

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 5/13/2026

Staff Report No. 26-079b

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

ACTION ITEM

AGENDA PLANNING REQUEST:

RECOMMENDED ACTION(S):

Consider receiving a report on the FY 2026-27 Proposed Operating and Capital Budgets and provide direction to staff to advance the Funded and Contingency (Unfunded) Budget scenario as the basis for the Recommended Budget to be presented for adoption at the June 10th Board Meeting.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

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

The FY 2026-27 Proposed Budget represents staff's final revenue and expense projections. It is presented to the Board for information and direction. Staff plans to return with a Recommended Budget in June for final approval. The FY 2026-27 fiscal year begins on July 1, 2026.

BUDGETARY/FISCAL IMPACT:

Two potential budgets are presented in this staff report: Funded and Unfunded (or Contingency), along with the work product previously requested by the Board.

The Funded and Unfunded budgets are presented together due to the uncertainty of ongoing funding to cover projected deficits in FY 27-28 and after. These two budgets are the same for the first half of the fiscal year, with the Unfunded budget triggered based on the outcome of the potential regional funding measure in November. The Board requested work product was developed in response to the Board request to create a budget that has expenses matched as closely as possible to the current fiscal year budget, FY 2025-26.

Normally, the staff report created for the Proposed budget includes, as an attachment, the first rendition of the budget book, which would be a limited overview of revenues and expenses, including Labor and Non-Labor budgets by department. Due to changing parameters and multiple budget versions in development, the budget book is not able to be included with this staff report.

The total revenue budgets for the Funded and Unfunded are \$634.3 million and \$621.7 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 of the State loan funds: \$53.5 million for the Funded and \$41.6 million for the Unfunded. The Unfunded budget would reduce non-service expenses as much as possible, prior to making the required service cuts that would likely happen in June 2027. Together, the non-service and service cuts would allow the District to balance revenues and expenses at a lower level for FY 27-28. In the Unfunded scenario, in addition to the direct changes that will happen to the District, there will be 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. It is virtually impossible to accurately project the impact of these changes on AC Transit service, demand and requirements, meaning that even once approved, the Unfunded budget may see far more volatility in both spending and revenue than a normal budget would project.

The operating expenses for the Funded and Unfunded budgets are \$627.3 million and \$615.9 million, respectively. Both budgets uphold the budget guideline to maximize service levels as much as possible given their specific funding constraints. Should a defined revenue source, including a potential ballot measure, not be identified, the Unfunded budget would result in an estimated second half FY 26-27 expense reduction of \$11.4 million (\$9.1 million in Labor, \$2.3 million in Non-Labor). Attachment 1 shows the Funded and Unfunded budgets. The Funded budget is shown with the change from the current FY 25-26 budget, and the Unfunded budget is shown with the change from the Funded budget.

Attachment 2 represents staff's best efforts to match total expense level as close as possible to FY 25-26 budget, which already represented a flat budget when compared with FY 24-25. Changes are shown from the FY 25-26 budget. This budget will, regardless of the outcome of a potential funding measure, require eliminating \$2 million in transit services. That translates into fewer buses, reduced frequency, longer wait times, and potentially cuts to routes. Staff does not recommend considering this work product as a potential budget. To achieve the \$22M savings, it will require a series of austere cuts, the largest of which is no wage increases for any employee. Non-Labor spending will also require significant cuts that could have negative effects on service-supporting functions. It requires cuts in service, in contravention of the Board's request. Even if voters show their support for public transportation through a ballot measure, the District could still be forced to make significant fiscal cuts in the near-term. This means more than service cuts but could also require reopening labor agreements to reconsider planned employee raises, operating with extremely limited spending, and making additional austere cuts across the District. This would invariably affect employee morale, workforce availability, impacting day-to-day operations, and ultimately the rider experience

The Proposed FY 26-27 Capital Budget includes projected maximum investment of \$344.4 million, composed of \$331 million in grant funds and \$13.4 million in District Capital funds. The Unfunded budget (and the Board Requested work product) reduce the budget and spending expectation of the Capital Budget by \$1.2 million to conserve District Capital funds. The Proposed Capital Budget is shown in Attachment 3.

BACKGROUND/RATIONALE:

Funded Budget

The Funded budget is the only budget that supports the current Realign service level. It includes funding from the state loan and anticipates revenue from the potential regional measure. Should the potential ballot measure pass, the District avoids having to trigger the Unfunded budget and its drastic measures to cut \$11.4 million (\$9.1 million in Labor, \$2.3 million in Non-Labor), which is mostly sourced to mandatory furloughs and attrition.

To enhance revenues the Funded budget also includes two new positions to help create business development opportunities to grow the EasyPass program and to better maintain the Student Transit Pass Program (STPP). Attachment 4 details the fully realized costs of the two positions. The pro-rated costs are included in the Funded budget for both positions. Note that the position associated with the STPP is partially funded through an agreement with the Alameda County Transportation Commission (ACTC). ACTC created and runs the STPP. The new STPP position is also included in the Unfunded budget as it based on an agreement with AFSCME.

The Funded budget fulfills all four District priorities and maintains approved raises for all affected employees. The Funded budget also includes an increase of \$1.5 million in Operator Overtime, which is necessary to offset reduced active operator count and operator unavailability.

Below are the details of the revenues and expenses for the Funded budget, compared to the FY 25-26 budget.

Revenues (Funded)

Projected revenue of \$634.3 million is an increase of \$28.1 million (4.6%) from the FY 25-26 budget. Regular revenues are estimated to increase overall by \$16.1 million (2.9%). 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, the Funded budget only requires \$53.5 million from the loan to balance the budget. Staff will monitor spending and revenues closely next fiscal year to ensure only as much of the State loan as necessary is drawn down.

- Farebox revenue is budgeted at \$39.0 million, a \$1.0 million (-2.5%) decrease from FY 25-26 budget. This is an increase of \$3.8 million (11.0%) over the full year forecast for FY 25-26. Staff elected to not incorporate any increased ridership effect on fares based on plateauing ridership over the past year. The planned increase in local fares set for July 1, 2026, provides the only expected increase in fare revenue.
- Revenue from Contract Services budgeted to be \$11.8 million, which represents a \$3.0 million (34.2%) increase over FY 25-26 budget. The increase is primarily due to revenue received during FY 25-26 exceeding the budgeted amount. This category primarily includes revenue from EasyPass sales which have increased by an average of 10% per year in the past couple years. Staff proposes two new positions, including one within the Marketing Department to assist with EasyPass to create more opportunities for increased revenues. With the additional staff support, the Funded budget includes an additional \$500,000 in estimated revenue. Attachment 4 shows the fully burdened cost of the position. A pro-rated cost is used to account for the anticipated hire during the fiscal year.
- Property and parcel taxes (Measure VV/C1) 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 from property tax revenues alone 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. Most of the increase is in TDA, due to an adjustment in sales taxes by the State between fiscal years. It 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 (STA) 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 25-26 budget due primarily to reductions in RM3. RM3 funding was extraordinarily high this fiscal year due to Senate Bill 125 funds programming by the Metropolitan Transportation Commission (MTC).
- State loan of \$53.5 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 (Funded)

Labor expenses

Labor expenses, at \$430.9 million, represent an increase of \$14.9 million (3.6%) over the FY 25-26 budget.

- Salaries and Wages of \$174.3 million, a \$9.5 million (5.8%) increase based on the following:
 - Contractual/planned wage increases for all employee groups (IBEW 3.40%, ATU 3.25%, Unrepresented 3.00%)
 - Stipend increase of \$19,727 per year for each board member (based on Board Policy 123 with a 3.17% CPI-based increase)
 - Two new positions (EasyPass and Student Transit Pass Program); both are pro-rated in the budget to account for estimated start dates during the fiscal year.
- Overtime of \$28.1 million, a \$1.5 million (5.8%) increase to be able to maintain the current level of operations with a reduced active operator headcount from the current year.
- Fringe Benefits of \$165.9 million, a \$6.4 million (4.0%) increase over FY 25-26 budget, which mirrors the corresponding increases in Wages & Salaries.
- Pension contribution of \$62.6 million, a \$2.6 million (4.1%) decrease from the FY 25-26 budget, is a planned reduction based on the pension "smoothing" plan.

Non-Labor expenses

The FY 26-27 Funded budget increases \$6.7 million (3.5%) in Non-Labor expenses over the FY 25-26 budget. Expense increases are primarily in Fuel and Casualty & Liability. Decreases are primarily in the category for "Other" expenses (Transbay Joint Powers Authority, Election of Directors, Advertising for Hiring, Travel & Training, etc.).

- Services Expense of \$53.7 million, a \$1.9 million (3.7%) increase from the FY 25-26. The top three areas that are increasing over FY 25-26 budget include Clipper, outside legal, and Professional Services. The increased Clipper expense is partly due to MTC covering half of the current year Clipper operating budget and partly due to planned and unplanned cost increases from the ongoing Next Generation Clipper transition.
- Fuel and Lubricants of \$20.9 million, a \$4.6 million (27.9%) increase from FY 25-26 budget. Staff are

monitoring the continued financial impacts of conflict in the Middle East to gauge how it affects diesel prices.

- Materials & Supplies of \$20.7 million, a \$1.0 million decrease from FY 25-26. 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 \$34.3 million, a \$3.6 million (11.8%) increase over FY 25-26 budget due to anticipated insurance premium increases. While still significant, the increase is less than what staff originally expected. The District has seen some significant claim settlements along with the generally strained insurance market in California. District staff will be working on analyzing both settlement and other costs that can be lowered through increased safety awareness and training.
- Purchased Transportation (East Bay Paratransit and Dumbarton Express) of \$53.4 million, a \$426,000 (0.8%) reduction from the FY 25-26 budget.
- Other (includes Transbay Joint Powers Authority, Election of Directors, Advertising, Travel & Training, Dues & Subscriptions, etc.) of \$3.2 million, a \$1.7 million (34.7%) reduction from the FY 25-26 budget due to reduced expenses. The lease cost for the Salesforce Transit Center reduced by \$1.0 million (25%) compared to this fiscal year. Travel & training budgets were reduced by 32% from FY 25-26 budget for most departments.

Unfunded/Contingency Budget

Should the potential ballot measure not pass in November, the Unfunded budget would be triggered for the second half of the year and would reduce \$11.4 million from the Funded budget in the remainder of FY 26-27. The Unfunded Budget reduces non-service expenses until service reductions could begin in mid-June 2027. Potential service reductions will be detailed in an Alternate Service Plan which will come before the Board in the near future.

For the Unfunded budget, total Labor expenses are reduced from the Funded budget by \$9.1 million (2.1%). Labor expenses are impacted more than Non-Labor due to exhaustive efforts made in recent years during the budgeting processes to reduce Non-Labor to essential functions in support of maintaining service levels. District priorities, as they relate to maintaining service levels, will be impossible to meet in the Unfunded budget.

The largest reductions in the Unfunded budget are found by restricting hiring and allowing natural attrition to reduce staffing levels and implementing mandatory furloughs of two days a month for eligible Unrepresented and AFSCME staff. The unfunded budget keeps only the STPP position from the Funded budgets due to an agreement with AFSCME to add that position. The EasyPass position proposed for the Funded budget would not be created.

Service quality will start to be affected before any service cuts are implemented due to an estimated reduction of 25 operators (through attrition) before June service cuts take place.

The Unfunded budget also makes cuts in the following areas:

- The \$1.5 million included for Operator Overtime in the Funded budget
- Further reductions in travel & training

- Routine employee incentive programs (Wellness Program, Bus Rodeo, Safe Driving Awards, and other events)
- Most dues & subscriptions except for key organizations: Alameda County Transportation Commission (ACTC), West Contra Costa Transportation Advisory Committee (WCCTAC), American Public Transportation Association (APTA), CalACT, and City Chambers
- Other initiatives such as replacement of the bus stop at-stop schedule information system and reductions in marketing materials.

The Capital budget is reduced by \$1.2 million in the Unfunded budget. The specific changes are detailed below.

Board Requested Work Product

The Board directed staff to prepare a draft budget that assumes the passage of the potential ballot initiative, but also kept expenses for FY 26-27 at the same level as the FY 25-26 budget, while not reducing service. This requires reducing the Funded Budget presented to the Board in April 2026 by an additional \$22 million.

Staff made best efforts to fulfill the Board's request and identified \$22.0 million in reduction from the Funded Budget initially presented to the Board in April.

These reductions were achieved by the following: eliminating all raises for all employees (\$8.2 million) and cutting \$2 million worth of service. Staff were unable to achieve the \$22M in reductions without reducing service. Additionally, eliminating wage increases for unionized employees will require opening labor negotiations with the District's labor partners.

The current FY 25-26 budget was nearly the same as the prior FY 24-25 budget, or "flat" when compared with the prior fiscal year. This was primarily achieved through reductions in non-Labor expenses that did not affect service and cannot be replicated in this budget. Labor expenses increase because of contractual wage increases. Achieving a flat budget for two years in a row given inflation and the requirement of contractual raises would require cuts in Non-Labor that would significantly negatively affect District operations and possibly compromise regulatory compliance.

Staff also expect to come in over budget for the current fiscal year due to increases in several expense areas that are not discretionary: pension, bus parts, claims, and likely diesel fuel. This would mean that a "flat" budget in FY 26-27 represents a budget reduction.

The Board requested work product retains the same \$1.2 million in Capital budget reductions as the Unfunded budget.

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 as established in the Strategic Plan, Transit Asset Management Plan, Zero Emission Rollout Plan, and Clean Corridors Plan.

The Proposed FY 26-27 Capital Budget includes \$13.4 million in District Capital funds that would equate to a 4% match toward securing \$331 million in external grand funding, for a total capital investment of \$344.4

million. The Capital Budget is shown in Attachment 3. The Proposed FY 26-27 Capital Budget includes four (4) new, 35 continuing, and seven (7) annual projects for a total of 46 projects.

For capital projects staff budgets the total amount necessary to complete the entire project or some phase of the project. The 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. Each year actual capital spending will be less than the full project budget. While the Capital Budget shows the full budget for each project, the Operating Budget table shows the expected spending amount for the fiscal year for each project.

Capital projects are mainly supported by restricted grant funds, particularly facilities and bus purchases. Many grants require a proportional contribution from the District (“local match”). To the extent possible, staff utilize other grants to meet these requirements. District capital is still needed as a local 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 (4) new projects that are required to meet compliance or safety requirements. New projects include Districtwide security enhancements, the removal of old biodiesel tanks, the evaluation and repair/replacement of sewer laterals at the Central Maintenance Facility, and replacement of a 30+ year old Auto Paper Cutter used by the print shop for AC Transit’s Marketing and Communications publications.

The Proposed 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 bus 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. The District is also finalizing plans to reduce its fleet to its current service needs. Direction on either of these issues may impact the inclusion and budgets for the procurements listed. Staff will update the Fleet procurements in the Recommended Budget if sufficient information is available.

Finally, staff propose to defer over \$25.5 million in additional project requests approved in FY 26-27 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.

Staff have reduced the District Capital Budget by \$3.5 million in the Proposed Funded Budget (from the initial draft presented on April 8) by the following:

- Deferring optional scope on P2211 D4 Hydrogen Upgrade: this scope is still desired but can wait for grant funding to be secured.
- Reprogramming flexible grant funds: these funds have been reserved for bus procurements, but they have been reprogrammed to active Safety and Security projects to replace District Capital funds.

Staff have identified an additional \$1.2 million of potential savings which are incorporated into the Unfunded Budget and the Board’s requested work product and listed below.

- Cutting Annual Projects by 50% : these projects provide funding for important day-to-day repair and replacement of assets across facilities, safety, and IT so they are not recommended for cuts in a funded scenario but can provide immediate cost savings in an unfunded scenario as they make up a significant portion of annual District Capital expense.
- Cutting STC Capital Contribution: this project funds the District's contribution to Transbay Terminal capital improvements. It would provide immediate cost savings but also requires negotiation with TJPA and is not recommended for a Funded scenario.

ADVANTAGES/DISADVANTAGES:

This report is being provided as second version of the budget and the prior section discusses the advantages or disadvantages.

ALTERNATIVES ANALYSIS:

Staff analyzed many possible expense item reductions and requests from all departments in creation of the budget. Staff also incorporated feedback from the Board and all departments after the initial Draft Budget.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 25-533 FY 2026-27 Budget Development Calendar

SR 26-079 FY 2026-27 Budget Guidelines

SR 26-079a FY 2026-27 Draft Budget

ATTACHMENTS:

1. FY 2026-27 Funded and Unfunded Budgets
2. FY 2026-27 Board Request
3. FY 2026-27 Capital Budget
4. FY 2026-27 Proposed Positions
5. Presentation

Prepared by:

Mary Archer, Budget Manager

In Collaboration with:

Emily Heard, Capital Planning and Grants Manager

Diana Nguyen, Principal Financial Analyst

Anthony Manaois, Senior Financial Analyst

Approved/Reviewed by:

Richard Oslund, Director of Management & Budget

Chris Andrichak, Chief Financial Officer

Paul Kincaid, Assistant General Manager/CEO

Aimee L. Steele, General Counsel/Chief Legal Officer