



ITEM ID: 2024-170-0

TRANSMITTAL DATE: April 5, 2024

MEETING DATE: April 12, 2024

TO: Audit and Finance Committee

FROM: Arnold Hackett, Chief Financial Officer

SUBJECT: Proposed FY2024-2025 (FY25) Budget - Request to Transmit

Issue

The Southern California Regional Rail Authority (SCRRA) Joint Powers Authority (JPA) requires that the "Governing Board shall approve a preliminary administrative budget and capital improvement program for the succeeding fiscal year no later than May 1 of each year. The Board shall adopt a final budget no later than June 30 of each year. Decisions dealing with capital and operating fund allocations, as well as annual approval of each Member Agency's share of the Authority's annual budget, shall be approved by the Member Agencies themselves."

Recommendation

It is recommended that the Committee recommend the Board approve transmitting the Proposed FY25 Budget for the consideration and adoption of the Member Agencies.

Strategic Commitment

This report aligns with the Strategic Business Plan commitments of:

- **Safety is Foundational:** We will stay on the leading edge by deploying new technologies and processes to enhance the safety and security of our riders, our fellow employees, and the communities we serve.
- **Customers Are Our Business:** We respect and value our customers, putting them at the heart of all we do, and work hard to attract and retain new customers by understanding their needs and finding new and innovative ways to bring them on board.
- **Connecting and Leveraging Partnerships:** We will forge new and enhanced

relationships with our public and private partners to integrate and coordinate connecting services, providing residents throughout Southern California with better, seamless, sustainable alternatives to driving.

- **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.
- **Advancing Key Regional Goals:** We will grow the role of regional rail in addressing climate change, air quality, and other pressing issues by advancing toward zero emissions, making rail a compelling alternative to single-occupant automobiles and advancing equity-focused opportunities for all communities throughout Southern California.

The FY25 Budget has been constructed to provide support to each of Metrolink's strategic goals.

Background

The 'new normal' has changed work modes and commuting patterns. Metrolink's ridership was flat for a number of years prior to the COVID pandemic. During the pandemic, ridership declined approximately 90% and has since recovered to only 50% of pre-pandemic ridership. Metrolink can no longer depend on commuters alone to support ridership growth.

Growing ridership must now come through re-inventing Metrolink to provide service to a wider audience across the region. The proposed FY25 Budget has been created to specifically address transforming Metrolink and increasing ridership. Over the last few years, Member Agencies have encouraged Metrolink to partner with consultants to review our service and equipment usage. The results of this partnership have led to the Optimized Service schedule. This new service schedule will fill in service gaps and make the most efficient utilization of equipment and crews.

The Proposed FY25 Operating Budget is based on the Optimized Service created by that effort. It includes the addition of 36 trains to allow for pulse departures and fill in mid-day service gaps. It also reduces wasted crew hours, layovers, hoteling and crew transportation. Equipment is fully utilized, while mechanical service costs are reduced.

In addition to the efficiencies realized, this optimized service will begin the transformation of Metrolink from a commuter rail to a regional public transportation which will provide service to a multitude of audiences and purposes, including commuters, students, leisure travelers to events, beaches, shopping, and family gatherings.

Staff believes that these services changes are critical for Metrolink's long-term sustainability.

Discussion

Kickoff meetings for the FY25 Budget were conducted in late October 2023. The budget requests were submitted and subsequently analyzed and reviewed by staff. The CFO then held internal meetings with each department, and, subsequently, the Chief Executive Officer. The purpose of the meetings was to review the necessity for the budget amounts requested taking into consideration such factors as:

- Overarching goal of safety, fiscal sustainability and operational efficiency;
- Solutions to respond to post pandemic changes to farebox revenue;
- Condition of Assets;
- Funding at a level which will meet the goals of the Authority;
- Contractual obligations;
- Historic levels of spending;
- Current levels of spending;
- Known adjustments for the forthcoming year;
- Projects to improve efficiencies and create savings in current and future

Internal meetings were concluded in early February. The Metrolink CFO then conducted meetings with each of the Member Agency CFOs and staff in late February. Questions were submitted and responses shared with all Member Agencies in early March. The Proposed FY25 Budget was reviewed with the Member Agency Advisory Committee (MAAC) on April 4th.

An overview of the Proposed FY25 Budget for Operations and the Capital Program detailing the total request for support was reviewed with the Member Agencies' Chief Executive Officers during the April 2024 monthly meeting.

Foundation for Proposed FY25 Budget

The Proposed FY25 Budget provides funding to achieve:

- Continued emphasis on safe operations
- Intraoperative Positive Train Control (PTC) updates and maintenance as the centerpiece of Metrolink's efforts.
- Investment in existing and new assets to maintain a state of good repair Funding of critical State of Good Repair projects.
- Funding for studies to improve maintenance efficacy and
- Re-invention of Metrolink to help grow ridership and
- Programs to generate ridership for entertainment, day trips, shopping, etc.

FY25 Operating Budget Assumptions:

Service

- Hybrid Optimized Service (Current Service Levels July through September then Optimized Service beginning October 1)

Revenue

- Ridership and Revenue Forecast as provided by KPMG/Sperry Capital

Expense

- Contractor increases only as mandated by agreements
- 3% Merit Pool and 3% COLA
- No New FTE Headcount

Reporting:

- Monthly
- Formal Mid-Year Budget Review

Arrow Service as a separate budget funded by SBCTA

FY25 Operating Budget Details

Proposed Total Operating Revenues are \$66.9M and reflect a projected net increase of \$12.9M or 23.9% from the FY2023-2024(FY24) Budget. The year-over-year changes are detailed below in the Operating Revenues section.

Expenditures are \$340.7M and reflect an increase of \$34.8M or 11.4% higher than the FY24 Budget. Details of the Year-over-Year expense change are explained below in the Operating Expenditures section.

The required Operating Support is \$273.8M and is an increase of \$21.9M, or 8.7% from the FY24 Budget. (See Attachment A for comparisons).

The Proposed FY25 Budget Operating Statement by detailed categories compared to the FY24 Budget, by Member Agency, by Line, and historically over the last five years are included as Attachments B, C, D, and E.

Discussion of Proposed FY25 Budget Operating Statement

Operating Revenues

Operating Revenues include Farebox, Dispatching, and Maintenance-of-Way (MOW) Revenues, and Other Revenues, such as interest, scrap, and other minor miscellaneous revenues. Operating Revenues are estimated to total \$66.9M for FY25, an increase of \$12.9M or 23.8% compared to the FY24 Budget.

Farebox Revenue, which is the largest component of the Total Operating Revenue, is projected at \$45.3M, an increase of \$9.9M or 27.9% compared to the FY24 Budget. Other subsidies for fares are added to the farebox to arrive at a Pro Forma Farebox Revenue totaling \$48.3M, an increase of \$9.9M over FY24.

We note that the Student Adventure Pass is not included in the revenue presented.

Dispatching and MOW revenues from the freight railroads and Amtrak are based on existing agreements at the expected rate of usage. The budget of \$2.2M for Dispatching Revenue reflects an increase of \$0.3M as compared to the FY24 Budget. The MOW Revenue is \$14.1M reflecting an increase of \$1.2M, or 9.0% as compared to the FY23 Budget. Other Revenues are budgeted at \$2.3M, an increase of \$1.6M or 226%. This significant increase is the result of more favorable bank interest on funds.

Operating Expenditures

Operating Expenditures are presented in the following four categories: Train Operations, Maintenance-of-Way (MOW), Administration and Services, and Insurance. Comparisons are to the FY24 Budget.

The Train Operations component of the Operating budget contains those costs necessary to provide Metrolink rail services across the six-county service areas, which includes the direct costs of railroad operations, equipment maintenance, and required support costs. The Proposed FY25 Budget for expenditures related to Train Operations including contingency is \$189.8M an increase of 9.0% from the FY24 Budget.

MOW expenditures are those costs necessary to perform the inspections and repairs on rails, signals and structures needed to ensure reliable, safe, efficient operation of trains, and the safety of the public. The Proposed FY25 Budget amount for expenditures related to MOW is \$58.3M, an increase of \$3.4M or 7.3% from the FY24 Budget.

Administration and Services include internal expenditures related to Train Operations. The Proposed FY25 Budget for expenditures related to Administration & Services is \$59.1M, an increase of 2.8% as compared to the FY24 Budget.

The category of Insurance and Legal is \$23.2M for the Proposed FY25 Budget, an increase of \$3.3M or 16.3% increase from the FY24 Budget.

Overall, the total Proposed FY25 Budget for expenditures is \$330.4M and has increased from the FY24 Budget by \$24.5M or 8.0%. The components of this change are as described below. As shown, we are also separately estimating a one-time Mini-Bundle Mobilization expense totaling \$10.3M associated with the expected implementation a new contract. This amount is an estimate.

Total Train Operations have increased by \$15.6M or 9.0% from the FY24 Budget. The primary drivers of this increase are:

- Train Operator Services have increased \$5.7M or 13.64%. \$3.8M of this amount is driven by Optimized Service, while the balance of \$1.9M is the contractual annual increase;
- Equipment Maintenance increased by \$1.3M or 2.8%. A \$1.0M reduction was achieved in this category as a result of Optimization. The mechanical vendor increase is 3.5%. Adding an increase in material cost, the base cost increase is \$2.4M before the offset from Optimization savings;
- Fuel expense increased by \$4.2M or 13.7%. \$4.7M of this amount is due to the Optimized Service, while reductions in fuel price and fuel hedging offset the cost increase by \$0.5M;
- Security increased by \$1.9M or 11.2% due to county mandated increases for the Los Angeles Sheriff's Department;
- Station Maintenance increased by \$1.0M or 19.8% due to increased Union Station Common Area Maintenance;
- Rail Agreements increased by \$0.6M or 8.8%. \$1.0M of this was a result of Optimization

costs, offset by \$0.4M.

MOW has increased by \$3.9M or 7.3% from the FY24 Budget primarily as a driven by the increase of the Herzog costs by \$4.4M or 7.7%, offset by a reduction in estimated Extraordinary Maintenance charges.

Administration and Services have increased from FY24 Budget by \$1.6M or 2.8%. The primary drivers of this increase are:

- An increase to Operations Salaries & Benefits by \$0.6M or 3.2%
- An increase of \$1.1M or 4.3% in charges to Indirect Administrative

Total Insurance and Legal expense has increased by \$3.3M or 16.3% from the FY24 Budget, due to the following:

- Property and Liability Insurance premiums are higher by \$2.3M or 14%
- Net Claims/SI is increased by \$0.8M or 85.9%, to ensure capture of any potential claims.

Member Agency Operating Support

Member Agency support is required to fund the difference between the total costs of operations and available revenues. The Proposed FY25 Budget estimates total Member Agency support is needed in the amount of \$263.5 or an increase of \$11.6M or 4.6% from the FY24 Budget. When Mini-Bundle Mobilization is included, the support required is \$273.8M, an increase of \$21.9M, or 8.7% more than the FY24 Budget.

The Budget Summary Comparison (Attachment E) includes a Year-over-Year comparison of net operating support by Member Agency. In response to Member Agency requests, this schedule reflects the FY25 Proposed member support in whole dollars which are required to create Member Agency Board requests.

Capital Program Budget State of Good Repair (SGR)

The Proposed FY25 Proposed Budget was developed based on the Metrolink Rehabilitation Plan (MRP) which was created in fulfillment of the Transit Asset Management (TAM) requirement, and to address the Authority's SGR needs. The MRP addresses two critical elements:

Backlog: Total cost of renovating all assets to achieve a current SGR

SGR: Annual cost of keeping assets in a State of Good Repair

The FY25 budget request addresses only the SGR or annual cost of keeping assets in a State of Good Repair. The Proposed FY25 Budget does not address the current backlog which is estimated to be over \$800M.

SGR:

The SGR authorization request for FY25 was identified as necessary investments to maintain a SGR. These projects total \$183.3M, an increase of \$53.5M or 41.2%. The projects are

presented by Member Agency, by Line, and by individual project with locations and descriptions in Attachment F.

New Capital:

The New Capital authorization request for FY25 was identified as necessary for safe and efficient rail operations. These projects total \$6.6M, a decrease from the FY24 request of \$13.6M or 67.0%. The projects are presented by Member Agency, by Line, and by individual project with locations and descriptions in Attachment H.

Multi-Year Forecasts

Operating Budget Forecasts for FY26, FY27, FY28 and FY29 will be provided to the committee for their requested approval at the June 2024 Committee Meeting. Upon Board approval, the FY26, FY27, FY28, and FY29 forecasted budgets will be provided to the Member Agencies for consideration and programming. The four-year forecasts will be considered for adoption individually during the applicable year.

Staff is currently working internally and with Member Agencies to further refine this budget. Any revisions will be communicated to Member Agencies as soon as possible. It is the intent that a revised budget will be included in the package presented to the AFCOM Committee and the Board in June.

Upon approval by the Board, the Proposed FY25 Budget will be transmitted to Member Agencies for consideration and adoption.

Operating Budget Attachments

The attachments as listed below provide additional detail on the FY25 Proposed Budget for Operating as described:

- Attachment A - FY25 Proposed Operating Budget with Comparison to FY24
- Attachment B - Historical Actual and Budgeted Operating Statements
- Attachment C - FY25 Proposed Operating Budget by Member Agency
- Attachment D - FY25 Proposed Operating Budget by Line
- Attachment E - History of Actual and Budgeted Operating Support by Member Agency

Capital Program Budget Attachments

The attachments as listed below provide additional detail on the FY25 Proposed Budget for the Capital Program as described:

- Attachment F - FY25 Proposed SGR Projects by Member Agency, Line, and Project Detail List
- Attachment G - FY25 Proposed New Capital by Member Agency, Line, and Project Detail List
- Attachment H - FY25 Proposed Capital Program Cashflow

Budget Impact

This report and the transmittal of the Proposed FY25 Budget has no impact on the FY24 or FY25 Budget.

Next Steps

- April 26: Board Approval for FY25 Budget transmittal to Member Agencies
- May-June 2024: Staff presentations at Member Agencies' Committee and Board meetings, as requested.
- June 14: Request AFCOM recommendation for adoption of FY25 Budget of 4-year forecast
- June 28: Board Adoption of FY25 Budget and approval of 4-year forecast.

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Approved by: Arnold Hackett, Chief Financial Officer

Attachment(s)

[Attachment A - FY25 Proposed Operating Budget with Comparison to FY24](#)

[Attachment B - Historical Actual and Budgeted Operating Statements](#)

[Attachment C - FY25 Proposed Operating Budget by Member Agency](#)

[Attachment D - FY25 Proposed Operating Budget by Line](#)

[Attachment E - History of Actual and Budgeted Operating Support by Member Agency](#)

[Attachment F - FY25 Proposed SGR Projects by Member Agency, Line, and Project Detail List](#)

[Attachment G - FY25 Proposed New Capital by Member Agency, Line, and Project Detail List](#)

[Attachment H - FY25 Proposed Capital Program Cashflow](#)

[Presentation - Request to Transmit Proposed FY25 Budget](#)