

A faded background image of a transit vehicle, showing a side mirror and a window. The side mirror reflects a smiling woman. The window shows a blurred interior with some text like 'a' and 'ok'.

**AC Transit  
Financial Update  
SR 24-485**

**Board Retreat  
October 30, 2024**

- Expenses
  - Overview
  - Process
  - Trends
  - Mandates
  - Pension
- Revenues
  - Trends
  - Transit Agency Comparison
- Operating Budget Projections
- Capital

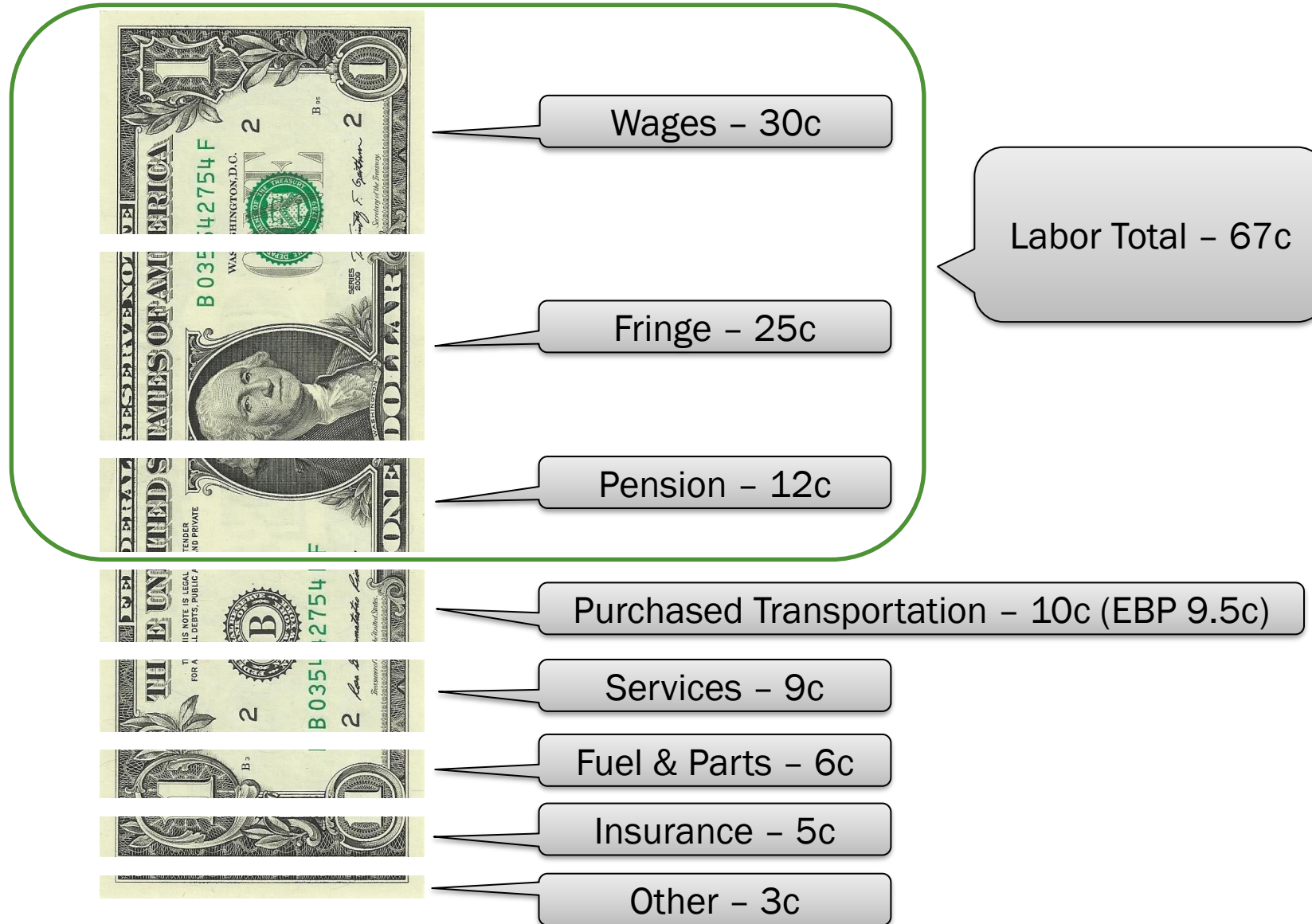
# Agenda



# Expenses

# WHERE DOES EACH DOLLAR WE SPEND GO?

Based on FY 24-25 Budget



# EACH DOLLAR - MANDATORY VS. DISCRETIONARY



Based on FY 24-25 Budget

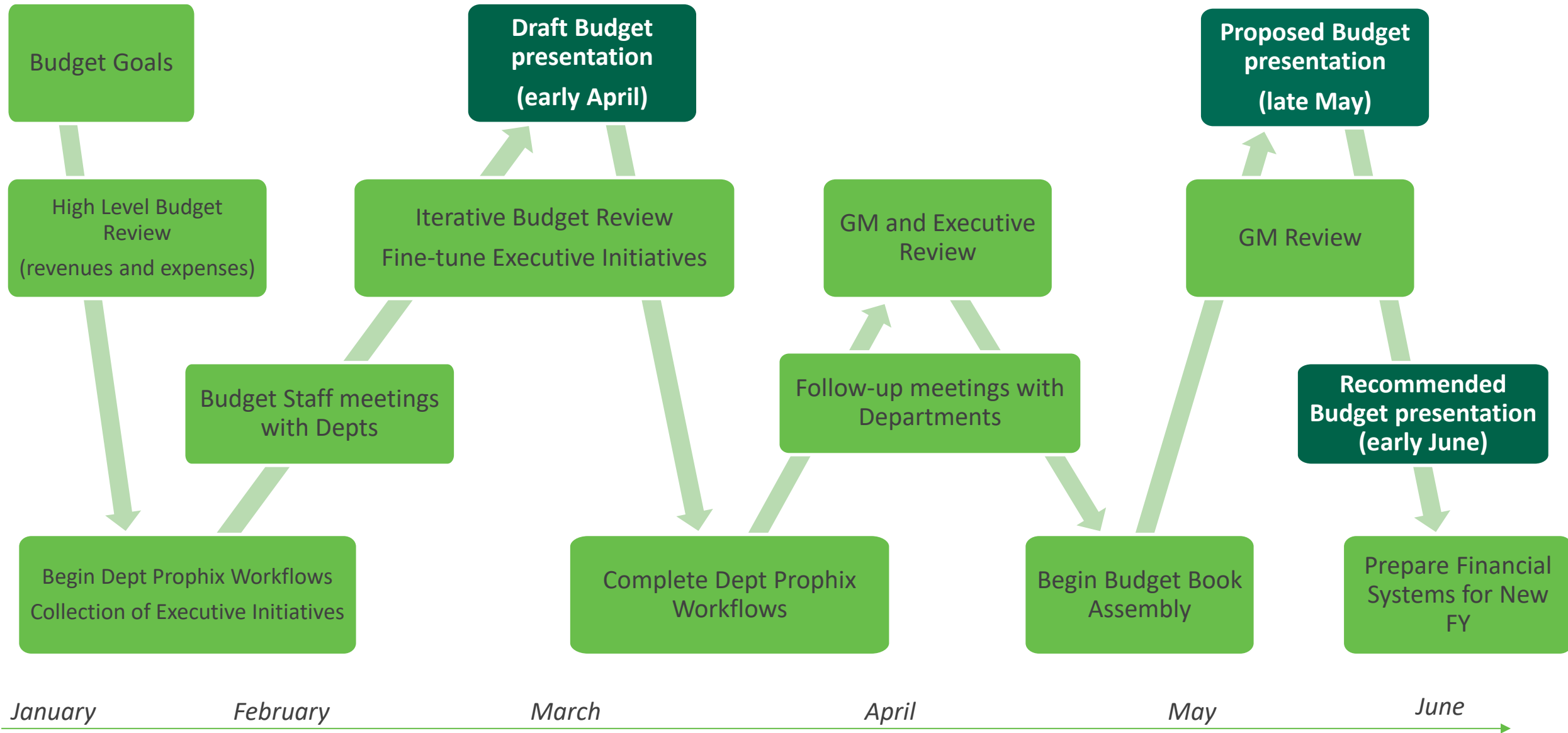


**Mandatory – 96c**  
Wages  
Fringe  
Pension  
Purchased Transportation (EBP, DBX)  
Services (maintenance, support)  
Fuel & Parts  
Insurance  
Other

**Discretionary – 4c**  
Services (initiatives)

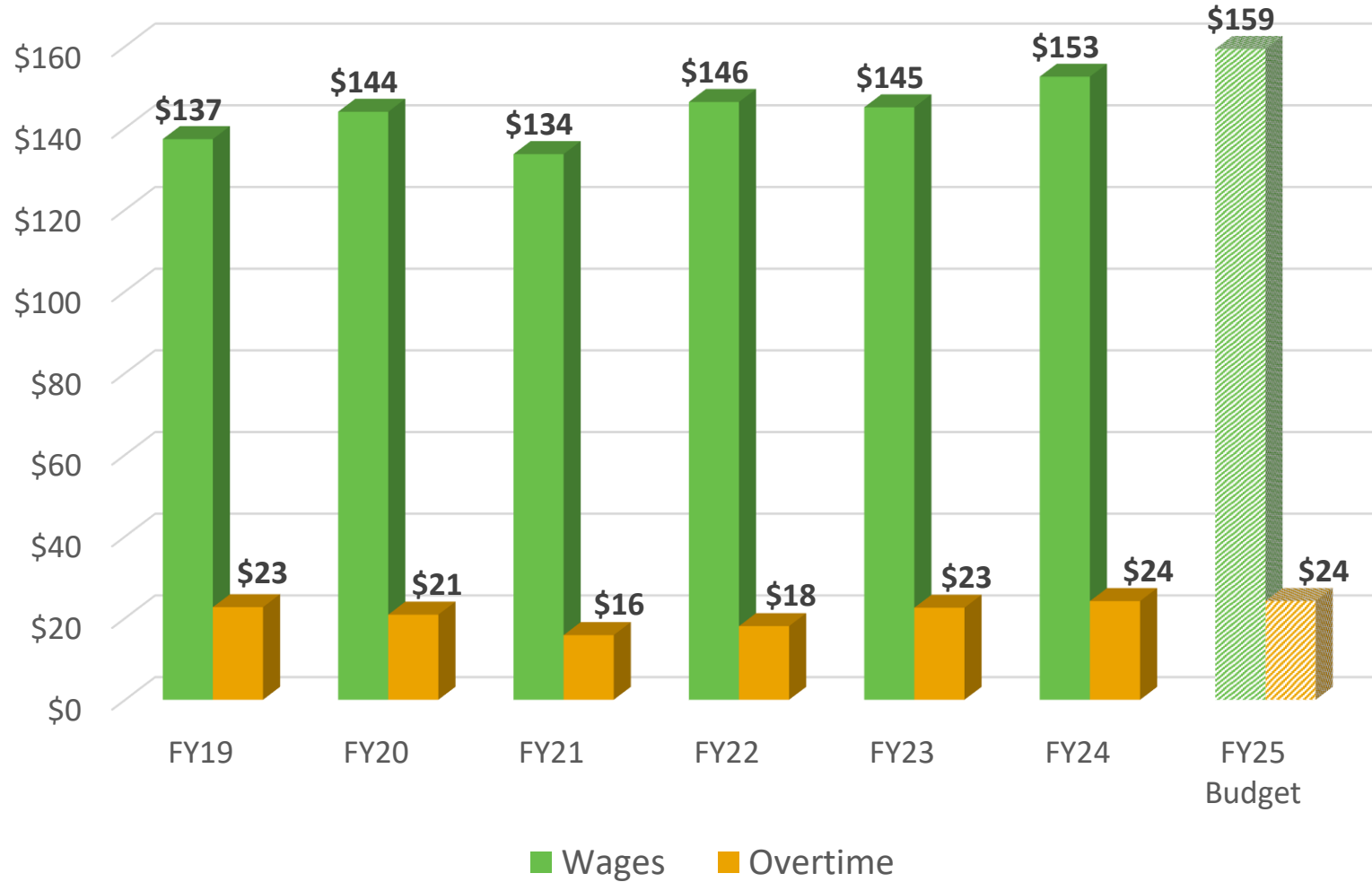
- Mandatory Expenses are directly connected to employee support and service provision
- Discretionary Expenses are mainly services tied to “nice to have” initiatives

# OPERATING BUDGET PROCESS



Mid-year Process →

**Wages and Overtime**  
\$ Millions



**Average annual growth**

**FY21 through FY24:**

*(Pandemic skews longer term statistics)*

**Wages 3%**

- Depends on headcount and contractual increases

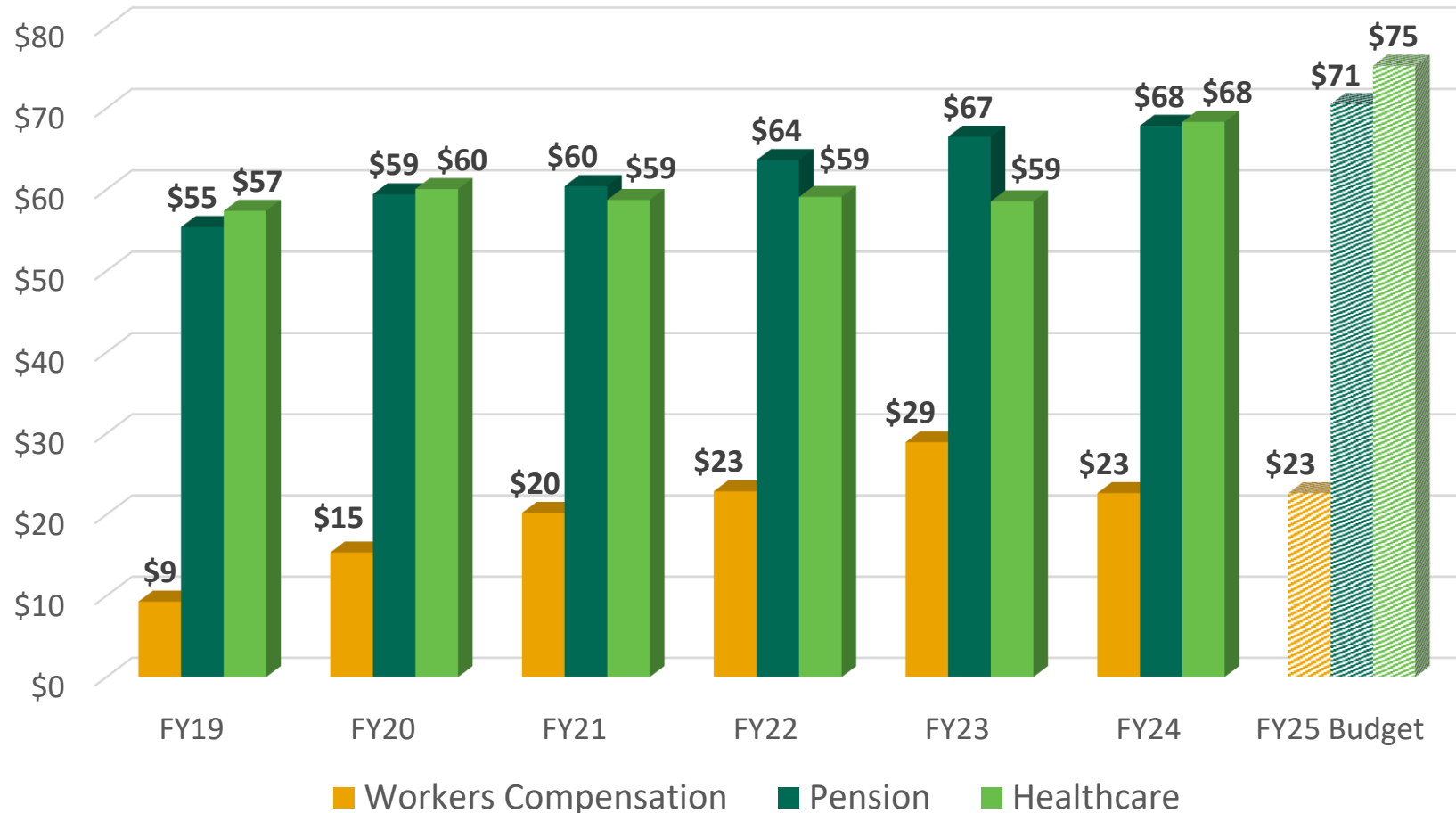
**Overtime 9%**

- Increased headcount vs service level possibly levelling off growth
- *Some OT is necessary*

# SPENDING TRENDS – SELECT FRINGE ACCOUNTS



Workers Compensation, Pension, Healthcare  
\$ Millions



Average Annual growth  
FY19 through FY24:

## Workers Comp 19%

- Growing cost and count of claims
- Effort to reduce backlog increasing cost in short term

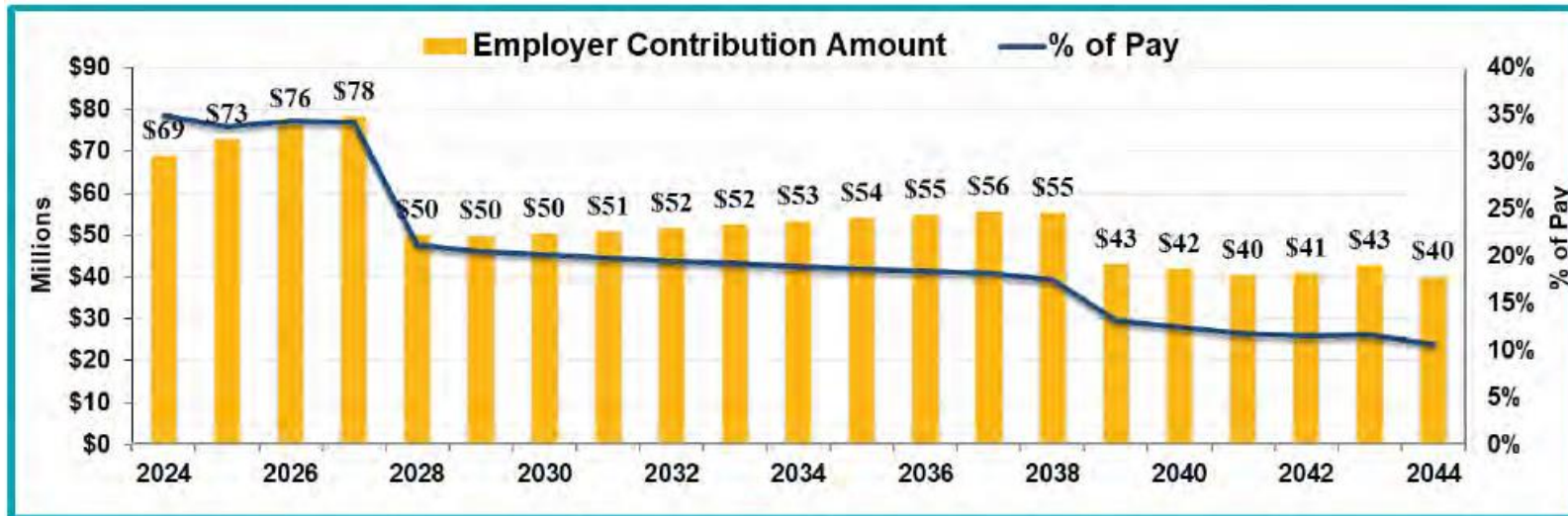
## Pension 4%

- Increase for next few years, then significant drop in 2028

## Healthcare 4%

- Variable increases, significant in FY23-24





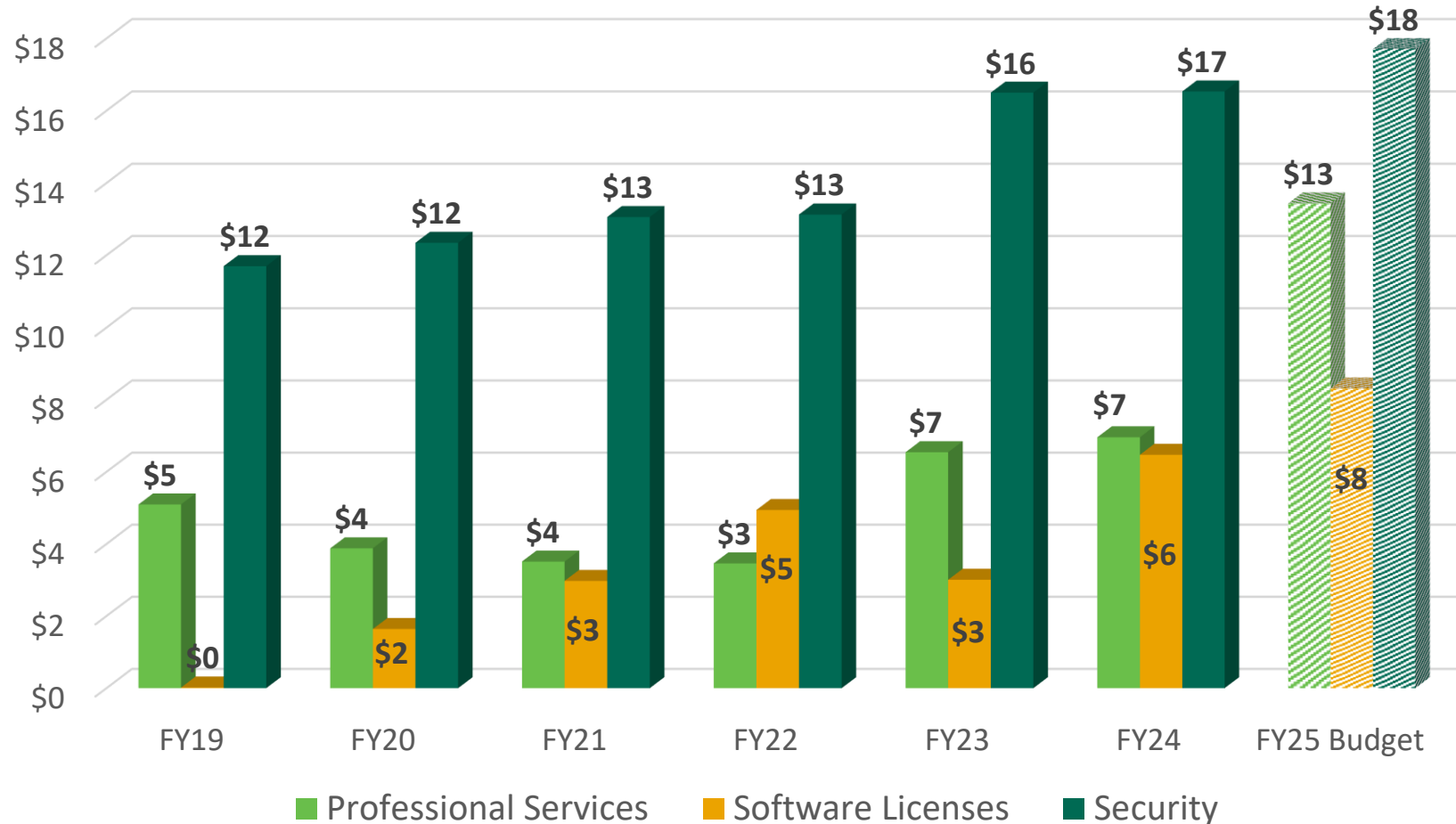
## Pension Expense

- Increases for next few years, then drops in 2028
- Decrease is great – but not ideal for budgeting
- Have informally discussed “smoothing” or spreading some expense from 2026-28 over a 3 or 5-year period to keep total expense more even

# SPENDING TRENDS – SELECT SERVICE EXPENSES



Professional Services, Software Licenses, Security  
\$ Millions



Average annual growth  
FY19 through FY24:

**Prof Services 6%**

- Increased costs and usage

**Software 58%**

- Exaggerated growth - category broken out in 2020
- Software converting from purchase to subscription

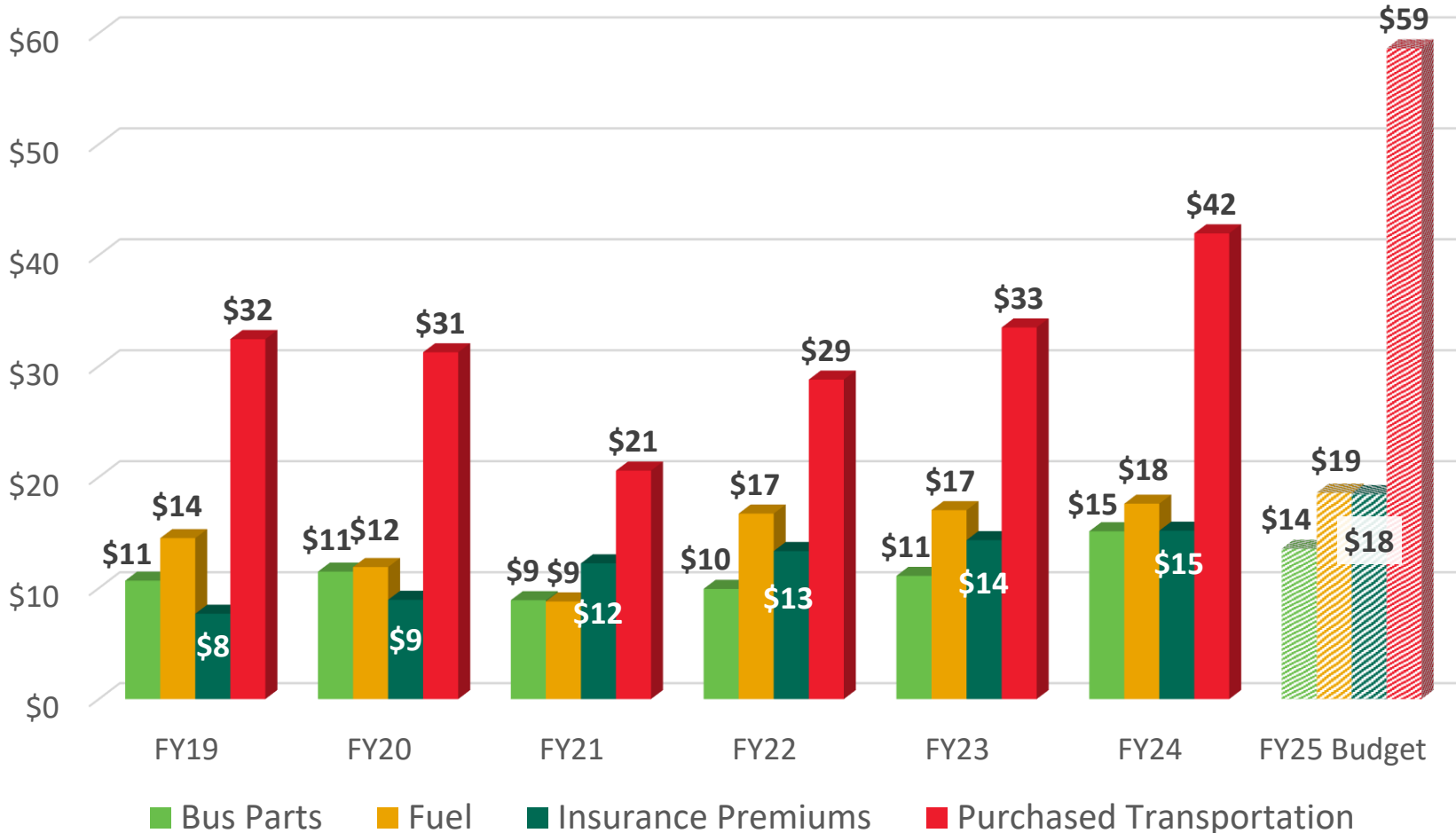
**Security 7%**

- Sheriff contract increases
- Increased use of contract security

# SPENDING TRENDS – SELECT EXPENSES



## Other Goods and Services \$ Millions



## Average annual growth FY19 through FY24:

### Bus Parts 7%

- Inflation, supply chain issues

### Fuel 4%

- Electricity and hydrogen will increase this as ZEB fleet grows

### Insurance 15%

- Significant growth
- CA insurance market is in turmoil

### Purchased Transportation 5%

- Significant recent re-growth of EBP ridership
- Further cost growth expected with new contract

## The Good

- Labor is vast majority of expense – Board controls staffing levels
- Significant pension contributions will pay off soon (2028) in reduced expense
- Workers Comp expense has grown significantly, may be levelling off

## The Bad

- Large growth in various non-labor categories difficult to control
  - Insurance, Paratransit in particular
- Necessary focus on service quality means existing service costs more
- Increased mandates and need in safety/security

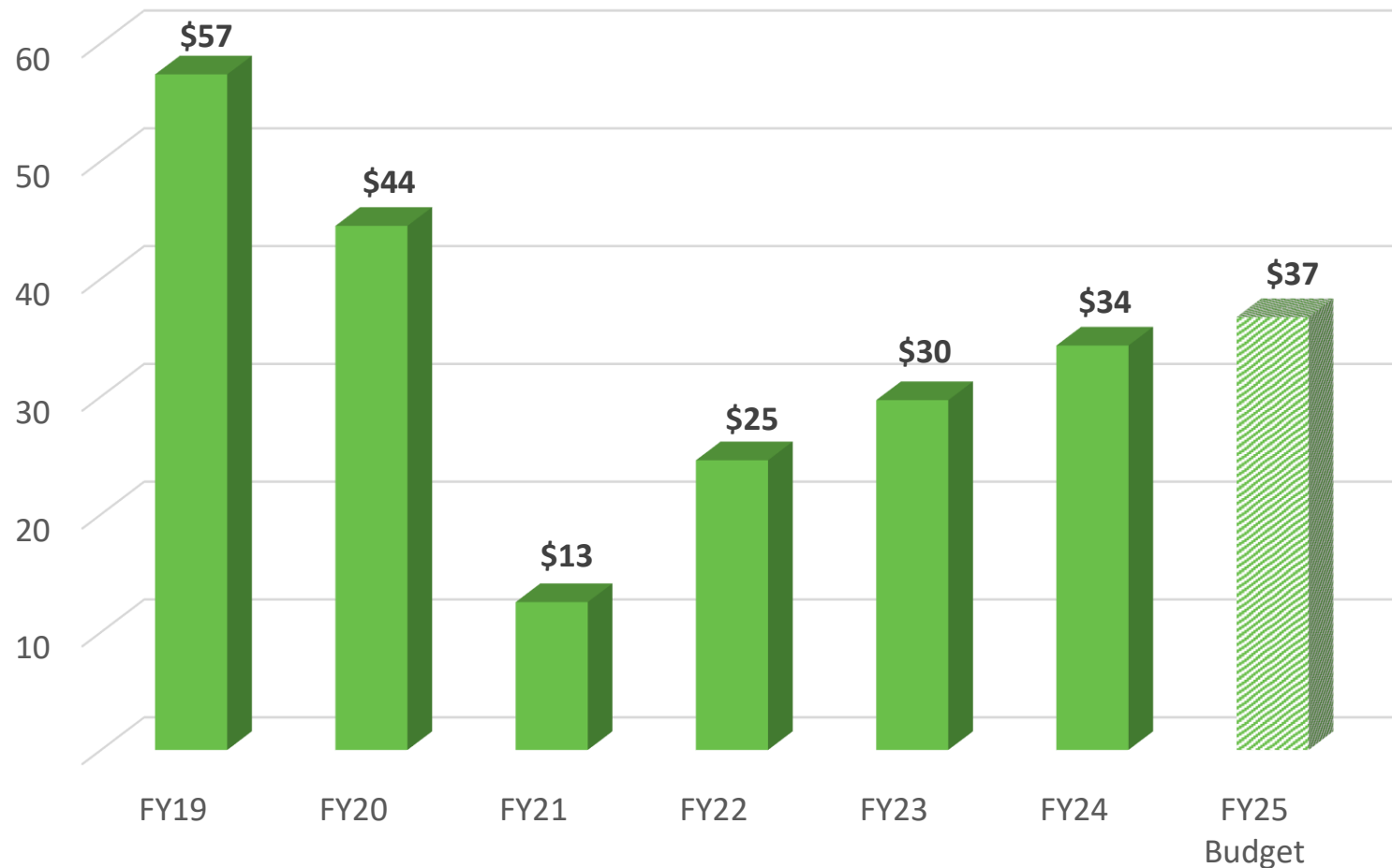
## One source of increasing expenses – Unfunded Mandates

- CARB Zero Emission Transition (ICT)
  - Significant capital costs (\$2B+)
  - Fuel – electricity and hydrogen – is more expensive
  - New training for operators, maintenance
- Operations Training
  - 6 hours total - Harassment/Anti-Bullying, Drug/Alcohol, Human Trafficking, De-escalation, Transportation Safety Administration
  - Regular time and overtime needed for training
- Safety & Security Training
  - 39 different trainings – most mandated
  - FTA Safety & Security mandates increasing – PTASP, SMS, General Directives



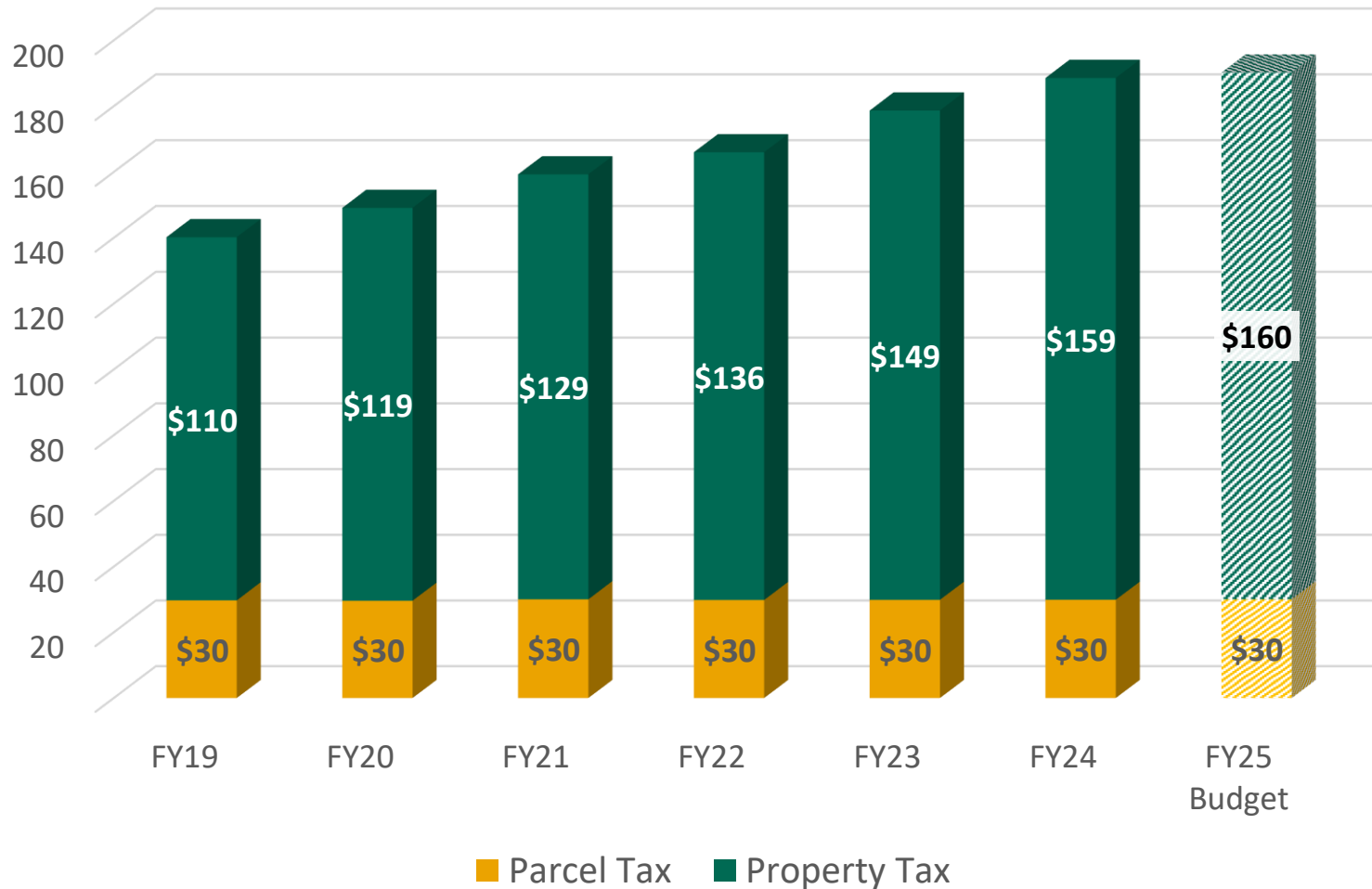
# Revenues

Passenger Fare Revenue  
\$ Millions



- FY 24-25 Budget is 65% of pre-pandemic (vs 75% ridership)
- Relatively low Transbay ridership with its higher fares
- Fare compliance issues on Tempo line estimated to reduce \$3M from total, but enforcement will increase costs

Parcel and Property Taxes  
\$ Millions



## Parcel Tax (Meas VV/C1)

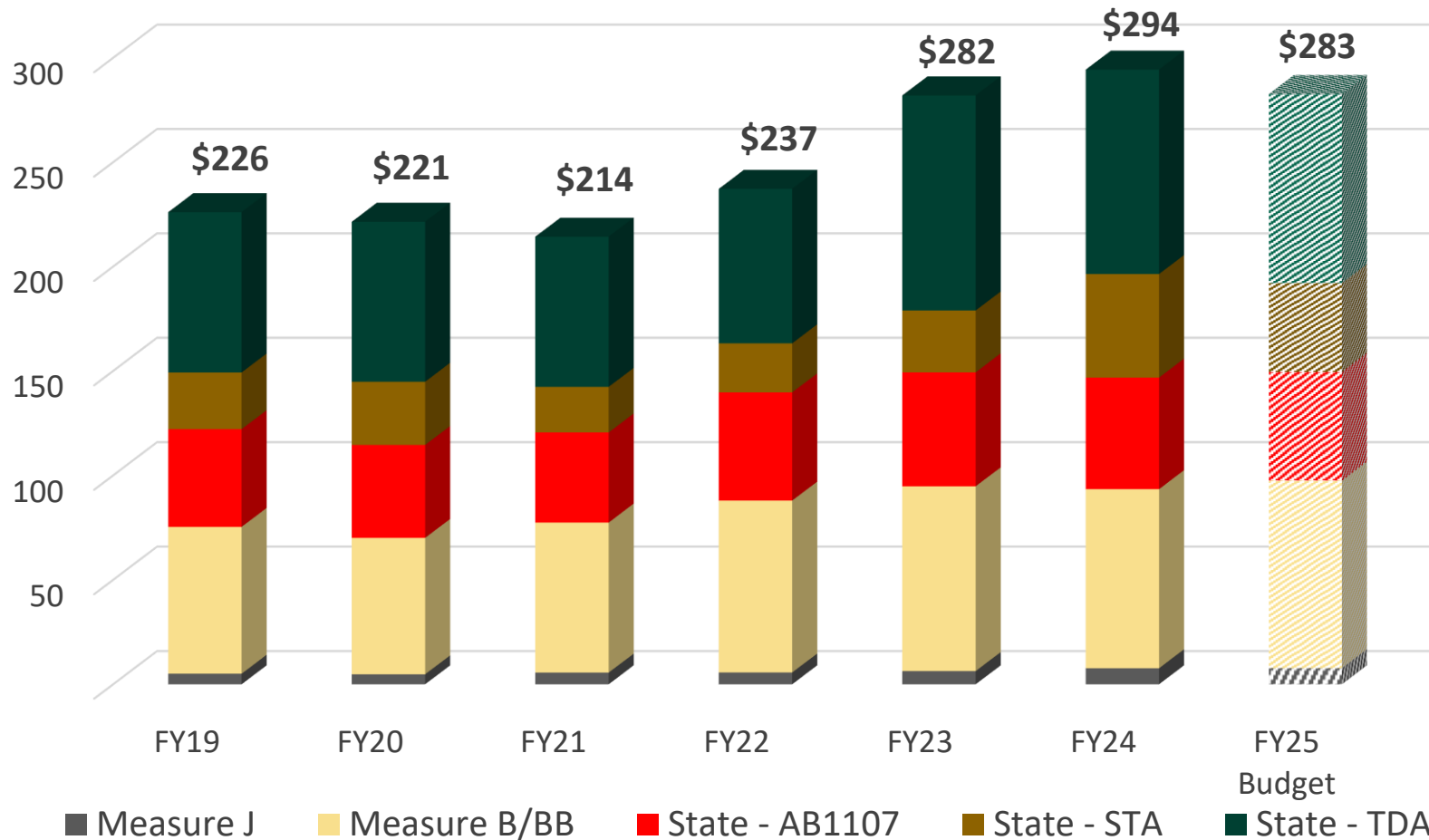
- Stable – 1/4% growth
- (\$96/parcel/year in SD1)
- Expires 2036

## Property Tax

- Significant strength of AC Transit Revenues
- Unique in Bay Area
- Avg annual growth 8%
- *Great for revenues, bad for workforce housing*



Sales Taxes  
\$ Millions



## Sales Taxes

- Avg 30% of total revenues
- Avg annual growth 5%
- End of FY24 saw recession in TDA – first sign of slowing growth
- FY25 budget has (4%) drop

## The Good

- District has diverse revenue base – key to our good credit rating
- Growth in sales tax revenues over past several years have helped immensely
- Solid growth in property taxes likely to continue
- Fed/State emergency relief helped for six years (FY21 – FY25)

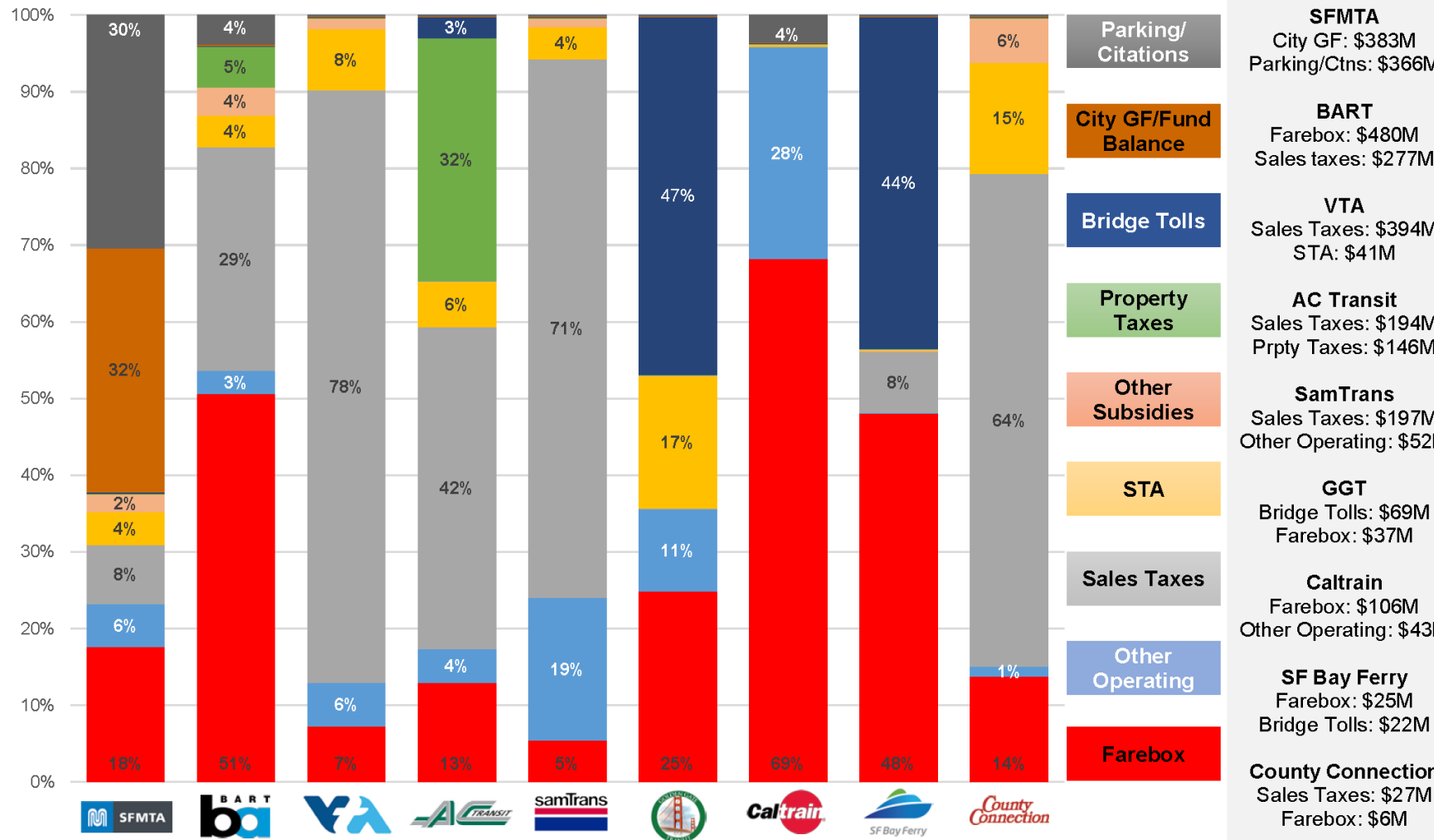
## The Bad

- Fare revenue still low – the primary reason for deficits
  - Unlikely to achieve pre-pandemic levels for several years (or more)
- Strong sales tax growth looks to be over
- Overall revenue growth has not matched expense growth

# HOW AGENCIES IN THE REGION ARE FUNDED



**Selected Bay Area Transit Agencies  
FY19-20 Adopted Budgets - Revenue Share Comparisons**



**Top 2 Sources by Agency**

**SFMTA**  
City GF: \$383M  
Parking/Ctns: \$366M

**BART**  
Farebox: \$480M  
Sales taxes: \$277M

**VTA**  
Sales Taxes: \$394M  
STA: \$41M

**AC Transit**  
Sales Taxes: \$194M  
Prpty Taxes: \$146M

**SamTrans**  
Sales Taxes: \$197M  
Other Operating: \$52M

**GGT**  
Bridge Tolls: \$69M  
Farebox: \$37M

**Caltrain**  
Farebox: \$106M  
Other Operating: \$43M

**SF Bay Ferry**  
Farebox: \$25M  
Bridge Tolls: \$22M

**County Connection**  
Sales Taxes: \$27M  
Farebox: \$6M

We are all different!

- Significant amount of sales tax revenues (light grey)
- Pre-pandemic, farebox was a big source for some
- AC Transit is unique in having significant amount of property tax



# Projections

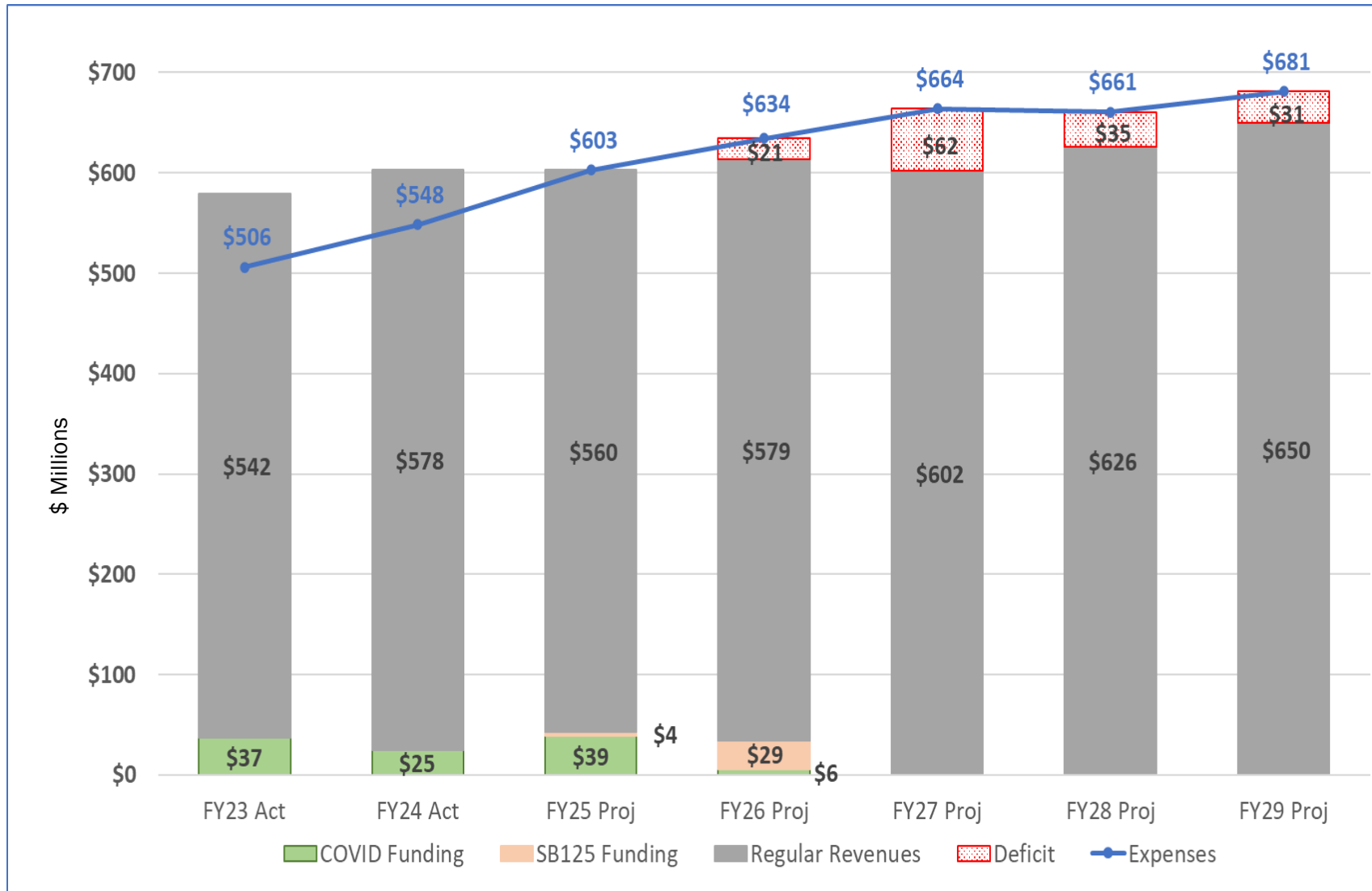
## What has changed since last time (May 2024)?

- Initial deficit (FY26) smaller due to stretching of federal ARP revenue into FY26
- Outer year deficits slightly larger – but overall 4-year total about the same
- Including projection at 100% (return to pre-pandemic) service level

## Factors

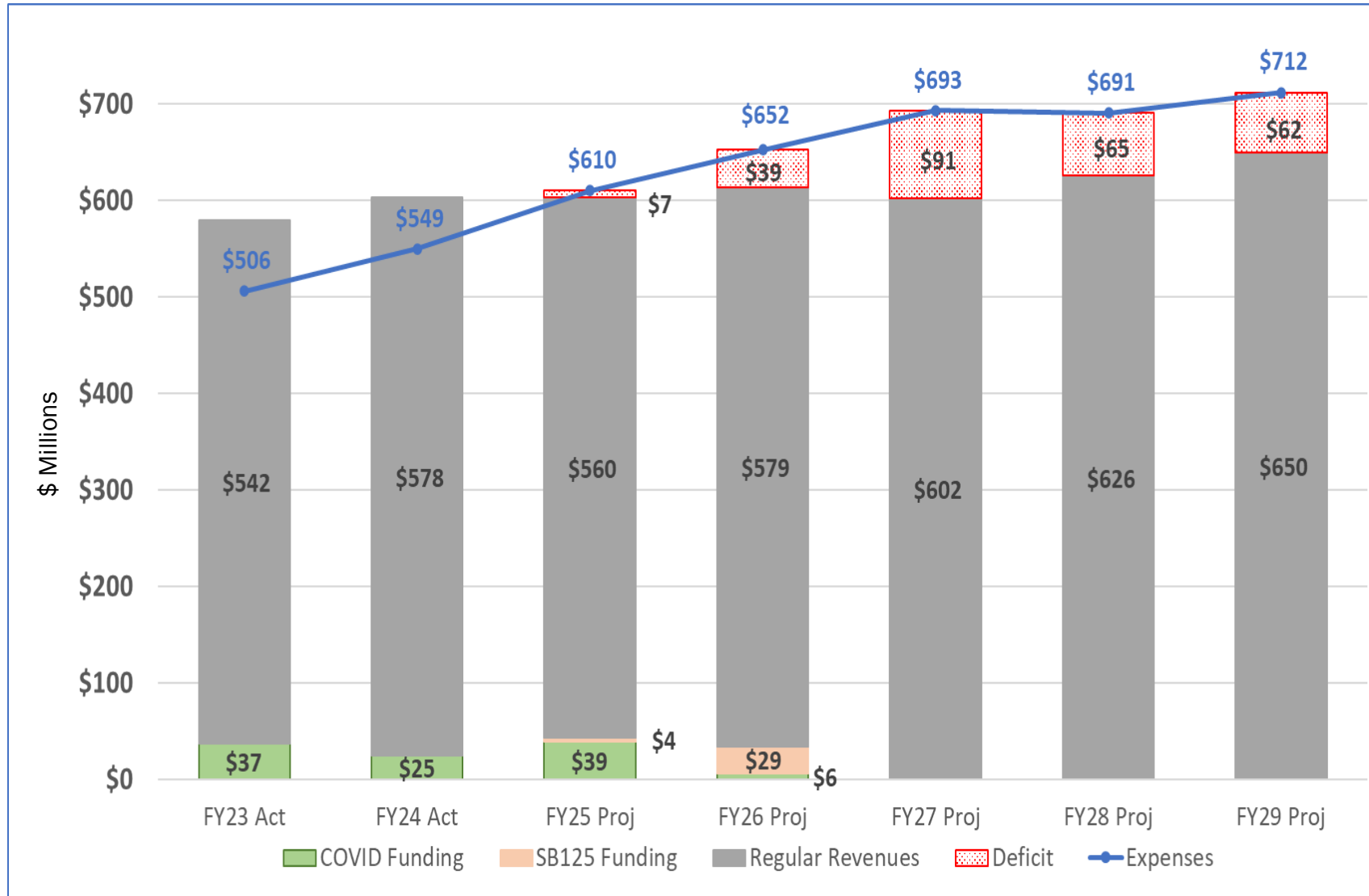
- Does not attempt to predict recession, assumes mildly slower growth
- Does not use “smoothed” pension expenses, which could take large FY27 deficit and spread it over FY26-FY30 period
  - Pending discussion with Pension Board
- Similar sized (to FY29) deficits likely to continue in FY30 and beyond
  - A “structural” deficit

# FINANCIAL PROJECTION – 85% SERVICE LEVELS



- Keep current 85% service level
- No pension smoothing
- 4-year total: \$149M

# FINANCIAL PROJECTION – 100% SERVICE LEVELS



- Operator count increases to support 100% service by FY27
- No pension smoothing
- 5-year total: \$265M

## **Regional measure provides new funding**

- Regional measure in Nov 2026 passes, funding available in 2027
- Use of reserves can get us through FY26 and FY27 into first half of 2027

## **No regional measure**

- Small chance that state or federal funds could be extended, but unlikely to be enough to cover deficits?
- Use of reserves can provide glide path to reduce expenses and balance budget





# Capital Budget

## Where does capital spending fit in all of this?

- Majority of capital funding comes from grants – 90% of total for FY 24-25
- District's own Capital funds essentially come from prior year surpluses
- District Capital used for match and hard to fund SGR projects – facilities and IT
- District Capital Budget varies - \$17M-\$28M past 3 years
  - Actual spending even more variable depending on when bus deliveries happen - \$4M-\$20M past 3 years
- Significant cost increase in ZEBs and added infrastructure are taking up most all District Capital to use as match
- **Running deficits will significantly affect District Capital supply**

Nov 13, 2024	Budget Development Calendar
Feb 12, 2025	Budget Goals
<i>Nov 2024 – Feb 2025</i>	<i>Mid-Year Adjustment</i>
<i>Jan 2025</i>	<i>FY 25-26 Budget Process starts</i>
Apr 9, 2025	Draft Operating Budget
May 14, 2025	Proposed Operating & Capital Budgets
June 11, 2025	Recommended Operating & Capital Budgets

- DBX** – Dumbarton Express, a regionally (bridge toll) funded commuter service across the Dumbarton Bridge, managed by AC Transit on behalf of a consortium of operators.
- EBP** – East Bay Paratransit, a joint venture of AC Transit and BART to fulfill both agencies’ ADA Paratransit mandates.
- Fringe** – employer labor expenses on top of wages, may include pension. Healthcare, Pension, Paid Time Off, Employee Insurance, FICA Taxes, Post Employment Benefits, Work Clothing Allowance.
- Measure BB** – Alameda County ½% sales tax passed in 2014. In 2022 increased to 1% with expiration of prior Measure B sales tax. Expires in 2045.
- Measure J** – Contra Costa County ½% sales tax passed in 2009 extending prior Measure C. Expires in 2034.
- SB 125** – Senate Bill 125 (2023), a state budget trailer bill that outlines how \$5.1B in state budget funds are to be used to support transit agencies through the TIRCP and ZETCP programs.
- STA** – State Transit Assistance – 1979 State law providing transit funding from diesel sales taxes.
- TDA** – Transportation Development Act – 1971 State law directing ¼% of state sales taxes to transit.
- TIRCP** - Transit and Intercity Rail Capital Program is a grant program started in 2014 and administered by CalSTA to fund capital improvements for rail, bus and ferry transit systems. Used to distribute \$4B in SB 125 funds.
- ZETCP** - Zero-Emission Transit Capital Program, a program to allocate \$1.1B of SB 125 funds.