STAFF REPORT

MEETING DATE: 9/27/2023 **Staff Report No.** 23-443

TO: AC Transit Board of Directors

FROM: Michael A. Hursh, General Manager/Chief Executive Officer

SUBJECT: Quarterly Budget Update

BRIEFING ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider receiving the Quarterly budget update for the period of July 2022 through the end of June 2023 of FY 2022-23.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

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

Regular financial reporting benefits staff and Board Members in assessing the condition of the District.

BUDGETARY/FISCAL IMPACT:

There are no budgetary or fiscal impacts with this report.

BACKGROUND/RATIONALE:

Overview

The District financials performed well in the final quarter of FY 2022-23. Revenues are $28.6 million (5.3%) above budget and Expenses are $29.4 million (5.4%) below budget, resulting in a surplus of $58.0 million. The District's surplus position is mostly explained by budgeting targets above actual achieved service levels due to difficulties filling vacancies and hiring for service restoration. Although the District continues to support efforts and initiatives to attract operators, recruiting difficulties resulted in excess labor and non-labor budget. The current year budget better aligns budget and expected staffing levels.

Sales and property tax revenues remained resilient for FY 2022-23, resulting in more than $33 million subsidies revenue surplus. Due to higher-than-expected revenues from sales tax and property tax as well as cost controls that reduced expenses, the District was able to make a smaller than expected drawdown of American Rescue Plan (ARP) Act funds. Any surplus budget remaining at year-end will be used to pay for

District capital requirements and to increase the District's reserves in preparation for a potential economic downturn and the end of ARP funds.

Operating Revenues

Total revenues and subsidies are $28.6 million (5.3%) above budget for the fiscal year. Operating Revenues, including Farebox, are on-budget and $10.3 million (25.7%) higher than the prior fiscal year-to-date actuals. Subsidies (including Federal Pandemic Funding) are $22.3 million (4.5%) over budget due to higher-than-anticipated Sales Tax and Property Taxes. Due to the significant surplus in subsidies revenues, a smaller drawdown in ARP funds was needed resulting in a negative variance to budget of $12.7 million (25.7%). Overall, revenues are $37.0 million (6.9%) higher than prior fiscal year-to-date actuals. Specific revenues are as follows:

- Farebox - $942,000 or 3.3% above budget
    - Fare revenue budget is tracking close to budget for the fiscal year and is higher than prior fiscal year-to-date actuals by $5.1 million (20.7%).
- Contract Services -- $789,000 or 9.1% above budget
    - Contract service revenue is tracking close to budget for the fiscal year and higher than prior year-to-date actuals by $1.8 million (23.2%) due to the timing of EasyPass Program receipts.
- Other Operating Revenues -- $4.6 million or 69.7% higher than budget
    - Other Operating Revenues are higher than budget primarily due to much higher interest income from higher interest rates.
- Sales Tax -- $19.2 million or 8.3% above budget
    - Sales taxes are above budget for the fiscal year and $38.6 million (18.1%) above prior year-to-date revenue collection due to strong consumer spending. Staff is hopeful sales taxes continue to increase but economic projections for the coming year are pointing more towards a slowing economy.
- Property & Parcel Tax - $14.4 million or 8.8% above budget
    - Property taxes are above budget for the fiscal year and $12.7 million (7.6%) above prior year-to-date revenue collection due to resilient property values.
- Pandemic Funding - $12.7 million or 25.7% below budget.
    - ARP drawdown is lower than budgeted for the fiscal year due to higher revenues in other categories. Compared to the prior fiscal year-to-date actuals, the drawdown is lower by $28.8 million (43.9%).

Operating Expenses

Total operating expenses are $29.4 million (5.4%) below budget for the July-June period. Labor expenses are $13.6 million (3.5%) below budget, and non-labor expenses are $15.8 million (9.9%) below budget. It should be noted that expenses in all categories increased over prior fiscal year-to-date actuals indicating a general increase in activities and associated costs as well as inflationary pressure. Major factors are as follows:

- Salaries & Wages is below budget by $10.6 million (6.0%), reflecting the District's abundance of vacant positions, especially in Operations. However, the increase of $3.2 million over prior fiscal year-to-date actuals is mostly due to increased use of Overtime.
- Fringe Benefits are below budget by $2.2 million (1.6%) and, like for Salaries & Wages, the surplus

reflects the District's abundance of vacant positions, especially in Operations.

- Pension is tracking close to budget for the fiscal year and $2.9 million (4.5%) higher than prior year-to-date actuals due primarily to annual employee wage increases.
- Services is $10.2 million (20.9%) below budget for this year reflecting an overly optimistic annual budget considering the ongoing challenge to catch up with a lag in project work (and hiring professional services) created by the pandemic. However, compared to prior year-to-date actuals, there is an overall increase in use of services (especially for Professional Services, Outside Attorney, Claims, Contract Maintenance, and Software), resulting in an increase of $5.3 million (16.1%).
- Fuel & Lubricants is tracking close to budget and is only slightly higher than prior year-to-date actuals.
- Materials and Supplies is tracking close to budget, however higher than prior fiscal year-to-date actuals by $1.9 million (11.3%), reflecting an overall increase in cost of supplies due to inflation.
- Utilities & Taxes is tracking close to budget for the fiscal year and increased by $1.6 million (22.4%) over the prior fiscal year mostly due to PG&E rate hikes.
- Casualty and Liability is below budget by $1.8 million (7.4%) due to actual costs being lower than originally budgeted.
- Purchased Transportation is tracking close to budget for this year, however higher than prior fiscal year -to-date expenses by $4.7 million (16.3%) mainly due to increases in service provider rates.
- Other category is $2.7 million (36.3%) below budget primarily due to actual costs for election of board of directors being lower than originally budgeted.

District Funded Capital
Through June there has been $6.0 million in District Capital spent, about 65% of the budgeted amount. Staff makes it best attempt to estimate capital spending each fiscal year, but unforeseen project delays can significantly affect actual spending. District Capital is essentially paid for out of the District's working capital generated by budget surpluses.

ADVANTAGES/DISADVANTAGES:

The advantage of the Quarterly report on the budget is to allow the Board of Directors to remain current on the status of the annual budget revenues and expenditures.

ALTERNATIVES ANALYSIS:

This report does not recommend an action; therefore, no alternatives analysis is presented.

PRIOR RELEVANT BOARD ACTION/POLICIES:

None.

ATTACHMENTS:

1. Revenue and Expense Report

Prepared by:
Mary Archer, Budget Manager

Approved/Reviewed by:

Richard Oslund, Director of Management & Budget
Chris Andrichak, Chief Financial Officer