Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

File #: 2025-0381, **File Type:** Program **Agenda Number:** 13.

FINANCE, BUDGET, AND AUDIT COMMITTEE
JUNE 18, 2025

SUBJECT: ADDRESSING THE FISCAL CLIFF

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

CONSIDER:

A. RECEIVING AND FILING status report on the Workplan to Address the Fiscal Cliff; and

B. ADOPTING the Principles for Addressing the Fiscal Cliff (Attachment A).

ISSUE

Metro's near-term forecast is developed based on the availability of eligible funding. The projected shortfall will depend on the availability of these funding sources. As Metro continues to monitor the funding uncertainties and as newer information becomes available, a comprehensive assessment will be conducted to evaluate funding, schedule and scope to mitigate the impacts of any losses or interruptions in funding. The mitigation strategies will be dependent on the type of shortfalls and the eligible funding available. Through the Equitable Zero-Based Budget (EZBB) process, the FY26 Budget is balanced and is structured to continue investments in an expanding rail system, enhancing the customer experience and keeping projects moving.

However, Metro's near-term forecast does signal financial challenges ahead with a cumulative financial gap in Metro Transit of $100 million by FY27, that grows to $2.3 billion by FY30 due to major cost drivers projected to outpace sales tax revenue growth under current economic assumptions. In addition, Metro is faced with large increasing capital project costs which further aggravate the financial challenges ahead. Given these significant challenges, at its April 2025 meeting, the Chair of the Finance, Budget, and Audit Committee, Director Sandoval, asked staff to develop a work plan for addressing the fiscal cliff as FY26 will be a critical time for the Board to consider major decisions for the FY27 Budget to change course on the projected deficit in the coming years.

This report outlines Metro's workplan and timeline, which will be incorporated into the upcoming budget cycle, and proposes principles to guide the workplan.

BACKGROUND

According to the Transit Center, transit agencies are facing a financial triple jeopardy - one-time payments from COVID-relief funding are drying up, fare collection has stabilized at well below pre-pandemic levels, and expenses are growing because of inflation, tight labor markets, and supply chain disruptions. As a result, most transit agencies are anticipating a steep, sudden operating budget deficit that will deepen annually, absent other forms of funding. While the FY26 Budget is balanced, it is important to acknowledge the inherent risks and uncertainties that could impact the financial trajectory as Metro looks ahead. Metro remains resolute in its commitment to addressing the fundamental cost drivers, while also maintaining a vigilant focus on the potential risks and uncertainties that may affect Metro in both the short and long term.

With the County and the City of Los Angeles confronting structural deficits and with many transit agencies taking measures to close immediate funding gaps, Metro adopted a balanced budget for FY26. Whereas the county, the city and other transit agencies rely heavily on general funds and state/federal funding, Metro relies heavily on local sales tax revenues.

External Challenges

Looking ahead, several key challenges are emerging that require careful consideration and proactive management. These include potential fluctuations in federal funding, which could introduce significant volatility to Metro's financial planning. The ongoing effects of tariffs on procurement pricing continue to exert upward pressure on costs, while persistent inflationary trends contribute to the overall escalation of expenses. These external factors, coupled with the dynamic nature of the funding environment, underscore the need for flexible and adaptable fiscal strategies.

Internal Challenges

In addition to these external challenges, there are several internal financial considerations that further complicate Metro's fiscal outlook. The ongoing expansion of the rail system necessitates substantial investment, placing strain on both operational and capital budgets. Moreover, rising capital costs-driven by construction and material prices increase further compound the financial pressure on Metro. The preparations for upcoming mega events also require a significant allocation of resources, further stretching Metro's financial capacity.

Together, these challenges present a complex financial landscape that requires strategic foresight, robust contingency planning, and ongoing financial discipline. Metro is committed to mitigating these risks through careful monitoring, targeted cost management, and a comprehensive approach to long-term financial sustainability. Metro will continue to refine its budgetary processes and engage in proactive risk management to achieve its goals while navigating these uncertainties.

However, Metro's near-term forecast does signal financial challenges ahead with a cumulative financial gap in Metro Transit of $2.3 billion by FY30 due to major cost drivers projected to outpace sales tax revenue growth under current economic assumptions. In addition, Metro is faced with large increasing capital project costs which further aggravate the financial challenges ahead. Given the significance of these challenges, a Special Board Workshop was held in April to begin the discussion and layout of some of the challenges. Metro's goal is to mitigate these challenges with the objective

of preserving bus and rail service.

DISCUSSION

The goal of this workplan is to mitigate potential financial risks by focusing on five key areas of concern:

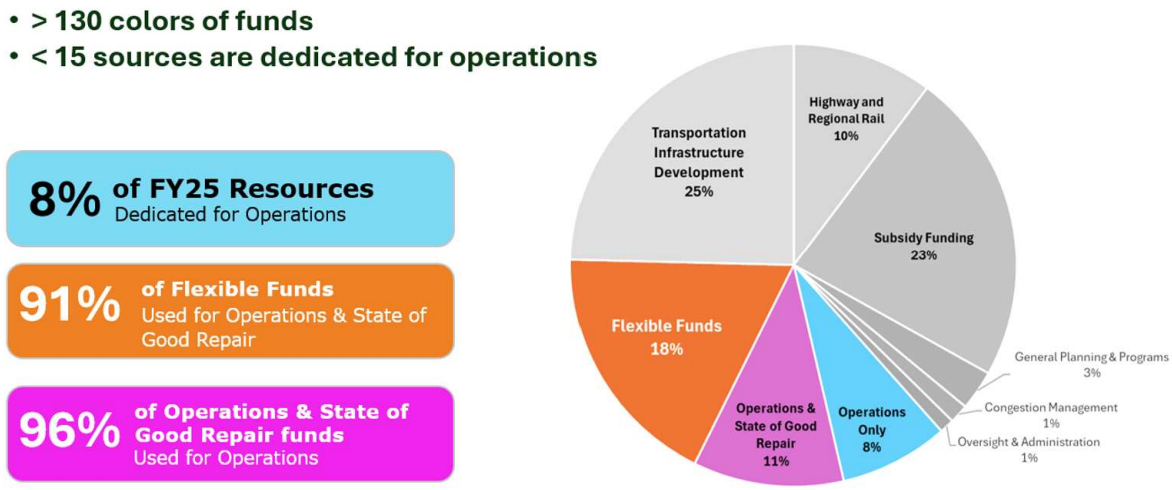
- What is driving revenues?
- What is utilizing flexible funding sources, which includes General Fund?
- What is driving expenses?
- How are capital projects putting pressure on the fiscal cliff?
- What is in place for operational efficiencies?

As the Regional Transportation Planning Agency for Los Angeles County, Metro is responsible for programming regional transportation funds to itself, the 88 cities and unincorporated areas of LA County, the subregional Councils of Governments (COGs), the County, other transit agencies and Caltrans. Metro is focused on improving mobility by delivering a comprehensive, multimodal plan of regional transportation projects and services covering public transit, commuter rail, paratransit, highway improvements, active transportation projects and other categories. Funding is provided by more than 130 different sources, each of which has specified eligibility and usage requirements that must be met. Metro's budget balances and maximizes the use of these fund sources based on eligibility, funding agreements and Board-established priorities.

Revenues

Metro has over 130 colors of funding that are summarized into three major categories: 1) Sales taxes, 2) Operating and Other Revenues, and 3) Capital and Bond Resources. Local Sales tax revenues make up close to two-thirds of Metro's financial structure. Operating and other revenues include passenger fares, tolls, and advertising revenues. Capital and Bond Resources include federal and state grant reimbursements, as well as bond proceeds. These resources are then grouped and assigned to programs based on their eligibility. The Figure below illustrates the resources grouped by eligibility and highlights those funds eligible for transit operations.

Figure 1



With only 8% of resources dedicated solely for operations, Metro prioritizes the use of other eligible funding for operations. See Attachment B for Eligibility and allocations of FY26 Funding.

The current economic climate at the federal, state and local levels is magnifying the financial challenges outlined below. Over the last several months, the economic forecasting agencies we work with have dramatically lowered their taxable sales growth projections. Most of them are now expecting a slight decline in FY26 followed by slow growth out to 2030.

General Fund

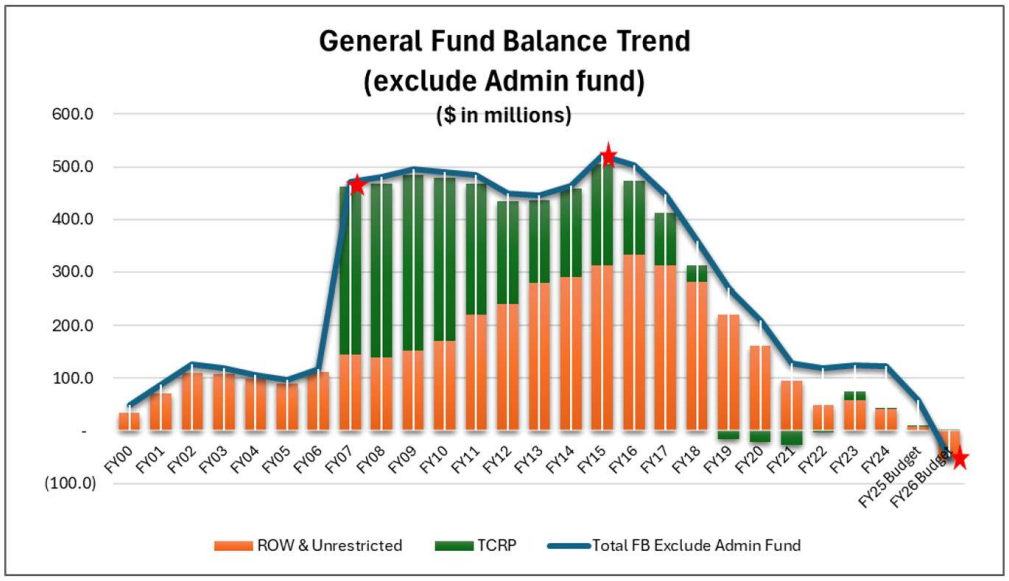
Metro's general fund includes activities that are not legally required to be accounted for in another fund. Metro's general fund revenues account for 1.41% of total governmental fund revenues. Close to 90% of the General fund resources are from ROW leases, LCFS Credit sales, and CNG credits. Metro's General Fund is in a downward trend (see Figure below) primarily due to the following:

1. State repayment: one-time infusion of TCRP funds have all been spent
2. General fund revenues are decreasing
    a. LCFS prices have declined steadily since early 2021
    b. CNG credits continue to decline as the bus fleet transitions to electric (and may be

phased out entirely by the current administration)

3. Increased demand for activities with no dedicated funding

Figure 2



See table below for projects drawing on General Fund:

Figure 3

	FY26 Budget General Fund		
	Project Name	ROW & Unrestricted	Green
1	**Revenue**	**$ 16.8**	**$ 14.5**
2	**Expenditures**		
3	PROPERTY MANAGEMENT	38.1	
4	JOINT DEV 10K HOMES	12.2	
5	JOINT DEVELOPMENT	1.9	
6	SEED SCHOOL	6.1	
7	BIKESHARE PRGM O&M	8.2	
8	BIKE HUB/LOCKERS O&M	0.8	
9	GATEWAY CENTER (EAST)	5.7	
10	UNION STATION (WEST)	3.5	
11	UNION STATION (MASTER PLAN)	1.2	
12	THE HOUSING LAB (PILOT)	0.1	
13	ARTS DISTRICT/6TH ST STATION	1.0	
14	TRANSIT LEARNING CENTER	0.1	
15	SUSTAINABILITY Program		19.5
16	ZEB & Infrastructure		34.7
17	**Total Expenditures**	**$ 78.8**	**$ 54.3**
18	**Over Draw of General Fund**	**$ (61.9)**	**$ (39.8)**

At the end of FY26, the General Fund estimated negative fund balance is $82.3 million. Flexible resources, such as fare revenues and Advertising will be needed to replenish the General Fund.

Expenses

Major Cost Drivers

This section outlines the major cost drivers impacting the near-term forecast. Every operational cost growth driver is anticipated to grow at a faster rate than sales tax revenues, further exasperating the situation.

- **Expansion** of the rail system will be more costly to operate in the future than operating at the same level of service today. The average cost of running one hour of rail is 2.2 times more than operating one hour of bus service.
- **Capital Cost** increases due to scope and project schedule changes may take away funding eligible for bus and rail operations if no alternative funding source is identified.
- **Cleaning Costs** are driven by Metro's strategic investment in comprehensive cleaning activities and the expansion of its Station Experience initiatives and implementing technological innovations, including expanding the ADA-accessible 'throne' bathrooms.
- **Labor Costs** reflect Metro's cost of sustaining our existing workforce, including the recent collective bargaining agreements (CBA).
- **Public Safety** due to rising contract law enforcement costs; coupled with the transition to Metro's comprehensive multi-layered and care-based framework to enhance public safety on the system, with a focus on promoting a safer environment and infrastructure for all riders.
- **Insurance/WC/PLPD** premiums are driven by the hard market. Metro has reinstated the

Operations Safety Steering Committee (OSSC), which meets quarterly to review risk exposure trends and evaluate mitigation measures.

- **Zero-Emissions Bus (ZEB) & Infrastructure** costs have slowed due to revised delivery assumptions; however, a major program funding gap remains.

Metro's Strategic Workplan

In response to Director Sandoval's request, Metro has been developing a comprehensive strategic workplan across departments aimed at addressing the current and emerging challenges Metro faces. This plan is structured to align with our long-term fiscal objectives and will be executed through a series of key deliverables and milestones over the next two years:

Ongoing:

- **Monitoring and Assessment of Risks and Equity**: As part of ongoing efforts, Metro will continuously monitor potential risks and equity considerations. This will involve assessing emerging challenges and taking immediate mitigation actions as necessary, ensuring that Metro remains responsive and adaptable to changing conditions.

  As part of its ongoing cost control efforts, Metro will implement robust management tools and controls, beginning with detailed program evaluations tied to project milestones and performance metrics. Through collaborative prioritization, Metro will strive to optimize operational funding and maximize the impact of limited resources across its portfolio of projects and initiatives.

  These efforts include:
  - Conducting quarterly budget variance reviews with management
  - Strengthening requisition review parameters and approval processes
  - Identifying opportunities for efficiency across all departments
  - Evaluating grants and local match requirements
  - Conducting ongoing performance reviews of new pilot programs and implementing adjustments to enhance performance

Summer 2025:

- **Detailed Report on Capital Cost Escalations - Program Management**: At the April 2025 Metro Board Workshop, staff reported capital cost escalations averaging 60% from original Measure R and Measure M estimates to the start of revenue service. Key drivers include evolving project scopes determined by Locally Preferred Alignments (LPA), bid pricing, environmental conditions, and integration with aging transit infrastructure.

  As a first step toward mitigation, staff will itemize cost drivers by project to inform future scope, schedule, and budget decisions, while enhancing risk management in project development.

  Detailed findings on recently completed transit infrastructure projects will be presented in

Summer 2025 to support Board consideration of targeted mitigation strategies.

- **Short Range Transportation Plan (SRTP) - Countywide Planning & Development**: The Short-Range Transportation Plan (SRTP) will be updated to reflect current needs and future priorities, ensuring alignment with regional transportation goals and Metro's evolving fiscal outlook. Several key developments have emerged since the last update that warrant reassessment:

    - Shifts in sales tax performance, grant availability, and broader economic conditions have introduced new fiscal uncertainties.
    - Updated cost estimates and changing market dynamics have affected capital project budgets and schedules, with inflation and supply chain disruptions posing ongoing delivery risks.
    - Operating expenditures are increasingly shaped by labor market conditions, service modifications, and inflationary pressures, while state and federal funding sources remain subject to volatility and evolving policy directives.

    These factors will guide the revision of the SRTP, with updated forecasts and strategic recommendations anticipated for Board consideration in Summer/Fall 2025.

Fall 2025:

- **Commencement of Measure M (MM) Decennial Review and Assessment - Countywide Planning & Development**: Metro will initiate a comprehensive review of the Measure M (MM) plan, assessing its performance, progress, and alignment with both current needs and future projections. This review will evaluate the effectiveness of Measure M investments and their impact on regional mobility. It will also provide strategic insights into necessary adjustments and improvements to the long-term mobility framework, ensuring that Metro continues to meet the region's transportation needs while adhering to fiscal discipline and operational efficiency.

Winter 2025:

- **Near-Term Outlook Update - Strategic Financial Management**: Metro underscores the critical importance of strategic financial planning in executing transit investments and operational priorities. The Equitable Zero-Based Budget (EZBB) process will commence with the Near-Term Outlook, anchored by a comprehensive five-year financial forecast. This forecast will assess the economic landscape, revenue trends, ongoing programs, market cost pressures, Board-approved priorities, and major capital planning.

- **Resources Deep Dive - Strategic Financial Management**: Metro remains committed to optimizing the use of revenues in accordance with the ordinances governing fund eligibility. As resource projections form the foundation of our fiscal framework, the budget process will define development parameters based on key assumptions-including sales tax forecasts, operating revenues, grant funding, bond proceeds, and prior-year carryover. These assumptions will determine the pool of available resources for eligible projects and programs, guiding prudent and equitable fiscal decision-making.

Spring 2026:

- **Equitable Zero-Based Budget (EZBB) Process for FY27 Budget Development - Strategic Financial Management**: Metro will continue to apply the Equitable Zero-Based Budgeting (EZBB) framework in the development of the FY27 Budget by establishing affordability thresholds across all programs based on available resources. The annual budget process will begin early in the calendar year with comprehensive program and cabinet reviews in collaboration with the CEO, aligning funding decisions with strategic priorities for the fiscal year ahead.

Summer 2026:

- **MM Decennial Consideration - Countywide Planning & Development:** Following the completion of the review and assessment, Metro will present the findings and recommendations for the Measure M plan, ensuring that it continues to meet the evolving needs of the region and the Agency.

This strategic workplan serves as a proactive and structured approach to addressing the key challenges Metro faces. It aligns with our commitment to long-term fiscal health, operational efficiency, and equitable service delivery. Through disciplined execution and ongoing assessment, Metro will continue to serve as a leader for regional mobility while maintaining financial stability.

EQUITY PLATFORM

As the Strategic Workplan advances, a strong commitment to equity will continue to guide Metro's approach and decisions. While addressing public safety, cleanliness, system expansion, labor equity, and environmental sustainability, Metro strives to create a transit system that is not only efficient and safe but also inclusive and equitable for all Los Angeles residents and riders.

Additionally, Metro's Equitable Zero-Based Budgeting (EZBB) process will undergo a significant refinement in the upcoming fiscal year through the implementation of the Agencywide Budget Equity Assessment (ABEA). The Office of Equity & Race (OER) will continue to lead the Equity Focused Communities (EFC) Budget Assessment.

VEHICLE MILES TRAVELED 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 equity and fiscal discipline. 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

The recommendation supports the following Metro Strategic Plan Goal:

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

NEXT STEPS

Metro will continue to closely monitor the financial situation and work towards meeting the deliverables as presented in the comprehensive strategic workplan across departments.

ATTACHMENTS

Attachment A - Guidelines for Addressing the Fiscal Cliff
Attachment B - Eligibility and Allocation of FY26 Funding

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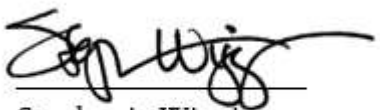


Stephanie Wiggins
Chief Executive Officer

ATTACHMENT A

GUIDELINES FOR ADDRESSING THE FISCAL CLIFF

LA Metro is confronting a projected fiscal cliff with the potential to materially affect both operational funding and capital investment capacity. In response, Metro must adopt a proactive, strategic posture to safeguard the continuity of high-quality transit service, while exercising rigorous fiscal discipline and upholding its long-term financial sustainability.

These guidelines apply a results-driven financial framework that prioritizes investments based on strategic alignment and demonstrable public value. With the scarcity of resources available for transportation, these guidelines will work toward maximizing the effectiveness of existing resources. Through disciplined stewardship, Metro can sustain operational excellence, preserve public trust, and navigate fiscal constraints with integrity and foresight.

Guiding Principles

- **Preserve Essential Services:**
  - Avoid reductions to core bus and rail service that disproportionately affect transit-dependent riders.

- **Prioritize Quality Service:**
  - Align decision-making with the most urgent concerns of riders that enhance the rider experience.

Measurable Outcomes

- **Increase Ridership:**
  - Invest in improvements that have a measurable effect on growing systemwide ridership.

- **Reduce Crime & Enhance Safety:**
  - Fund initiatives that decrease criminal activity and enhance rider perceptions of safety.

In this period of fiscal uncertainty, it is imperative that LA Metro remains both fiscally prudent and mission driven. By advancing targeted, rider-focused strategies and aligning our investments with measurable outcomes, we can safeguard core services while upholding our commitment to fiscal integrity, equity, safety, and sustainable mobility. The Board's guidance is needed as we navigate this challenge with transparency, discipline, and a value-driven path forward to consider major decisions for the FY27 budget to change course on the projected deficit in the coming years.

ATTACHMENT B

ELIGIBILITY AND ALLOCATION OF FY26 FUNDING

	Dedicated Funding Sources by Program Type in FY26 Budget ($ in millions)	
1	**Total FY26 Proposed Budget Resources**	**$ 9,441.8**
2	Less: Highway and Regional Rail [1]	(1,020.2)
3	Less: Subsidy Funding	(1,813.6)
4	Less: General Planning & Programs [2]	(290.9)
5	Less: Congestion Management	(129.9)
6	Less: Oversight and Administration [3]	(101.7)
7	**Operations and Transit Capital Resources**	**$ 6,085.5**

	Resource Eligibility Split by Type ($ in millions)	Operations Only		Ops/CIP		Ops/CIP/TID		TID Only		Total
		Amount	Cat. %	Amount	Cat. %	Amount	Cat. %	Amount	Cat. %	
8	Sales Tax, TDA & STA Resources	$ 852.7	90.7%	$ 326.2	28.9%	$ 1,257.3	78.1%	$ 1,115.0	46.3%	**$ 3,551.2**
9	Operating and Other Resources	4.4	0.5%	0.0	0.0%	263.1	16.3%	0.0	0.0%	**$ 267.5**
10	Grant and Bond Resources	82.8	8.8%	803.3	71.1%	89.6	5.6%	1,291.1	53.7%	**$ 2,266.8**
11	**Total**	**$ 939.9**		**$ 1,129.5**		**$ 1,610.1**		**$ 2,406.1**		**$ 6,085.5**

	Resource Allocation Split by Eligibility ($ in millions)									
12	Metro Bus and Rail Operations	$ 939.4	100.0%	$ 1,110.9	98.4%	$ 838.5	52.1%	$ 0.0	0.0%	**$ 2,888.8**
13	Capital Improvement Program	0.0	0.0%	18.6	1.6%	590.2	36.7%	0.0	0.0%	**$ 608.8**
14	Transit Infrastructure Development	0.0	0.0%	0.0	0.0%	76.1	4.7%	2,142.2	89.0%	**$ 2,218.3**
15	Debt Service [4]	0.5	0.0%	0.0	0.0%	105.3	6.5%	263.9	11.0%	**$ 369.6**
16	**Total**	**$ 939.9**		**$ 1,129.5**		**$ 1,610.1**		**$ 2,406.1**		**$ 6,085.5**

Note: Totals and percentages may not add up due to rounding.

[1] Includes Highway and Regional Rail debt service.

[2] Includes $25.0M General Fund revenues for Bike, Parking and Union Station expenses. Also includes Prop A35 debt service for Union Station acquisition.

[3] Includes $6.1M General Fund revenues for Transit School subsidy.

[4] Net of Highway, Regional Rail and Union Station debt service.

ADDRESSING THE FISCAL CLIFF

June 18th, 2025| FINANCE, BUDGET, AND AUDIT COMMITTEE

Metro

Near-Term Financial Outlook

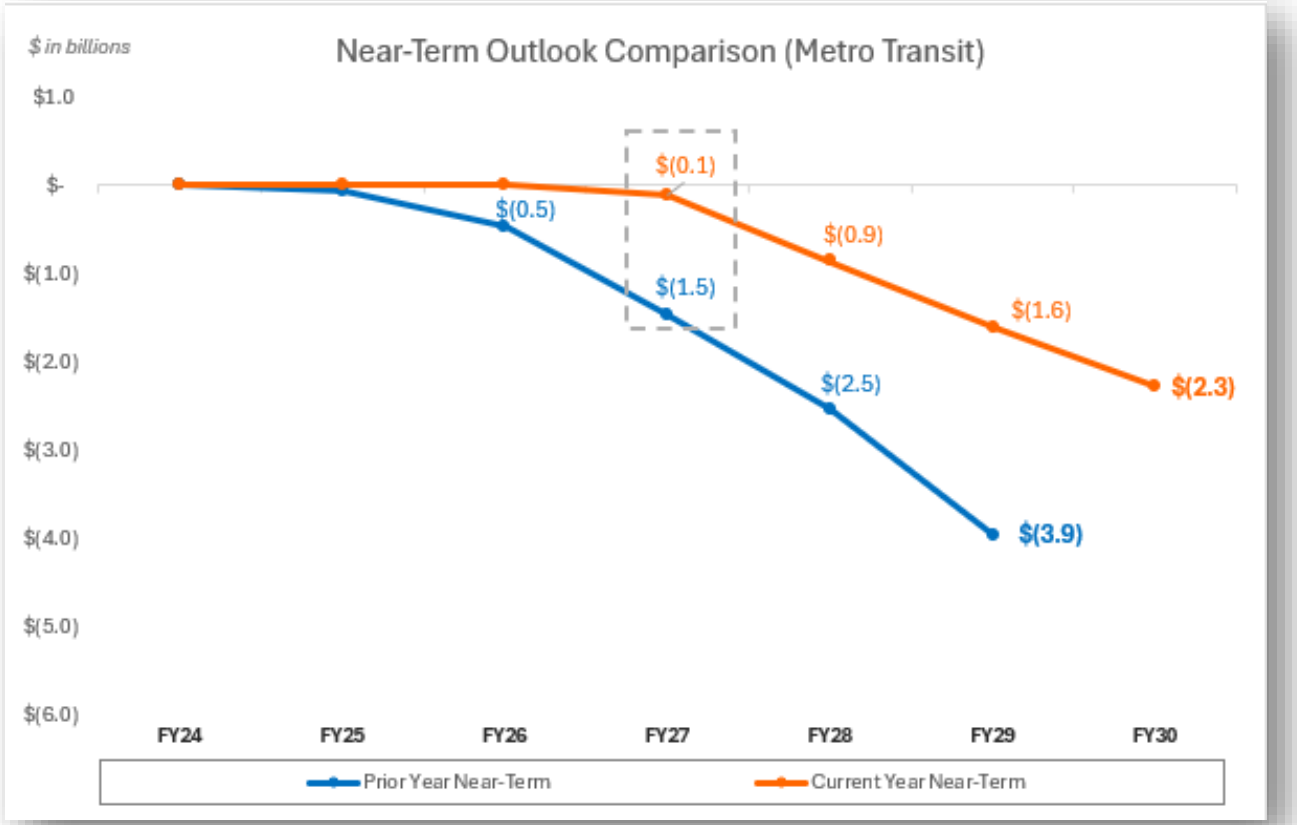
FY 26 Metro

External Pressures

- **Federal Funding Uncertainty**
  - Uncertainty may disrupt long-term financial planning
- **Tariff-Driven Procurement Costs**
  - Raising material and equipment costs
- **Persistent Inflation**
  - Increasing pressure on operating and capital expenses
- **Volatile Funding Environment**
  - Demands adaptable and responsive fiscal strategies

Internal Pressures

- **Rail System Expansion**
  - Adds sustained pressure on capital and operations
- **Rising Capital Costs**
  - Driven by rising construction and material prices
- **Preparation for Mega Events**
  - Short-term resource strain across the agency



Note: These figures do not include cost assumptions for the 2028 Games.

Focus on 5 key areas:

1. What is driving revenues?
2. What is utilizing flexible funding sources, which includes General Fund?
3. What is driving expenses?
4. How are capital projects putting pressure on the fiscal cliff?
5. What is in place for operational efficiencies?

Eligibility of Funds for Operations (e.g. FY25)

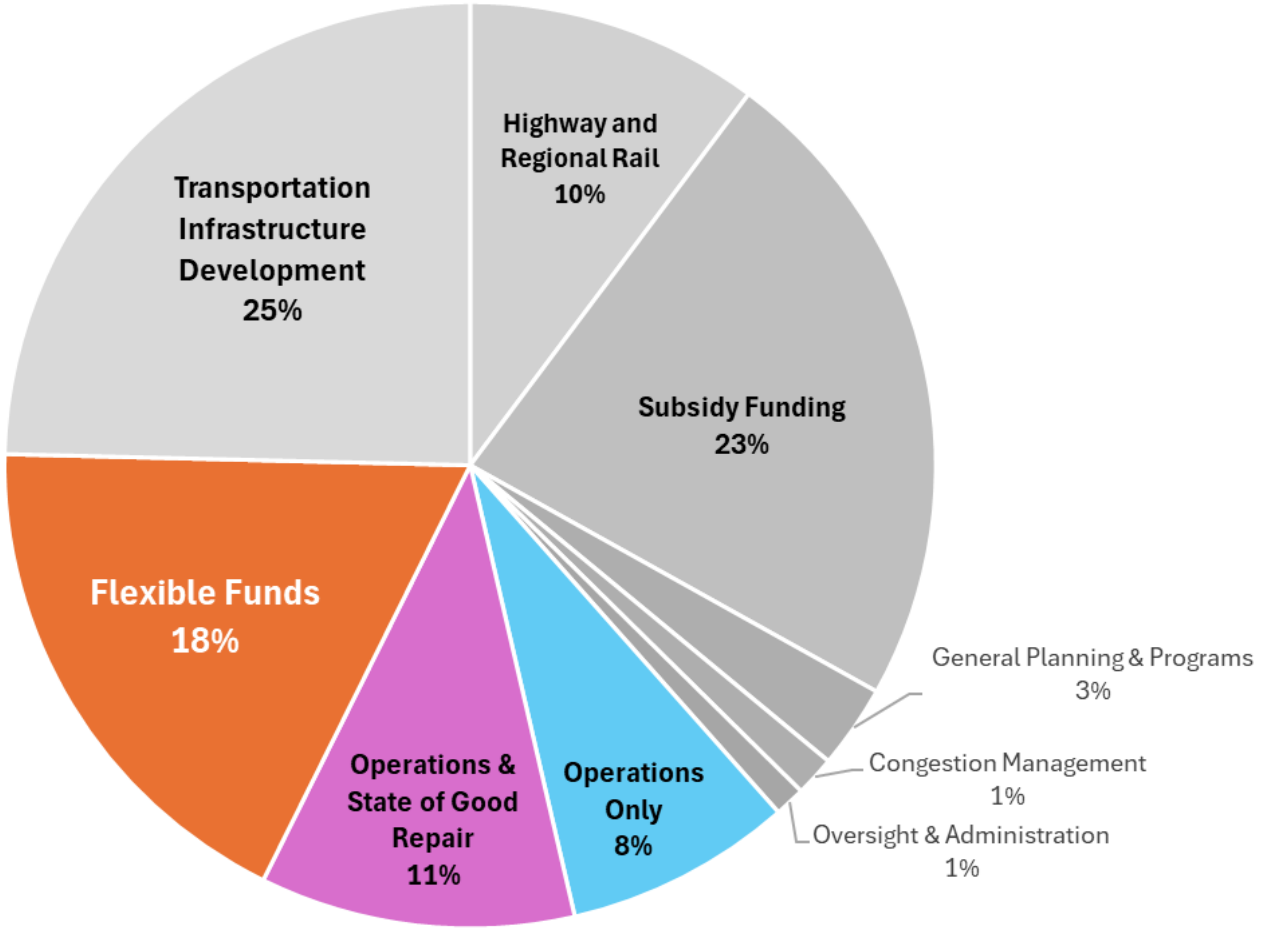
FY 26

- > 130 colors of funds
- < 15 sources are dedicated for operations

8% **of FY25 Resources**
Dedicated for Operations

91% **of Flexible Funds**
Used for Operations & State of Good Repair

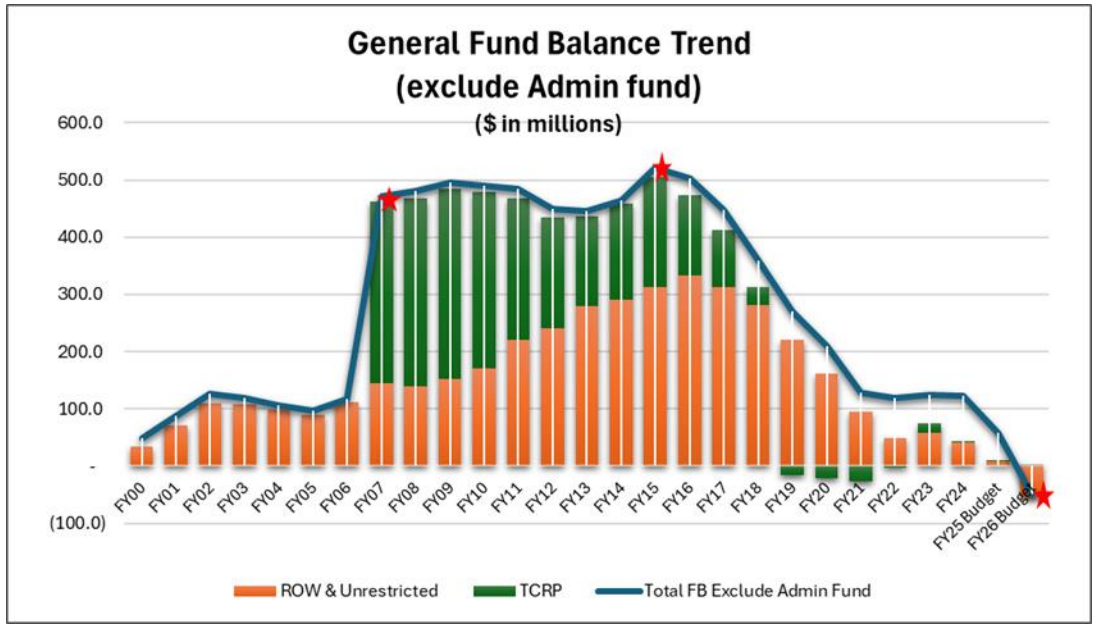
96% **of Operations & State Good Repair funds**
Used for Operations



General Fund

Metro's General Fund

- Covers activities not assigned to other funds
- Projecting negative fund balance at end of FY26



- Downward trend
  1. Revenues declining
  2. Growing demand for unfunded activities

Projects drawing on General Fund

	FY26 Budget General Fund		
	Project Name	ROW & Unrestricted	Green
1	**Revenue**	**$ 16.8**	**$ 14.5**
2	**Expenditures**		
3	PROPERTY MANAGEMENT	38.1	
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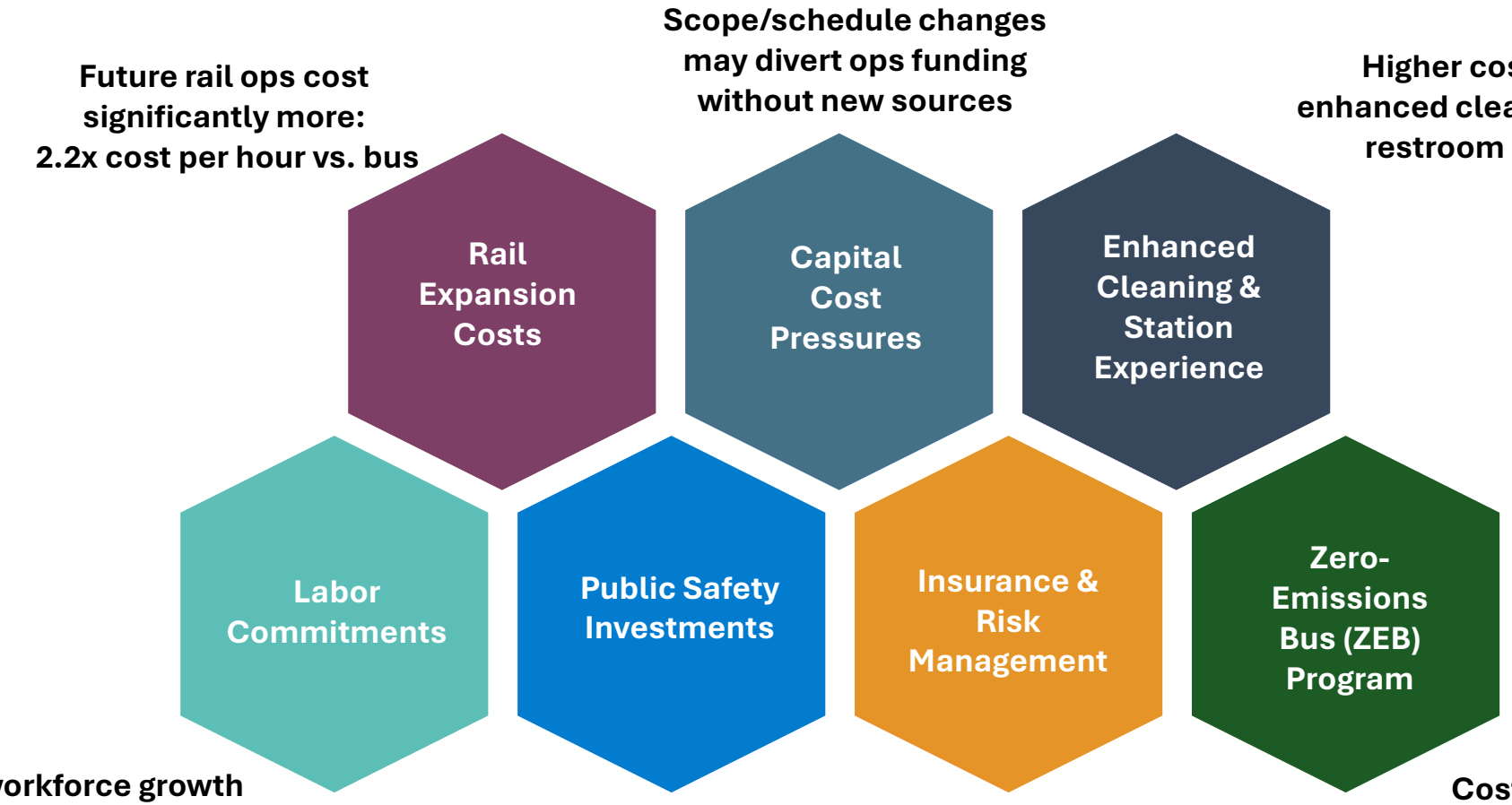
Major Cost Drivers



Strategic Workplan

FY 26

- Detailed Report on Capital Cost Escalations
- Short Range Transportation Plan (SRTP)

Summer 2025

Fall 2025

- Commencement of Measure M (MM) Decennial Review and Assessment

- Near-Term Outlook Update: Incorporate most current financial and economic assumptions
- Resources Deep Dive: Including sales tax analysis

Winter 2025

Spring 2026

Equitable Zero-Based Budget (EZBB) Process for FY27 Budget Development:

- Affordability Thresholds based on resources available
- Cost control efforts
- Detailed program evaluations
- Collaborative prioritization

- MM Decennial Consideration

Summer 2026

Ongoing

- Monitor and assess risks, take mitigation actions more immediately as necessary

Guiding Principles

Guiding Principles

- **Preserve Essential Services:**
  - Avoid reductions to core bus and rail service that disproportionately affect transit-dependent riders.
- **Prioritize Quality Service:**
  - Align decision-making with the most urgent concerns of riders that enhance the rider experience.

Measurable Outcomes

- **Increase Ridership:**
  - Invest in improvements that have a measurable effect on growing systemwide ridership.
- **Reduce Crime & Enhance Safety:**
  - Fund initiatives that decrease criminal activity and enhance rider perceptions of safety.

Adopt Guidelines for Addressing the Fiscal Cliff

- Apply results-driven financial framework that prioritizes investments
- Guidelines work toward maximizing effectiveness of available resources
- Critical time for Board to consider major decisions to mitigate projected deficits in the coming years