



ITEM ID: 2025-191-0

TRANSMITTAL DATE: April 4, 2025

MEETING DATE: April 11, 2025

TO: Audit and Finance Committee

FROM: Arnold Hackett, Chief Financial Officer

SUBJECT: Proposed FY2025-2026 (FY26) Metrolink Budget, Four Year Forecasts, and Annual Contract Authority Renewal - Request to Transmit

Issue

The Southern California Regional Rail Authority (SCRRA) Joint Exercise of Powers Agreement (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." Proposed budgets are transmitted to Member Agencies not later than May 1 of each year to request the Member Agencies approval and adoption of those budgets, prior to adoption of the budget by the Board of Directors of Metrolink.

Recommendation

It is recommended that the Committee recommend the Board approve transmitting the Proposed FY26 Metrolink Budget for the consideration and adoption of the Member Agencies.

Staff also recommends that the Committee recommend the Board approve transmittal of the Four-Year Forecasts to the Member Agencies for their approval and programming, and the Annual Contract Authority Renewal for review.

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 FY26 Budget has been constructed to provide support to each of Metrolink's strategic goals.

Background

Metrolink is transforming itself from a commuter rail to a regional rail, providing transportation services that align with the post pandemic world of changed work modes and commuting patterns. Metrolink is also responding to the fact that it can no longer depend on commuters alone to support ridership and revenue growth.

Growing ridership must now come through reimagining Metrolink to provide service to a wider audience across the region. Metrolink must provide service to a multitude of audiences and purposes, including commuters, students, leisure travelers to events, beaches, shopping, and family gatherings.

Member Agency CEOs encouraged Metrolink to partner with consultants to review our service and equipment usage. The results of this partnership led to the Optimized Service schedule which Metrolink implemented in October of 2024.

The Proposed FY26 Operating Budget is based on the Optimized Service created by that effort and further refined. It included the addition of 32 trains to allow for pulse departures and fill in mid-day service gaps.

As with any new and innovative initiative, time must be allowed to let the results reach their full potential. Consultants advise that two years are required before results can reasonably be evaluated.

Discussion

Kickoff meetings for the FY26 Budget were conducted in mid-September 2024. Budget amounts were proposed considering:

- Overarching goal of safety, and operational efficiency;
- Fiscal sustainability for our Member Agencies;
- Solutions to achieve improvements to farebox revenue;
- Condition of Assets;
- Contractual obligations;
- Known adjustments for the forthcoming year;

The budget requests were submitted and subsequently analyzed and reviewed by staff. Internal meetings were concluded in early February.

The Metrolink CFO conducted meetings with each of the Member Agency CFOs and staff in February.

In response to Member Agency feedback, Staff began to identify additional areas where the budget request could be reduced.

Additional meetings were held with Member Agency CFOs on February 5th thru 6th, February 19th thru the 21st, and March 12th thru the 14th.

Questions were submitted and responses shared with all Member Agencies on February 11th and March 2nd.

With the conclusion of Member Agency meetings, staff had reduced the Operating Budget request by \$10.1M, the SGR request was reduced by \$41.9M, and the New Capital request was reduced by \$15.6M.

The Proposed FY26 Budget was reviewed with the Member Agency Advisory Committee (MAAC) on April 3rd.

An overview of the Proposed FY26 Budget for Operations and the Capital Program detailing the total request for support was reviewed with the Member Agencies' Chief Executive Officers during the February 21st and March 21st monthly meetings.

Foundation for Proposed FY26 Budget

The Proposed FY26 Budget provides funding to achieve:

- Continued emphasis on safe operations
- Investment in existing and new assets to maintain a state of good repair
- Funding for preparation for the 2028 Los Angeles Olympics
- Programs to generate increased ridership

FY26 Operating Budget Assumptions:

Service

- Continuation of Optimized Service (full year in FY26)

Revenue

- Ridership and Revenue Forecast as provided by Sperry Capital/KPMG
- No fare increases
- Fare Restructure
- Student/Youth discount at 50%

Expense

- Contractor increases only as mandated by agreements
- New Train Operator/Rolling Stock Maintenance/Facility Maintenance Contract.
- 3% Merit Pool and 3% COLA
- 4 New FTE Headcounts (2-New CFR Regulations, 1 Legal, 1 Outside '20 for LA Metro)
- 2028 Olympic Readiness
- No Special Trains

Reporting:

- Monthly
- Formal Mid-Year Budget Review
- Arrow Service as a separate budget funded by SBCTA

FY26 Operating Budget Details

Proposed Total Operating Revenues are \$76.9M and reflect a projected net increase of \$8.9M or 13.1% from the FY2024-2025 (FY25) Budget. The Year-over-Year changes are detailed below in the Operating Revenues section.

Expenditures are \$352.4M and reflect an increase of \$20.4M or 6.1% higher than the FY25 Budget. Details of the Year-over-Year expense change are explained below in the Operating Expenditures section.

The required Operating Support is \$275.5M and is an increase of \$11.5M, or 4.4% from the FY25 Budget. (See Attachment A for comparisons).

The Proposed FY26 Budget Operating Statement by detailed categories compared to the FY25 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 FY26 Budget Operating Statement

Operating Revenues

Operating Revenues include Farebox, Dispatching, and Maintenance-of-Way (MOW) Revenues, and Other Revenues, such as bank interest, sales of scrap materials, auctions of obsolete equipment, and other minor miscellaneous revenues. Operating Revenues are estimated to total \$76.9M for FY26, an increase of \$8.9M or 13.1% compared to the FY25 Budget.

Farebox Revenue, which is the largest component of the Total Operating Revenue, is projected at \$51.7M, an increase of \$6.4M or 14.1% compared to the FY25 Budget. Other

subsidies for fares including \$3.6M in a LCTOP grant for reduced student fares, and \$2.6 in Access Rider support are added to the farebox to arrive at a Pro Forma Farebox Revenue totaling \$58.3M, an increase of \$9.9M over FY25.

Dispatching and MOW revenues from the freight railroads and Amtrak are based on existing agreements at the forecasted rate of usage. The budget of \$2.3M for Dispatching Revenue reflects an increase of less than \$0.1M as compared to the FY25 Budget. The MOW Revenue is \$13.5M reflecting an increase of \$0.4M, or 3.0% as compared to the FY25 Budget. Other Revenues are budgeted at \$2.9M, a decrease of \$1.5M or 34%. This significant decrease is the result of lower projected 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 FY25 Budget.

The Train Operations component of the Operating budget contains costs 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 FY26 Budget for expenditures related to Train Operations including contingency is \$202.0M an increase of 10.3% from the FY25 Budget.

MOW expenditures are costs 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 FY26 Budget amount for expenditures related to MOW is \$62.9M, an increase of \$8.3M or 15.2% from the FY25 Budget.

Administration and Services include internal expenditures related to Train Operations. The Proposed FY26 Budget for expenditures related to Administration & Services is \$60.2M, an increase of 6.9% as compared to the FY25 Budget.

The category of Insurance and Legal is \$22.9M for the Proposed FY26 Budget, a decrease of \$0.4M or 1.7% from the FY25 Budget.

Also included in the FY26 Budget and shown as separate items are \$1.1M for 2028 Olympic Readiness, \$0.5M for the new federal regulation CFR 245-246 compliance, and \$2.9M for Maintenance of Outside '20 funded by LA Metro. Overall, the total Proposed FY26 Budget for expenditures is \$352.4M and has increased from the FY25 Budget by \$20.4M or 6.1%. The components of this change are as described below.

Total Train Operations have increased by \$18.9M or 10.3% from the FY25 Budget.

The primary drivers of this increase are:

- Train Operator Services have increased \$6.5M or 13.6%. \$1.6M of this increase is a full year of Optimized Service (compared to 9 months in FY25), the balance is a combination of a salary increase for union rail workers and the expected annual increase;
- Equipment Maintenance increase of 2.3% was the result of the new "Mini-Bundle" agreement;
- Materials have increased \$2.8M or 22.8% as a result of all rolling stock now out of

warranty. Metrolink is the only owner of F125 Locomotives, making replacement parts expensive;

- Operating Facilities Maintenance increased by \$2.7M or 107.2%;
- LA Sheriffs increased by \$1.0M or 7.8% due to county mandated increases for the Los Angeles Sheriff's Department;
- SB Sheriffs are \$3.3M and new in FY26, funded entirely by S BCTA;
- TVM Maintenance has increased by \$1.1M primarily as a result of forecasted increased bank charges for credit cards on higher revenue;
- MOW has increased by \$8.3M or 15.2% from the FY25 Budget as a result of increases to Herzog track and signal maintenance.

Administration and Services have increased from FY25 Budget by \$3.9M or 6.9%.

The primary drivers of this increase are:

- An increase to Operations Salaries & Benefits by \$1.8M or 10.1%
- An increase of \$2.5M or 10.1% in charges to Indirect Administrative.

Total Insurance and Legal expense has decreased by \$0.4M or 1.7% from the FY25 Budget, due to a projection of Property and Liability Insurance premiums lower by \$0.4M or 2.1%

Member Agency Operating Support

Member Agency support is required to fund the difference between the total costs of operations and forecasted revenues. The Proposed FY26 Budget estimates total Member Agency support is needed in the amount of \$275.5M or an increase of \$11.5M or 4.4% from the FY25 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 FY26 Proposed Member Agency support in whole dollars which are required to create Member Agency Board requests.

Capital Program Budget State of Good Repair (SGR)

The Proposed FY26 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 FY26 budget request addresses only the SGR or annual cost of keeping assets in a State of Good Repair. The current backlog is estimated to be over \$1.0 billion.

SGR:

The SGR authorization request for FY26 was identified as necessary investments to maintain a SGR. These projects total \$141.0M, a decrease of \$18.6M or 11.7%. 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 FY26 was identified as necessary for safe and efficient rail operations. These projects total \$15.6M, an increase from the FY25 request of \$9.7M or 164.4%. The projects are presented by Member Agency, by Line, and by individual project with locations and descriptions in Attachment G.

Carryover Projects are also a portion of the budget.

For FY26 SGR Carryover Projects total \$365.3M as shown in Attachment H.

For FY26 New Capital Carryover Projects total \$92.3M as shown in Attachment I.

A Capital Program cash flow forecast by year is included to indicate the amounts we anticipate billing to each Member Agency. This is Attachment J.

Multi-Year Forecasts

Operating Budget Forecasts for FY27, FY28, FY29 and FY30. In Attachments K-1 thru K-4 we present forecasts which adhere to the principal discussed in CFO meetings of remaining within an increase of not more than 5% to Member Agency Support each year.

These forecasts are provided to the Member Agencies for consideration and programming. The four-year forecasts will be considered for adoption individually during the applicable year.

Upon approval by the Board, the Proposed FY26 Budget will be transmitted to Member Agencies for consideration and adoption.

Operating Budget Attachments

The attachments as listed below provide additional detail on the FY26 Proposed Budget for Operating as described:

Attachment A - FY26 Proposed Operating Budget with Comparison to FY25

Attachment B - Historical Actual and Budgeted Operating Statements

Attachment C - FY26 Proposed Operating Budget by Member Agency

Attachment D - FY26 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 FY26 Proposed Budget for the Capital Program as described:

Attachment F - FY26 Proposed SGR Projects by Member Agency, Line, and Project Detail List

Attachment G - FY26 Proposed New Capital by Member Agency, Line, and Project Detail List

Attachment H - FY26 SGR Carryover Projects

Attachment I - FY26 New Capital Carryover Projects

Attachment J - FY26 Proposed Capital Program Cashflow

Multi-Year Forecast

Attachment K - Four-year forecast based on maximum 5% increase sustainability

Attachment L - Annual Contract Authority Renewal

Budget Impact

This report and the transmittal of the Proposed FY26 Budget has no impact on the FY25 or FY26 Budget.

Next Steps

- April 25: Board Approval for FY26 Budget transmittal to Member Agencies May-June 2025: Staff presentations at Member Agencies' Committee and Board meetings, as requested.
- June 13: Request AFCOM recommendation for adoption of FY26 Budget and approval of 4-year forecasts, approval of Annual Contract Authority renewals, and approval of the FY26 Salary Resolution.
- June 27: Board Adoption of FY26 Budget and approval of 4-year forecasts, Annual Contract Authority renewals, and approval of the FY26 Salary Resolution.

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Approved by: Tom Schamber, Interim Chief Financial Officer

Attachment(s)

[Attachment A - Operating Budget.pdf](#)

[Attachment B - Historical Budget.pdf](#)

[Attachment C - Budget by Member.pdf](#)

[Attachment D - Budget by Line.pdf](#)

[Attachment E - Support by Member.pdf](#)

[Attachment F - FY26 Proposed SGR Projects by Member Agency, Line, and Project Detail List.pdf](#)

[Attachment G - FY26 Proposed New Capital by Member Agency, Line, and Project Detail List.pdf](#)

[Attachment H - FY26 SGR Carryover Projects.pdf](#)

[Attachment I - FY26 New Capital Carryover Projects.pdf](#)

[Attachment J - FY26 Proposed Capital Program Cashflow.pdf](#)

[Attachment K-1 - FY27 Forecast.pdf](#)

[Attachment K-2 - FY28 Forecast.pdf](#)

[Attachment K-3 - FY29 Forecast.pdf](#)

[Attachment K-4 - FY30 Forecast.pdf](#)

[Attachment L - Annual Contract Authority Renewal.pdf](#)

[Presentation - Proposed FY26 Metrolink Budget](#)