STAFF REPORT

MEETING DATE: 2/11/2026 **Staff Report No.** 26-105

TO: AC Transit Board of Directors

FROM: Salvador Llamas, General Manager/Chief Executive Officer

SUBJECT: State Operating Loan

ACTION ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider authorizing the General Manager and staff to continue negotiations with the Metropolitan Transportation Commission (MTC), the California Department of Finance (DOF), and the California State Transportation Agency (CalSTA) for a loan with a maximum amount of $55 million for operations for the fiscal year starting July 1, 2026.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

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

The $55 million loan from the State is crucial for the District to be able to continue operating in FY 26-27 at current service levels.

BUDGETARY/FISCAL IMPACT:

This report is not final approval of the loan, so it does not have a fiscal impact. The proposed loan parameters and costs are discussed in the next section. The loan interest would be included in the Operating budget starting next fiscal year, and the principal included after the initial interest-only period.

BACKGROUND/RATIONALE:

The District is facing a projected operating deficit of $74 million in the coming FY 2026-27. The District was able to use reserves to fill in the $42 million deficit for this current fiscal year but will not be able to do so again for next fiscal year - another source of funding will be required. MTC along with the District and three other operators (Muni, Caltrain, and BART) requested funding from the State to fill in deficits this coming fiscal year until new funding could be obtained from a proposed regional measure.

MTC and the four operators have been negotiating a loan of State funds over the past few months. On January 30, MTC announced that a preliminary loan framework had been agreed to with Department of Finance

(DOF). This report is to inform the Board of the preliminary terms and impact of the loan, and to seek approval to continue working on the details of the loan. Staff expect to return to the Board when the agreements are complete for formal approval to enter into the loan.

The District is requesting a maximum of $55 million for the loan. The total amount requested for the four operators is $590 million. The proposed framework has the State loaning the $590 million to MTC out of the statewide pool of Transit and Intercity Rail Capital Program (TIRCP) funds by July 1, 2026. While the DOF negotiated the terms, the actual loans will come from CalSTA as the granting agency for TIRCP funds. The statewide pool of TIRCP funds are continuously appropriated out of Cap & Invest greenhouse gas reduction auction proceeds. This setup draws on billions of dollars in awarded but unallocated and unspent funds in the TIRCP program. It also avoids the problematic original proposal from the State which would have required identifying specific projects with unallocated balances as the source of the loans.

MTC would then loan the $55 million to the District. The terms for the loans from MTC were dictated by DOF and the operators must agree to the same terms. DOF proposed three sets of terms. The consensus choice was for an initial two-year interest-only period followed by a ten-year repayment period. The interest rate will be variable, with a quarterly rate reset period or longer, still to be decided. The rate will be the State's Surplus Money Investment Fund (SMIF) rate, which is closely linked to short-term interest rates. The SMIF is the State's internal cash investment fund, and it has a quarterly rate reset. The rate as of December 31, 2025 is 4.04%. Using the SMIF rate means the State incurs no extra cost in loaning the funds to the operators - the State gets the same return on the loan as it would any funds invested in the SMIF.

The other two options had an eight-year repayment period instead of ten, with a fixed 3.85% rate (0.19% less than current SMIF); and the same ten-year repayment period with a fixed 4.00% rate. The longer term was the consensus choice as it is closest to the original request of the operators for 15 years and it reduces yearly payments. The variable rate was selected because the current SMIF rate is historically high, and rates are expected to decline in the near term, which would provide the operators with a lower effective rate and reduced overall interest expense. Attachment 1 shows the historical SMIF rates.

The following table summarizes the expected terms:

Maximum loan amount	$55,000,000
Loan term	2 years interest only + 10 years repayment
Loan interest rate	Variable pegged to SMIF (4.04% as of 12/31/25)

The following table summarizes the possible impacts with two simple scenarios - a reasonably “bad” scenario (1) of 4% interest over the full term; and a conservative but “better” scenario (2) where the interest rate drops to 2.5% after the initial two-year period. These two cases are meant to illustrate a reasonable range of possible cost to the District over the life of the loan.

Scenario 1: 4% for entire loan term	
(a) Total interest	$16,500,000
(b) Yearly payment amount in initial interest-only period	$2,200,000
(c) Interest + principal payment for remaining period (level principal payments)	$7,700,000 to $5,720,000
Scenario 2: 4% for 2 years, 2.5% for 10 years	
(d) Total interest	$11,962,500
(e) Yearly payment amount in initial interest-only period	$2,200,000
(f) Interest + principal payment for remaining period (level principal payments)	$6,875,000 to $5,637,500

Items (b) and (e) represent the amounts in each scenario the District would owe at a starting rate of 4% using the conservative assumption that interest is charged on the full $55 million from the start. If interest in only charged on drawn amounts, which would reduce interest expense in the first year since the District will draw the funds on a quarterly basis the first year. This will need to be worked out with MTC along with a payment schedule. The examples here conservatively assume a single yearly payment, semi-annual or quarterly payments are more likely and would reduce interest expense slightly.

Items (c) and (f) represent the range of interest + principal payment amounts, from highest in year three to lowest in year 12. The principal payment would be level at $5.5 million per year, and the interest amount drops as the principal is paid down. For Scenario 1, in year three (FY 2028-29) the District would pay $7.7 million, reducing yearly down to $5.7 million in year twelve (FY 2037-38). For Scenario 2 these amounts are $6.9 million reducing down to $5.6 million. The yearly payment would add to District operating cost and will be factored into the FY 2026-27 budget and future year projections.

Staff does not expect there to be pre-payment penalties so the District should be free to pay down or pay off the loan as quickly as it can. It is not known yet whether significant pre-payment would trigger re-amortization of the loan.

The State is requiring each agency to agree to the use of State Transit Assistance (STA) revenue share funding as security for the loans. The amount of STA revenue share the District receives has fluctuated but has averaged $28 million per year for the last five years. Repayments will not specifically have to come from STA funding. If an operator does not independently make the required payments MTC can withhold STA funding from the operator for the payments.

With Board approval, staff will continue to work with MTC, DOF, and CalSTA as necessary to finalizing terms and written agreements. Staff is also working with outside counsel to obtain an opinion on whether the State loan will have any effect on the District's existing outstanding debt. Staff is not expecting any issues that could not be solved by clarifying the position of the State loan to the outstanding debt.

Finally, Board Policy 316 - Debt Management Policy - does not allow for this type of operating loan as proposed. Staff plans to seek an exception to the policy for the loan when it comes back to the Board with final documents.

ADVANTAGES/DISADVANTAGES:

The primary advantage of the loan is that it will fill in the majority of the deficit the District is projecting for FY 2026-27. The primary disadvantage is that as a loan, it requires repayment with interest.

ALTERNATIVES ANALYSIS:

District staff, along with MTC and the other three affected operators, have advocated for the best loan terms possible once it was apparent that a grant of the funds would not be possible. The proposal from DOF had three options for terms described above, with a requirement that all four agencies agree to the same terms.

Staff has also explored the idea of converting federal capital funds to operating with MTC and will continue to look at this option for early loan repayment or similar use.

PRIOR RELEVANT BOARD ACTION/POLICIES:

None

ATTACHMENTS:

1. Surplus Money Investment Fund historical interest rates

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