



**ITEM ID:** 2024-224-0

**TRANSMITTAL DATE:** June 7, 2024

**MEETING DATE:** June 14, 2024

**TO:** Audit and Finance Committee

**FROM:** Arnold Hackett, Chief Financial Officer

**SUBJECT:** Adoption of the FY 2024-2025 (FY25) Budget, Approval of Annual Contract Authority, and Salary Resolution, and Approval of Operating Forecasts for the four years FY2025-26 through FY2028-29

### **Issue**

Under the terms of the Joint Exercise of Powers Agreement (JPA), the Authority is required to adopt a budget for the succeeding fiscal year no later than June 30th of each year. The Proposed FY2024-25 (FY25) Budget consists of the Operating Budget and State of Good Repair/New Capital Projects Budget. Consistent with multi-year budget planning, approval of the proposed budget forecasts for the fiscal years 2026 through 2029 is also requested at the time of budget adoption.

Consistent with our goals of process improvement and increasing efficiency, this year staff is bringing the request for approval of contract authority for Annual Contracts to the board as a part of the Budget Adoption process.

### **Recommendation**

It is recommended that the Committee recommend the Board:

1. Conduct a Public Hearing during the Board's June 28th Meeting; and
2. Adopt the Proposed FY25 Budget; and
3. Approve FY25 Annual Contract Authority; and
4. Approve the FY25 Salary Resolution; and
5. Approve the Proposed Budget Forecasts for Fiscal Years 2026 through 2029.

### **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 in collaboration with Member Agencies' Staff and CEOs to provide support to each of Metrolink's strategic goals.

## **Background**

### Public Hearing Requirement:

Members of the public will be notified of this public hearing in accordance with applicable requirements, by advertisements in newspapers and publications in English and foreign languages, throughout the five-county areas served by the Authority in the following newspapers (listed by newspaper, audience and language):

Orange County Reporter (OC), English

Ventura County Star (VT), English

Daily News (LA), English

Riverside Press Enterprise (RIV), English

San Bernardino County Sun (SB), English

LA Sentinel (African American), English

Asbarez Armenian Media Network (Armenian), Armenian

Beirut Times (Arabic/Lebanese), Arabic/Lebanese

Panorama (Russian), Russian

La Opinion (Spanish), Spanish

Rafu Shimpo (Japanese), Japanese

World Journal (Chinese), Chinese

The Korea Times (Korean), Korean

Asian Journal (Tagalog), Tagalog  
Nguoi Viet Daily News (Vietnamese), Vietnamese  
Iranshahr Weekly (Persian), Persian

The Authority's Proposed FY25 Budget is posted on the metrolinktrains.com website. The Proposed FY25 Budget with all attachments was transmitted to all Member Agencies for their consideration and adoption on May 6, 2024.

### Budget 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-imagining 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 to a regional rail 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 years.

Internal meetings were concluded in early February. The Metrolink CFO then conducted meetings with each of the Member Agency CFOs and Staffs 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.

Meetings were subsequently held with Member Agencies resulting in Staff's reassessment of budgeted amounts. This reassessment generated modifications to the FY25 Budget reducing total Operating Expenses by \$13.2M. The modification created a reduction in required support for each Member Agency.

An overview of this modified 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.

On April 26, 2024, the SCRRA Board of Directors approved the transmittal of the Proposed FY25 Budget to the Member Agencies for their review and adoption.

#### 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.
- Re-invention of Metrolink to help grow ridership.
- 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 2024)

##### 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 \$68.0M and reflect a projected net increase of \$14.0M or 25.9% from the FY24 Budget. The year-over-year changes are detailed below in the Operating Revenues section.

Expenditures are \$332.1M and reflect an increase of \$26.1M or 8.5% 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 \$264.0M and is an increase of \$12.2M, or 4.8% 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 and other minor miscellaneous revenues. Operating Revenues are estimated to total \$68.0M for FY25, an increase of \$14.0M or 25.9% 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 28.1% 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.

Note: 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 \$13.1M reflecting an increase of \$0.2M, or 1.5% as compared to the FY24 Budget. Other Revenues are budgeted at \$4.4M, an increase of \$3.7M or 530.0%. 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 \$183.0M an increase of 5.1% 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 \$54.6M, an increase of \$0.3M or 0.5% 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 \$56.3M, a decrease of \$1.1M or 1.9% 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 \$332.1M and has increased from the FY24 Budget by \$26.1M or 8.5%. The components of this change are as described below. Note that the Agency has added to the formal budget the following new items:

- Estimated One-Time mobilization in the amount of \$10.3M for the "Mini Bundle".
- Member Agency support for the FY25 Student Adventure Pass \$3.2M.
- Outside '20 Maintenance (LA Metro only) \$1.3M.

Total Train Operations have increased by \$8.9M or 5.1% 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 decreased by \$0.5M or (1.1%). A \$1.0M reduction was achieved in this category as a result of Service Optimization. The mechanical vendor increase is 3.5%. With a reduction in material cost, the base cost increase is \$0.6M before the offset from Optimization savings;
- Fuel expense increased by \$2.3M or 7.30%. \$4.0M of this amount is due to the Optimized Service, fuel hedging is expected offset the cost increase by \$1.8M;
- Security increased by \$1.7M or 10.5% 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 \$0.2M or 3.6%. \$1.0M of this was a result of Optimization costs, offset by changes to the AAR index.

MOW has increased by \$0.3M or 0.5% from the FY24 Budget.

Administration and Services have decreased from FY24 Budget by \$1.1M or 1.9%. The primary drivers of this decrease are:

- An increase to Operations Salaries & Benefits by \$0.5M or 3.2%
- Decrease of \$1.2M or 9.49% to Operations Non-Labor,
- Decrease of \$0.4M to Indirect Administrative Expense,
- Decrease of \$0.1M in Operations Professional Services.

Total Insurance and Legal expense have 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 \$264.0M or an increase of \$12.2M or 4.8% from the FY24 Budget. This support now includes the estimated cost of the Mobilization for the "Mini-Bundle", the Student Adventure Pass Support, and the (LA Metro only) Outside '20 support.

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 an SGR. These projects total \$159.6M, an increase of \$29.8M or 23.0%. 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 \$5.9M, a decrease from the FY24 request of \$14.3M or 70.0% The projects are presented by Member Agency, by Line, and by individual project with locations and descriptions in Attachment G.

### Annual Contract Authority

Approval of the contract authority requests listed on Attachment I will provide contract authority for fiscal 2024-2025 for the Vendors and in the amounts listed on the attachment.

The total contract authority requested these Annual Agreements for FY25 is \$26.4M. The largest vendors are not included here but will be brought to the Board as individual reports.

### Multi-Year Forecasts

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.

The annual budget request also includes a request for approval of the Annual Salary Resolution.

### 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

### Operating Forecast Attachments

The attachments as listed below provide additional detail on the forecasted operating expenses for FY26, FY27, FY28 and FY29

- Attachment J - FY26 Forecast Operating Statement
- Attachment K - FY27 Forecast Operating Statement
- Attachment L - FY28 Forecast Operating Statement
- Attachment M- FY29 Forecast Operating Statement

### Salary Resolution Attachments:

- Attachment SR - FY25 Salary Resolution
- Attachment SR-1 - Proposed FY25 Salary Grade & Range Structure
- Attachment SR-2 - Proposed FY25 Budgeted Position Roster
- Attachment SR-3 - Proposed FY25 Classification and Salary Plan

## **Budget Impact**

Adoption of the Proposed FY25 Budget will create a budget and spending authority for Metrolink for the fiscal year 2024-2025.

## **Next Steps**

On June 28, 2024 the Board of Directors will:

- Adopt the Proposed FY25 Operating and Capital Budget; and
- Approve the FY25 Annual Contract Authority; and
- Approve the FY25 Salary Resolution; and
- Approve the four-year forecast covering FY26 through FY29.

Prepared by: Christine J. Wilson, Assistant Director of Finance

Approved by: Arnold Hackett, Chief Financial Officer

## **Attachment(s)**

[Attachment A - FY25 Proposed Operating Budget - Hybrid Schedule](#)

[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](#)

[Attachment I - FY25 Proposed Annual Contract Authorization](#)

[Attachment SR - FY25 Proposed Salary Resolution](#)

[Attachment SR-1 FY25 Proposed Salary Grade Range Structure](#)

[Attachment SR-2 FY25 Proposed Budgeted Position Roster](#)

[Attachment SR-3 FY25 Proposed Classification and Salary Plan](#)

[Attachment J - FY26 Forecast Operating Statement](#)

[Attachment K - FY27 Forecast Operating Statement](#)

[Attachment L - FY28 Forecast Operating Statement](#)

[Attachment M - FY29 Forecast Operating Statement](#)

[Presentation - Proposed FY25 Budget](#)