



Board Report

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**FINANCE, BUDGET, AND AUDIT COMMITTEE
FEBRUARY 20, 2025**

SUBJECT: FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS: RESOURCES & PARAMETERS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2026 (FY26) Budget Development Process: Resources & Parameters.

ISSUE

This report sets up the economic context for the upcoming fiscal year with the forecast of sales tax revenues and other resources, cost inflation and other financial risks. A comprehensive and transparent public outreach program runs concurrently during the budget development process to maximize public input and ensure that Metro’s stakeholders have an active role.

Metro will focus on aligning the budget with a common set of strategic imperatives and priorities, working collaboratively across their respective departments to maximize funding availability by program.

BACKGROUND

The first phase of the FY26 Equitable Zero-Based Budget (EZBB) process began with an oral report in November 2024, followed by the Near-Term Outlook Update and analysis of cost growth drivers this month, as discussed in Board Report #2025-0026.

Resource projections set the foundation for the financial framework guiding our fiscal planning. This report outlines the budget development parameters, incorporating key assumptions related to the sales tax forecast, operating revenues, grants, bond proceeds, and prior-year carryover. These assumptions will guide the determination of available resources for eligible projects and programs in FY26.

DISCUSSION

Metro is committed to maximizing the use of revenues for all programs, based on each of the

ordinances that govern the eligibility and use of funds. However, the most critical step is to develop accurate projections of sales tax revenues.

Sales Tax Revenues

Sales taxes are the primary revenue sources for Metro, representing close to two-thirds of the total annual resources. Metro's local sales tax ordinances (Proposition A, Proposition C, Measure R, and Measure M) have voter approved directives on how each sub-fund should be spent, which determines the funding available for programs. Metro utilizes multiple modeling approaches and sources to estimate sales tax revenues.

Economic Sector Model

During the pandemic, Metro staff developed an economic sector model to isolate and evaluate local sales tax impacts of changes in specific sectors of the economy. A list of the sector breakdowns is given in Attachment A. Post-pandemic, this model has continued to prove valuable in refining the agency's annual budget projections. The FY26 sales tax revenue projection assumptions considered the following external factors:

- The region's economic activity declined slightly in FY24 due to the Federal Reserve's high-interest rate policy, increasing housing costs, office vacancies, and a slowdown in logistics.
- Consumer spending slowed as a result, with year-over-year sales tax revenues down slightly in FY24 and the first quarter of FY25.
- Online sales and restaurants have been the strongest performing groups over the past year, while car sales and service stations have been the weakest.
- Reconstruction, repair, and replacement activities due to the recent wildfires will shift spending into categories such as building materials, furnishings, and autos at the expense of other categories. The net impact on sales tax revenues is still to be determined.
- Spending on services, insurance, and housing continues to grow faster than taxable retail sales.
- Increases in consumer debt and delinquencies continue to impede growth in the near term.
- Gasoline and diesel fuel prices have a larger impact on taxable sales than the transition to electric vehicles (EVs). They have been trending down on a year-over-year basis but are particularly volatile and influenced by a wide variety of factors.
- FY26 cost inflation, as measured by the Consumer Price Index (CPI), is expected to slow down but remain above the Fed's 2% target even as mitigating efforts of the Federal Reserve ease.

Multiple Regression Model

Metro staff also developed a statistical multiple regression analysis model to validate the business sector model results. This regression model determines the correlations between sales tax revenues and other independent variables such as unemployment rate, CPI, and personal income in Los Angeles County, and derives a formula using historical data to make future projections.

Trend Analysis

Trend analysis is also used to evaluate long and short-term historical receipts and develop projections. These trends are compared to professional forecasting agencies, including UCLA Anderson, Muni Services and Beacon Economics, to ensure projections are within range.

Forecasting Results

These models and trend analysis indicate a moderate growth in sales tax in the upcoming fiscal year, projected at 2.1%.

FY25 Sales Tax Update

Metro monitors actual monthly sales tax receipts from the California Department of Tax and Fee Administration (CDTFA) and the first quarter actual receipts for FY25 are below budget. The FY25 year-end receipts are projected to be \$1,048.0 million per ordinance, rather than \$1,156.0 million, 9.3% below budget.

Preliminary FY26 Sales Tax Assumption

Based on the forecasting results, sales tax is projected to be \$1,070.0 million per ordinance, an increase of 2.1% over the FY25 Reforecast of \$1,048.0 million. This moderate increase is based on the forecast modeling that indicates a gradual economic recovery in the next year. Figure 1 displays Metro’s historical sales tax revenue actuals and latest projections for FY25 and FY26.

Figure 1:

	FY23 Actual	FY24 Actual	FY25 Reforecast	FY26 Preliminary
1 (\$ in Millions) Sales Tax Revenue per Ordinance ⁽¹⁾	\$ 1,111.5	\$ 1,093.0	\$ 1,048.0	\$ 1,070.0
2 % Change	1.8%	-1.7%	-4.1%	2.1%

⁽¹⁾ Proposition A, Proposition C, Measure R and Measure M. Transportation Development Act (TDA) sales tax revenue is approximately 50% of the other ordinances.

Figure 2 compares Metro’s historical and current budget estimates to actual receipts and leading regional forecasts. FY26 sales tax revenue projections from UCLA, Beacon Economics and Muni Services are between \$1,020.9 million to \$1,109.7 million per ordinance, and Metro’s preliminary assumption of \$1,070.0 million falls within range.

Figure 2:

Sales Tax Revenue per Ordinance Forecast Comparison

(\$ in Millions)

Forecast Source	FY23	FY24	FY25 Reforecast	FY26 Preliminary
1 Actual	\$ 1,111.5	\$ 1,093.0	\$ 1,048.0 ⁽¹⁾	N/A
2 Metro- Adopted	1,031.8	1,200.0	1,156.0	1,070.0 ⁽²⁾
3 UCLA	1,058.1	1,103.8	1,144.4	1,103.3
4 Beacon Economics	1,013.4	1,091.7 - 1,232.4	1,011.0 - 1,082.2	1,032.3 - 1,109.7
5 Muni Services	1,017.1	1,145.1	1,099.7 - 1,203.3	1,020.9 - 1,056.2

(1) FY25 Reforecast as presented in Figure 1.

(2) FY26 preliminary assumption.

Other Resources

State Transit Assistance (STA)/Senate Bill 1 (SB1) Revenues

STA and SB1 are sales tax revenues dependent on actual consumption and the price of diesel and gasoline. The FY26 preliminary assumption of \$281.8 million will be revised in late February 2025 to reflect the State Controller’s Office (SCO) FY25 allocations.

Passenger Fares

Recent trends reveal an increase in boardings and fare revenues, driven by enhanced safety measures and improved station experience. While ridership growth is expected, revenue growth is impacted by the various free and reduced fare policy and programs:

- Fare Capping: Limits daily and weekly payments, allowing additional rides at no extra cost once the cap is reached.
- GoPass: A K-14 program providing unlimited free rides for students.
- Low Income Fare is Easy (LIFE) Program: Offers free 20-trip passes monthly and free 90-day passes for new enrollees.

Metro’s preliminary FY26 fare revenue projections are based on five months of collected data, average fare per boarding and anticipated ridership growth. Assuming a 10% ridership increase over estimated year-end actuals, preliminary passenger fare revenue and related fees for FY26 is projected at \$176.2 million.

Staff is currently refining and finalizing ridership forecasts. Building on Operations' projections, staff will refine fare revenue estimates.

Advertising

The overall FY26 advertising revenue is \$41.5 million. Advertising revenue from bus and rail is expected at \$27.5 million which is based on the adjusted minimum annual guarantee (MAG) payments from the advertising contract modifications approved by the board in March 2023.

Corporate sponsorship revenue is expected at \$3 million, including new sponsorships for the Metro Airport Connector Station, J Line Bus Rapid Transit (BRT), the Dodger and SoFi shuttles, and other services as businesses secure media space and assets in preparation for the World Cup and Super Bowl. The Board approved two policy amendments in November 2024 that allow for Public Service Announcements (PSAs) from Non-Profit organizations, right size short-term and long-term commercial sponsorship durations, and streamline and expedite sponsorship business process.

The new Transportation Communication Network (TCN) project establishes a network of digital transportation communication displays that will create a connected communication system by using outdoor advertising infrastructure on Metro's property throughout the City of Los Angeles. The project is estimated to generate \$11 million in FY26.

Toll and Other

Toll revenues are projected to be \$107.6 million in FY26, which include ExpressLanes usage and fees from the existing I-10 and I-110. Other revenues include bike program, Union Station, park and ride, lease, film, Service Authority Freeway Emergencies (SAFE), auto registration fees, transit court fees, Measure W, Low Carbon Fuel Standard (LCFS) and Renewable Index Numbers (RINs) credit sales, investment income, and other miscellaneous revenues are anticipated at a total of \$56.5 million in FY26.

Grant Resources

The FY26 projection for grant revenues is still being developed and will be finalized at a later point in the budget development process. Local, state and federal grant resources are used to support Metro's transit planning, operating, State of Good Repair and construction activities.

Federal grants include Federal Transit Administration (FTA) formula grants, Capital Investment Grants for new transit project construction, and a variety of other discretionary grant programs - including but not limited to - Bus and Bus Facilities and Low or No Emission grants programs. The nature of federal formula programs and discretionary grants is likely to change as Congress prepares to craft a new surface transportation authorization bill to replace the Bipartisan Infrastructure Law (P.L. 117-58) that will expire in Fall 2026.

State grants include Transportation Development Act (TDA), State Transit Assistance (STA), State of Good Repair and other discretionary grants funded through Senate Bill 1 (SB1). Senate Bill 125 (SB125) amended the 2023 Budget Act to provide new funding through the Transit and Intercity Rail (TIRCP) program and a new Zero-emission Bus (ZEB) program. SB125 funds will be included in the proposed FY26 Budget.

The grant outlook for FY26 is cloudy, particularly at the federal level. The recent flurry of Executive Orders issued by the new administration indicates a shift in priorities. How this will impact transportation funding specifically has yet to be determined. However, Metro staff continue to aggressively pursue discretionary grant opportunities at both the state and federal levels. Metro's significant local funding will continue to be used as matching funds to leverage our local commitment to continue providing safe and efficient transit service and maintain momentum on the Measure R and M programs.

Bond Proceeds and Prior Year Carryover

Debt issuance is authorized by applicable federal and state legislation and the local sales tax ordinances. The Board-adopted Debt Policy establishes parameters for the issuance and management of debt that follow best practices and set affordability limits. New debt issuance will be used as a last resort to mitigate the shortfalls in State of Good Repair, transit construction and highway activities.

In FY25, \$1,502.9 million of debt proceeds and prior year carryover are available for transit expansion, highway, State of Good Repair and Transit Improvement/Modernization projects. The debt and carryover amounts for FY26 will be determined when we finalize the FY26 expense budget and are subject to CEO approval.

Resource Assumption Summary

Referring to Figure 3 below, sales tax and TDA revenues are projected to increase conservatively at 2.1%. Line 6 represents a total increase of 2.1% in overall resources excluding grant resources, bond proceeds and prior year carryover.

Figure 3:

Resources (\$ in Millions)	FY25 Reforecast	FY26 Assumption	% Change
1 Sales Tax and TDA Revenues ⁽¹⁾	\$ 4,716.0	\$ 4,815.0	2.1%
2 STA and SB1 Revenues ⁽²⁾	279.6	281.8	0.8%
3 Passenger Fares ⁽³⁾	174.6	176.2	1.0%
4 Advertising ⁽⁴⁾	27.2	41.5	52.3%
5 Toll and Other ⁽⁵⁾	169.7	164.1	-3.3%
6 Subtotal Resources	\$ 5,367.1	\$ 5,478.5	2.1%
7 Grant Resources ⁽⁶⁾	\$ 1,660.4	TBD	
8 Bond Proceeds and Prior Year Carryover ⁽⁶⁾	1,502.9	TBD	
9 Total Resources	\$ 8,530.4	TBD	

Note: Totals may not add due to roundings.

⁽¹⁾ Sales Tax (Proposition A, C, Measure R and M) and TDA Revenues reflect current year revenues only. The Percentage Change of 2.1% compares the FY26 Assumption of \$1.070 billion per ordinance to the FY25 Reforecast of \$1.048 billion per ordinance. Any (estimated) prior year carryover amounts are reflected on line 8 and will continue to be revised throughout the remainder of the annual budget process.

⁽²⁾ FY26 preliminary STA and SB1 projections are based on the latest FY25 State Controller's Office (SCO) estimates and reduced by 10% in anticipation of a revenue shortfall in FY25. Estimates will be revised around mid-February 2025 to reflect the SCO FY26 estimates.

⁽³⁾ Fare revenue is projected at \$176.2 million, a 1.0% increase over the FY25 Budget. This includes a preliminary estimate for TAP card fee revenues of \$2.2 million.

⁽⁴⁾ The adjusted minimum annual guarantee (MAG) is based on contract modifications which was approved by Metro board in March 2023 (#2023-0074). MAG Bus and Rail advertising revenue is projected at \$27.5 million, 1% increase over the FY25 budget. \$3 million new commercial sponsorship revenues are assumed for Metro Airport Connector Station, J Line BRT, Dodgers/SoFi Shuttle, and other services as brands will lock-up media space and assets prepping for World Cup and Super Bowl. Also includes \$11 million new revenue generated by Transportation Communication Network (TCN) digital displays.

⁽⁵⁾ Toll and Other FY26 revenue estimates are projected at \$164.1 million, a 3.3% decrease from the FY25 budget of \$169.7 million. The increase in ExpressLanes toll revenues are being offset by the decrease in federal CNG tax credits, Measure W revenues, and the decrease in LCFS and RINs credit sales due to a conservative estimate on the credit market prices due to volatile market and to account for short-term political uncertainty.

⁽⁶⁾ The estimates for FY26 Grants, Bond Proceeds and Prior Year Carryover will be updated when information becomes available.

Consumer Inflation and Other Financial Risks

Cost Inflation Indicator - Consumer Price Index (CPI)

On the expense side, Metro program cost and cash flow requirements are impacted by cost inflation,

labor contracts agreements and program guidelines. The most common indicator of cost inflation is the CPI as published by the Bureau of Labor Statistics. Accurate sales tax revenues and CPI projections are important to provide a sound revenue and expenditure budget plan.

Historical trends, the Federal Reserve’s monetary policy, and leading regional forecasts are considered when estimating cost inflation. The Fed issued multiple interest rate cuts since September 2024. Experts widely expect inflation to continue cooling with further interest rate reductions in FY25 and FY26. The FY26 CPI growth is projected to be moderate and in between UCLA and Beacon Economics’ projections at 3.0% (Figure 4). Metro staff will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 4:

Annual Change in Consumer Price Index (CPI)

Forecast Source	FY21	FY22	FY23	FY24	FY25	FY26 Preliminary
1 Actual	3.40%	6.54%	1.98%	6.54%	2.04% ⁽¹⁾	
2 Metro	2.30%	2.00%	3.30%	3.71%	3.00%	3.00%
3 UCLA	2.19%	1.68%	3.78%	3.71%	3.82%	3.32%
4 Beacon Economics	2.30%	2.07%	3.86%	2.36%	2.32%	2.47%

⁽¹⁾ FY25 YTD Actual. FY25 Adopted Budget is 3.00%.

Other Financial Risks

One challenge that Metro faces is the uncertain growth in sales tax revenues. Los Angeles County is trailing other Southern California counties such as Riverside and Orange Counties in terms of sales tax growth. Out-migration due to high cost of living and recent wildfires could lead to countywide population decline and labor force reduction. The higher labor costs resulted from the scarce labor supply may drive prices up and challenge the inflation mitigation that the Fed has been implementing. The persistently high housing costs, along with increasing insurance rates, grocery prices and other essential living expenses, continue to erode consumers’ purchasing power by reducing their disposable income.

Uncertainty over grant funding is another concern that Metro faces. The grant process is likely to get tighter and more competitive as the federal and state governments explore ways to mitigate shortfalls. The federal budget incurred a deficit of \$711 billion in the first quarter of fiscal year 2025, an increase of 39.4% compared to the same period last year. Despite the balanced 2025-26 Governor’s proposed budget, the administration’s multi-year budget forecast anticipates \$13 to \$19 billion annual operating deficits annually over the subsequent three fiscal years.

These challenges, combined with increasing operating expenses, elevated building material costs for Metro’s capital projects, and policy uncertainties around tariffs, taxes, and immigration, have specific financial implications to the available funding for FY26.

Outreach & Engagement Activities Update

Metro employs a variety of tactics to keep Los Angeles County residents and stakeholders engaged in the budget development process. Methods include the “My Metro Budget” activity, Telephone Town Hall, Budget Portal, e-blasts, paid and organic social media campaigns, and the distribution of information cards with quick response (QR) codes. These methods, which prioritize capturing diverse voices and fostering robust participation, are detailed below and in Attachment B.

Public Comments

Stakeholder and public feedback remain crucial to shaping the budget. This year, Metro is using Artificial Intelligence (AI) to analyze thousands of written comments, ensuring that all relevant feedback reaches the appropriate departments. A Power BI dashboard provides department leaders with access to this analysis, directly informing budget decisions.

DETERMINATION OF SAFETY IMPACT

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

EQUITY PLATFORM

Metro's commitment to equitable services and investments is reflected in its budgeting practices. Metro will continue to conduct the EFC Budget Assessment for FY26 Proposed Budget and analyze the FY26 budget against budget equity principles as aligned with Metro's Equity Platform framework.

Acknowledging that people living in EFCs constitute a large portion of ridership, Metro values their input as a critical component of its budget outreach and development efforts. Ensuring their voices are heard is essential, and Metro continues to actively seek and incorporate their diverse perspectives. Language translation in nine languages has been incorporated to better serve the members of these communities. Physical marketing cards with QR codes are being distributed across the system to help engage people traveling from and to EFCs. OMB is collecting location data to visualize where outreach activity participants are located and adjust marketing strategies to capture regions that are less represented.

VEHICLE MILES TRAVELED (VMT) OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it reflects our commitment to fiscal discipline while making the investments needed to ensure we can provide a safe, clean, comfortable, reliable, and easy ride for all patrons. Because the Metro Board has adopted an agency-wide VMT Reduction

Target, and this item supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal:
Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization.

NEXT STEPS

Next month's update on the FY26 Budget process will focus on Infrastructure Planning and Construction, encompassing Transit Infrastructure, Multimodal Highway Investments, Regional Rail, and Regional Allocations and Pass-Throughs.

ATTACHMENTS

Attachment A - Economic Sector Model

Attachment B - FY26 Proposed Budget - Public Engagement and Outreach Forums

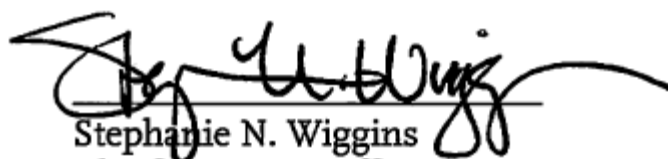
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Stephanie N. Wiggins
Chief Executive Officer

ATTACHMENT A

Economic Sector Model

Metro's Economic Sector model categories and estimated percentages of local sales tax receipts in FY25 and FY26.

Economic Sector and Sub-Sector	Percentage of Sales Tax Revenues	
	FY25	FY26
General Retail	29.7%	29.8%
Apparel Stores	5.2%	5.2%
Department Stores	6.9%	6.9%
Furniture/Appliance Stores	2.9%	2.9%
Drug Stores	0.9%	0.9%
Recreational Product Stores	0.6%	0.6%
Florists/Nurseries	0.3%	0.3%
Online Sales and Miscellaneous Retail	12.9%	12.9%
Food Products	20.9%	20.7%
Restaurants	15.7%	15.6%
Food Markets	3.9%	3.9%
Liquor Stores	0.7%	0.7%
Food Processing Equipment	0.6%	0.6%
Transportation	18.9%	18.9%
Auto Parts/Repairs	2.5%	2.5%
Auto Sales - New	8.8%	8.7%
Auto Sales - Used	1.1%	1.1%
Service Stations	6.0%	6.1%
Miscellaneous Vehicle Sales	0.5%	0.5%
Construction	8.7%	8.9%
Building Materials - wholesale	5.3%	5.4%
Building Materials - retail	3.4%	3.5%
Business To Business	18.2%	18.2%
Office Equipment	2.5%	2.5%
Electronic Equipment	1.0%	1.0%
Business Services	1.4%	1.4%
Energy Sales	1.4%	1.4%
Chemical Products	0.9%	0.9%
Heavy Industry	3.2%	3.2%
Light Industry	4.2%	4.2%
Leasing	3.3%	3.3%
Biotechnology	0.1%	0.1%
I.T. Infrastructure	0.2%	0.2%
Green Energy	0.1%	0.1%
Miscellaneous	3.6%	3.5%
Health & Government	1.5%	1.5%
Miscellaneous Other	2.1%	2.0%

Attachment B

Fiscal Year 2025 Proposed Budget - Public Engagement and Outreach Forums

- My Metro Budget Activity - The "My Metro Budget" activity (<https://mybudget.metro.net/>) is an interactive and educational tool designed to solicit important feedback from the public. Users can click on a plus or minus button to add or subtract funds from budget items to reallocate to services that align with their priorities. **New** this year are four scenario questions pertaining to advertising, TAP-to-exit, the Station Experience Program, and Modern Faregates.

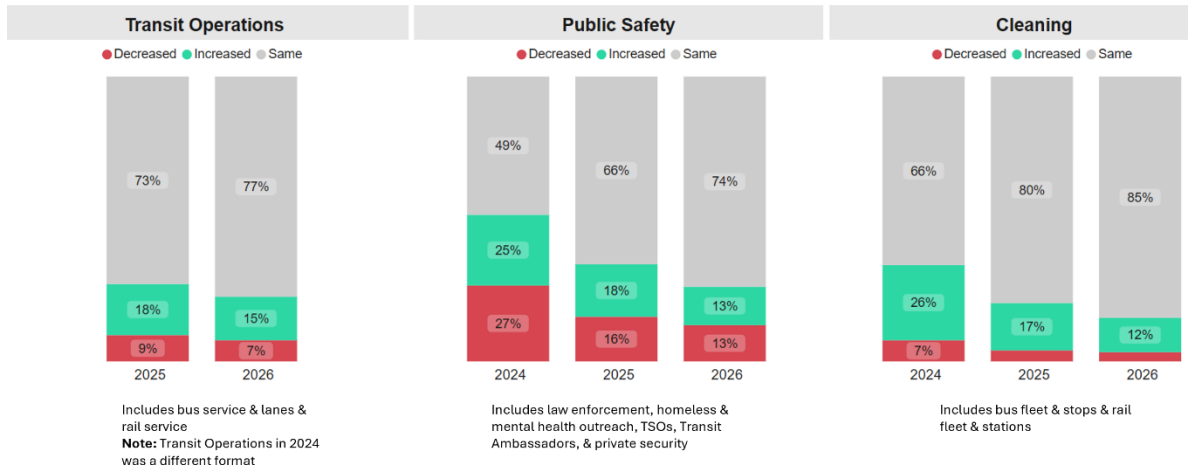
The My Metro Budget Activity was launched in October 2024 and has been continuously promoted via the Budget Portal, e-blasts, paid and organic social media campaigns, and the distribution of information cards with QR codes by Metro Station Staff, Metro Micro, On the Move Riders Club, LIFE, Transit Ambassadors, and other Metro groups. Below are some of the new features and preliminary results from responses collected between October 31, 2024 and January 23, 2025.

New Features/Preliminary Results (October 31, 2024 - January 23, 2025)



Attachment B

Preliminary Year-Over-Year Trends (October 31, 2024 - January 23, 2025)

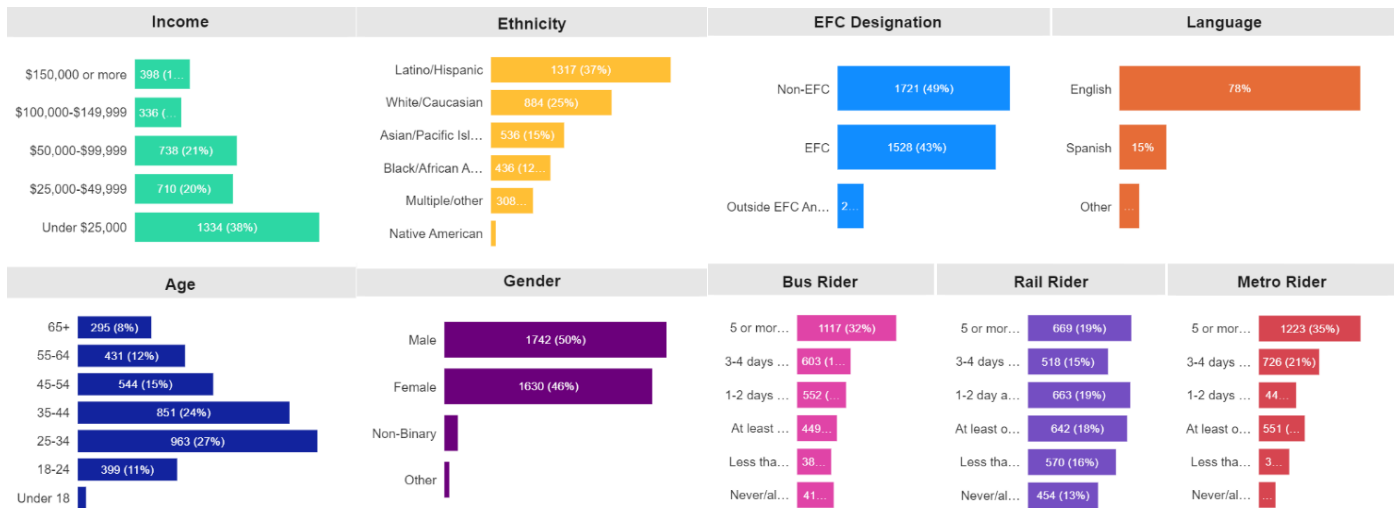


SATISFIED WITH BUDGET Year-over-year trends indicate increasing budget satisfaction, with more respondents leaving budget items unchanged

Note: results from October 31, 2024 – January 23, 2025

- **Gray:** Respondent who kept the budget the same for each category
- **Green:** Respondent who increased the budget for each category
- **Red:** Respondent who decreased the budget for each category

Preliminary Demographic Information (October 31, 2024 - January 23, 2025)



Attachment B

- **Regional Service Councils FY26 Budget Briefings** - Metro's five Service Councils are located throughout LA County to allow residents more opportunities for input on service issues in their communities. OMB staff have met with the Service Councils in November 2024 to demo the My Metro Budget activity. Budget Briefings for all five Service Councils will be scheduled in April 2025, which serve to inform service council members, as well as provide a platform to solicit feedback from the public about their transit needs.
- **Social Media Campaign** – Keeping the public informed on the proposed FY26 Budget will be an objective of the budget outreach campaign. OMB staff will be using Metro's official social media platforms (Instagram posts/stories, organic and paid Facebook posts/ads with videos, NextDoor announcements, LinkedIn, The Source/El Pasajero, and X (formerly Twitter) posts) to ensure the public is provided notice of all opportunities related to providing feedback on Metro's budget.
- **E-blasts** – Official communications are sent to the public from Metro's email lists. These eblasts reach thousands of members of the public and serve to keep the public apprised on budget outreach initiatives.

Example Newsletter/Eblast



Help shape Metro's Budget for Fiscal Year 2026!

Help shape Metro's budget for Fiscal Year 2026 by participating in our FY26 budget process. Your feedback is essential to build a budget that reflects the needs of all LA residents, even if you don't take transit. Take the survey today to share your insights and guide Metro's priorities. The survey is available in multiple languages to ensure accessibility for everyone. Together, let's work toward a responsive and inclusive transit system for LA. Follow us for updates, key dates, and more ways to stay involved. [Complete the survey now.](#)

- **Email** - budgetcomments@metro.net has been established to allow the public an opportunity to comment outside of a public setting.
- **Telephone Town Hall (TTH) Meetings** - A Telephone Town Hall is scheduled for February 4, 2025 from 6-7p.m. As part of Metro's ongoing Putting People First engagement efforts, the Telephone Town Hall invites participants to share their comments and feedback on Metro's initiatives, including public safety, expanding and improving service, and elevating the transit experience. The Telephone Town Hall information will be reported on in the March 2025 budget update.

Attachment B

- Budget Portal - The Budget Portal (<https://budget.metro.net>) remains the one stop shop for Metro's budget information and updates. Visitors can view the budget development process, an up-to-date calendar of budget briefings and meetings, financial documents and reports, local return information for regions, as well as leave a comment. The website will include information on schedules of stakeholder meetings and forums for the public to fully engage in the budget process.
- Internal and External Stakeholder Meetings - To ensure diverse perspectives inform the budget process, Metro engages a broad range of stakeholders, including jurisdictions and public agencies receiving Metro funding, as well as community groups and organizations that promote or rely on Metro services. From February through May 2025, Metro will hold various meetings and forums, including a public hearing and meetings with its advisory councils and subcommittees (such as the Regional Service Councils, COGs, CAC, PAC, TAC, BOS, LTSS, and Streets and Freeways Subcommittee), as well as dedicated meetings with the Aging, Disability and Transportation Network (ADTN), the Accessible Advisory Committee (AAC), the Valley Industry Commerce Association (VICA), and other community groups as requested.
- Public Hearing - A public hearing for the Fiscal Year 2026 Budget will be held on May 15, 2025. The public is encouraged to participate and provide comments to the Board on the proposed budget. Notice of the hearing will be widely publicized in multiple languages through newspapers, social media, e-blasts, stakeholder meetings, and other channels, in accordance with statutory requirements.



FISCAL YEAR 2026 BUDGET DEVELOPMENT PROCESS

February 2025 | Finance, Budget and Audit Committee



FY26 Resources Summary

**FY
26**

M Metro



- FY26 Sales tax revenue increased 2.1% (\$1.048 billion to \$1.070 billion per ordinance in FY26).



- STA and SB1 will be updated in mid-February 2025.



- Passenger fares estimated at \$176.2 million (preliminary).



- Advertising revenue projected at \$41.5 million (\$11 million new TCN digital displays revenue).



- Toll and Other revenue estimates decreasing due to lower Measure W, federal CNG tax credits, and LCFS and RINS credit sales being offset by the increase in toll revenue.



- It's necessary to instill cost controls measures through EZBB and explore revenue generating opportunities as new initiatives compete for operating eligible funding.

Resources (\$ in Millions)	FY25 Reforecast	FY26 Assumption	% Change
1 Sales Tax and TDA Revenues ⁽¹⁾	\$ 4,716.0	\$ 4,815.0	2.1%
2 STA and SB1 Revenues ⁽²⁾	279.6	281.8	0.8%
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7 Grant Resources ⁽⁶⁾	1,660.4	TBD	
8 Bond Proceeds and Prior Year Carryover ⁽⁶⁾	1,502.9	TBD	
9 Total Resources	\$ 8,530.4	TBD	



- Grant Resources: FY26 estimates are TBD
- Bond Proceeds and Prior Year Carryover:
 - Debt will be used as a last resort and will be determined as budget is developed
 - Prior year carryover will adhere to funding eligibility



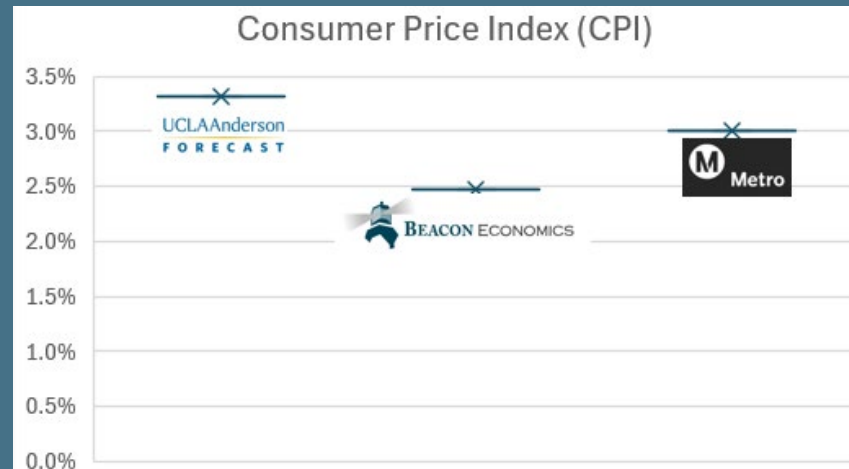
Annual Change in Consumer Price Index (CPI)

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2 Metro	2.30%	2.00%	3.30%	3.71%	3.00%	3.00%
3 UCLA	2.19%	1.68%	3.78%	3.71%	3.82%	3.32%
4 Beacon Economics	2.30%	2.07%	3.86%	2.36%	2.32%	2.47%

⁽¹⁾ FY25 YTD Actual. FY25 Adopted Budget is 3.00%.

- Inflation cooling with further interest rate cuts expected.
- CPI impacts sales tax revenues and project delivery costs for Metro.





FY26 CPI assumption of **3.0%** is **within range** of leading forecasts.



CPI of **3.0%** is outpacing the projected sales tax revenue growth of **2.1%**



Uncontrollable

-  Primary funding source is experiencing slow growth
-  Federal/State grant funding impacted by new administration and growing deficits
-  Elevated building material costs for Metro's capital projects
-  Policy uncertainties around tariffs, taxes, and immigration

Controllable

- System-generated revenues (Fares, Advertising, Corporate Sponsorship, Tolls & Other)

Ongoing Issues

- Structural deficit stems from the imbalance between dedicated operating and capital funding available
- Not enough dedicated operating eligible funding
 - With over 130 different colors of funds, less than 15 funds sources, comprising less than 8% of total revenues, are dedicated solely for operations
- Competing priorities for flexible funding
- As we build the system out, operating-eligible funding does not increase at the same rate
- Cost of operations is rising faster than revenues

CONCLUSION

- New initiatives compete for operating eligible funding
- Necessary to instill cost controls through EZBB
- Explore revenue generating opportunities



- Launched October 31st, 2024
- Collection through May 2025



- 3,500+ Responses
- 2,900+ Unique Comments



- 53% Ride rail
- 65% Ride bus
- 69% Ride bus/rail (1+ day per week)



- Social media
- Eblast
- Marketing cards

New Features

1

Language Translation

FY26 activity is now offered in **9** languages



2

Scenario Questions

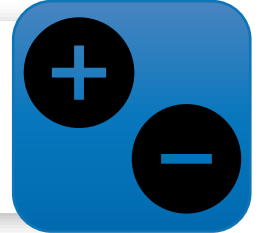
Four new scenario questions allowing the public to help guide leadership decisions



3

Additional +/- options

More subcategories to add/subtract funds



4

90+ comment options

More than 90 unique feedback categories are available



October



- Launched My Metro Budget Activity ([Available in 9 languages](#))
 - Eblasts
 - Newsletters

November



- Regional Service Councils Meetings
 - All five regions
- Distribution of Info Cards
 - On the Move Riders
 - LIFE
 - Metro Micro

December



- Begin Social Media Campaign for My Metro Budget Activity
 - Facebook
 - Instagram
 - X (Twitter)
 - LinkedIn

January



- Distribution of Info Cards
 - Transit Ambassadors
 - Other Metro groups (ongoing)

- Telephone Town Hall on Metro's Budget (February 4, 2025)
- Continued My Metro Budget activity promotion via eblast
- Promotion to Youth Council

- Community Advisory Committee

- Regional Service Council Meetings
 - In all five regions
- Council of Government (COG) Meetings

- Technical Advisory Committee
- Valley Industry & Commerce Association
- Local Transit Systems Subcommittee
- Accessibility Advisory Committee
- **Budget Public Hearing**



February



March



April



May

Note: Updated as additional meetings are scheduled.



Infrastructure Planning and Construction:

- Transit Infrastructure Expansion
- Multimodal Highway Investments, Regional Rail
- Regional Allocations and Pass-Throughs



- Metro Transit – Operations & Maintenance (O&M) and Capital Improvement Program (CIP)
- Congestion Management
- Planning and Administration



FY26 Proposed Budget:

- Public Hearing and Board Adoption

