

AC Transit Financial Update

April 26, 2023



Contents

- Current Situation
- What's Changed from Prior Projections
- Financial Strengths and Weaknesses
- Why Do We Expect Deficits?
- Farebox Revenue
- Revenue and Expense Trends
- Financial and Economic Assumptions
- Projections (Best, Expected, Worst)
- Financial Impact of Different Service Levels
- High Fixed Costs Make Expense Reductions Difficult
- What is AC Transit Doing About the Projected Cliff?
- Advocacy for Operations Funding



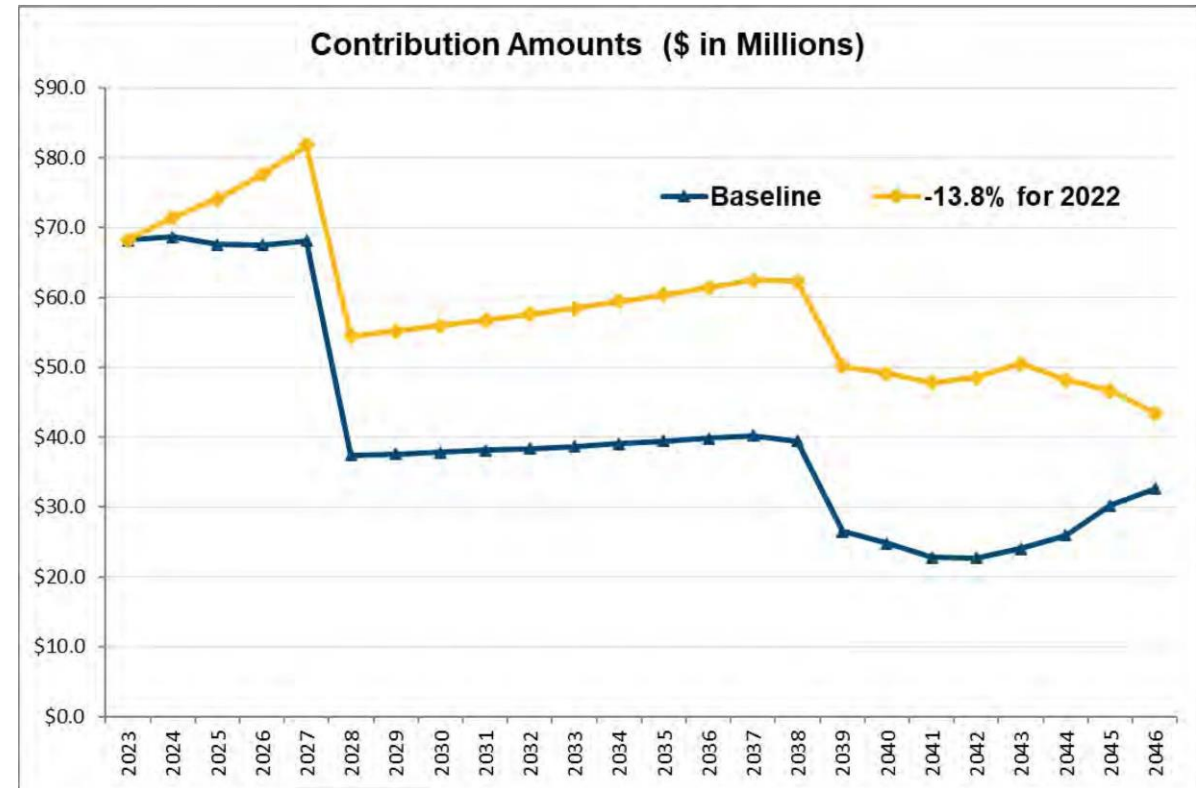
Current Situation

- As the District exhausts federal relief funding, operating deficits are projected to begin
 - Deficits expected to begin FY 2024-25 and increase significantly in FY 2025-26
- Depletion of federal funds not the sole reason for deficits
 - Fixed operating cost increases (Labor, insurance, fuel, etc.)
 - Potential economic downturn
 - Lower ridership and farebox



What's Changed from Prior Projections

- Recession
 - Now more likely scenario
- Pension
 - 2022 loss due to financial markets was significant: -13.8%
 - District will need to contribute more to keep Pension funded ratio on track
 - Drop in contributions in 2028 is still there, but from a much higher level



Financial Strengths and Weaknesses

Strengths

- Current strong consumer spending resulting in high sales tax funding
- Property Tax funding resilient
- COVID Emergency funding supports operations for now
- AC Transit is not alone. Region advocating for alternative sources of revenue

Weaknesses

- Tight labor market makes hiring tough
- Inflation and economic slowdown could impact financials
- The end of COVID Emergency funding will impact financials
- Ridership slow to return
- California state deficit



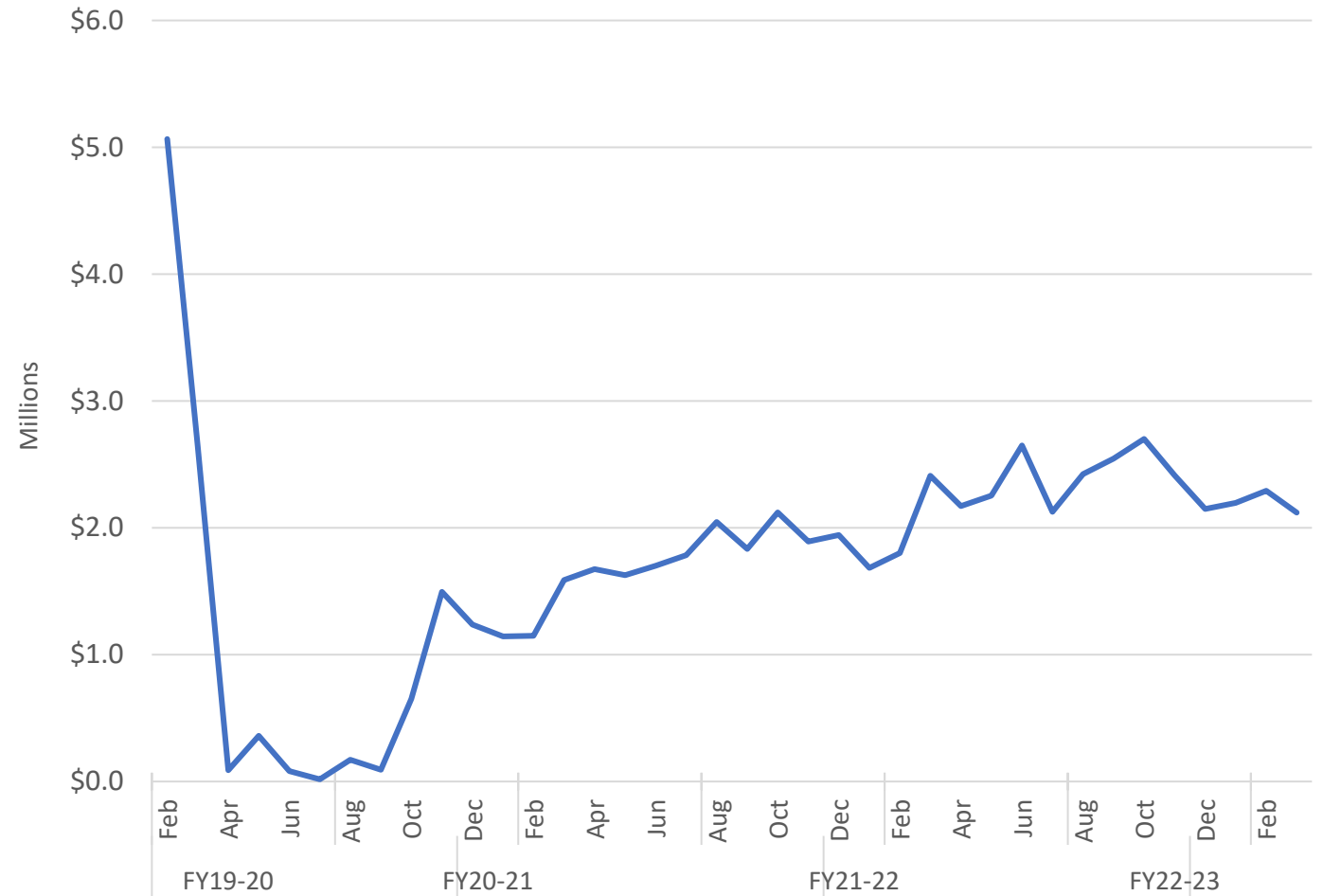
Why Do We Expect Deficits?

- Loss of COVID emergency funding
- Large reduction in ridership and farebox
- Delay in sales tax revenue during pandemic vs. growth of expenses
- Economic slowdown negatively impacting subsidy revenue



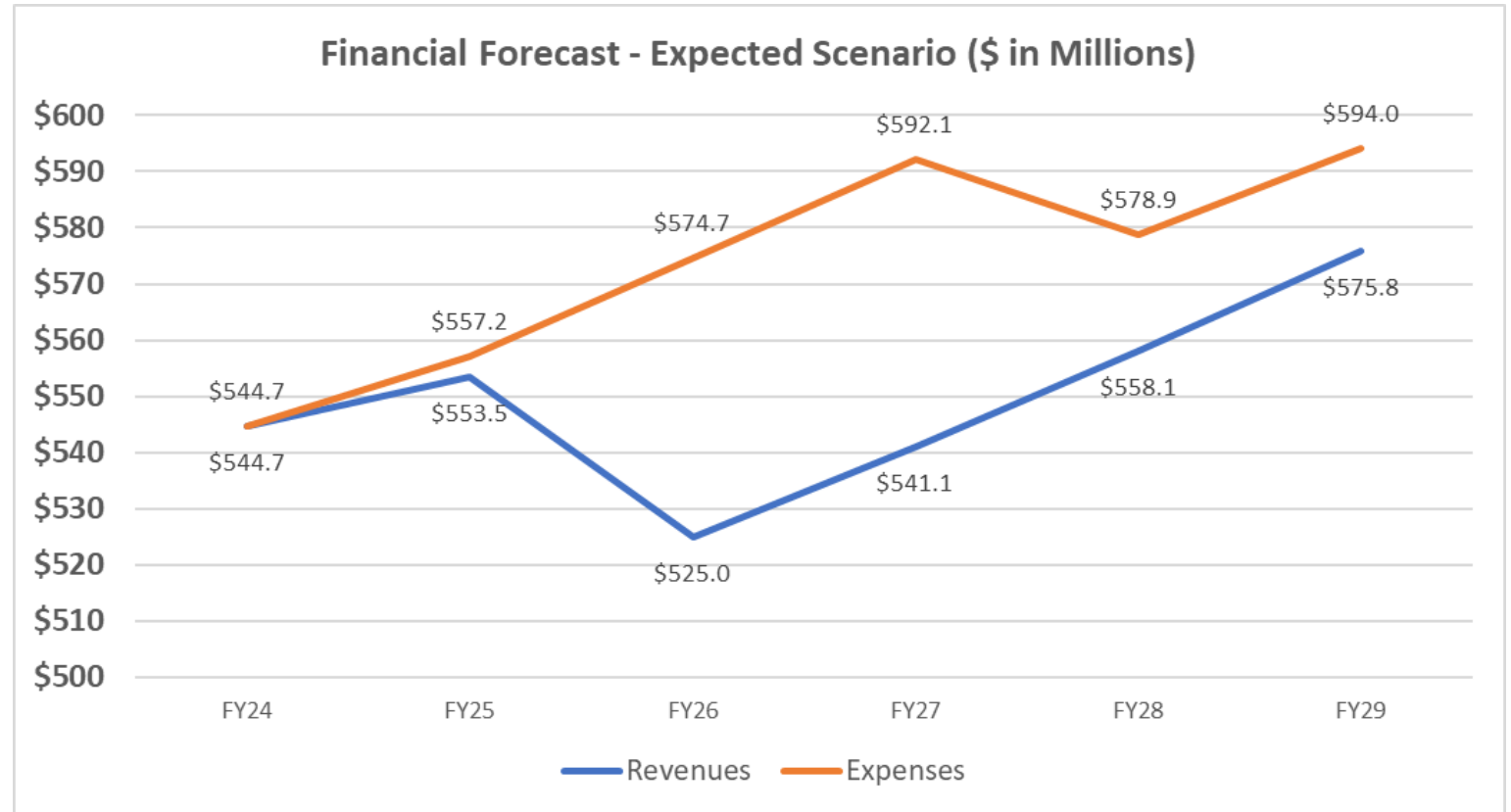
Farebox Revenue

- Fare revenues slowly growing but still only 50% of prior levels
- Fare revenue down \$30M from pre-pandemic levels
- Fare increase deferrals work against revenue needs (\$3M+ annually)



Revenue and Expense Trends

At current service level, when federal funds run out in FY 24-25, AC Transit is projected to have large deficits

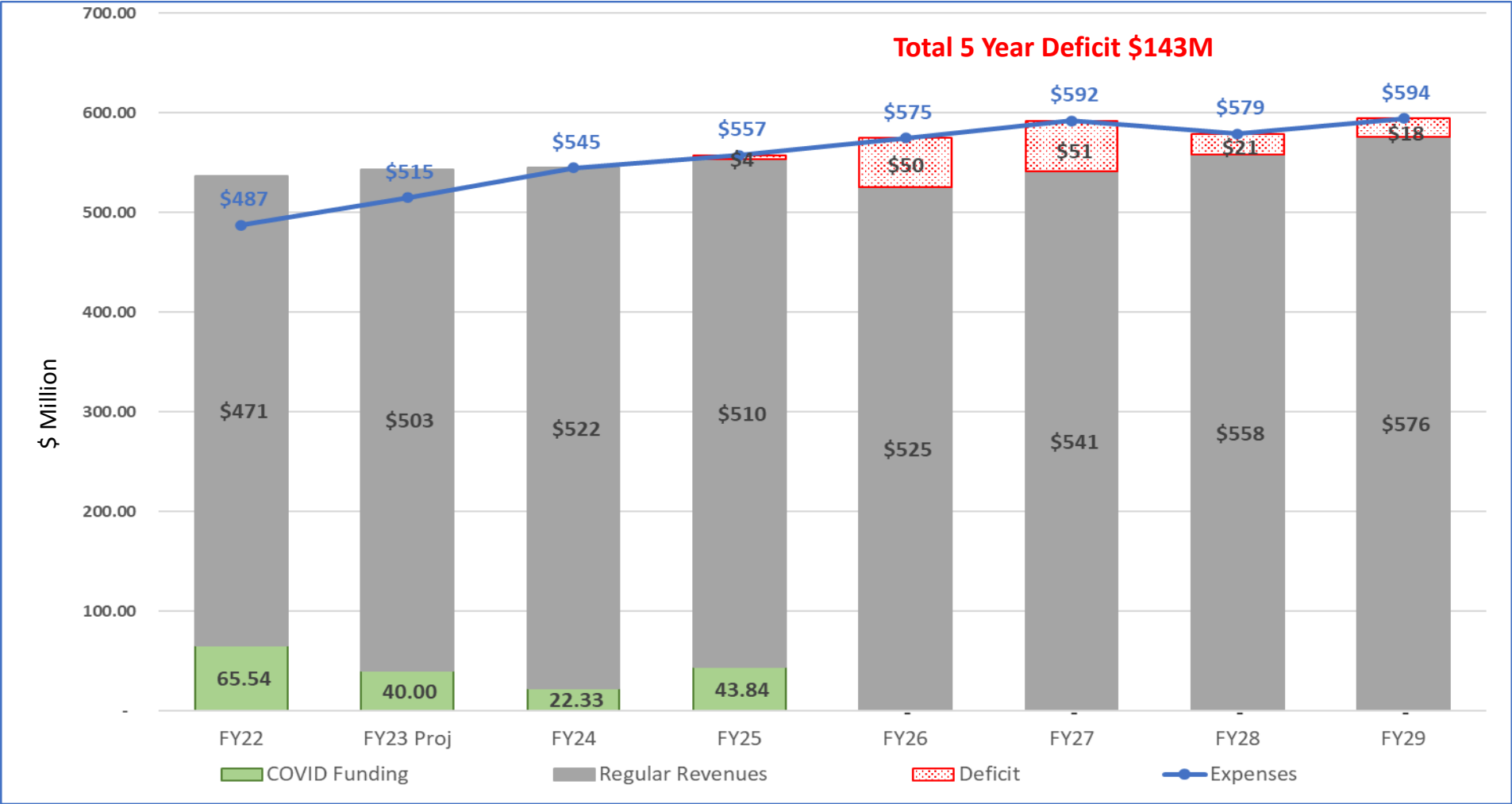


Financial and Economic Assumptions

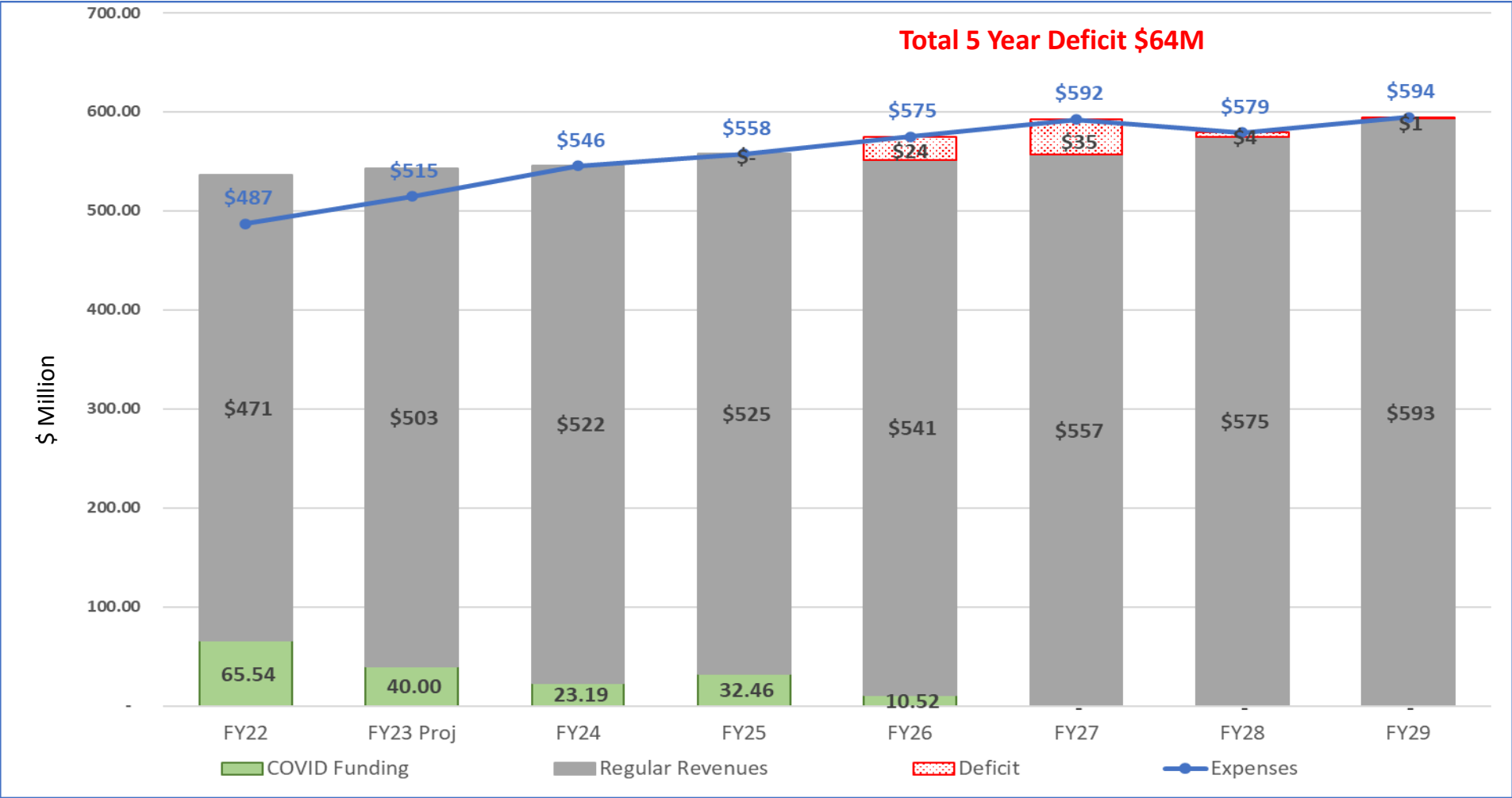
Projection	Service Level	Recession	Farebox Revenue	Subsidy Revenue	Deficit Five year total
Best	85%	Mild	10% Annual Increase	2% to 3% Annual Increases	\$64M
Expected	85%	Moderate	10% Annual Increases	2% Reduction, Recover FY26	\$143M
Worst	85%	Severe (Stagflation)	5% Annual Increases	5% Reduction, Recover FY27	\$226M



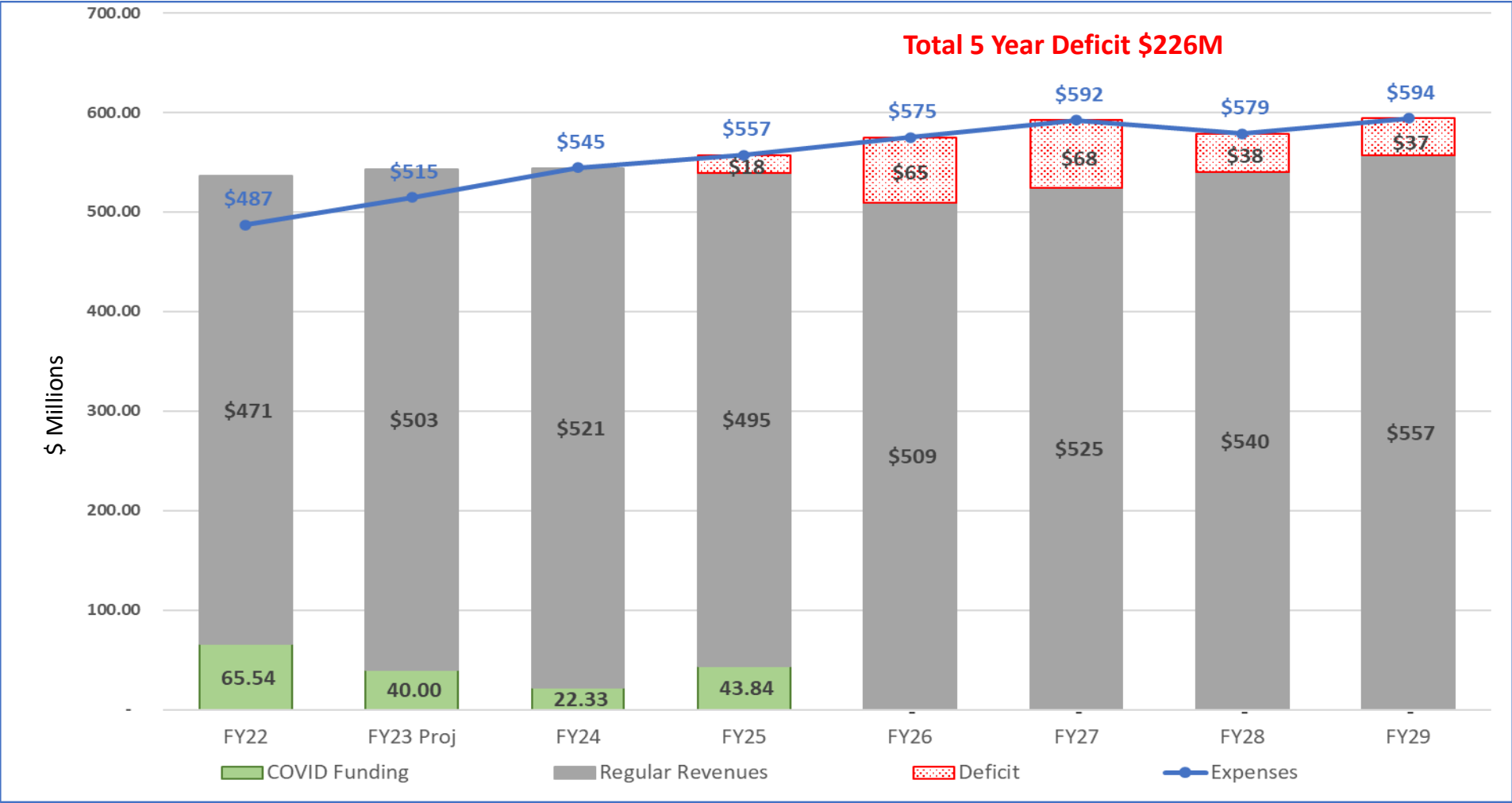
Projection Scenario – Expected Case



Projection Scenario – Best Case



Projection Scenario – Worst Case



Financial Impact of Different Service Levels

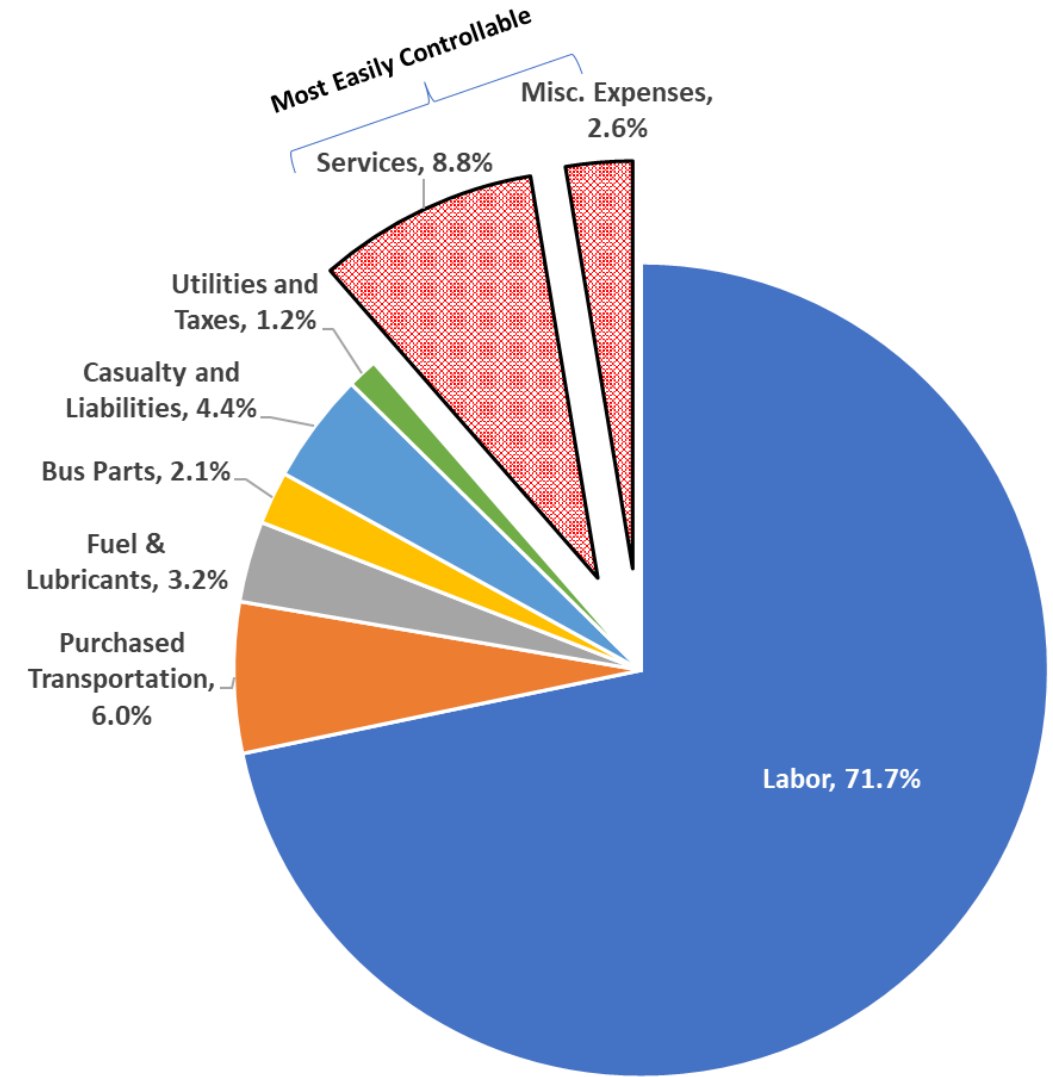
FY25-FY29 - Surplus or (Deficit)			\$ Millions
Service Level *	Average Annual	Total	
70%	\$8.2	\$49.0	
75%	(\$7.1)	(\$42.5)	
83%	(\$20.6)	(\$123.5)	
85% (Current)	(\$23.9)	(\$143.4)	
88%	(\$27.7)	(\$165.9)	
90%	(\$32.9)	(\$197.3)	

** All service level scenarios based on Expected Scenario parameters*



High Fixed Costs Make Expenses Reductions Difficult

- Majority of District expenses are either fixed or tied to service level
- “Services” and “Misc. Expenses” are most easily managed categories
- A \$30M deficit is only 5% of the total budget – but is a very large portion of costs we can easily manage



What Is AC Transit Doing About The Projected Cliff?



- FY 2023-24 budget process:
 - More and earlier review of department initiatives and costs; early cross-departmental discussions in order to correctly budget shared initiatives
 - No new positions - vacancies reviewed to determine if positions will be filled or not. Temporary positions reviewed for need.
- Financial Cliff working group meets and reviews potential solutions to projected budget deficits
- Ongoing Federal, State, and Local advocacy to find new sources of funding
- Analyzing “smoothing” of pension liability payment schedule
- Building up cash reserves to use once federal emergency funds are gone
- Prudently managing remaining federal emergency funds
- Exploring options for conversion of capital funds to operating



Advocacy for Operations Funding



Federal Advocacy

- Ongoing: in-district meetings/ tours with policymakers
- 03/14: APTA Legislative Conference
 - Met with all members of delegation
 - House Appropriations Committee
- June: District advocacy trip to DC (*tentative*)
- Partner advocacy trips to DC
 - 03/28: MTC
 - September: CTA



State Advocacy

- Ongoing: in-district meetings/tours with policymakers
- 02/01: GM update to Bay Area Caucus
- Advocacy at committee hearings
 - 02/27: Joint Hearing on Transit Operations
 - 03/09: Senate Budget Subcommittee
- New Senate Select Committee on Bay Area Transit
- CTA engagement w/ Governor, Legislature, and Regulators
- Coalition letters
 - 01/18: 60+ signatories
 - 03/08: 100+ signatories





Questions?

