

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 7/26/2023

Staff Report No. 23-383

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager/Chief Executive Officer
SUBJECT: Financial Update for Realign

BRIEFING ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider receiving a District financial update related to the Realign effort.

Staff Contact:
Chris Andrichak, Chief Financial Officer

STRATEGIC IMPORTANCE:

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

Providing the Board and public updated financial information will help set expectations and provide guidance on what can be achieved with the Realign program.

BUDGETARY/FISCAL IMPACT:

There are no fiscal impacts from this report, although it does discuss the District's overall fiscal situation.

BACKGROUND/RATIONALE:

Staff last updated the Board on the District's financial outlook and projections in April 2023. Those projections showed varying deficits over a five-year period (FY 24-25 through FY 28-29) using three sets of assumptions (best, expected, and worst cases). The expected case showed a total deficit of \$143 million over the five-year period. All of the projections used the current service level as a constant over the projection.

The different projections primarily vary the amount of revenues the District would receive based on performance of the local and state economy. The sales, property and parcel taxes that make up the bulk of the District's revenues change depending on how the economy performs, which ultimately determines the deficits that arise. There are things the District is doing now and could do in the future to reduce expenses, but the primary driver of expenses is labor and that is mainly based on service level. Outside of service level, the cost reductions can apply to any scenario and so don't help to differentiate the scenarios.

The past few months have not greatly changed the economic outlook staff used to construct the revenue

scenarios. What has changed is the adoption of a state budget that includes funds to help fill in these deficits that AC Transit and other agencies are projecting. The adopted state budget includes two parts of funding: \$4 billion in restored Transit and Intercity Rail Capital Program (TIRCP) capital funds; and \$1.1 billion in a new program. Both amounts have flexibility to be used for transit operations, although the TIRCP funds have already been allocated for major capital projects. The District does not have an allocation of TIRCP funds that it could utilize.

The \$1.1 billion is going to be distributed to regions using existing State Transit Assistance formulas, and the Metropolitan Transportation Commission (MTC) expects to receive around \$400 million for this region. MTC will then have to figure out how to distribute the funds to operators within the region. MTC has already collected updated financial and operating data from operators to begin that process.

Given that the region projected a \$2.7 billion collective deficit over the next five years, the \$400 million will obviously not fully solve the problem. The funding is further really meant as a bridge to when the region can generate its own funding through a ballot measure or otherwise as a permanent solution to the ongoing projected deficits. For the District this means that there will hopefully be some funding to help reduce the expected deficits. Specifically, for the Realign process the default assumption should be that the District will at best be able to stay at current service levels. Staff will certainly work to do better than just covering the deficits so that service levels can be increased, but the large initial hurdle is just keeping current levels intact.

ADVANTAGES/DISADVANTAGES:

This is an informational report and doesn't have any particular advantages or disadvantages.

ALTERNATIVES ANALYSIS:

This is an informational report and there are no significant alternatives other than what is presented above and in the presentation.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 23-244 Financial Projections (April 2023)

ATTACHMENTS:

1. Financial Update Presentation

Prepared by:

Chris Andrichak, Chief Financial Officer

Approved/Reviewed by:

Chris Andrichak, Chief Financial Officer