



**ITEM ID:** 2023-136-0

**TRANSMITTAL DATE:** February 17, 2023

**MEETING DATE:** February 24, 2023

**TO:** Board of Directors

**FROM:** Arnold Hackett, Chief Financial Officer  
Scott Johnson, Interim Chief Experience Officer

**SUBJECT:** Ridership and Revenue Forecast, FY23-FY27

**Issue**

Projections of ridership and revenue are required for the development of the annual operating budget. A new forecast for FY23 through FY27 was prepared by a consultant team from KPMG and Sperry Capital.

**Recommendation**

AUDIT AND FINANCE COMMITTEE received and filed this report.

**Strategic Commitment**

This report aligns with the Strategic Business Plan commitment of:

- **Modernizing Business Practices:** We will improve our operational efficiency through transparency, objective metrics and streamlined governance, reducing over-reliance on subsidy while bringing our system into a state of good repair and investing in the development of our employees. Ensuring that financial planning and budget development are informed by the best information available will improve efficiency and allow the sustainable allocation of resources.

**Background**

The Authority's FY23 Budget was developed based on the previous forecast from November 2021. Coming just after the surge of the COVID-19 Delta variant during fall of 2021, the forecast assumed future COVID-19 surges not to exceed the level of the Delta variant, and office occupancy rates to reach 52% by July 2022. At the Board workshop on December 10, 2021, staff presented that forecast and the assumptions underlying the projections.

One month later, in January 2022, the COVID-19 Omicron variant surged to more than twice the cases of the Delta variant and resulted in many businesses delaying their office reopening plans. By July 2022, office occupancy rates in Los Angeles County and Orange County had reached only 41% and ridership recovery was at 40%, falling far short of the projected 53% recovery.

Given the difficulty in creating long range forecasts under conditions of uncertainty, staff decided to seek consultant assistance to develop an updated forecast as the basis for the FY24 budget.

## **Discussion**

In September 2022, the Authority retained a consultant team from Sperry Capital and KPMG to develop an updated forecast of ridership and revenue to inform the agency's budget and financial planning process for FY24 and beyond.

Sperry Capital has worked with numerous transportation clients to develop COVID recovery forecasts and has been under contract with the Authority as a financial advisory firm. Sperry Capital was joined by a team of economists from KPMG which has experience in providing forecasting services to other commuter rail agencies, such as Metro North Railroad, Long Island Railroad, TransLink, and the Massachusetts Bay Transportation Authority.

In order to develop the forecast, the study team developed several multivariate econometric demand models that are in keeping with typical practices in transit economics. For the models to generate unbiased elasticities – or sensitivities – to different factors, such as to fares or changes in employment or income, the models include the relevant factors that explain demand for the commuting transit service. The forecast recognized office occupancy rates as the key determinant for Metrolink's ridership recovery.

The team incorporated economic projections from Moody's Analytics to obtain the most unbiased assumptions for underlying economic conditions. According to Moody's, there will be no recession, but local employment levels are expected to continue to recover but will not return to pre-pandemic levels by FY27. Gasoline prices are assumed to remain high, falling only slightly from August 2022 levels. No COVID-19 resurgence and economic lockdowns are projected.

The consultant team developed separate forecasts for different scenarios to better understand a range of possible future outcomes due to the uncertainty surrounding the future of work from home and employee responses. To that end, the scenario analysis encompasses three different scenarios based on work from home rates. Work from home levels continue to be higher than pre-lockdown levels and return to office has not exhibited a strong recovery. As such, the three scenarios are based on assumptions around future office occupancy rates.

The Low Growth Scenario assumes office occupancy rates in the Los Angeles-Orange County metropolitan area to reach 50% by FY27. Ridership is projected to grow to 5.4 million boardings in FY24, 6.2 million in FY25, 6.9 million in FY26 and to 7.3 million in FY27, corresponding to 61% of pre-pandemic ridership.

The Medium Growth Scenario assumes office occupancy to recover to 75% by FY27. This scenario projects ridership to grow to 5.9 million boardings in FY24, 7.3 million in FY25, 8.7 million in FY26 and to 9.5 million in FY27, corresponding to 79% of pre-pandemic ridership.

The High Growth Scenario assumes office occupancy to recover to 95% by FY27. Under this scenario, ridership is projected to grow to 6.2 million boardings in FY24, 8.2 million in FY25, 9.9 million in FY26 and to 11.0 million in FY27, corresponding to 92% of pre-pandemic ridership.

### **Next Steps**

In consultation with the member agencies, Finance department staff will utilize the new forecast to inform development of the FY24 budget.

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Approved by: Arnold Hackett, Chief Financial Officer  
Scott Johnson, Interim Chief Customer Experience Officer

### **Attachment(s)**

[Attachment A - 12.16.22 Metrolink Ridership and Revenue Forecasting Tool Presentation - Ridership and Revenue Forecast FY23-27](#)