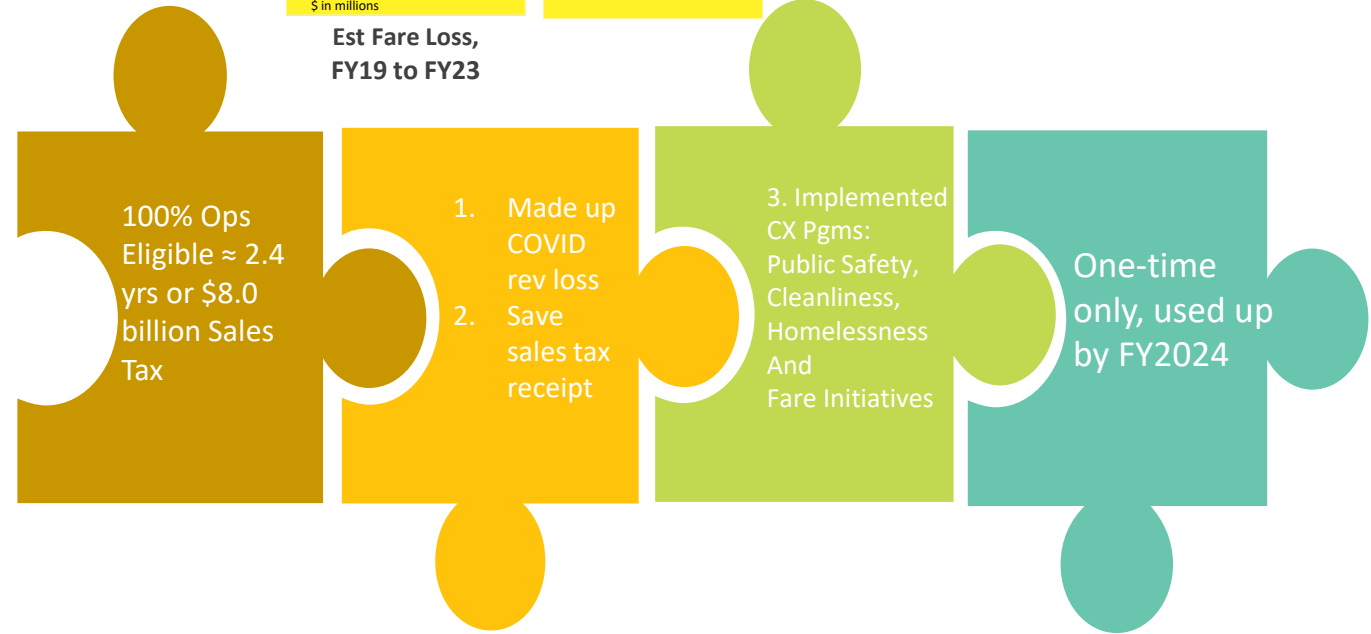
\$ in millions

COVID Loss	\$322
Actual	\$2,664
Est Sales Tax Loss, FY19 to FY21	

Est Fare Loss, FY19 to FY23

+ \$427 Fare Loss
426 No Fare Collc.
322 Sales Tax Loss

= \$1,175 Op Rev Loss



Restore, Expand and Enhance



Restored & Improved Pre-pandemic Service Levels

- Restored Bus Service
- Bus Stop & Subway Station Improvements
- Implemented NextGen Service Improvements

Service Hours
 FY22 6.50M
 FY23 7.09M
 FY24 7.12M

\$1.371B
 3 yrs.



New Programs to Improve Customer Experience

- Expanded Cleaning Program
- Expanded Homeless & Mental Outreach
- Launched Metro Ambassador Program
- Refocused Metro Security & Law Enforcement Deployment

FY22 \$432.6M
 FY23 \$481.8M
 FY24 \$536.8M

\$1,451M



Fare Initiatives Made Transit More Affordable

- LIFE Program Enhancements
- Launched GoPass
- Fare Capping & Mobility Wallet

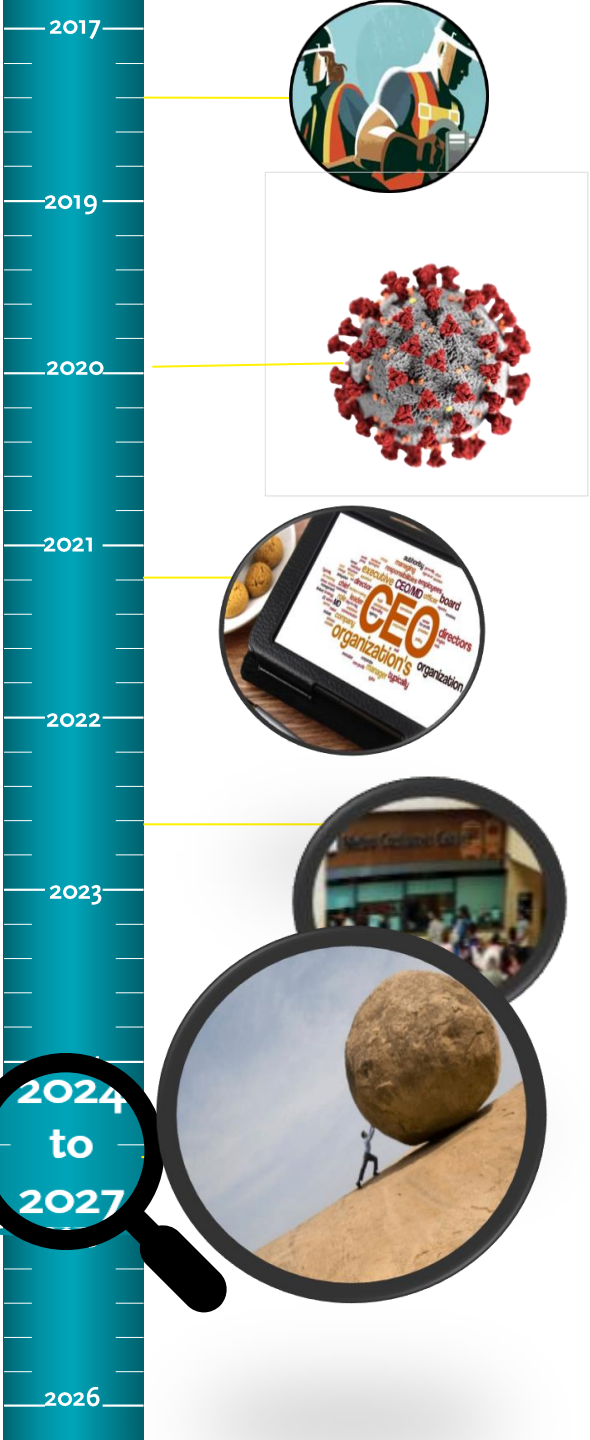
FY22 \$26.7M
 FY23 \$42.6M
 FY24 \$67.8M

\$216M



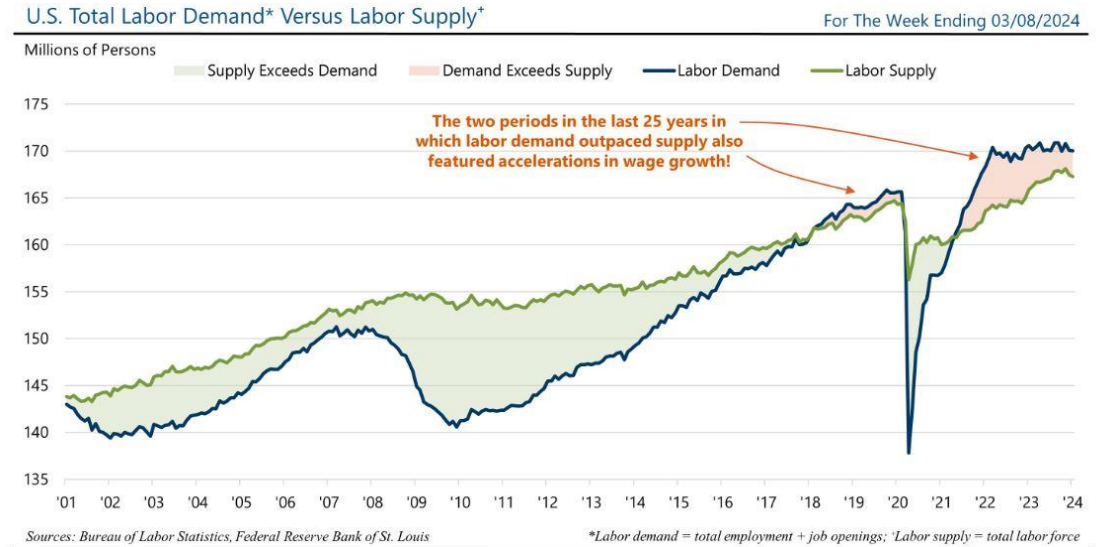
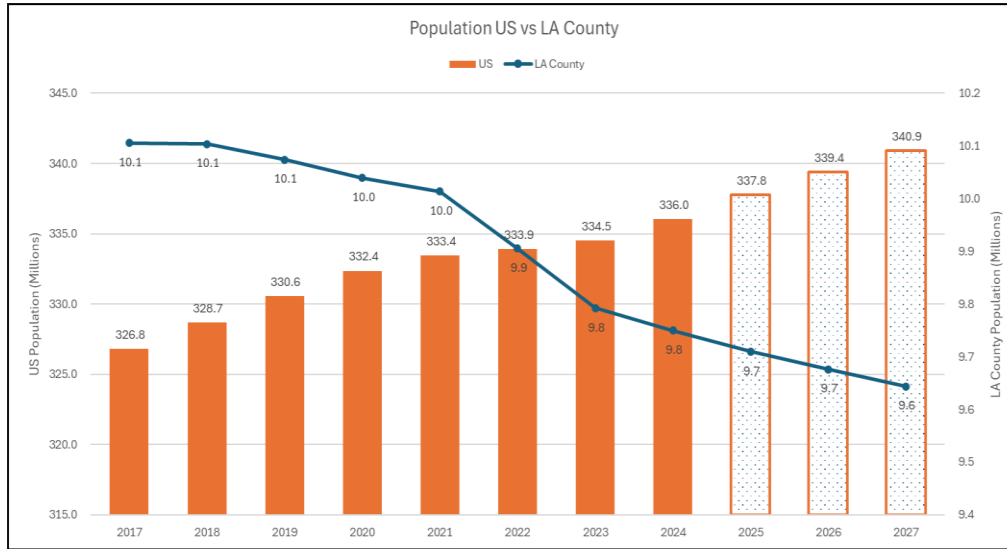
Delivered New Rail Infrastructure and Bus Lines

- K-Line - in South Los Angeles and Inglewood
- Regional Connector - in Downtown LA
- Expanded dedicated bus lanes – 51 miles



An Uphill Climb:

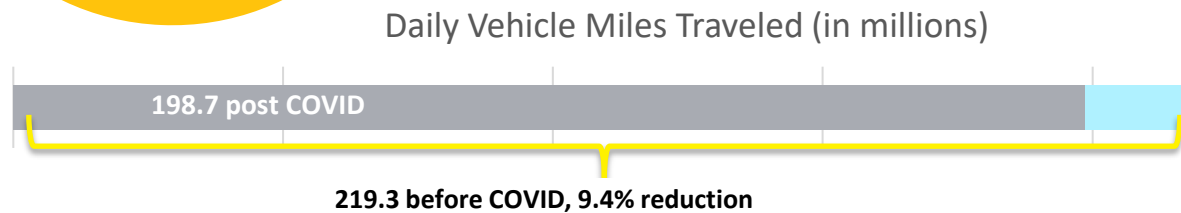
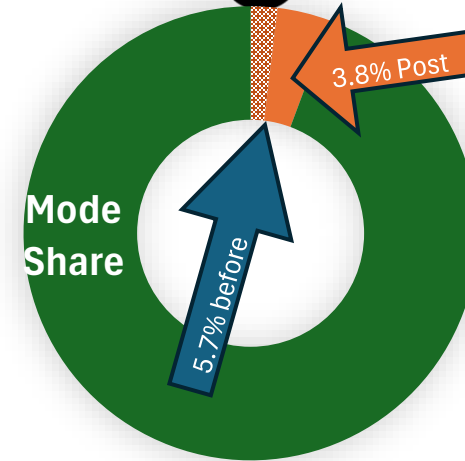
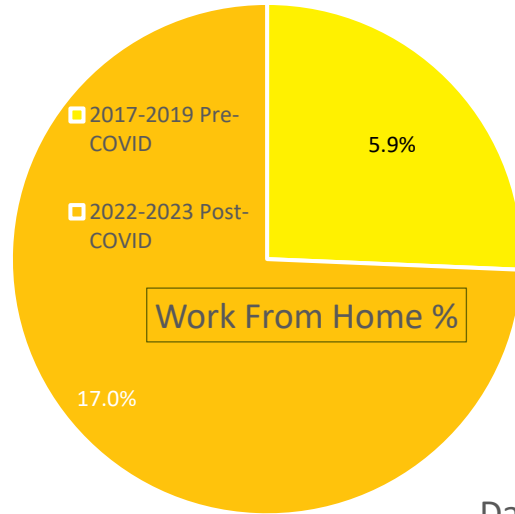




An Uphill Climb: Population decline, Limited Labor Supply

- Population:
 - LA County: -3.1% 2016 to 2022; projected to decline by 0.36% annually to 9.6 million by 2027
 - US: +2.4% 2016 to 2022, projected to increase to 342.5 million by 2027
 - Lowers LA sales tax receipts, tightens labor supply, and reduces transit ridership base
- (Labor supply < Labor demand) = wage growth
- Volatile inflation, between 2.4% to 6.5% month to month in short succession since 2022.
- Creates unpredictable cost increase pressure to procure materials, supplies and services
- Revenue loss and cost increases are greater than originally anticipated

Ridership and Travel Behavior Trends



Ridership remains below pre-COVID due to post pandemic travel behavior:

- 3x more working from home
- Mode Share (Commute) decreasing from 5.7% to 3.8%
- Daily VMT daily reduced by 9.4%
- LA drivers license rate increase from 83% to 86% for eligible residents

Areas of Ridership growth opportunity:

- Customer experience improvements
- Opening additional rail lines
- Weekend services
- Service enhancements in select geographic regions



Near Term Financial Update to Five Year Outlook by FY29



Resources

Grant

- COVID rescue \$ exhausted
- Grant procedure changed (CMAQ, IIJA) or halted (REAP 2.0)

Sales Tax

- Lower actual sales tax receipts
- Gradual population loss

Fare Rev

- Loss of Transit base:
- Change in post pandemic work and travel behavior

Sales Tax

Ops Expense



Expense

- Reimagined Public Safety
- Station Initiatives/Ambassador
- Homelessness and Opioid Epidemic

- Fare Initiatives Cost:
- GoPass: \$18 million
 - LIFE: \$12 to \$34 million
 - Fare Capping: \$17 million

- Increases Cost of on-going operation caused by high inflation
- Rail operating is more expensive at 27.5% annual increase rate
- Capital Improvement update in Bus/Rail Vehicles

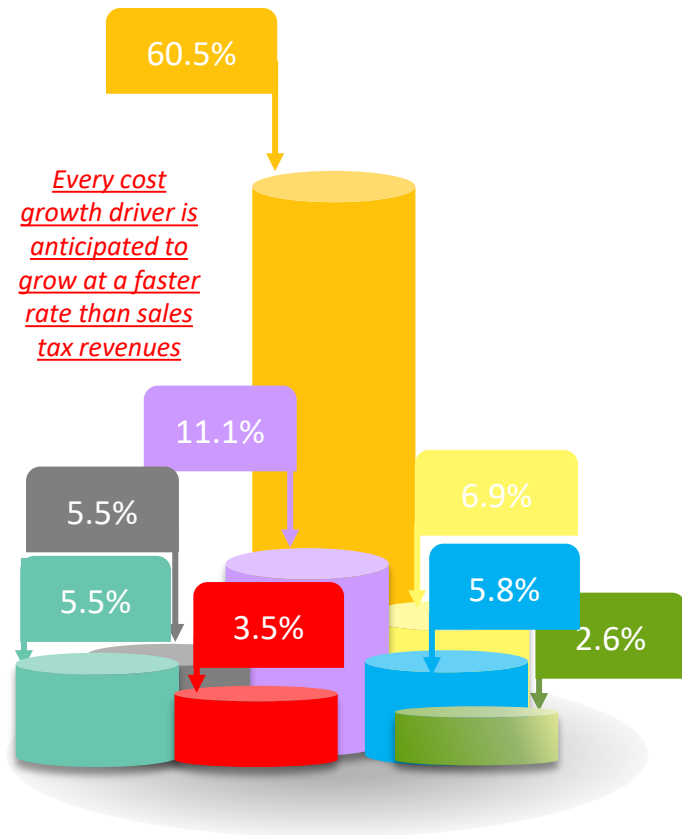
Enhanced CX

Fare Initiatives Costs

Inflation & Expanded Rail Network

Metro Transit Near Term Projected Outlook FY24 - FY29

% Growth FY24 to FY29



ZEB – 60.5%

Metro’s accelerated Board goal of achieving a zero-emission fleet by 2030 puts further strain on funding needs for maintaining existing assets in a state of good repair



Insurance, WC, PL/PD – 11.1%

Insurance premiums, workers’ compensation (WC) and property liability and property damage (PLPD) costs make up 8% of total Metro Operations costs



Public Safety – 6.9%

Public safety costs make up 12% of total Metro Operations with law enforcement costs as the biggest driver (about 61% of total Public Safety)



Service including Expansion – 5.8%

At least one major rail opening per year for next 5 years leading up to the Olympics.



Cleaning – 5.5%

Station Innovation Experience & Strategy



Labor Costs – 5.5%

Union labor costs have had a historical growth of 5.6% per year from FY12-FY24 while average CPI increase over the same period has been 2.8%



Cost Inflation – 3.5%

Metro preliminary cost inflation projection

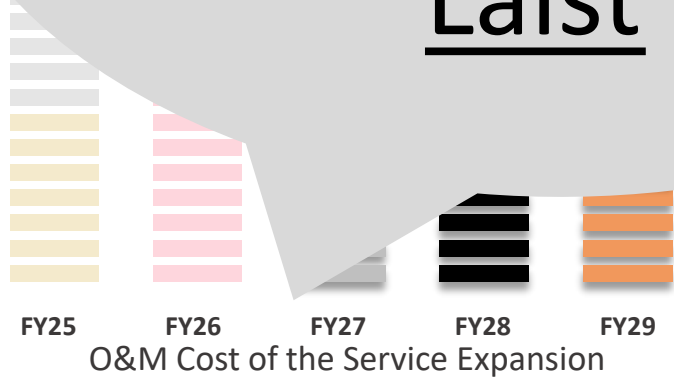


Sales Tax – 2.6%

Economy is volatile and sales tax revenues may decline



“MTA And The
End Of The
Consent Decree |
Laist”



- Metro is undergoing a major rail expansion with the anticipated opening of Foothill Phase 2B, Airport Metro Connector, Purple Line Extensions 1, 2, and 3

“MTA Loses the Latest
Round in Bus Battle - Los
Angeles Times
(latimes.com)”



What is your favorite ice cream flavor?

- A. Chocolate
- B. Vanilla
- C. Strawberry
- D. Coffee
- E. Pistachio

PULSE CHECK



In 2018 the Board adopted Vision 2028 with five goals. Which of these is most important to you? **You can only choose one.**

- A. Provide high-quality mobility options that enable people to spend less time traveling.
- B. Deliver outstanding trip experiences for all users of the transportation system.
- C. Enhance communities and lives through mobility and access to opportunity.
- D. Transform LA County through regional collaboration and national leadership.
- E. Provide responsive, accountable, and trustworthy governance within the Metro organization.





Metro

General trends in urban transit

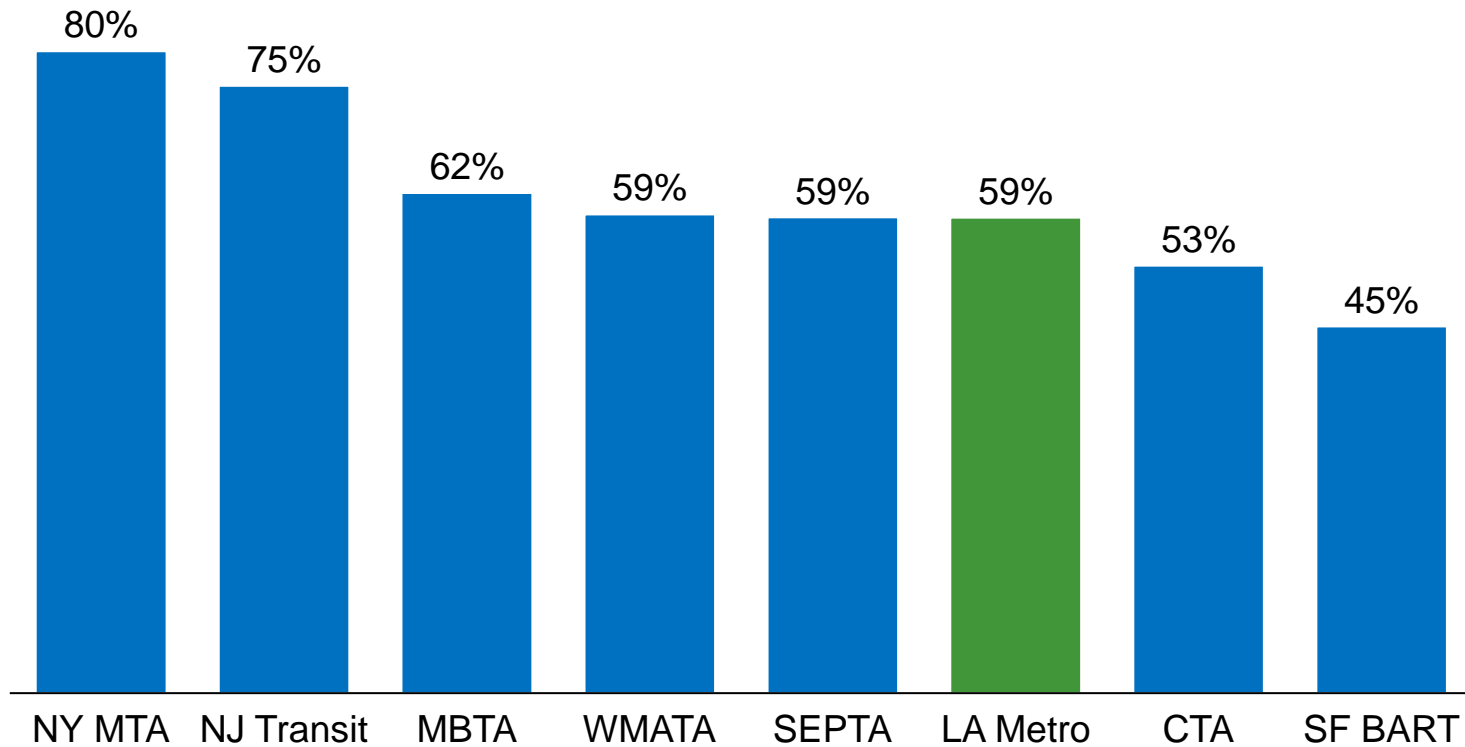
LA Metro Board Retreat

March 2024



Agencies nation-wide have been experiencing headwinds and declines in ridership since 2008

2023 ridership recovery as a % of 2008 ridership, (%)¹



1. Recovery in unlinked passenger trips (no adjustments or estimates) and service levels, in comparison to 2008. Peer set includes transit agencies that have the highest ridership in the nation, and similar modes as LA Metro – these include MBTA, NY MTA, NJ Transit, SEPTA, WMATA, CTA, BART

Source: National Transit Databased (accessed in March '24), [SmartCitiesDive](#), McKinsey Global Institute analysis, FHWA Traffic Volume Trends analysis

Factors leading to decreased ridership



~20% p.a.

Growth in number of US ridesharing trips from major providers



3.5 days

Expectation for in-office presence for office workers in new hybrid environment

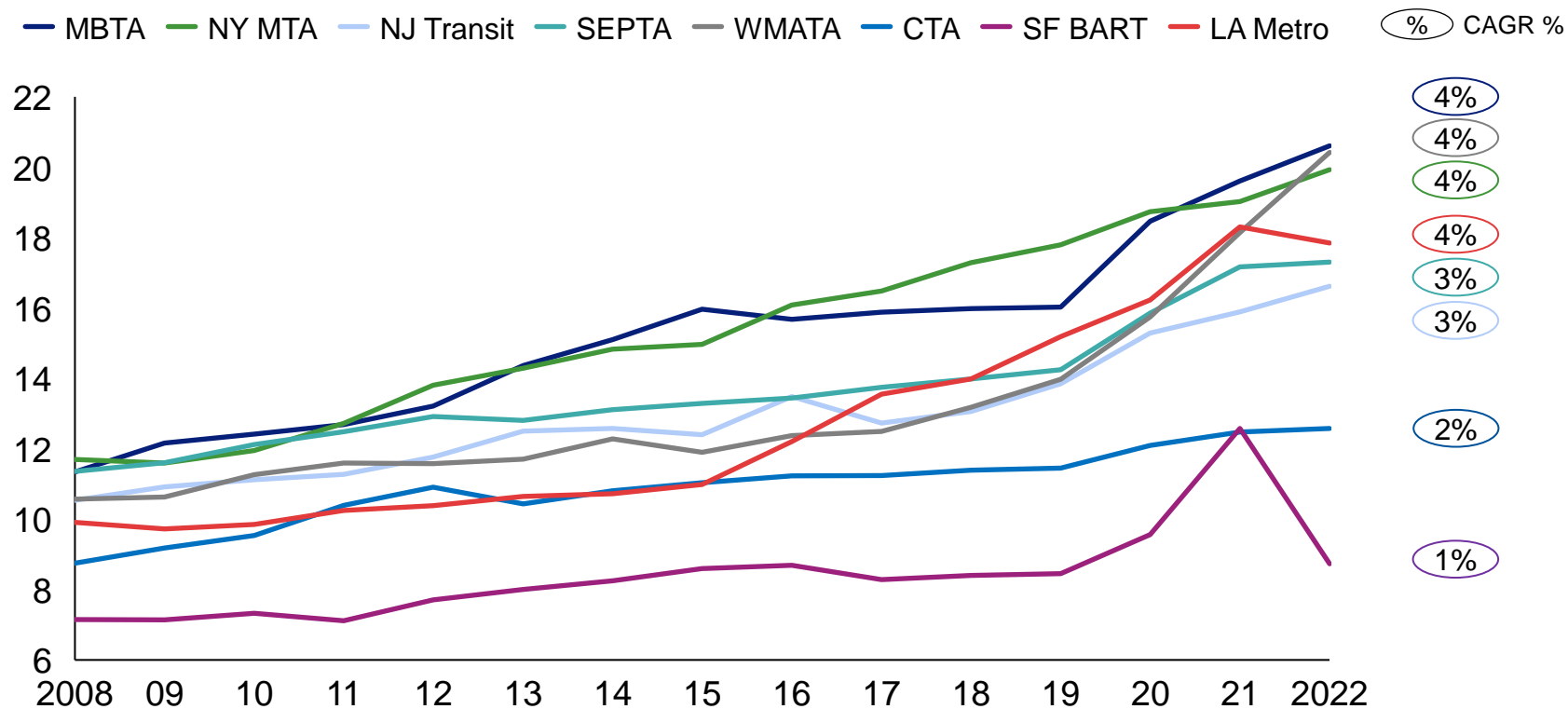


2.1%

Increase in roadway travel in the US in 2023

Although ridership has decreased; costs have risen; as agencies adapt to meet evolving ridership needs

OpEx by vehicle revenue miles (VRM)¹ across leading transit agencies, (\$ per VRM), 2008-22



~15%

Increase in point-to-point trips outside of the urban core versus pre-pandemic period

~30%


Typical increase in capital project cost for public sector agencies compared to original estimates


1. Annual total operating expense by the annual vehicle revenue miles (VRM) at an agency level, in comparison to 2008. Peer set includes transit agencies that have the highest ridership in the nation, and similar modes as LA Metro – these include MBTA, NY MTA, NJ Transit, SEPTA, WMATA, CTA, BART

Source: National Transit Databased (accessed in March '24), McKinsey Insights "[Winning ridership for the next normal](#)", [LA Times](#), [UCLA - Vehicle Ownership Trends and Their Implications for Transit Ridership](#); Industry experts

Leading agencies are using this moment of change to transform how they deliver service to the community

Network accessibility

 **Los Angeles Metro**
Metro Micro micro-mobility service

 **Santa Cruz Metro**
Bus route and frequency redesign

Customer experience

 **Los Angeles Metro**
Ambassador and station improvement program

 **Toronto Transit Commission**
10-minute headway program

Reimagining operations

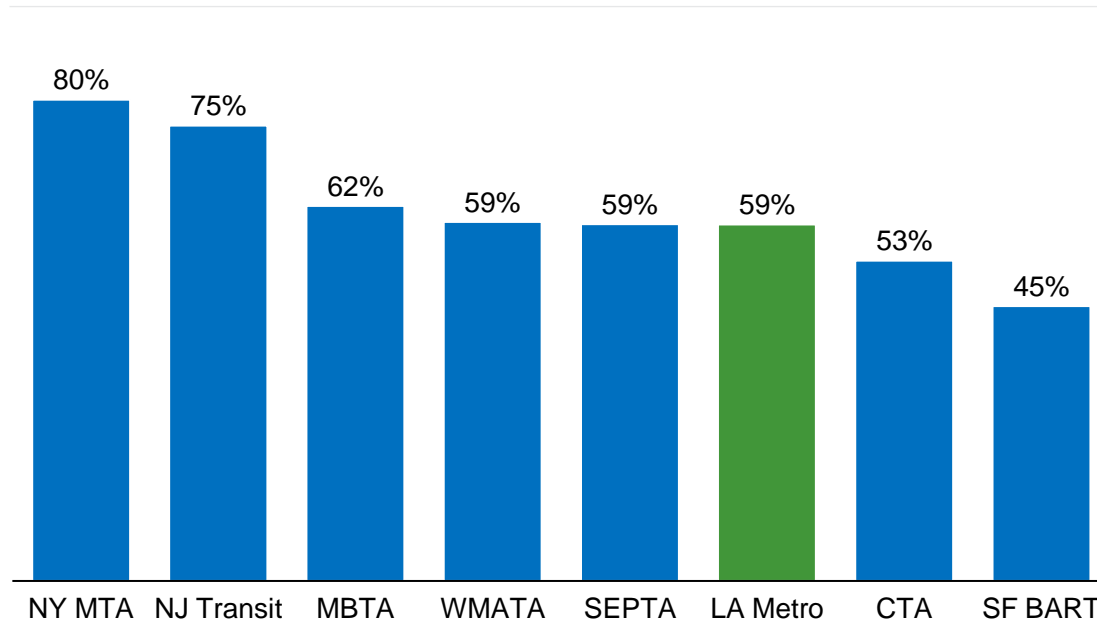
 **Los Angeles Metro**
Early Intervention Team (EIT)

 **Texas Department of Transportation**
Houston ConnectSmart “Mobility as a Service” app

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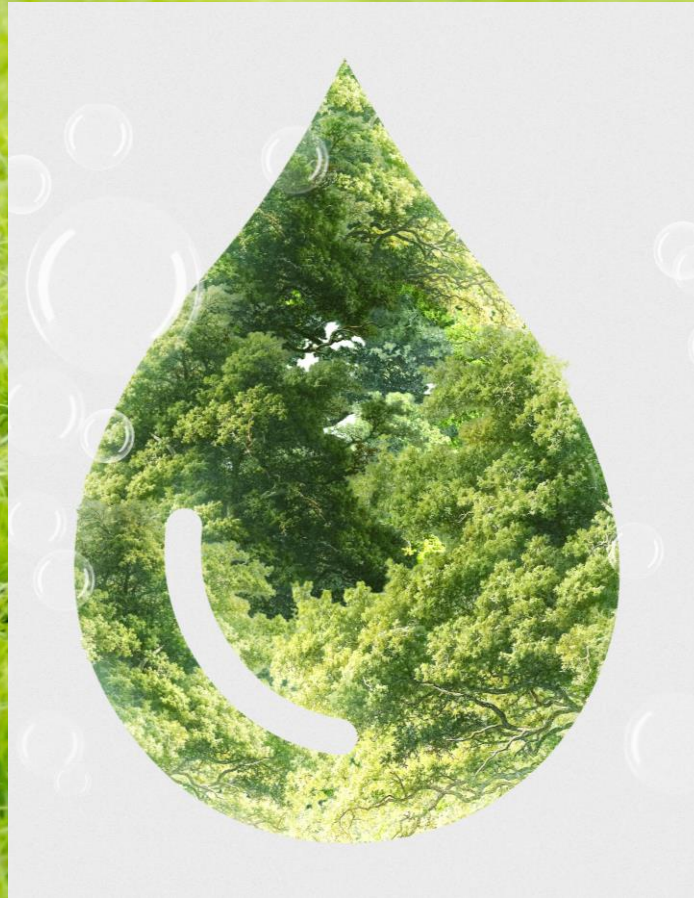
Expectation for in-office presence for office workers in new hybrid environment



2.1%

Increase in roadway travel in the US in 2023

01. Environmental Sustainability



ZEB

Metro's Path to Zero Emission



Reduce VMT

Goals to reduce VMT and Greenhouse Gas Emissions



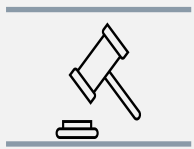
Mega Events

Opportunity to optimize ridership this with LA's mega sporting events by increasing mode shift to transit

Zero Emission Bus (ZEB)



CA 2040 Mandate



Capital Cost Increase

The implementation of the zero-emission bus program is a significant capital cost to meet the State of California's 2040 mandate for eliminating the use of hydrocarbon fueled buses

Grant Funding



Secured

Only 9% funding secured in grants to date for a total program requiring more than \$4.3B



Budget Impact



CIP Program

13% | to | 57%

In FY24, electrification makes up 13% of the total CIP program; that would need to grow to be 57% over the next five years to meet the 2030 goal

Metro's Near-Term Outlook

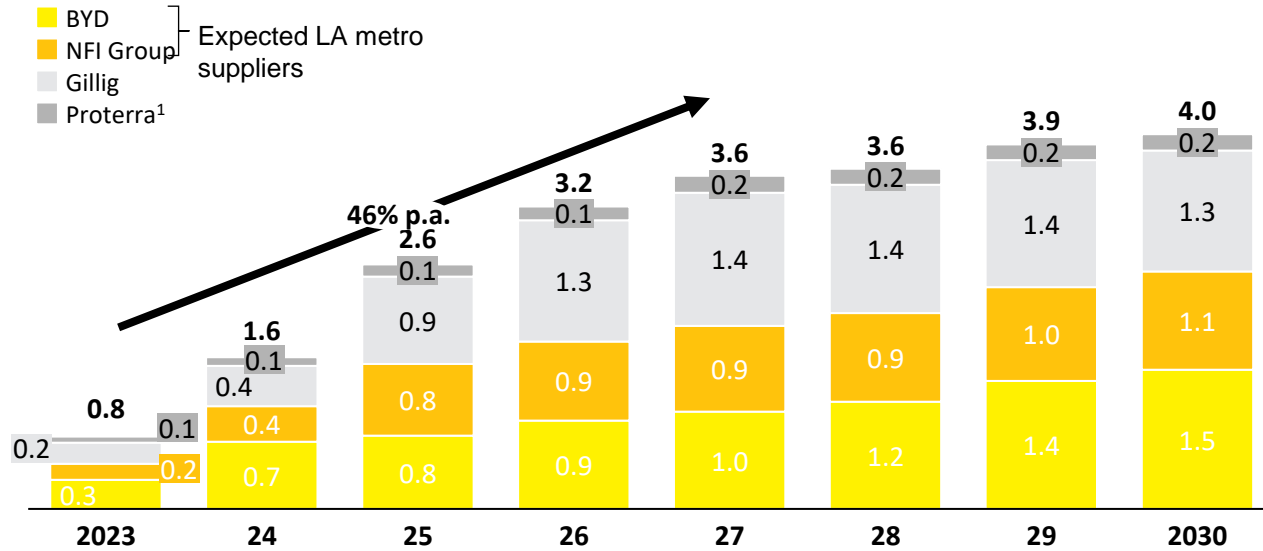


Forecast

Assumes an accelerated goal of achieving a zero-emission fleet by 2030, which includes procuring zero-emissions Battery Electric Buses (BEB) and related electric charging infrastructure

Converting to ZEB in 2030 requires ~15-25% of future supply, based on OEM ability to scale

North America electric bus production, K units



LA Metro annual orders, % total production - BYD/NFI Group production

	2023	24	25	26	27	28	29	2030
ZEB 2030	0	0	0	14 - 25%	14 - 24%	14 - 23%	14 - 21%	
ZEB 2035	0	0	0	5 - 10%	5 - 9%	6 - 10%	6 - 9%	

¹ Declared bankruptcy in November 2023; assets were purchased by a small EV manufacturer Phoenix Motorcars

Source: LA Metro Discussions in December 2023 and January 2024, LA Metro procurement data, I.H.S. Markit

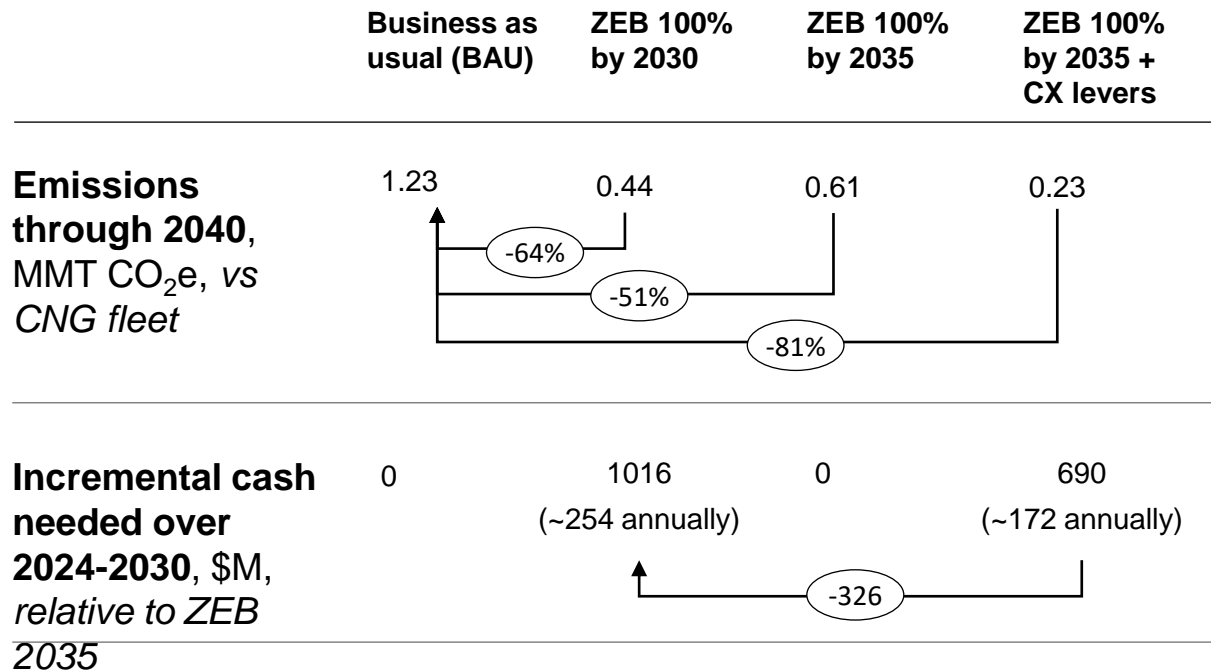
Select insights

BEB supply projected to grow at 46% p.a. through 2027 as OEMs scale to meet market demand

BEBs primarily available for LA Metro from two suppliers due to no contract bids from Gillig and Proterra supply uncertainty, **reducing the available supply by ~60%**

14-25% of primary supplier annual production required to achieve ZEB 2030 vs 5-10% for ZEB 2035, due to larger annual orders in quicker transition

Converting to ZEB in 2035 may present cashflow to improve CX levers, leading to additional emission reduction compared to 2030 timeline



Investing in ZEB 2035 with prioritized CX levers could lead to **~81% emission reduction** compared to business-as-usual scenario

The cash flow needed for CX levers could be offset by increased cash flow availability from slower transition, i.e. ZEB 2035 vs ZEB 2030

Opportunities with 2035 target (Ridership Building)

Ridership Building

- Improving bus ridership is a more effective way to reduce emissions
- Metro contributes a small portion to the county's transportation sector emissions
- Investing a portion of ZEB 2035's cash flow into CX efforts could raise ridership by 10% to 13% which outperforms the 2030 ZEB emissions impact by 2.8x



Operational Stability

- BEB Reliability
- Supply Availability
- Technology and Cost Improvements
- Hiring Surge for BEB Commissioning
- Legacy Events
- Staff Training & Capacity Building
- Accelerated Retirement

Operational
Stability



Would you rather...

- A. Advance the zero emission ZEB program in 2030?
- B. Continue investments in speed and reliability, cleanliness, and security improvements?

Reducing VMT – Opportunity to make LA “Transit-First” Culture



Games Time

- “Transit-first” Games (**LA’s goal**)
- Restricted parking and increased enforcement
- Bus lines connect the four sports parks (**LA’s strategy**)



Legacy

- 40 projects
 - Station upgrades, rail line capacity improvements, new rail vehicles, and first/last mile
 - Implemented 75 miles of BRT
 - Constructed 20 miles of rail

By the Numbers

15%

of Londoners permanently changed their travel behavior after the 2012 Games

Ridership increases 2 years after 2016 games

35% BRT **117%** Rail



Metro

- **Current mode split:** Transit/ walking/biking averages 10% (major LA venues)
- **2028 Games:** opportunity to show people how to get around LA via transit

2028 Games-Time Mode Split Assumptions for Modeling

Venue(s)	Car/ Rideshare %	Transit/ Walk/Bike %
Downtown LA	22%	78%
USC/Expo Park	37%	63%
Sepulveda Basin	32%	68%
Carson	37%	63%
Long Beach	32%	68%
Inglewood	47%	53%
Santa Monica	27%	73%
Frank G Bonelli Park	17%	83%
Pasadena	40%	60%

**One Car
Challenge
Pilot**

One Car Challenge Pilot Program



Initial Results: Treatment Group

- 4.5X more likely to NOT drive additional car
- Reduced VMT
- Traded Driving for Transit, Walking and Biking

Discussion Questions

1. On a scale of 1 to 5, 1 being the most important, rank the strategies you would like Metro to explore to address this area of focus.
2. What other information do you want Metro to provide so you can prioritize this policy decision?
3. Do you have any other policy or strategy ideas you would like Metro to consider in this area of focus?

02. Universal Basic Mobility

Universal mobility means that everyone –

No matter their age, ability, location, and socioeconomic status — can access transportation options that will get them anywhere they need to go.

Increase Access to Opportunities by making it Safe, Clean, and Affordable

Reduces Inequality and Promotes Equity/Dignity

March 2024

02. UNIVERSAL BASIC MOBILITY

Metro's Current System of Partnerships and Policies

System Partnerships

- UBM Pilot LADOT- Mobility Wallet
- Visionary Seed Funding

Programs

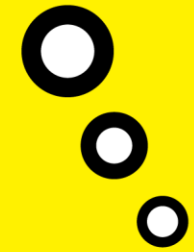
- Fareless System Initiative (FSI)
- GoPass
- LIFE
- UPass
- Access Services

Policies/Plans/Other Opportunities

- Fare Capping
- Equity Platform/Analysts (MBEAT, EPET, REA)
- CBO Partnering Strategy
- Aging and Disability Report
- How Women Travel Report + Much More
- Workforce development
- Minority business contracting opportunities
- Measure M Five-Year Comprehensive Assessment & Report



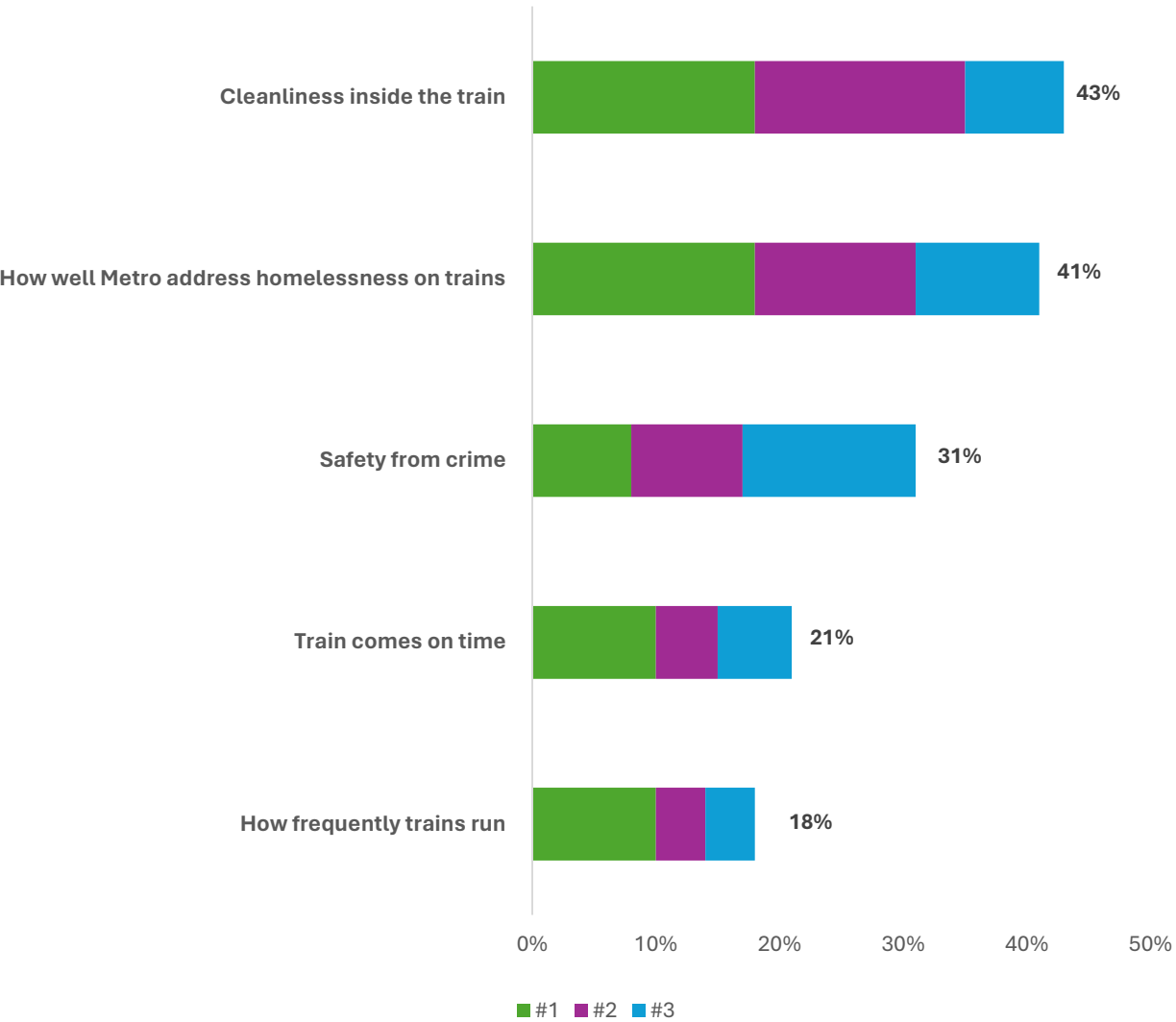
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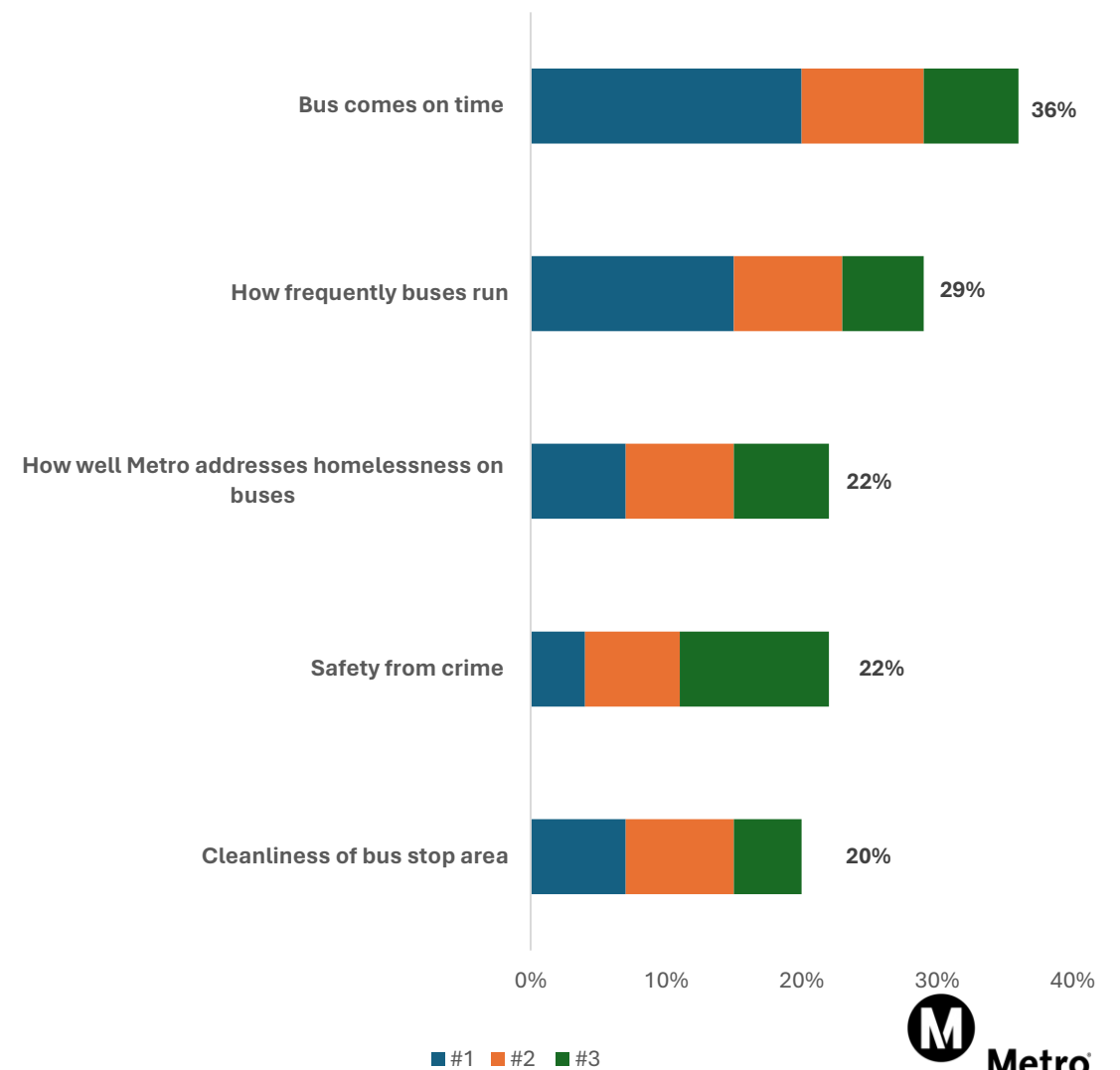
Customer Experience Priorities

2022 Top 5 Aspects Customers Want Metro to *Improve*

RAIL



BUS



Customers notice when we don't invest in maintaining our system.

Cleanliness	67% NOT satisfied with cleanliness inside the train station	69% NOT satisfied with cleanliness inside the train
Safety	63% NOT satisfied with safety from crime on Metro rail	59% NOT satisfied with enforcement of Metro Rail rules

2022 Customer Experience Survey

And respond well when we do.

In 2023, we:

- Launched the Metro Ambassador program
- Increased security and law enforcement presence
- Increased homeless outreach teams
- Increased M&E HelpDesk staffing
- Deployed custodial staff to high incident areas

This helped increase our ridership:

11.6%
from 2022 to 2023

How do we succeed?

Our Customer Promise

We want to be your ride and we know we need to earn it. We promise to listen to you, learn from you, and improve for you.

We need to *make it...*



Safe

provide customers with secure, safe, and uneventful trips.



Clean

maintain a clean environment for customers.



Comfortable

enhance customer enjoyment of riding the system.



Reliable

get customers where they want to go quickly and reliably.



Easy

provide customers with simple, accurate, and timely information.

FARE PROGRAMS: Equality v. Equity

Provides benefit equally

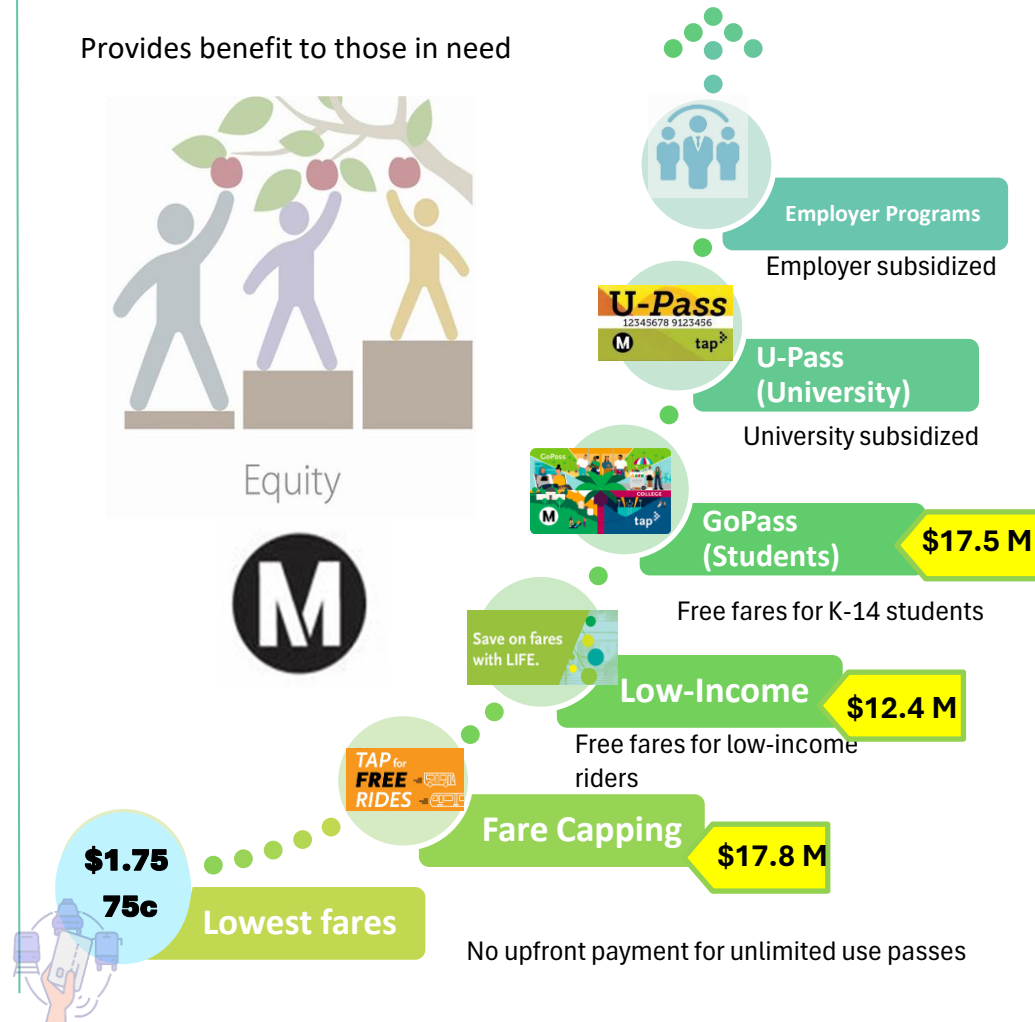


Equality

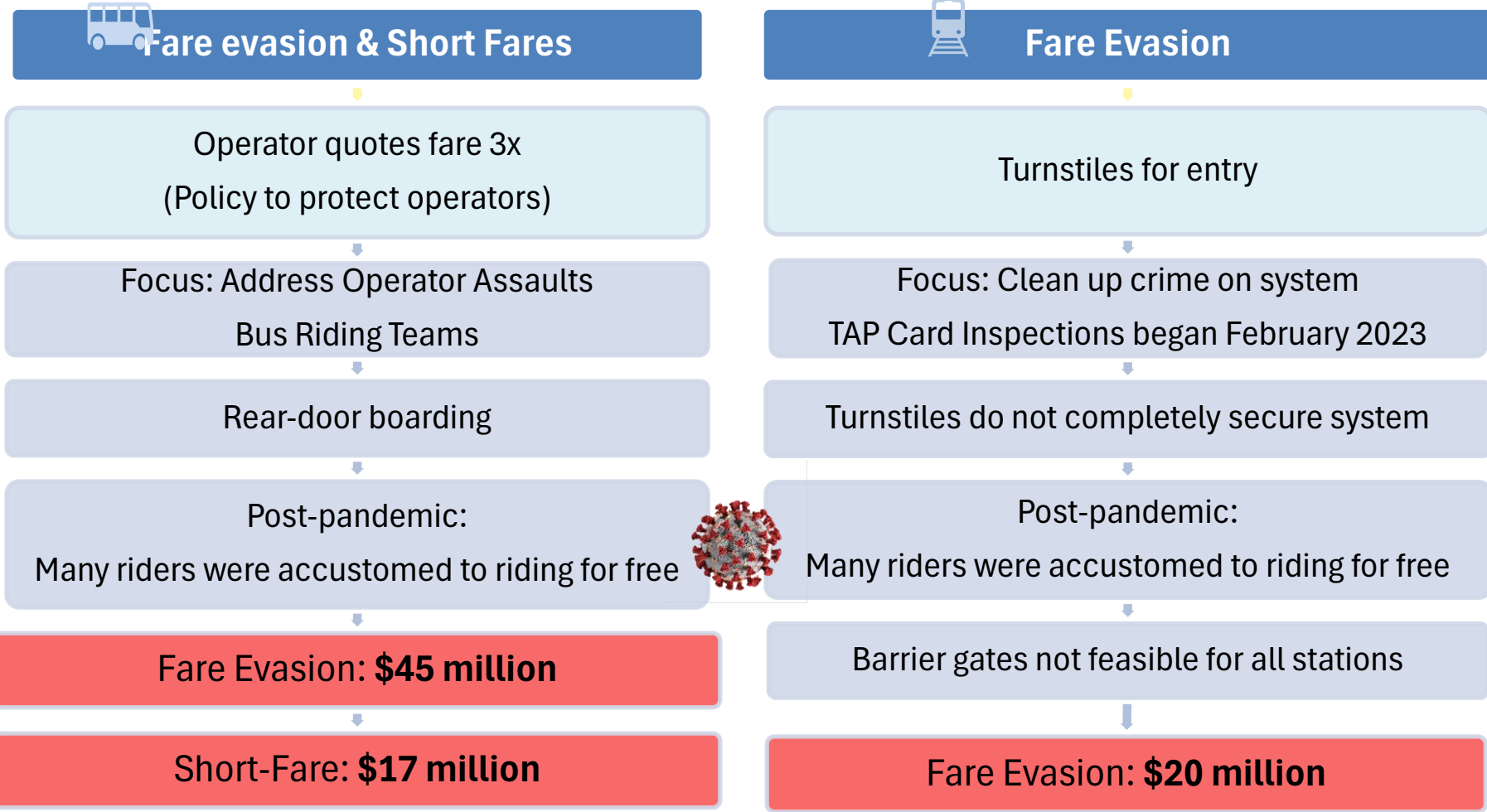
Provides benefit to those in need



Equity



Fare Compliance



PUBLIC SAFETY SECURITY COSTS

Actual
FY18 to FY23

12%

Public Safety

Costs have increased 12% from FY18 to FY23, due to newly formed programs (Transit Ambassadors, Homelessness) and increases in Law Enforcement.

\$870M

Law Enforcement

Last five-year contract value of \$870M.

9% - 12.1%

Operating Funds

4% increase in Ops. eligible funds used for Public Safety from FY18 to FY23, driven mostly by the multi-agency contract and new programs.

Forecast
FY24 to FY27

8%

Public Safety

Costs are anticipated to rise 8% from FY24 to FY27, driven mostly in Metro Transit Security.

\$1.5B

Law Enforcement

An estimated \$1.5B for next five years based on the historical cost growth by continuing existing practice.

12%+

Operating Funds

Shift in allocating the operating budget towards public safety. A substantial change in resource distribution to ensure public safety.

SEEKING

Cost effective solutions
Long-term planning
Performance review
Optimizing resource allocation



REIMAGINING PUBLIC SAFETY

Multi-Layered Approach

Personnel

- Homeless Outreach & Mental Health Teams, **\$168M**
- Contract Security, **\$281M**
- Transit Security, **\$391M**
- Law Enforcement Services, **\$1.5B**
- Transit Ambassador Program, **\$129M**

Infrastructure Improvements

Tech & Innovation Investments

- Next Gen Speed & Reliability upgrades
- Improvements in:
 - Elevators, Escalators
 - Bus Stop Lighting, & Cameras

Service

Customer Experience

- Expanded cleaning efforts
- Bus stop & Station cleanliness
- Westlake McArthur Park Station Pilot
- Expanded customer service hours
- Upgrades to signage & wayfinding



STATION EXPERIENCE (SX)

BACKGROUND, PROCESS & PRIORITIZATION OF WORKS

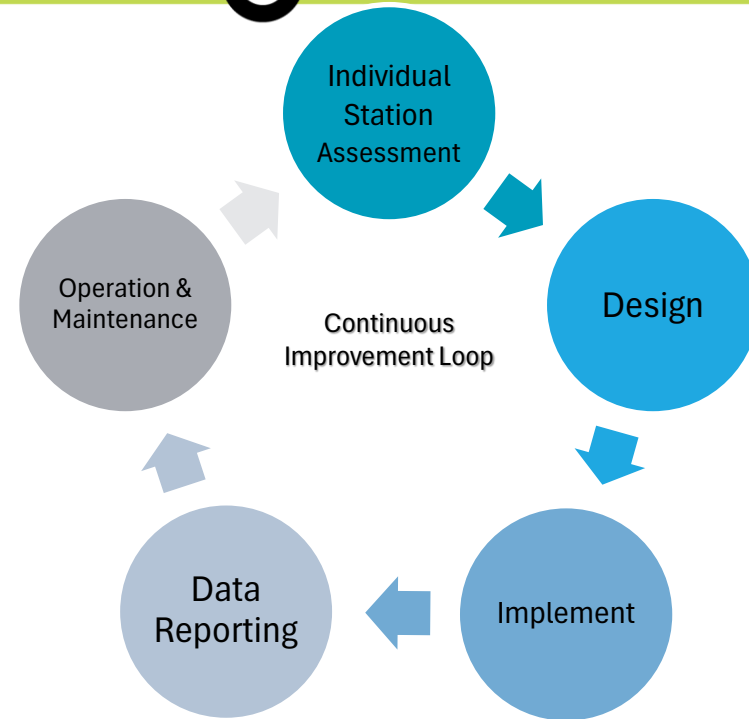
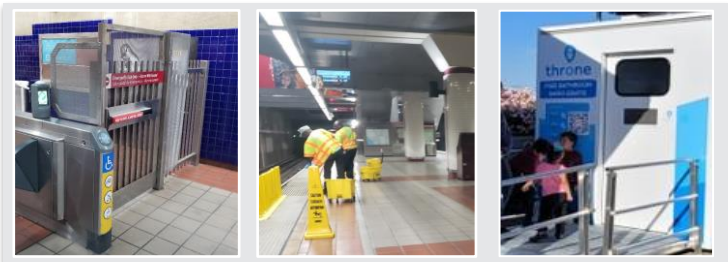
Westlake/MacArthur Park

- Dramatic reduction in crime / illicit activity,
- Improvement in rider satisfaction
- Operational savings from Station Experience Ecosystem

Schedule to expand strategies to other stations driven by the level of intervention assessments

Prioritization criteria

- Geographical equity + focus on Equity Focus Communities
- Historical station evaluation scores
- Reported crime, citations, warnings
- Customer care complaints
- Observations of people experiencing homelessness



Environmental Design Interventions *paired with* Care-Based Strategies

- Lighting / Ambient Music / Fresh Airflow
- Rightsize public spaces to improve access control and promote natural surveillance
- Faregates / Access Control
- Safe, clean, and reliable public restrooms
- Elevator Safety
- Small Scale Retail / Community Programming
- TAP Blue Shirt Ambassadors
- LIFE Pop-Ups
- Dept. of Health Services Mobile Health Clinic
- Homeless Outreach teams
- Metro Ambassador teams
- Crisis interventionists
- Substance abuse counselors
- Security
- Law Enforcement

RESOURCES NEEDED TO DELIVER IMPROVEMENTS \$100-\$120M w/ escalation



- Targeted Capital Improvements to Address 150+ Rail Stations & Bus Transit Centers
- 20 New FTE hires to support Rollout
- Other Depts supporting SX projects

Financial Impact

- One-Time Capital: \$75-90M
 - Labor: \$25-30M
- (Pending individual station assessments)*



Metro

Operational Savings, Safety & CX Improvements

- Cost Savings, Non-Monetary & Societal Benefits
- Improved consistency in custodial coverage
- Fewer calls for emergency service (police, fire)
- Fewer passenger delays & service disruptions
- Reduction in visible & traumatic incidents
- Paid faregate entries **+101% increase**
- Loitering/illicit activity **-95% reduction**
- Elevator downtime **-83% reduction**
- Vandalism/clean-ups **-60% reduction**
- Public urination/defecation **-50% reduction**
- Medical emergencies **-40% reduction**



Traditional reactive solutions DO NOT address root causes & increase recurring costs

- Elevators- shattered glass replacement **\$1M+/year**
- Custodians - address inappropriate activity- takes away from routine duties
- Illicit activity & emergency responses- impact riders, service & agency
- Traditional around-the-clock policing - similar results could exceed **\$15M+/year/station**



Of the five-customer experience focus areas, which one do you think is the most important?

- A. Make it Safe
- B. Make it Clean
- C. Make it Comfortable
- D. Make it Reliable
- E. Make it Easy (Includes Affordability)

Discussion Questions

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