STAFF REPORT

MEETING DATE: 1/23/2019 **Staff Report No.** 18-049e

TO: AC Transit Board of Directors

FROM: Michael A. Hursh, General Manager

SUBJECT: FY 2018-19 Mid-Year Operating and Capital Budget Review

ACTION ITEM

RECOMMENDED ACTION(S):

Consider receiving the FY 2018-19 Mid-Year Budget Review and adopt Resolution No. 19-001 amending the FY 2018-19 Annual Operating and Capital Budget.

BUDGETARY/FISCAL IMPACT:

Approving this item increases the Revenue budget by $7.4 million (1.7%), and the Expense budget by $7.7 million (1.7%), leaving a balanced Operating budget. The proposed change in the Capital Improvement Plan (CIP) and updated project cash flows result in an increase in projected District Capital spending of $863,000 (3.9%).

BACKGROUND/RATIONALE:

Overview

Revenues & Subsidies are $3.9 million (2.1%) below budget and Expenses are $5.6 million (3.0%) below budget for the July through November period of FY 2018-19, resulting in a current surplus of $1.7 million (0.9%). For comparison, the mid-year report for FY 2017-18 showed a surplus of $1.4 million, so overall results are similar. Preliminary results for December show a comparable trend.

For the mid-year adjustment, staff proposes to increase Revenues by $7.4 million (1.7%) above the current budget and Expenses by $7.7 million (1.7%). This results in a projected zero surplus/deficit for FY 2018-19, eliminating the current budgeted surplus of $289,000.

Operating Revenues & Subsidies

For the July through November period of FY 2018-19 Operating Revenues are $1.0 million (3.4%) below budget primarily due to timing of Contract Services revenue. Subsidies are $2.8 million (1.8%) below budget primarily due to timing of various other subsidies.

- Farebox revenues are $810,000 (3.1%) above budget primarily due to higher than expected ridership.
- Contract Services revenue is $2.2 million (62.3%) below budget due to timing, with a significant portion of the overall revenue expected to arrive in the second half of the fiscal year from the planned BART

Early Bird service.

- Other Operating Revenues are $374,000 (10.0%) above budget due to higher interest income from increased interest rates.

For the mid-year adjustment, staff is proposing to increase total Revenue projections by $7.4 million (1.7%) above the current budget, comprised of an increase to Operating Revenues of $1.1 million (1.5%) and an increase to Subsidies of $6.3 million (1.7%).

- Farebox is proposed to increase by $1.1 million (2.0%) due to higher than projected ridership.
- Sales Tax is proposed to increase by $491,000 (0.3%) based on updated estimates.
- Property Tax has continued to increase at higher than anticipated rates (not yet reflected in the results through November) and is proposed to increase by $4.6 million (3.4%).
- Other Federal, State, & Local funding is proposed to increase by $1.3 million (2.8%) primarily from State-sourced allocations coming in higher than initially estimated.

Operating Expenses

For the July through November period of FY 2018-19 Labor Expenses are $1.1 million (0.8%) below budget primarily due to timing of various charges. Non-Labor Expenses are $5.6 million (3.0%) below budget primarily due to timing of service expenses.

- Salaries & Wages are over budget by $553,000 (0.9%), but within that minor amount are significant overages in specific overtime accounts due to vacancies, operator absenteeism, and major initiatives (Salesforce Transit Center, CAD/AVL) occurring during the first half of the fiscal year.
- Fringe Benefits are under budget by $3.2 million (6.8%) and Pension is over budget by $2.1 million (9.1%) both primarily due to timing.
- Adjustments (Capital) is over budget primarily due to the CAD/AVL project reimbursing a large amount of labor costs in the first half of the fiscal year.
- Services are $3.1 million (22.5%) below budget due to timing, as services billings are generally delayed and increase as the fiscal year progresses.
- Fuel & Lubricants is over budget by $455,000 (7.2%) due to increased fuel costs early in the fiscal year.
- Utilities & Taxes are under budget by $466,000 (16.3%) primarily due to reduced Use Tax expenses.
- Other Expenses are under budget by $1.2 million (64.9%) primarily due to timing of Election Expenses, which are the largest single item in the category and have not yet been invoiced.

For the mid-year adjustment, total Expenses are proposed to increase $7.7 million (1.7%) to support critical needs and costs that have finalized above initial estimates. These proposed increases include $879,000 (0.3%)

increase for Labor, and $6.9 million (5.7%) increase for Non-Labor.

- Though the net change of $879,000 (0.3%) in Labor is small, it includes a few changes in different directions, including:
  - Costs from the proposed new positions and classification changes listed in Attachments 4 and 6.
  - Savings from positions vacant during the first half of the fiscal year.
  - Various reallocations between accounts trending above or below expectations.
- Services is proposed to increase $3.4 million (10.6%). The significant components of this increase include:
  - $1.9 million for the Transbay Terminal operating and maintenance costs. This was budgeted at $900,000 at the beginning of the year based on preliminary guidance from TJPA. The final guidance from TJPA corrected a prior mistake and came in at $2.8 million.
  - $516,000 for key maintenance contracts that have experienced increases due to contractual rates or increased usage.
  - $458,000 for consulting support for critical District initiatives.
- Fuel & Lubricants is proposed to increase $1.7 million (11.3%) due to increased fuel prices from the first half of the fiscal year. While prices have recently come down, an increase is needed to cover those higher costs early on and to accommodate potential price increases for the remainder of the fiscal year.
- ADA & Purchased Transportation is proposed to increase $335,000 (1.0%) due to increased costs from paratransit operators within the not-to-exceed budget of the contract.
- The Other expenses category is proposed to increase $1.0 million (23.5%) primarily due to higher than expected election expenses, which is increasing from $2.7 million to $3.6 million.

Senate Bill 1 Contingency

As part of the FY 2018-19 Adopted Budget, the District was directed to take action in the face of uncertainty about funding from Senate Bill 1 (SB1). Attachment 7 lists budgeted items that were put on hold and actions taken to reduce spending until the fate of SB1 was known. Now that SB1 is in place permanently, staff proposes the board authorize the General Manager to lift these directives at his discretion.

Proposed Position Additions and Changes

Attachment 4 lists eight new positions proposed for the board's review to be added to the District's authorized headcount, and Attachment 6 lists three proposed classification changes to existing authorized positions. The additional two supervisors are due to the BART Early Bird service and come with offsetting revenue. The remaining additions and changes proposed are intended to meet shifting needs of critical District operations that were not identified during the initial budgeting process.

Pension and OPEB

Pension contribution expense is on track to stay within budget for the current fiscal year, but the recent stock market decline will likely result in higher necessary contributions in FY 2019-20. Staff is watching this issue for next fiscal year's budget. While Other Post-Employment Benefits (OPEB) expenses do not similarly increase with a market decline, staff is aiming to identify potential funding to contribute into the OPEB trust for FY 2019 -20.

District-Funded Capital

Year-to-Date District Capital spending is $6.5 million less than budget (70.3%). This is due to delays in bus purchase projects, which make up more than half of the planned spending.

Staff is proposing to add funds to one project in the Capital Improvement Program (CIP). The BART Restrooms project funds the upgrade of various BART station bathrooms for use by AC Transit operators. The initial phase was funded previously at $186,506. Staff held off on funding the second phase in an attempt to identify grant funds but was unable and so an additional $452,320 in FY 2018-19 District Capital funds are being committed to this important project.

The proposed changes are shown in Attachment 5, along with the CIP and graph of the CIP spending with the changes included. Staff also updated the cash flow for the existing projects in the CIP. The net of the changes and the updated cash flow for the existing projects is that District Capital spending projection for FY 2018-19 is increasing by $863,000 (3.9%), from $22.2 million to $23.1 million. The total updated CIP spending projection is now $158.5 million.

ADVANTAGES/DISADVANTAGES:

This report is being provided to inform the Board of the financial activities of the first six months of the fiscal year, and to provide a revised budget for the remainder of FY 2018-19. The advantage of the mid-year budget changes is to better align the budgets to projected revenues and expenses.

ALTERNATIVES ANALYSIS:

There are no practical alternatives to the recommendations presented in this report.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 18-049d Recommended FY 2018-19 Operating & Capital Budgets
Resolution 18-027 Operating and Capital Budget
Board Policy 311 - Budget Policy

ATTACHMENTS:

1. Bi-Monthly Operating Revenue & Expense Report
2. Resolution 19-001
3. Proposed Mid-Year Budget
4. Proposed Position Changes

5. Proposed CIP Changes and Existing CIP
6. Proposed Classification Changes
7. Senate Bill 1 Contingency Plan

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