

# ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



## STAFF REPORT

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**MEETING DATE:** 4/23/2025

**Staff Report No.** 24-480b

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**TO:** AC Transit Board of Directors  
**FROM:** Kathleen Kelly, Interim General Manager/Chief Executive Officer  
**SUBJECT:** Draft FY 2025-26 Operating and Capital Budgets

### BRIEFING ITEM

**AGENDA PLANNING REQUEST:** ☐

**RECOMMENDED ACTION(S):**

Consider receiving a report on the Draft FY 2025-26 Operating and Capital Budgets.

Staff Contact:  
Chris Andrichak, Chief Financial Officer

**STRATEGIC IMPORTANCE:**

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

Presenting a Draft Budget to the Board allows for an early picture of what the District's financial state will be for the coming fiscal year.

**BUDGETARY/FISCAL IMPACT:**

The Draft FY 2025-26 Operating Budget revenues total \$567.1 million and expenses total \$610.1 million, resulting in an operating deficit of \$43.0 million. Staff recommends using District reserves to cover the operating deficit. These figures are outlined in Attachment 1.

The Draft FY 2025-26 Capital Budget includes projected maximum investment of \$331.5 million, composed of \$307.2 million in grant funds and \$24.3 million in District Capital funds. The Draft Capital Budget is shown in Attachment 2. Because the Operating Budget projects a deficit, staff have changed how the District Capital funding is calculated for inclusion at the bottom of the Operating Budget table. Capital projects often take multiple years to complete, so the budget amounts are a commitment over the life of the project and actual spending of the projects in aggregate in a fiscal year is always going to be less than the budget. Since actual spending is what matters for the deficit and use of reserves, the amounts at the bottom of the Operating Budget Table are now best estimates of spending for a given fiscal year.

**BACKGROUND/RATIONALE:**

Overview

This staff report presents current best estimates regarding the District's revenues and expenses for the coming fiscal year budget and describes the steps which staff is taking to reduce expenses. However, expenses exceed known revenues at this point, as expected, and there are only so many "non-critical" expenses that can be reduced. Therefore, the Draft FY 2025-26 Budget can not be balanced using existing revenues. This next fiscal year should be considered a "transition" year, as the District advocates for additional external funding. It will not be possible to maintain existing service levels for FY 2026-27 and beyond unless new revenues are identified.

The District and other Bay Area transit operators are advocating for shorter-term, stop-gap revenue from the state as part of a \$2 billion proposal to sustain public transit that is currently being considered in the legislature. That funding, if approved and made available to AC Transit would reduce the amount of reserves the District needs to use next fiscal year and the following year. A longer term funding solution in the form of a regional or local sales tax measure could be included on the ballot in November 2026.

Although the FY 2025-26 budget scales back spending in many areas, it maintains funding to support the current level of service, which is already reduced from the level of service operated prior to the pandemic. During the next fiscal year, the District will need to begin planning for significant potential service reductions, in the event that new external funding is not available to sustain current levels. Staff will also continue to analyze options to reduce or defer non-service-related expenses such as pension cost smoothing and revenue options such as converting capital funding to operating.

#### Financial Outlook and Projection

The current projection (slide 4 of Attachment 3) is similar to the one presented to the Board in February 2025, with the addition of revenue from approved fare increases, and replacing the FY 2025-26 projection with the Draft budget. The projection continues to assume 85% service levels and current staffing levels. No additional revenue from potential regional and local measures has been assumed. Emergency State funding will be used up next fiscal year and projections have been made worse by recent MTC sales tax funding estimate reductions (presented to the Board in February 2025). Deficits are still projected starting in FY 2025-26. Expense decreases were already assumed in the projection, so additional budget reductions will help but may not change the projection as much as expected.

The reality is that the District will not have enough "regular revenues" to support expenses. The significant reduction in Farebox revenue since the start of the pandemic, coupled with significant inflation over the past couple years, and worsening sales tax revenue outlook have broken the existing business model for the District. Reserves will be needed to support operations for as long as possible under the scenario where new revenues are identified to support current operating levels, but that is only possible for a year or two.

#### Draft Operating Budget

As part of the budget development process, major sacrifices have been required and are discussed below. More than \$9 million has been shaved from the budget, mostly in Professional Services, but also travel and training budgets, temporary help, and supplies. Along with these reductions, the District is unfortunately seeing increases in other non-discretionary areas such as liability and insurance. Overall, the total expense budget is \$610.1 million, which is nearly flat from the current fiscal year and quite an achievement even if it

does not solve the deficit problem.

The Draft Budget supports 85% service levels per Realign. Many vacancies not directly tied to service will not be filled.

### Draft Operating Budget Assumptions

#### *Operating Revenue*

Projected revenue of \$567.1 million is a decrease of \$38.7 million (6.4%) from the FY 2024-25 budget. The primary decrease is in Federal and State “emergency” funding, which is reduced by 59.7% from \$52.2 million to \$21.0 million.

As mentioned earlier, funding from sales taxes is showing signs of weakness via the revenue estimates MTC showed in February, which were worse than staff had been expecting. Property taxes are still expected to increase as any changes in the economy take a while to have an effect on these revenues. Farebox revenue is assumed to increase by about 3% from FY 2024-25 levels, plus \$4.0 million due to the Board approved fare increases.

- Farebox revenue of \$40.0 million, a \$3.3 million (8.9%) increase from FY 2024-25 budget. Ridership and farebox revenue growth have slowed considerably and the increase is mostly due to the recently approved fare change.
- Property and parcel taxes (Measure VV/C1) remain resilient and are budgeted at \$199.9 million, a \$9.7 million (5.1%) increase, which is in line with recent trends.
- Sales Taxes (Measures BB/J, Transportation Development Act (TDA), and AB1107) are budgeted at \$226.5 million, a \$13.6 million (5.7%) decrease from last year’s budget.
- Other Federal, State, & Local revenues (STA funding from State diesel taxes, Federal and State operating assistance, RM2 and RM3 operating support) of \$61.7 million, a \$6.8 million (9.9%) reduction from the FY 2024-25 budget due primarily to reductions in STA.
- Federal and State emergency funds of \$21.0 million from SB125 support is a decrease of \$31.2 million from the FY 2024-25 budget due to all federal emergency funding having been drawn down this fiscal year.

#### *Labor expenses*

Labor expenses, at \$414.7 million, represent an increase of \$9.2 million (2.3%) over the FY 2024-25 budget, primarily due to projected increases in Healthcare and contractual salary increases.

- Salaries and Wages of \$190.8 million, a \$7.2 million (3.9%) increase based on a combination of the below factors:
  - Expected average wage increases of 3.0%
  - Continued reliance on overtime to maintain service levels
  - There are no new positions included in this budget, and hiring continues to be strictly controlled to essential positions.
- Fringe Benefits of \$158.7 million, a \$7.3 million (4.8%) increase over FY 2024-25 budget, primarily due

to increasing Healthcare costs. Healthcare contracts are based on calendar year, and staff as well as the District's Healthcare broker project continued increases based on recent year trends.

- Pension contribution of \$65.2 million, a \$5.3 million (7.5%) decrease from the FY 2024-25 budget. Although this is a decrease from budget, it is an increase from the projected FY 2024-25 actual results.

### *Non-Labor expenses*

The FY 2025-26 Draft budget reduces \$4.9 million (2.4%) in non-labor expenses. Major expense increases in Casualty & Liability are offset against significant reductions in smaller accounts such as Professional Services, Travel & Training, Temporary Help, and others.

- Services Expense of \$52.0 million, a \$4.3 million (7.6%) decrease from the FY 2024-25 budget primarily due to concerted efforts by all departments to coordinate and reduce expenses in Professional Services, temporary help, and other accounts.
- Fuel and Lubricants of \$16.4 million, a \$1.7 million (9.6%) reduction from FY 2024-25 budget. The projection for FY 2024-25 actual spending is lower than budget and compared to that the budgeted amount is a moderate increase.
- Casualty & Liability of \$34.6 million, a \$6.3 million (22.2%) increase over FY 2024-25 budget due to anticipated insurance premium increases. The District is suffering through some significant claim settlements along with the generally strained insurance market in California.
- Purchased Transportation (East Bay Paratransit and Dumbarton Express) of \$54.7 million, a \$4.0 million (6.7%) decrease over FY 2024-25 budget. The decrease is based on staff's estimate for changes in paratransit trips and takes into consideration the Paratransit contract cost estimate of \$53.3 million, which is a \$2.3 million decrease from the FY 2024-25 adopted budget. The FY 2024-25 budget included a conservative estimate made before the paratransit contract terms were finalized. Actual paratransit expenses are projected to come in under budget this fiscal year. The FY 2025-26 budget represents a \$3.0 million (6.1%) increase over the projected actuals for this fiscal year.

### *Draft 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, laid out in the Strategic Plan, Transit Asset Management Plan, Zero Emission Rollout Plan, and Clean Corridors Plan.

The Draft FY 2025-26 Capital Budget includes projected maximum investment of \$331.5 million, composed of \$307.2 million in grant funds (93%), and \$24.3 million (7%) in District Capital funds. The Draft Capital Budget is shown in Attachment 2. The Draft FY 2025-26 Capital Budget includes 6 new, 41 continuing, and 7 annual projects for a total of 54 projects.

The Budgeted amounts for capital projects represent what is necessary to complete projects (usually the full project, sometimes just a distinct phase such as design), but this 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. This also means that in a given year, actual capital spending will be less than the full budget, often around 50% less. To better show spending needs given the District's projected deficit, while the Capital Budget listing shows the full budgets, staff has changed to showing an

expected spending amount at the bottom of the full Operating Budget table. This is to better show what the size of the net deficit will be in the fiscal year including Capital, because what matters is spending and not budget.

Capital projects are mainly supported by restricted grant funds, particularly facilities and bus purchases. Many grants require a proportional contribution from the project sponsor, referred to as “local match”. To the extent possible, staff utilize other grants to meet these requirements. However, District Capital commitment is still needed as match for certain grants, and for projects that are difficult to fund with grants.

Of the 66 projects included in the current FY 2024-25 budget, 12 have been completed and another 14 are anticipated to close by the end of the fiscal year.

In preparing this year’s budget, staff have prioritized active and continuing projects, new projects required to meet compliance or safety requirements, new required state of good repair projects, and grant funded transit reliability or enhancement projects.

Where possible, staff have proposed deferring discretionary projects, delaying projects that require a significant local match to enable them to seek additional grant funding, and utilizing flexible cost savings from these closed projects to offset District Capital from other projects.

The Draft Capital Budget adds new grants for bus replacements, grants for corridor enhancement on Line 51 and District Capital for required sewer work at D4.

Of note, the Draft Capital Budget includes multiple bus procurements, which reflect procurements that were deferred over the past few years due to price increases and insufficient funds. Bus purchases, particularly fuel cell buses, have seen increasingly long lead times, with purchases taking up to two years to be delivered. These procurements are expected to be delivered in two to three years but must be included in the Capital Budget to allow for contracts to be executed to reserve the District’s place in the manufacturing line.

#### Next Steps

Staff will continue to finalize departmental budgets along with other elements of the Draft Budget and any feedback from the Board with the aim of presenting a “complete” budget to the Board for the Proposed Budget.

#### **ADVANTAGES/DISADVANTAGES:**

This report is being provided as a high-level draft budget and does not recommend a course of action with notable advantages or disadvantages.

#### **ALTERNATIVES ANALYSIS:**

This report is being provided to inform the Board of the activities associated with the development of the FY 2025-26 Operating and Capital Budgets. Staff will take feedback from the board in the process of refining alternatives in support of a more refined and comprehensive budget proposal to be presented at the May 28th board meeting.

**PRIOR RELEVANT BOARD ACTION/POLICIES:**

1. SR 24-480 FY 2025-26 Budget Development Calendar
2. SR 24-480a FY 2025-26 Budget Guidelines and Financial Projection

**ATTACHMENTS:**

1. Draft Operating Budget Table
2. Draft Capital Budget Table
3. Presentation

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