

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 2/24/2021

Staff Report No. 21-142

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager
SUBJECT: Bi-Monthly Budget Update and Forecast

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving the bi-monthly budget update for the period of July through December of FY 2020-21 and updated financial forecast.

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 associated with this report.

BACKGROUND/RATIONALE:

Overview

This staff report is an update on the District's financial position for the first six months of the year based on actuals for revenues and expenses while operating during a pandemic. The accompanying presentation provides staff's outlook for the remainder of FY 2020-21 going into the next two fiscal years.

The first half of the year has produced better than expected subsidies revenue and lower than expected operating expenses, making it likely that FY 2020-21 will end with a surplus. However, given the uncertainty of sufficient federal stimulus and the anticipated increase in labor costs (even with a partial hiring freeze), staff is bracing for negative conditions in FY 2021-22 and FY 2022-23. Staff is reviewing options to keep the District operating within budget despite even optimistic projections starting at a \$10 million deficit.

Revenues and Subsidies are \$13.8 million (5.2%) above budget and Expenses are \$19.5 million (8.3%) below budget for the July through December period of FY 2020-21, resulting in a current operating surplus of \$61.8 million. This significant revenue surplus is primarily due to the front-loading in the fiscal year of the draw-down of the \$84.1 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act federal funds. The

\$84.1 million is 18% of our total revenues and the rapid draw-down in the first half has produced very lopsided revenue receipts. The surplus will reduce during the second half of the fiscal year when expenses outpace revenues.

Operating Revenues & Subsidies

For July through December period of FY 20-21, Operating Revenues are \$5.3 million (34.3%) below budget and Subsidies are \$19.1 million (7.7%) above budget due primarily to the following:

- Farebox revenue is \$2.2 million (38.1%) below budget primarily due to continued low ridership and the inherent difficulty in forecasting revenue after not collecting fares for six months. The start date of collection was a little later than planned when the budget was set, and fare collection compliance continues to be less than expected.
- Contract Services revenue is \$1.6 million (32.3%) below budget primarily due to reduced BART-funded Early Bird service and other bus support activities in the first half of the year. Activity is expected to increase in the second half of the fiscal year.
- Other Operating Revenues are \$1.5 million (31.7%) under budget due to reduced revenues from Real Estate, Advertising and Parking Revenue Citations.
- Sales Tax revenues are \$22.6 million (35%) above budget, however they are \$14.0 million (13.8%) below last year. Information on sales tax trends for the region indicates that sales taxes are generally above expectations, however staff continues to closely monitor sales tax trends and the associated financial indicators. In general sales tax receipts did not fall nearly as far in the beginning of the pandemic as most forecasts expected, but the longer the pandemic and shelter-in-place conditions continue the longer it will take them to return to pre-pandemic levels. The decrease in unemployment has also slowed significantly and the large amount of people still out of work will keep sales tax receipts from rising too much further.
- Property & Parcel Tax revenues are \$2.9 million (3.9%) above budget, showing higher receipts than last year's revenues by \$4.3 million (5.9%). Property taxes have proven to be stable so far this year and staff is cautiously optimistic that the outlook will remain stable for the remainder of the fiscal year.
- Other Federal, State, and Local revenues are \$6.4 million (5.8%) below budget primarily due to timing of revenues for ADA Federal Operating Assistance and STA Operating Revenues. This category also contains the \$84.1 million in CARES Act subsidies mentioned previously. The receipt of this very large amount of funds in the first half of the year is the primary reason that the overall budget is showing a large current surplus. The surplus will reduce in the second half as expenses will outpace revenues without the boost of the CARES Act funds.

Operating Expenses

For the July through December period of FY 20-21, Labor Expenses are \$9.4 million (5.5%) below budget and Non-Labor Expenses are \$10.2 million (15.9%) below budget. Underspending in Labor is primarily due to timing of expenses for Health Plans and underspending in Non-Labor is primarily due to lower than expected expenses for ADA services, diesel, and most services (including Software and Professional & Technical services). The proposed Mid-Year reductions will re-calibrate the budget to better match to current spending.

Variances from budget include the following:

- Salaries and Wages are under budget by \$2.3 million (2.9%), which is primarily due to COVID-19 related absences which moves expense to Fringe Benefits.
- Fringe Benefits are under budget by \$6.5 million (10.6%), which is primarily due to timing of payments.
- Services are \$4.1 million (19.4%) below budget due to timing, as services billings are generally delayed and increase as the fiscal year progresses.
- Fuel & Lubricants is under budget by \$1.8 million (31.6%) due to lower than anticipated diesel prices. Prices have recently started to rise so staff is watching this category.
- ADA/Purchased Transportation is below budget by \$3.0 million (22.2%) due to continued lower than expected ridership.

District Funded Capital

Year-to-Date District Capital spending is running much lower than budget primarily due to timing of bus purchase spending later in the fiscal year.

Forecast Update

The presentation included with this item provides an update to staff's forecast for FY 2021-22 and beyond. In November 2020 staff presented an item during the Board workshop that identified an estimated \$23 million. The updated forecast unfortunately shows a larger \$60 million deficit. The primary reasons for this larger deficit projection are lower fare revenue and lower sales tax revenues than previously forecasted for FY 2021-22.

Uncertainty in the recovery timeframe and the impacts of the pandemic on revenue streams has led to swings in optimistic and pessimistic predictions. Sales tax revenues have been higher than budget this year due primarily to initial expectations of a severe reduction in sales tax receipts due to the pandemic. That initial reduction turned out to be much less severe than expected. Conversely staff previously forecasted revenues returning relatively quickly to pre-pandemic levels during the following fiscal year 2021-22. The pandemic has lasted longer than anyone expected, and the recovery is likely going to take longer than expected. This caused staff to reduce forecast sales tax revenues in FY 2021-22 and beyond.

There are hoped-for federal funds that can be used to close significant revenue gaps expected for next fiscal year. First and foremost are the pending allocations of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA). The Metropolitan Transportation Commission (MTC) plans to propose the allocations and formula for these funds in early March. The expected year-end surplus will also help the District as it looks to balance next fiscal year's budget.

Staff will continue to update its forecasts based on the most current information available as the District moves into the process of planning the FY 2021-22 budget.

ADVANTAGES/DISADVANTAGES:

The advantage of the bi-monthly 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 & Expense Report
2. Revenue & Expense Chart
3. Forecast Update Presentation

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