

# ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



## STAFF REPORT

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**MEETING DATE:** 9/9/2020

**Staff Report No.** 20-062d

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**TO:** AC Transit Board of Directors  
**FROM:** Michael A. Hursh, General Manager  
**SUBJECT:** Recommended FY 2020-21 Operating and Capital Budgets

### ACTION ITEM

#### **RECOMMENDED ACTION(S):**

Consider adoption of Resolution No. 20-044 approving the FY 2020-21 Recommended Operating and Capital Budgets.

#### **STRATEGIC IMPORTANCE:**

Goal - Financial Stability and Resiliency

Initiative - Financial Efficiency and Revenue Maximization

The District must adopt a balanced budget per Board Policy and to provide financial stability for operations during the fiscal year.

#### **BUDGETARY/FISCAL IMPACT:**

The FY 20-21 Recommended Operating Budget is balanced and includes operating revenues and subsidies and expenses of \$466.4 million. This includes expenses incurred in the first three months under temporary spending authority.

The FY 20-21 Recommended Capital Budget contains \$82.0 million in total spending made up of \$54.8 million in grant funds, \$7.9 million in District Capital, and \$19.3 million in Line of Credit funds for the Tempo Bus Rapid Transit (BRT) project.

#### **BACKGROUND/RATIONALE:**

The Recommended Operating Budget is reduced by \$1.0 million (-0.2%) from the Proposed Budget presented on August 5, 2020. There are several changes to both revenues and expenses. The revenue reduction required staff to look at several expense items to reduce expenses to match. Service level plans have not changed since the Proposed Budget. The Recommended Operating Budget is shown in Attachment 2.

Expenses to-date in this fiscal year have been within the limits of the Recommended budget, so no changes were required due to spending during the temporary spending authority period. Sales tax revenues look to have stabilized, but natural month-to-month variations in collections make it difficult to discern yet whether the trend is starting upwards. If the Recommended Budget is adopted, staff will replace the temporary budget

with the adopted starting October 1, 2020. Reporting for the full year from then on will use the adopted budget.

The second wave of the pandemic has kept the economy restrained in California and many other states, making the “V” shaped recovery that some economists have discussed unlikely to come about. Staff believes that until a vaccine or a cure is found, the economy will range up and down along a slow upward trajectory. This validates the conservative sales tax revenue projections included in the budget. A slower recovery also makes it more likely that the District will start the FY 21-22 budget process with a deficit without additional state or federal help. Staff is continuing to work on projections for the following fiscal year. Over the next few months staff will have better expense trend data to be able to forecast into FY 21-22.

### Operating Revenues

Operations revenues are \$3.0 million (-6.8%) down from the Proposed Budget at \$41.1 million. Due to farebox revenue losses, operations revenues are \$38.2 million (-48.2%) less than the FY 19-20 budget and are 8.8% of the total expense budget versus 16.7% of the FY 19-20 budget. Subsidies revenues are \$2.0 million (0.5%) up from the Proposed Budget at \$425.3 million. Subsidies revenues are \$30.1 million (7.6%) higher than FY 19-20 budget mainly due to the CARES Act funds. Without CARES Act funds, subsidies revenues are \$54.1 million less (-13.7%) than the FY 19-20 budget. Subsidies are 91.2% or 73.2% of the total revenue budget, with or without CARES Act funds respectively. In FY 19-20 subsidies were 83.3% of the budget.

Changes from the Proposed Budget are:

### Revenue

- Farebox - A further delay in the start of fare collection to October has reduced the estimated farebox revenues by \$3.0 million. Farebox revenues for the fiscal year are now only 37% of the budget for FY 19-20 and 48% of actual farebox revenues for FY 19-20.
- Other Federal - \$1.0 million in Federal Transit Administration (FTA) formula operating funds are added from the Metropolitan Transportation Commission (MTC) Lifeline Cycle 6 program.
- Various Subsidies - \$930,000 in grant funds for operating projects were mistakenly left out of the Proposed Budget. These subsidies have matching expenses that are also added so they do not affect the balance of the budget. The funding is \$500,000 in Regional Measure 2 (RM2) Marketing funds for Oakland Unified School Service and \$415,000 in State Transit Assistance (STA) and BART funding for the Transit Information Display (TID) project.

### Operating Expenses

Labor expenses are \$970,000 (-0.2%) down from the Proposed Budget at \$339.1 million. Labor expenses are only \$219,000 (-0.1%) less than the FY 19-20 budget, and are 72.7% of the total expense budget, which is up slightly from 70.0% of the FY 19-20 budget. Non-Labor expenses are \$1.5 million (-1.2%) down from the Proposed Budget at \$127.3 million. Non-Labor expenses are \$4.9 million (-3.7%) less than FY 19-20 budget, and are 27.3% of the total expense budget, which is down slightly from 28.0% of the FY 19-20 budget.

Changes to expenses from the Proposed Budget are:

- Various operating project expenses - \$930,000 in expenses included in three operating projects were mistakenly left out of the Proposed Budget. These expenses have matching subsidies that are also added so they do not affect the balance of the budget. The TID and other projects all include labor and

marketing expenses.

- Tempo BRT Operating Expenses - An additional \$416,000 in IT operating maintenance contract and networking equipment budget has been added for the Tempo BRT line.
- Personal Protective Equipment (PPE) - An additional \$336,000 has been budgeted to ensure that sufficient quantities of hand sanitizer, masks, and other supplies are available for all employees and distribution to riders for the fiscal year.
- Contract Tracing Equipment - \$230,000 to implement an automated contact tracing system with all required equipment for all facilities. This will greatly simplify the contact tracing process and better ensure that all contacts are identified.
- Executive Search Consultant - \$160,000 has been budgeted for Human Resources to hire a consultant to fill the Chief Financial Officer and Executive Director of Human Resources positions.
- East Bay Paratransit - (\$2.0 million) has been removed from the purchased transportation budget. Staff removed a 10% contingency that was added on top of the “moderate” projection by planning for paratransit expenses.
- Services - (\$556,000) has been removed from the professional services budget after analysis of various expense items.
- Fare Collection Expenses - (\$250,000) has been removed from the Clipper and cash collection expense budgets due to further delays in beginning of fare collection.
- Security Services - (\$200,000) has been removed from the security services budget based on further analysis of likely Tempo BRT expenses.

### Positions/Headcount

Recommended Positions and headcount are unchanged from the Proposed Budget. The budgeted headcount would be reduced from 2,268 to 2,209. The number of budgeted bus operator positions would drop to 1,280 from 1,350, and all positions removed are currently vacant. The 11 recommended new positions are listed in Attachment 3.

### Budget Status Indicators

With the uncertainty brought on by the pandemic and accompanying economic crisis, it is more useful than ever to look at what indicators budget staff is monitoring to gauge the performance or status of the budget now and going forward. Staff is constantly reviewing variances of expenses to budget, and revenue levels both cumulative and in various periods. What follows is a more specific list of indicators for this fiscal year budget:

#### General Social and Economic

- State COVID Watch List - what counties are on and off the watch list and how that affects re-opening plans.
- Alameda, Contra Costa, and neighboring county plans - what workers are allowed to return to the office, what businesses can re-open and in what capacity, etc.
- Schools - whether and when students will start returning to schools in person

#### Expenses

- Headcount and Attrition - both operator and non-operator attrition are planned on to reduce expenses.
- Operator overtime - The budget has a 50% reduction in operator overtime compared to last fiscal year.

Staff is monitoring this monthly to see the trend.

- Fuel Prices - the fuel budget is based on expected service mileage and staff's forecast for fuel prices. Prices went extremely low at the beginning of the pandemic, and their rise will depend partly on when people start driving again. This depends a significant amount on when people start commuting to work again.
- PPE - staff have budgeted what it believes is sufficient amount for employee PPE. Budget has also been added to provide PPE to riders and staff will track usage rates and adjust as necessary during the year.
- Paratransit - Unlike fixed-route service, paratransit expenses depend on ridership.

#### Revenues

- Farebox (and ridership) - Fare collection is planned to resume in mid-October. Ridership has been on a slow upward trend and for the month of July was about 44% of prior year. The Tempo line is currently in its initial 90-day fare free period, which ends on November 9th.
- Property Taxes - these revenues come in larger chunks during the fiscal year and are divided into specific property tax categories. The revenues often come with some analysis from the Assessor's office.
- Sales Taxes - the District receives sales taxes from five sources, and each has its specific lag time and details. Sales tax revenues do not follow a neat pattern from month-to-month or even looking at individual months from year-to-year. Trailing averages and other longer-term analysis tools along with knowledge of factors in a specific month are key to being able to discern trends.
- Bridge Tolls - Bridge Toll funds are received on a reimbursable basis, so any trend information will come from discussion with Metropolitan Transportation Commission (MTC) staff through discussion or allocation instruction revisions.
- Fund Estimate update - MTC does not normally update its fund estimate mid-year, but it is a possibility this FY given the uncertainty.

#### Capital Budget

The FY 20-21 Recommended Capital Budget contains \$82.0 million in total spending made up of \$54.8 million in grant funds, \$7.9 million in District Capital, and \$19.3 million in Line of Credit funds for the Tempo Bus Rapid Transit project.

There are two minor changes from the Proposed Capital Budget. A project for maintenance equipment replacement for \$50,000 in District Capital funds was added, and the new project for one zero emissions bus for the Berkeley Way development was removed as the bus purchase is already included in the "Buses funded with AHSC grants" project. The Capital Budget is shown in Attachment 4.

#### Non-Operating Items

Other than the District Capital Contribution, there are two non-operating items shown on Attachment 2. The District will be receiving \$11.5 million in preventative maintenance funds that will be used to partially pay off the \$35.0 million line of credit for the Tempo BRT project. These funds are in lieu of the District being able to directly use State Transportation Improvement Program (STIP) funding allocated to the project. The second item is a \$2.0 million contribution to the District's Other Post Employment Benefits (OPEB) trust. This contribution will only be made if funds are available at the end of the fiscal year.

#### **ADVANTAGES/DISADVANTAGES:**

Staff cannot identify any disadvantages to approving the recommended budgets.

**ALTERNATIVES ANALYSIS:**

Staff analyzed many possible expense items and requests from all departments. The Recommended budget builds on the feedback from the Board and all departments received after the Draft and Proposed budgets.

**PRIOR RELEVANT BOARD ACTION/POLICIES:**

SR 20-062 FY 20-21 Budget Goals & Objectives // SR 20-062a Delay in Adoption of FY 20-21 Budget and Continued Spending Authority // SR 20-062b Draft FY 20-21 Operating and Capital Budgets // SR 20-062c Proposed FY 20-21 Operating and Capital Budgets

**ATTACHMENTS:**

1. Resolution 20-044
2. Recommended Operating Budget Table
3. Recommended Positions
4. Recommended Capital Budget
5. Classification Changes Report
6. Recommended Budget Book

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