

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 4/8/2026

Staff Report No. 26-079a

TO: AC Transit Board of Directors
FROM: Salvador Llamas, General Manager/Chief Executive Officer
SUBJECT: Draft FY 2026-27 Operating and Capital Budgets

BRIEFING ITEM

AGENDA PLANNING REQUEST:

RECOMMENDED ACTION(S):

Consider receiving a report on the Draft FY 2026-27 Operating and Capital Budgets.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

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

Presenting to the Board a Draft Funded and Draft Unfunded budgets for operating and capital needs in fiscal year 2026-27 allows for an early picture of what the District's financial state will be for the coming fiscal year.

BUDGETARY/FISCAL IMPACT:

Two draft budget scenarios are presented and used interchangeably in this staff report: Funded (or Baseline) and Unfunded (or Alternative). The Draft Funded/Baseline assumes the Regional Measure will pass and no extraordinary cost-cutting measures are necessary to maintain current 85% service levels. The Draft Unfunded/Alternative assumes the regional measure fails and the District will be forced to reduce service levels as well as other associated costs.

The total revenue budgets for the Draft Funded and Unfunded are \$634.9 million and \$623.4 million, respectively. The primary difference is the amount of State loan funds used to meet the budgeted expense level. If the potential regional funding measure does not pass, the cost reductions in the unfunded budget will allow the District to use less State loan funds, \$54.5 million for the Funded and \$43.3 million for the Unfunded. The Unfunded budget starts a gradual ramping down of expenses through reductions in labor and non-labor followed by a reduction in service. If the funding measure does not pass, in addition to the direct changes that will happen to the District, there will likely be a number of regional effects of changes in ridership and commuting patterns starting in early calendar 2027 resulting from reductions and changes implemented by other affected transit agencies.

The operating expenses for the Funded and the Unfunded are \$627.9 million and \$616.4 million, respectively. Both draft budgets uphold the budget guidelines to maximize service levels as possible given constrained funding and dire fiscal futures. The Unfunded budget would result in an estimated second half FY 2026-27 expense reduction of \$11.5 million (\$7.6 million in labor, \$3.9 million in nonlabor).

The Draft budgets are outlined in Attachment 1. The Draft Funded budget is shown with the change from the current FY 2025-26 budget, and the Draft Unfunded budget is shown with the change from the Funded budget.

The Draft FY 2026-27 Capital Budget includes projected maximum investment of \$345.6 million, composed of \$328.7 million in grant funds and \$16.8 million in District Capital funds. The Draft Capital Budget is shown in Attachment 2.

BACKGROUND/RATIONALE:

Financial Outlook and Projection

At the March 11th Board meeting, staff presented updated multi-year projections based on preliminary analysis and revenue updates available at the time. The updated projection was a small improvement over previous versions due to increased sales tax revenue expectations and put the deficit for FY 2026-27 at \$60 million before incorporating the State loan. The draft operating budget presented here has revenues and expenses about \$500,000 higher which still allows the District to potentially use less than the maximum State loan amount of \$55 million, which would then reduce the repayment costs in future years.

Draft Operating Budget Process

The process to develop the Draft Funded operating budget involved preliminary high-level estimates by budget staff that were refined during one-on-one meetings with executives. Budget staff and executives updated the estimates to account for the latest current event information and updated insights into staffing levels, bus parts, premium insurance, and contracts for paratransit and security.

The Draft Funded estimates were developed and reviewed at a high level in coordination with each executive. Realistic “targets” were established to guide the development of detailed, line-item budget entries, which will be finalized as part of the Proposed Operating Budget staff report. Each line-item will be aligned with one of the four District priorities, with **Safety** serving as the overarching “the north star”:

- **Operational Performance** - Service Reliability
- **Organizational Effectiveness** - Accountability
- **Customer Satisfaction and Improved Rider Experience** - Putting the Rider First
- **Financial Stability** - Fiscal Sustainability

Careful consideration was given to ensure the District maintains sufficient resources to sustain current service levels while advancing initiatives that produce measurable, positive outcomes aligned with these priorities.

Other starting assumptions for the Funded operating budget are reviewed below.

The Draft Unfunded operating budget was developed as a high-level reduction of expenses for the second half of the fiscal year. The initial reduction amounts and categories were reviewed with executives. Significant cost reductions are only possible through service reduction and accompanying reduction in staffing, which staff estimates would be implemented in the June 2027 signup. The Unfunded budget assumes implementation of various labor and non-labor cost reductions in non-service areas, such as a hiring freeze except for absolutely critical positions. Specific reductions will be developed through the budget process and into the start of FY 2026-27.

Leading up to this draft budget, Budget staff have led weekly executive budget meetings to allow for the identification of critical budget needs and discussions surrounding service impacts for both the Funded and Unfunded budgets. For the development of the Proposed budget, staff will further review and refine the estimates with executives.

Draft Operating Budget Assumptions, Funded vs Unfunded Scenarios

Draft Funded Scenario

Revenues

Projected revenue of \$634.9 million is an increase of \$28.6 million (4.7%) from the FY 2025-26 budget. Regular revenues are estimated to increase overall by \$15.6 million (2.8%). With the aid of the loan from the State, the District will avoid using any operating reserves. While the District has access to \$55.0 million, this draft budget only requires \$54.5 million from the loan to balance. Staff will monitor spending and revenues closely next fiscal year to ensure only as much of the State loan as necessary is drawn.

- Farebox revenue is budgeted at \$39.0 million, a \$1.0 million (-2.5%) decrease from FY 2025-26 budget. This still represents an increase of \$3.8 million (11.0%) over the full year forecast for FY 2025-26, although the ongoing revenue reconciliation challenges with the Next Generation Clipper system may be negatively affecting the forecast. Based on a plateau in ridership levels over the past year, staff decided to conservatively not incorporate any increased ridership effect on fares. The planned increase in local fares set for July 1, 2026, provides the only expected increase in fare revenue.
- Contract Services revenue of \$11.3 million, a \$2.5 million (28.5%) increase over FY 2025-26 budget. The large increase is due to actual revenues forecast to come in over budget this fiscal year. No increases over forecast are expected next year. This category revenue is primarily from EasyPass sales which have recently been increasing at an average 10% per year.
- Property and parcel taxes (Measure VV/C1) remain resilient and are budgeted at \$203.7 million, a \$3.9 million (1.9%) increase, which is in line with recent trends. The increase is nearly all from property taxes, as the parcel tax is quite stable and only averages 1/8% increase each year. The estimated increase in just property tax revenues is 2.3%.
- Sales Taxes (Measures BB/J, Transportation Development Act (TDA), and AB1107) are budgeted at \$244.7 million, a \$19.3 million (8.6%) increase from last year's budget. The majority of the increase is in TDA, due to an adjustment in sales taxes by the State between fiscal years but also reflects greater sales tax revenue generation in the first months of the current fiscal year. The Alameda County Transportation Commission (ACTC) has not yet released projections for Measure BB for next fiscal year, so staff is using an internal projection of a 0.5% increase for BB and Measure J.

- Other Federal, State, & Local revenues (State Transit Assistance funding from State diesel taxes, Federal and State operating assistance, Regional Measure 2 and 3 operating support) of \$68.1 million, a \$13.3 million (16.3%) reduction from the FY 2025-26 budget due primarily to reductions in RM3. The Metropolitan Transportation Commission (MTC) gave the total allocation of Senate Bill 125 funding to the District as RM3 funding in FY 2025-26.
- State Loan of \$54.5 million is being used to fill in the remaining funding gap and means that no use of reserves is needed. The District still has access to the full \$55.0 million loan amount through the fiscal year.

Expenses

Labor expenses (Draft Funded/Baseline)

Labor expenses, at \$432.0 million, represent an increase of \$16.1 million (3.9%) over the FY 2025-26 budget. Increases in Salaries & Wages are offset by decreases in Fringe and Pension as discussed below.

- Salaries and Wages of \$203.0 million, an \$11.7 million (6.1%) increase based on a combination of the following factors:
 - Contractual/planned wage increases
 - Continued reliance on overtime to maintain service levels
- Fringe Benefits of \$166.5 million, a \$7.0 million (4.4%) increase over FY 2025-26 budget.
- Pension contribution of \$62.6 million, a \$2.6 million (4.1%) decrease from the FY 2025-26 budget, is a planned reduction based on the pension “smoothing” plan.

Non-Labor expenses (Draft Funded/Baseline)

The FY 2026-27 Draft Funded budget increases \$6.0 million (3.2%) in non-labor expenses over the FY 2025-26 budget. Expense increases are primarily in Fuel and Casualty & Liability.

- Services Expense of \$53.3 million, a \$1.5 million (2.9%) increase from the FY 2025-26. The top three areas that are increasing over FY 2025-26 budget include Clipper, Outside Attorney, and Professional Services. The increased Clipper expense is partly due to the Metropolitan Transportation Commission (MTC) covering half of the current year Clipper operating budget and partly due to planned and unplanned cost increases.
- Fuel and Lubricants of \$20.2 million, a \$3.8 million (23.5%) increase from FY 2025-26 budget. Staff are monitoring the state of conflict in the Middle East for how it affects oil prices and assuming for now a conservative increase of \$3.0 million in diesel.
- Materials & Supplies of \$20.6 million, a \$1.1 million (-5.1%) decrease from FY 2025-26. Inflationary increases are offset by reduced expected bus part usage. Recent bus purchases have brought the average age of the fleet down which reduces need for replacement parts. Staff is also looking at reducing fleet size to match current service levels.
- Casualty & Liability of \$35.1 million, a \$4.4 million (14.2%) increase over FY 2025-26 budget due to anticipated insurance premium increases. While still significant, this increase is lower than initially projected by staff. The District experienced elevated costs driven by substantial claims settlements, coupled with ongoing challenges in California’s constrained insurance market.
- Purchased Transportation (East Bay Paratransit and Dumbarton Express) of \$53.4 million, a \$400,000

(0.8%) reduction from the FY 2025-26 budget.

Draft Unfunded Scenario

In the event that the measure fails, the District will have a Draft Unfunded/Alternative Budget prepared to implement in a timely manner to begin the process of reducing expenses to match lower revenue levels. As shown in the presentation (see chart in Attachment 3), implementation would begin immediately, however there would be a transition period or “ramping down” starting with non-service spending. Implementing a service reduction will take some time and is expected to happen with the June 2027 sign-up.

Projected Draft Unfunded budget revenue of \$623.4 million is a decrease of \$11.5 million (-1.8%) from the Draft Funded FY 2026-27 budget in the second half of FY 2026-27. The Unfunded budget has a reduction of \$11.5 million in both revenues and expenses.

For revenues, the reduction is primarily achieved by reducing the loan amount used from \$54.5 million to \$43.3 million. Service reductions are expected to be implemented in June 2027 and this will result in lower farebox revenue. The draft farebox revenue amount is reduced by \$200,000 (-0.6%) to \$38.8 million.

For expenses, the corresponding \$11.5 million to be reduced represents a transition of “ramping down” in non-service spending and a preparatory period during which service reductions will be finalized for implementation. Assuming a hiring freeze (except critical positions) is implemented, staff expects a reduction of 45 filled positions by the end of the fiscal year through regular attrition, saving approximately \$4.2 million. An additional \$3.4 million in labor budget savings is expected through measures such as furloughs. Further staff reductions would come at the end of the fiscal year and into the start of the following fiscal year tied to service reductions. Staff is looking at other possible labor expense reductions to minimize the need for attrition and ultimately layoffs.

The draft expense reduction in non-labor is \$3.9 million, of which is mostly assigned to Services (\$3.1 million, details to be determined). Implementing service cuts in mid-June 2027 would result in minor reductions in non-labor expenses related to service such as a reduction of \$100,000 in Fuel. Staff is assuming additional reductions of around \$600,000 related to a myriad of small non-labor budget expense items outside of services (the “Other” expense category).

Draft Capital Budget

AC Transit’s Capital Budget delivers one-time investments identified through the 5-year Capital Investment Program (CIP) that meet the District’s goals, laid out in the Strategic Plan, Transit Asset Management Plan, Zero Emission Transition Plan, and Clean Corridors Plan.

The Draft FY 2026-27 Capital Budget includes projected maximum investment of \$345.6 million, composed of \$328.7 million in grant funds (95%), and \$16.8 million (5%) in District Capital funds. The Draft Capital Budget is shown in Attachment 2. The Draft FY 2026-27 Capital Budget includes four new, 36 continuing, and seven annual projects for a total of 47 projects.

The Budgeted amounts for capital projects represent what is necessary to complete projects (usually the full

project, sometimes just a distinct phase such as design), but this budget is not limited to a single fiscal year. The project budget is approved so that the District can make the commitments necessary to hire contractors and procure materials over the life of the project. This also means that in a given year, actual capital spending will be less than the full budget, often around 50% less. To better show spending needs given the District's projected deficit, while the Capital Budget listing shows the full budgets, the full Operating Budget table shows the expected spending amount instead of the full multi-year budget. This is to better show what the size of the net deficit will be in the fiscal year including Capital, because what matters is spending and not budget.

Capital projects are mainly supported by restricted grant funds, particularly facilities and bus purchases. Many grants require a proportional contribution from the project sponsor, referred to as "local match". To the extent possible, staff utilize other grants to meet these requirements. However, District Capital commitment is still needed as match for certain grants, and for projects that are difficult to fund with grants.

In preparing this year's budget, staff prioritized active and continuing projects and added only four new projects that are required to meet compliance or safety requirements. The Draft Capital Budget adds new grants for Districtwide Security Enhancements, the removal of old biodiesel tanks, and the evaluation and repair/replacement of sewer laterals at the Central Maintenance Facility. It adds District funds to replace a 30+ year old Auto Paper Cutter used by the print shop for AC Transit's Marketing and Communications publications.

The Draft Capital Budget includes multiple bus procurements, of which two (47 x 40ft Fuel Cell Buses and 10 x 35ft Battery Buses) are fully funded, currently on order, and expected to be in service as early as Spring 2027. The remaining four procurements are not fully funded. As the District is currently considering the near-term direction of its Zero Emission Transition Plan, staff have left the planned procurements in the budget as a baseline from which to proceed or make changes based on future direction.

Finally, staff propose to defer over \$25.5 million in additional project requests approved in FY2026-27 of the Capital Improvement Plan (CIP). These projects were either not ready to be implemented, were determined to be a lower priority this year, or simply had insufficient funds to proceed at this time. Staff will continue to work with project teams to seek competitive grant funding for these projects over the next year.

An Unfunded or Alternate Capital Budget is not included in the draft. Staff has begun reviewing projects, funding, and timelines to see what would make sense to cancel or defer in the Unfunded scenario.

Next Steps

Staff will continue to finalize departmental budgets along with other elements of the Draft Budget and any feedback from the Board with the aim of presenting a mostly "complete" budget to the Board for the Proposed Budget. It is important to note that both the Federal Transit Administration (FTA) and District policies require that District-owned assets, including buses, facilities, and other infrastructure, be operated and maintained in a state of good repair. Meeting this requirement requires ongoing operating and capital investments.

ADVANTAGES/DISADVANTAGES:

This report is being provided as a high-level draft budget and does not recommend a course of action with notable advantages or disadvantages.

ALTERNATIVES ANALYSIS:

This report is being provided to inform the Board of the activities associated with the development of the FY 2026-27 Operating and Capital Budgets. Staff will consider Board feedback to refine budget alternatives and develop a more comprehensive and detailed budget proposal to be presented at the May 28th Board meeting.

PRIOR RELEVANT BOARD ACTION/POLICIES:

Staff Report 25-533 - FY 2026-27 Budget Development Calendar

Staff Report 26-079 - FY 2026-27 Budget Goals & Objectives

ATTACHMENTS:

1. FY2026-27 Draft Budgets (Funded and Unfunded)
2. Draft Capital Budget
3. Presentation

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