



ITEM ID: 2026-175-0

TRANSMITTAL DATE: March 20, 2026

MEETING DATE: March 27, 2026

TO: Board of Directors

FROM: Tom Schamber, Chief Financial Officer

SUBJECT: FY27 Budget Development Update

Issue

Staff is providing an update on the status of the FY27 budget development.

Recommendation

Receive and file.

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.

Background

Producing a balanced budget in the wake of the COVID pandemic has been a challenge for some years now. Furthermore, a convergence of unfavorable factors is making FY27 perhaps the most challenging budget in the Authority's history.

Discussion

The Authority is facing significant fiscal challenges that have slowed development of the FY27 budget.

There are three primary contributing factors:

1. Ridership and the resulting fare revenues are not meeting forecasts. This issue became apparent in the current fiscal year, forcing the need for Sperry/KPMG to recalibrate their modeling to better reflect ridership trends we're seeing now. In FY26, this resulted in an adjusted revenue forecast approximately \$15 million below the adopted budget. Using the same models, this trend carries forward to the FY27 forecast, which projects only modest growth.
2. Many of Metrolink's largest contracts contain annual cost escalation factors to account for the vendor's own unavoidable cost increases due to things like union labor agreements. These contracts include Alstom, Herzog, and Sheriffs', which account for approximately 48% of our annual operating costs.
3. The Authority has received notice from two of our five Member Agencies that they have fiscal constraints that limit the funding they can provide for Metrolink Operations. OCTA provided written notice that their FY27 support obligation must be no less than 10% below their obligation for the current fiscal year, or about \$5.2 million. LA Metro has provided verbal notice that they can provide support for FY27 no less than 3% below the current fiscal year, or about \$4.3 million. This is a total reduction of \$9.5 million.

Combining the reduced revenue forecast, unavoidable operating cost escalations, and the fiscal limitations of our Member Agencies, the Authority faces a roughly \$30 million shortfall for FY27, assuming service levels remain the same as they are today.

Actions being proposed or taken to balance the budget include:

1. A recommendation to increase fares for one-way tickets and day passes to generate additional revenue. While the increase is impactful to our riders, we must consider the fact that fares have not been increased in roughly 13 years. It would be difficult to think of another example of a good or service across the economy whose cost has remained unchanged for that long.
2. Cost reductions are being identified throughout the agency. No stone is being left unturned. Specifically targeted areas include travel and training, consultants, and projects or initiatives that can be delayed to a future fiscal year. This has been somewhat successful, but the magnitude of such discretionary costs limits the impact these reductions can make. Roughly 60% of the agency's costs are fixed, meaning they are required and not variable with service levels.
3. We are left with the undesirable option of significant service reductions reducing across all lines. Train operations costs are the only costs within our control that are significant enough to fully close such a substantial budget shortfall.

Next Steps

The CEO and staff will continue to calculate the impacts of the aforementioned actions toward achieving a balanced budget. Given the magnitude of the unresolved questions that remain at this late stage of the budget cycle, it will likely necessitate a delay in transmission of the budget to the Member Agencies, as well as a high likelihood of beginning FY27 under continuing resolution to allow time for rigorous decision-making and analysis.

Prepared by: Tom Schamber, Chief Financial Officer

Approved by: Tom Schamber, Chief Financial Officer

Attachment(s)

[Presentation - FY27 Budget Update](#)