



Preliminary Budget and Service Reduction Scenario if TIRCP Replacement Funding is Not Secured

Planning and Projects Standing Committee
April 17, 2026

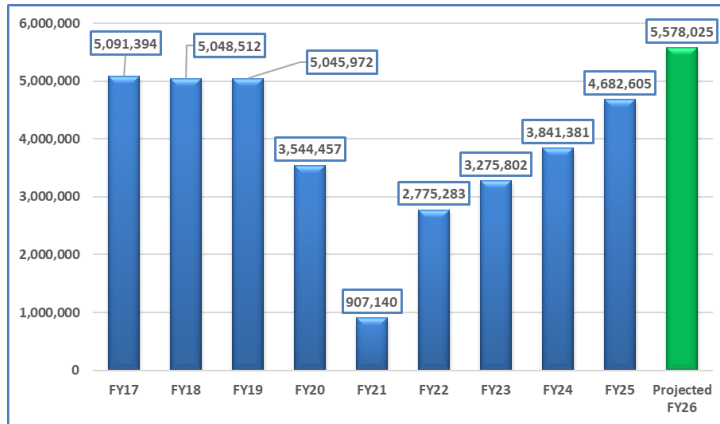
Chuck Farmer, Chief Financial Officer
John Uργο, Chief Planning and Innovation Officer

Key Wins

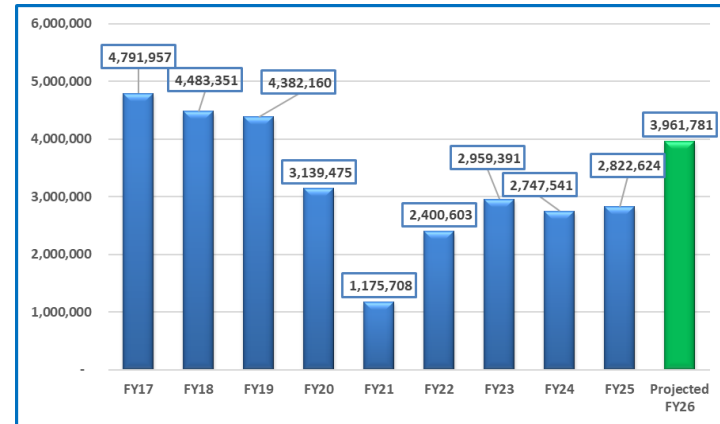
- **Secured ~\$414 million in grants over the last 7 years**
- **Rollout of Reimagine METRO**
- **Ridership expected to reach its highest level since 2011**
- **Implemented Youth Cruz Free fares resulting in a ~500% increase in ridership**
- **Major fleet, fueling, transit priority, and housing-linked projects underway**

Service Growth is Working

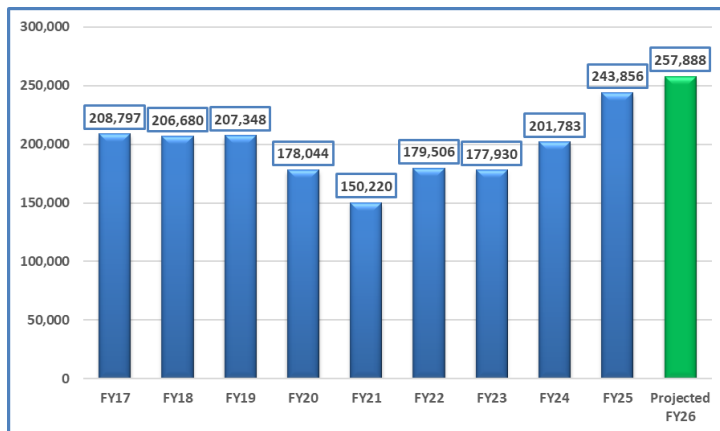
Ridership



Revenue



Revenue Hours



- Ridership expected to exceed pre-COVID levels
- Fare Revenue is Recovering
- Revenue Hours have increased with Reimagine METRO

METRO has been successful in securing outside funding

(\$'s in Thousands)

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	Total
Operating Grants								
FTA 5307	\$7,282	\$7,297	\$11,210	\$11,972	\$12,178	\$12,422	\$13,009	\$75,371
COVID Grants	20,761	14,460	26,220	0	0	0	0	61,441
STA - SGR	723	738	743	781	636	760	1,040	5,421
TIRCP	0	0	0	0	28,339	0	0	28,339
LCTOP	969	489	1,075	1,243	1,193	1,198	844	7,011
FTA - 5311	191	199	258	263	289	304	0	1,504
TDA - LTF	7,930	7,097	8,593	10,167	8,912	8,701	9,552	60,952
TDA - STA	4,347	3,425	4,437	6,362	5,589	4,899	5,092	34,151
Total Operating Grants	\$42,203	\$33,706	\$52,536	\$30,788	\$57,136	\$28,285	\$29,537	\$274,190
Capital Grants								
TIRCP	\$0	\$0	\$0	\$38,589	\$1,726	\$4,000	\$0	\$44,315
VW Settlement	0	0	0	0	24,960	0	0	24,960
5339b - LONO	0	0	0	20,382	0	1,152	0	21,534
Congested Corridors	0	0	0	0	0	0	13,836	13,836
HVIP	600	0	0	0	12,900	0	0	13,500
AHSC	0	0	0	4,180	5,987	0	0	10,167
5339a - Bus & Bus Fac	569	524	505	520	795	0	0	2,913
EnergIIZE	0	0	0	0	2,800	0	0	2,800
ARCHES	0	0	0	151	0	0	2,000	2,151
Other Grants	0	0	330	918	0	1,922	818	3,988
Total Capital Grants	\$1,169	\$524	\$835	\$64,740	\$49,168	\$7,074	\$16,654	\$140,164
Total Grants Awarded	\$43,372	\$34,230	\$53,370	\$95,528	\$106,304	\$35,359	\$46,191	\$414,354

Over \$414 Million in Funding received in the past 7 years

Note: As of February 2026. Still waiting on final numbers for FTA 5339a Funding

Structural deficit begins with TIRCP ending

- **TIRCP will be fully expended within FY27**
- **METRO facing structural deficit post TIRCP**
- **No replacement source of funding in place**
- **Without a replacement source of revenue, major service cuts, headcount reductions, expense cutbacks and capital projects that require a match will not happen**
- **Resulting in less frequent buses, later start times and earlier end times, fewer staff and support, smaller footprint on Santa Cruz County**

Problem begins when TIRCP operating support ends in FY27

(\$'s in Thousands)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32	CAGR
Revenue Sources								
Ridership	\$10,694	\$10,632	\$10,899	\$11,174	\$11,455	\$11,741	\$12,037	2.0%
Sales Taxes	30,536	32,522	33,173	33,836	34,513	35,203	35,907	2.7%
Federal & State Sources	26,309	27,947	27,668	27,925	26,342	26,610	26,617	0.2%
TIRCP	9,123	7,433	0	0	0	0	0	-100.0%
Other Revenue	1,188	1,408	1,268	775	783	791	799	-6.4%
Total Sources of Cash	77,850	79,942	73,007	73,710	73,092	74,345	75,361	-0.5%
Expense Uses								
Fully Loaded Labor	52,221	54,646	56,742	58,950	61,078	62,951	64,553	3.6%
Operating Expenses	19,153	20,797	21,261	21,396	21,504	21,801	22,668	2.8%
Bond Payments/UAL	5,497	6,273	6,755	7,236	7,153	7,029	7,029	4.2%
Retiree Obligations	4,992	5,355	5,786	6,253	6,758	7,305	7,888	7.9%
Total Uses of Cash	81,864	87,070	90,545	93,835	96,494	99,085	102,137	3.8%
Change in Cash	(\$4,014)	(\$7,128)	(\$17,538)	(\$20,124)	(\$23,402)	(\$24,740)	(\$26,776)	37.2%
<i>Revenue Sources Excluding TIRCP</i>	<i>\$68,727</i>	<i>\$72,509</i>	<i>\$73,007</i>	<i>\$73,710</i>	<i>\$73,092</i>	<i>\$74,345</i>	<i>\$75,361</i>	<i>1.5%</i>
<i>Change in Cash excluding TIRCP</i>	<i>(\$13,137)</i>	<i>(\$14,561)</i>	<i>(\$17,538)</i>	<i>(\$20,124)</i>	<i>(\$23,402)</i>	<i>(\$24,740)</i>	<i>(\$26,776)</i>	<i>12.6%</i>

- **Operating Costs continue to rise from wages, benefits and hydrogen fueling**
- **Revenue growth is not keeping pace with expense growth**
- **Without replacement funding, METRO must either draw down cash or cut service and staffing**

**Capital Projects funded by specific grants;
however, METRO is required to use its cash to
fund a certain portion of the project as a match**

(\$'s in Thousands)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Capital Sources							
Federal	\$5,752	\$12,390	\$0	\$0	\$0	\$0	\$0
TIRCP	11,050	8,030	12,577	0	0	0	0
State/Other	19,140	4,879	648	0	0	0	0
BRF (STA - SGR , Measure D)	1,774	1,462	0	0	0	0	0
Operating & Capital Reserves	3,918	5,492	4,186	500	500	500	500
Total Sources of Cash	41,634	32,252	17,411	500	500	500	500
Capital Expenses							
44 HFCBs	29,373	0	0	0	0	0	0
9 HFCBs	1,894	15,753	0	0	0	0	0
New Hydrogen Fueling Station + Project Management	2,449	8,000	0	0	0	0	0
Watsonville Station Redevelopment	801	500	8,695	0	0	0	0
Rapid Bus Enhancements - Soquel Drive & Main Street Corridor	7	1,500	8,217	0	0	0	0
Watsonville Parking Lot (Construction & Buildings)	2,918	1,259	0	0	0	0	0
Misc Capital Contingency	0	500	500	500	500	500	500
Temporary Fueling Station	1	1,941	0	0	0	0	0
7 Paracruz Vans	0	1,440	0	0	0	0	0
Maintenance Facility Upgrades	1,375	0	0	0	0	0	0
Contactless Fare Payment Systems	372	250	0	0	0	0	0
Other Capital Projects	2,445	1,110	0	0	0	0	0
Total Uses of Cash	\$41,634	\$32,252	\$17,411	\$500	\$500	\$500	\$500

METRO will provide \$15.6M from Operating Reserves for projects from FY26 to FY32

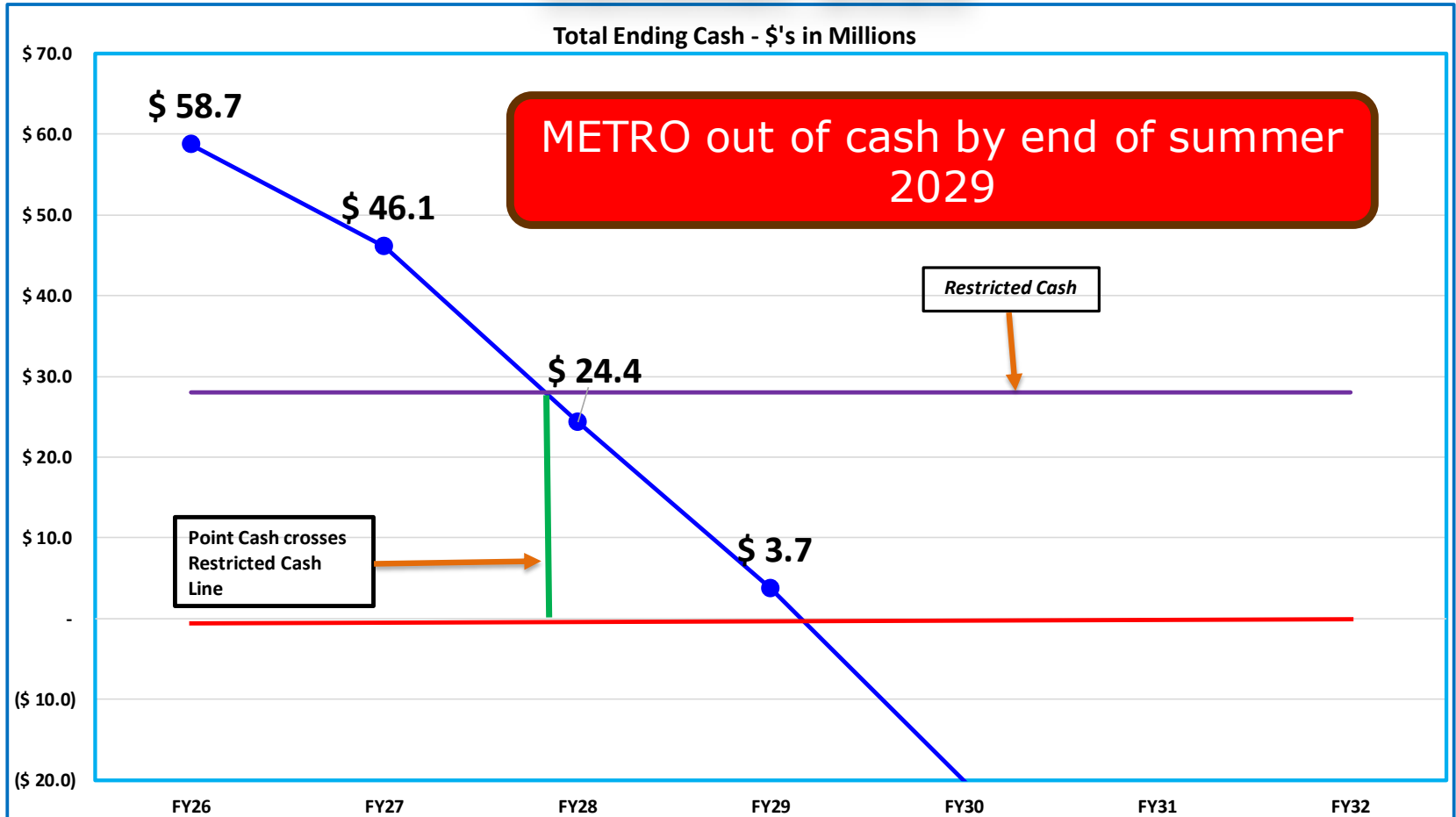
Total METRO Cash Flow declines due to the conclusion of the TIRCP operating assistance

(\$'s in Thousands)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Beginning Cash Balance	\$66,633	\$58,701	\$46,081	\$24,357	\$3,732	(\$20,169)	(\$45,409)
Sources							
Income Statement Sources	77,850	79,942	73,007	73,710	73,092	74,345	75,361
Capital Sources	37,716	26,761	13,225	0	0	0	0
Total Sources of Cash	115,566	106,703	86,232	73,710	73,092	74,345	75,361
Uses							
Income Statement Uses	81,864	87,070	90,545	93,835	96,494	99,085	102,137
Capital Uses	41,634	32,252	17,411	500	500	500	500
Total Uses of Cash	123,498	119,323	107,956	94,335	96,994	99,585	102,637
Change in Cash	(7,932)	(12,620)	(21,725)	(20,624)	(23,902)	(25,240)	(27,276)
Ending Cash Balance	\$58,701	\$46,081	\$24,357	\$3,732	(\$20,169)	(\$45,409)	(\$72,686)

- **Expense growth outpacing sources of cash**
- **Cash usage accelerating**

Without replacement funding, cash runs out summer 2029



Cash declines quickly dropping below the restricted cash level in spring 2028

Balanced-budget scenario assumptions

- **No replacement funding source is secured before TIRCP operating support ends**
- **METRO balances the budget beginning in FY28**
- **Reduction in Frequencies and Eliminations of Routes - roughly 40% lower than today**
- **Reductions to Support staff and Administration staff to match the smaller operating network**
- **These changes are shown to illustrate possible impacts, not an adopted service plan**

How the service reductions scenario was built

- **Service was grouped by market and geography**
- **Reductions were allocated across rural, local, intercity, and UCSC**
- **Example impacts shown next illustrate the scale of cuts needed to balance FY28**
- **Final service decisions would require board action, public notice, and Title VI review**

UCSC and Westside cuts could be ~40%

UCSC and West Side

- Current service:
 - Route 18 @ **15** minutes
 - Route 19 @ **15** minutes
 - Route 16 @ **30** minutes
 - Most service runs until **midnight**



Today

Reduced Service



UCSC and West Side

- Reduced service:
 - Route 18 @ **30** minutes
 - Route 19 @ **30** minutes
 - Route 16 @ **60** minutes
 - Most service runs until **9:00 pm**

Live Oak service could become much less frequent, especially nights and weekends

Live Oak

- Current service:
 - Route 1 @ **20** minutes peak / **30** minutes nights and weekends
 - Route 2 @ **20** minutes peak / **30** minutes nights and weekends
 - Most service runs until **midnight**



Today

Reduced Service



Live Oak

- Reduced service:
 - Route 1 @ **30** minutes peak / **60** minutes nights and weekends
 - Route 2 @ **30** minutes peak / **60** minutes nights and weekends
 - Most service runs until **9:00 pm**

Capitola and Aptos could lose frequency and local fixed-route coverage

Capitola/Aptos

- Current service:
 - Route 1 @ **20** minutes peak / **30** minutes nights and weekends
 - Route 2 @ **20** minutes peak / **30** minutes nights and weekends
 - Route 73 @ **30** minutes peak / **60** minutes nights and weekends
 - Most service runs until midnight



Today

Reduced Service



Capitola/Aptos

- Reduced service:
 - Route 1 @ **30** minutes peak / **60** minutes nights and weekends
 - Route 2 @ **30** minutes peak / **60** minutes nights and weekends
 - Route 73 @ **80** minutes
 - **Route 55 replaced with ParaCruz On-Demand Service**
 - Most service runs until **9:00 pm**

Watsonville could see reduced frequency, route loss, and more on-demand replacement

Watsonville

- Current service:
 - Route 1 @ **20** minutes peak / **30** minutes nights and weekends
 - Route 2 @ **20** minutes peak / **30** minutes nights and weekends
 - Route 73 @ **30** minutes peak / **60** minutes nights and weekends
 - Route 79 @ **30** minutes peak / **60** minutes nights and weekends



Today

Reduced Service



Watsonville

- Reduced service:
 - Route 1 @ **30** minutes peak / **60** minutes nights and weekends
 - Route 2 @ **30** minutes peak / **60** minutes nights and weekends
 - Route 73 @ **80** minutes
 - Route 79 @ **60** minutes
 - **Route 78 discontinued**
 - **Route 72W replaced with ParaCruz On-Demand Service**

Reimagine METRO expanded access and mobility countywide

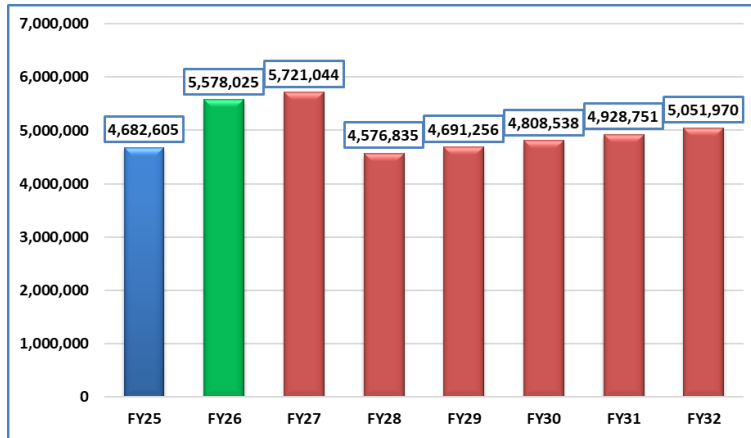
- **More than 100,000 residents and 50,000 jobs are within one-half mile of frequent service**
- **Ridership has grown more than 40% in two years**
- **FY26 ridership is projected to exceed pre-COVID levels**
- **Youth ridership has grown sharply under Youth Cruz Free**

Gains would be reversed under the balanced-budget cuts scenario

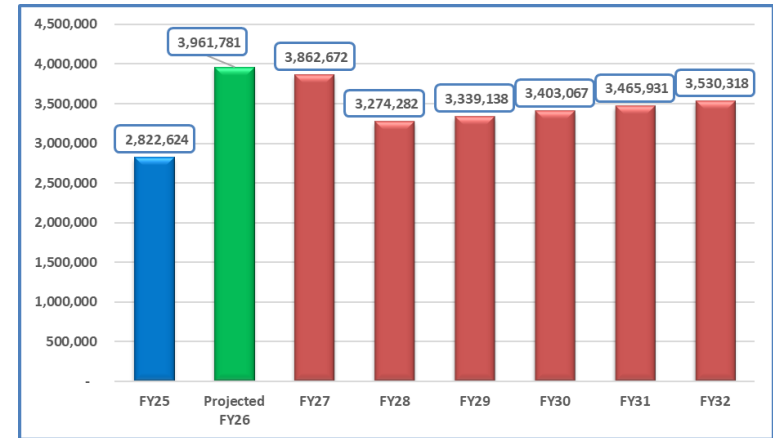
- **Much of the frequent transit network will be lost**
- **Recent ridership gains would likely erode**
- **Access to jobs, schools, and key destinations would worsen**
- **Youth mobility would be reduced by less frequent service**
- **Transit-supportive housing and development would be harder to advance**

Balance-budget cuts would reduce service, ridership and fare revenue

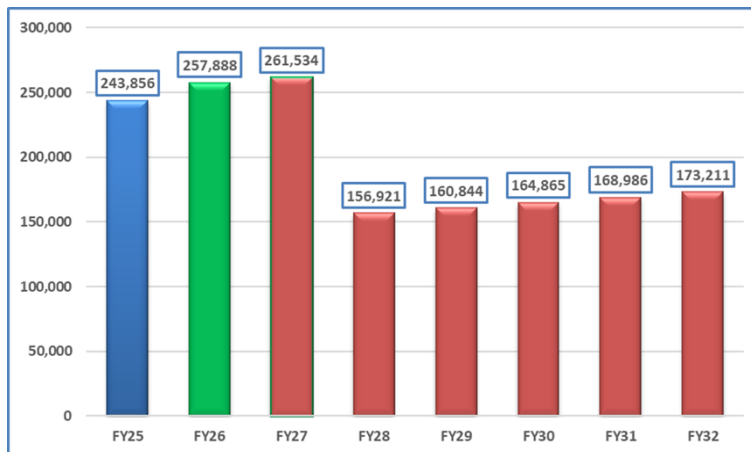
Ridership



Revenue



Revenue Hours



- **20% lower ridership beginning in FY28**
- **15% lower fare revenue**
- **40% fewer revenue hours**

Roughly 25% reduction in costs to balance the budget beginning in FY28

(\$'s in Thousands)	FY27	FY28	FY29	FY30
Projected Budget Loss - March 2026	(\$7,128)	(\$17,538)	(\$20,124)	(\$23,402)
<u>Changes In Budget</u>				
Revenue Related				
Reduction to Service - Fares	0	(653)	(654)	(655)
Tap to Pay - Fares	(155)	(158)	(161)	(164)
TDA - STA	0	0	(370)	(704)
LCTOP - Remove Youth Free	0	781	782	783
Total Revenue Related	(155)	(30)	(403)	(740)
Expense Related				
Personnel Actions	(1,155)	13,992	14,766	15,551
Marketing Reductions	583	411	424	437
Fuel Gallons/KG Reduction	0	2,816	2,802	2,688
External Repair and Equipment	414	458	470	483
Insurance Related	0	459	432	398
Cut Travel and Training 50%	0	185	189	193
Other - Includes Interest Income	(107)	225	599	381
Total Expense Related	(264)	18,547	19,681	20,130
Total Changes in Cash	(\$419)	\$18,518	\$19,277	\$19,390
New Projected Profit/(Loss)	(\$7,546)	\$980	(\$846)	(\$4,010)

This is the scenario to Balance the Budget if no Replacement funding is found

The scenario would require major workforce reductions

- About \$18.4M in expense reductions
- 127 fewer budgeted positions
- About 31% lower staffing than current budget

Operators
 Bus Operators
 Paratransit Operators

Support
 Fleet
 Facilities
 Operations
 Inventory Management
 Customer Service
 Risk Management

Administrative
 Admin
 Finance
 Human Resources
 Marketing
 Information Technology
 Planning and Grants
 Purchasing

(\$'s in Thousands)

	<u>FY28 - Budget</u>	<u>Reductions</u>	<u>New FY28</u>
Operators	\$34,187	\$9,759	\$24,428
Support	29,805	6,313	23,493
Administrative	14,011	2,296	11,714
Total	\$78,003	\$18,368	\$59,635

	<u>FY28 Headcount</u>	<u>Reductions</u>	<u>New FY28</u>
Operators	269	90	179
Support	105	25	80
Administrative	40	12	28
Total	414	127	287

- FY28 Budget is based on the presented Budget at the March 2026 Board meeting
- This is a scenario to balance the budget if NO replacement funding is found
- This is a modeled scenario, not an adopted reduction plan

Positive Operating Cash Flow restored in FY28 due to service and cost reductions

	Budget FY26	Projected FY27	FY28	FY29	FY30	FY31	FY32
<i>(\$'s in Thousands)</i>							
Operating Revenue							
Passenger Fares	\$3,962	\$3,863	\$3,274	\$3,339	\$3,403	\$3,466	\$3,530
Special Transit Contracts	6,732	6,615	6,814	7,019	7,232	7,452	7,680
Total Operating Revenue	\$10,694	\$10,477	\$10,088	\$10,359	\$10,635	\$10,918	\$11,210
Operating Expense							
Labor - Regular	\$27,630	\$29,189	\$21,698	\$22,027	\$22,288	\$22,374	\$22,513
Labor - OT	935	935	716	731	745	760	765
Fringe	23,656	25,676	19,835	20,926	21,995	23,049	23,874
Non-Personnel	19,153	19,757	17,385	17,530	17,753	18,191	19,084
Total Operating Expense	\$71,374	\$75,558	\$59,635	\$61,214	\$62,781	\$64,375	\$66,236
Operating Surplus/(Deficit)	(\$60,680)	(\$65,080)	(\$49,547)	(\$50,855)	(\$52,145)	(\$53,456)	(\$55,026)
<i>Farebox/Contract Recovery</i>	<i>15.0%</i>	<i>13.9%</i>	<i>16.9%</i>	<i>16.9%</i>	<i>16.9%</i>	<i>17.0%</i>	<i>16.9%</i>
Non-Operating Revenue/(Expense)							
1979 Sales Tax/including Measure D	\$30,536	\$32,522	\$33,173	\$33,836	\$34,513	\$35,203	\$35,907
Federal/State Grants	26,309	27,947	28,449	28,337	26,421	26,390	26,128
TIRCP Grant	9,123	7,433	0	0	0	0	0
Retiree Obligations	(4,992)	(5,355)	(5,786)	(6,253)	(6,758)	(7,305)	(7,888)
Pension Bond Payment	(4,181)	(4,148)	(4,147)	(4,146)	(4,147)	(4,146)	(4,146)
UAL	(1,316)	(2,125)	(2,608)	(3,090)	(3,006)	(2,883)	(2,883)
All Other Revenue	1,188	1,259	1,447	1,325	1,112	865	564
Total Non-Operating Revenue/(Expense)	\$56,667	\$57,534	\$50,527	\$50,009	\$48,135	\$48,125	\$47,683
Operating Surplus/(Deficit) before Transfers	(\$4,014)	(\$7,546)	\$980	(\$846)	(\$4,010)	(\$5,331)	(\$7,343)

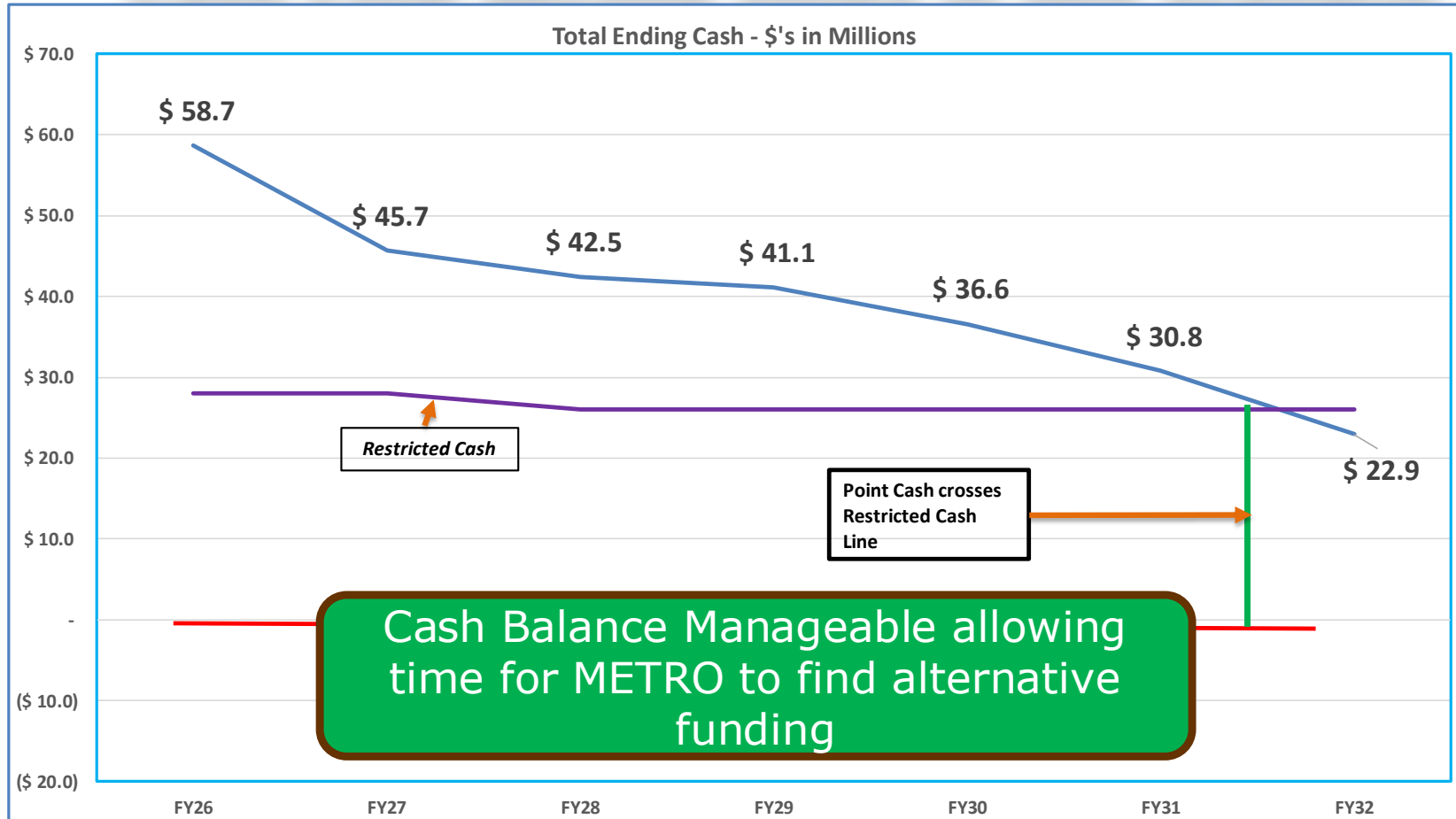
**Positive Cash Operating Surplus For FY28/29
cumulative**

Cuts have slowed the cash decline, but do not solve METRO's long-term funding problem

<i>(\$'s in Thousands)</i>	FY27	FY28	FY29	FY30	FY31	FY32	FY27- FY28 Change
Beginning Cash Balance	\$58,701	\$45,663	\$42,457	\$41,111	\$36,600	\$30,769	
Sources							
Income Statement Sources	79,638	73,157	73,857	72,682	73,377	73,810	-8.1%
Capital Sources	26,761	13,225	0	0	0	0	-50.6%
Total Sources of Cash	106,399	86,382	73,857	72,682	73,377	73,810	-18.8%
Uses							
Income Statement Uses	87,185	72,177	74,703	76,692	78,708	81,153	
Capital Uses	32,252	17,411	500	500	500	500	-46.0%
Total Uses of Cash	119,437	89,588	75,203	77,192	79,208	81,653	-25.0%
Change in Cash	(13,038)	(3,206)	(1,346)	(4,510)	(5,831)	(7,843)	-75.4%
Ending Cash Balance	\$45,663	\$42,457	\$41,111	\$36,600	\$30,769	\$22,927	

The Change in Cash still declines but manageable going forward allowing time for METRO to find alternative funding

Cash Flow decline slows in this scenario



Cash usage slows and allows more time for METRO to keep operations running

Additional Actions that are NOT included in the scenario but can be used as additional levers as needed

- **Fare Price increase starting in FY28**
- **Lower the hydrogen bus utilization – focus on cheaper fuel alternatives for service (CNG and Diesel)**
- **Elimination of all remaining Travel and Training Budget**
- **Reduction in Security Services**

Illustrative timeline if no replacement funding is secured

- **Summer 2026** – understanding of the ballot measure threshold for passing
- **Early November 2026** – Vote final on pass/no pass on the sales tax initiative
- **January 2027** – METRO to review the full list of reductions and changes with Board approval
- **February/March 2027** – Public Notice Given
- **March 2027** – Meeting with Unions on Headcount Reduction
- **April 2027** – Notice Given to Personnel on Elimination of Position
- **May/June 2027** – Reductions in service start and cuts in spending start
- **July 2027** – all headcount and expense actions completed