STAFF REPORT

MEETING DATE: 6/10/2026 **Staff Report No.** 26-272

TO: **AC Transit Board of Directors**

FROM: **Salvador Llamas, General Manager/Chief Executive Officer**

SUBJECT: **State Loan Agreement Approval**

ACTION ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider approving an exception to Board Policy 316 and adoption of Resolution 26-014 to allow the General Manager, or his designee, to execute a loan agreement with the Metropolitan Transportation Commission (MTC) for operating assistance of up to $55 million.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

Goal - Financial Stability and Resiliency
Initiative - Financial Efficiency and Revenue Maximization

The State loan is necessary for the District to be able to balance its FY 26-27 Operating Budget.

BUDGETARY/FISCAL IMPACT:

The state loan makes $55 million available to AC Transit to support public transit operations. The funds will be used as a bridge to fill in the projected deficit in the FY 2026-27 operating budget to allow the District to continue providing safe, reliable service at existing levels. After FY 26-27 it is hoped that a regional revenue measure will then provide a similar level of funding to continue with current service levels.

The loan will have an initial two-year interest-only period (FY 26-27 and FY 27-28) after which there will be a 10-year amortization period. Loan interest will be based on the State Money Investment Fund (SMIF) rate. The rate will reset quarterly during the interest-only period and yearly based on the prior year average during the amortization period. The SMIF rate for the quarter ending March 31, 2026, was 3.835%.

The District does not have to use the full $55 million, and staff will attempt to minimize loan usage. Two illustrative amortization tables are in Attachment 3. The first table is based on the Recommended Funded budget rounded up to the full $55 million. The second table is based on the Contingency Plan budget, where the amount of loan used is reduced to nearly $43 million. In both cases the current SMIF rate of 3.835% is used throughout. The SMIF rate reduced by 0.208% at the last quarterly reset and lower rates over the life of the loan are a reasonable expectation, but the amortization tables have conservatively used the same rate throughout. While past rates are not a predictor of future rates, the average SMIF rate since 1990 has been 2.6%.

The estimated full cost of the loan using the two illustrative amortization tables:

Loan Amount	Interest	Total Cost	Average Principal + Interest Payment
$55,000,000	$14,119,928	$69,119,928	$6,649,059
$43,000,000	$11,039,216	$54,039,216	$5,198,355

The average principal + interest payment is what the District would owe, yearly, during the 10-year amortization period from FY 28-29 through FY 37-38.

There are no penalties for early repayment.

BACKGROUND/RATIONALE:

The District is facing an operating deficit of $60 million in the coming FY 2026-27. The District was able to use reserves to fill in the $42 million deficit for this current fiscal year but will not be able to do so again for next fiscal year; another source of funding will be required. MTC along with the District and three other operators (Muni, Caltrain, and BART) requested funding from the State to fill in deficits this coming fiscal year until new funding could be obtained from a proposed regional measure. The passage of Assembly Bill 117 in February of 2026 authorized the California State Transportation Agency (CalSTA) to loan MTC a total of $590 million, with $55 million assigned to AC Transit.

MTC and agency staff have worked with state Department of Finance (DOF) and CalSTA staff since the end of 2025 to come to agreement on the loans authorized in AB117. The structure of the loans is that the state will loan MTC the total amount of $590 million, and MTC will then sub-lend the assigned funding to each of the four agencies. Attachment 1 is the loan agreement between AC Transit and MTC. All four transit agencies have the same loan agreement with MTC, with only the loan amount and specific agency references changed for each.

Also included for reference as Attachment 2 is the loan agreement between CalSTA and MTC. The terms of the loan flow from CalSTA through to the four agencies and so the agreements have mirroring terms, with the differences mainly due to the position and function of MTC as recipient of the loan from the state in one case and sub-lender to the four agencies in the other.

Exception to Board Policy 316

Board Policy 316, the Debt Management Policy, outlines the situations and requirements under which the District can issue or take on debt. Taking on long-term debt to finance operations is not allowed in the policy and not in general a recommended practice. The District however finds itself in the unique situation of needing to bridge the approximately one-year period from the beginning of FY 26-27 to when revenues from a regional ballot measure would be received by the District and allow for continued operation of current service levels. While the passage of the regional measure is not guaranteed, the scenario of having to cut service only to have to restore it if the regional measure passes would be extremely disruptive and is not an acceptable scenario.

The District was at least able to secure the proposed loan on relatively favorable terms from the state. Given the situation described above, and the favorable terms of the loan, staff recommends approving an exception to Board Policy 316 to allow the District to accept the loan from the state.

Loan Terms

The loan terms are very similar to what was identified in the February staff report (SR 26-105) to the Board. The key terms are:

- The loan proceeds are only to be used for public transit operating purposes as defined in the agreement.
- 12-year total term, with a two-year interest only payment period followed by a 10-year amortization period (repayment of the principal and interest).
- Interest rate during the two-year interest only period is based on the most recently published quarterly SMIF rate. (Sec. 2.05a)
- Interest rate during the 10-year amortization period of principal and interest payments is the average of the four published quarterly SMIF rates for the prior calendar year. (Sec. 2.05b)
- AC Transit will receive funds in two disbursements.
    - The first will be within 10 days after July 1, 2026, for half the full loan amount of $27,500,000.
    - The second will be within 10 days after January 1, 2027. The amount of the disbursement will be determined based on what the District is expected to need given the status of the regional funding measure and an assessment of spending. For example, if the District needs to switch to the Unfunded/Contingency budget due to the failure of the regional funding measure, staff initially expects to only request an additional $15,500,000.
    - The loan agreement additionally requires MTC review of the District's financial situation and plans and consultation with CalSTA on the second disbursement. The process and goals of the review and consultation are not defined in the agreement. The discussion around this requirement is that CalSTA wants to have a level of comfort with the District's plans for use and repayment of the loan if the regional measure does not pass. Staff believes that the budget process with the Funded/Unfunded scenario and further service reduction planning will help satisfy CalSTA's concerns.
- The District will owe interest on the full $55 million of the loan from July 1, 2026. The undrawn amounts will be held by MTC and invested in one of their existing cash holding funds. MTC will track the interest earned on undrawn funds and credit it back against interest due. (Sec. 2.05h) MTC's existing investment holdings earn close to the SMIF rate, so the District is estimated to only end up owing around 0.1% on the undrawn funds. This situation only applies to the six-month period between the first and second disbursements.
- If the District does not make a payment and is unable to cure within 30 days after notice has been received, CalSTA has the right to take funds from the District's State Transit Assistance (STA) revenue share funding. The District receives approximately $28 million per year in STA revenue share funds.

- CalSTA is restricted to only accessing the STA funds of the specific transit agency in the event of a default ("several and not joint basis") so default of one transit agency does not affect the others.

The reporting requirements of the loan agreement are reasonable:

- The District must provide MTC and CalSTA with its annual financial statements within 270 days after the end of the fiscal year.
- Along with its annual financial statements, the District must certify to MTC and CalSTA: that no event of default has occurred or is likely to occur; and that all loan proceeds have been used in accordance with the agreement.

These terms are the same for all four transit agencies except for the specific dollar amounts.

Staff recommends the Board approve the exception to Board Policy 316 and adopts the Resolution allowing the General Manager to execute the loan agreements.

ADVANTAGES/DISADVANTAGES:

The advantage of approving the policy exception and entering into the loan agreements is that it will provide the necessary funding to allow the District to continue current service levels through FY 26-27. Without the loan the District would be forced to reduce service at the start of FY 26-27. The primary disadvantage is that as a loan, the funds must be repaid, which places a significant expense burden on FY 28-29 through FY 37-38. The ability to pre-pay the loan with no penalties does allow for an earlier close to the loan if extra funding is found for the payments.

ALTERNATIVES ANALYSIS:

There are no viable alternatives to entering into the loan if the District wants to continue current service levels uninterrupted through FY 26-27. Staff initially advocated for grants instead of loans, but the state declined.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 26-105 - Consider authorizing the GM and staff to continue negotiations with the MTC, the DOF, and CalSTA for a loan with a maximum amount of $55 million for operations for the fiscal year starting July 1, 2026

ATTACHMENTS:

1. Resolution 26-014
2. Loan Agreement between AC Transit and MTC
3. Loan Agreement between MTC and CalSTA
4. Representative amortization tables

Prepared by:
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Approved/Reviewed by:

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