STAFF REPORT

MEETING DATE: 7/8/2020 **Staff Report No.** 20-062b

TO: **AC Transit Board of Directors**
FROM: **Michael A. Hursh, General Manager**
SUBJECT: **Draft FY 2020-21 Operating and Capital Budgets**

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving a report on the Draft FY 2020-21 Operating and Capital Budgets, including an overview of the major assumptions and drivers to the operating revenues and operating expenses.

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 FY20-21 Operating Budget includes a projected operating revenue and subsidy budget of $465.3 million and an operating expense budget of $470.6 million, resulting in an operating deficit of $5.3 million. These figures are outlined in Attachment 1.

The Draft FY20-21 Capital Budget includes a projected spending plan of $81.9 million, composed of $54.8 million in grant funds, $7.8 million in District Capital funds, and $19.3 million of Line of Credit funds for the East Bay Bus Rapid Transit (BRT) Project. The Draft Capital Budget is shown in Attachment 2.

BACKGROUND/RATIONALE:

Overview

This budget process has been extended by the Board's decision to have the District work with a month-to-month budget for the first quarter of the coming fiscal year. This has allowed staff a bit more time to assemble the Draft Budget. The coronavirus pandemic continues to affect the local, national, and global economy, and as planned, staff is continuing to watch trends towards the planned adoption of the budget in early September.

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law in late March and is providing the District with significant revenue relief. The first allocation of funds was approved by the

Metropolitan Transportation Commission (MTC) in late April, and the District received approximately $80 million. The second round of funding is currently being discussed by MTC staff and the members of the Blue Ribbon Transit Recovery Task Force. Based on preliminary distribution formulas, the District is likely to receive another $40 million, which will have been decided by the time this report is presented. This funding is crucial to allowing the District to continue functioning and keeping its workforce employed.

Staff presented some of the revenue assumptions and ranges used to develop the Draft Budget to the Board at the workshop on June 3rd. The only significant change is to use a more conservative range for farebox revenue based on further inter-departmental discussion of ridership forecasts and the process and dates for re-starting fare collection.

Service levels are planned to increase to 75% of pre-pandemic levels in August. The December signup is planned to only have minimal correction-type changes. Staff is currently analyzing larger changes for the March 2021 signup and will be soliciting Board input. Based on the projected operator count at that time, staff could increase service to approximately 80% of pre-pandemic levels. This will also depend on revenue assumptions holding at budgeted levels or better so that staffing projections can continue. Staff is taking advantage of the current service level changes to reduce built-in overtime and better provide required rest and meal breaks, which will overall increase the District's cost per service hour. This should also improve on-time performance and provide for more reliable service.

The ongoing coronavirus pandemic has caused over $1 million in extra personal protective equipment (PPE) and cleaning supply costs so far. Included in the budget is approximately an extra $1 million to cover these continued costs through the fiscal year. A significant amount of the to-date costs have been from one-time equipment purchases and inflated market prices for supplies. Staff is already seeing significant market price reductions as manufacturing of supplies has ramped up, leading to the modest cost increase to the full FY20-21 budget year.

The Tempo Line - the East Bay Bus Rapid Transit service - will begin with the August signup. Included in the budget are nearly $1 million in new non-labor costs to handle the startup and regular service. The most significant items are two additional deputy sheriff positions ($444,000) and a graffiti abatement/pressure washing contract ($230,000). Staff has requested 12 new positions related to Tempo service that total $3 million. New positions are still being reviewed and so are not yet included in the budget. Finally, the farebox revenue forecast also accounts for the initial three months of fare-free service.

The draft budget does not include any new positions. There were 32 new positions requested, a portion of which were previously requested for this fiscal year's mid-year adjustment and carried over. Half of the new positions requested were for janitorial staff to implement enhanced cleaning protocols due to the coronavirus pandemic. Staff are still analyzing the position requests and will include any necessary ones in the Proposed Budget for discussion.

Draft Budget Forecasts and Assumptions

Revenues:

- Farebox revenue of $26.7 million, a $33.0 million (-55.3%) reduction from the FY19-20 budget. This amount is on the pessimistic end of the range considered by staff. There is great uncertainty surrounding when riders will return to transit, and staff felt it prudent to be as conservative as possible with farebox revenues.

- Contract Services of $9.8 million, a $473,000 (-4.6%) reduction from the FY19-20 budget. BART has reduced the Early Bird service that they contract with the District for and so staff is reducing this expense.
- Property and parcel taxes (Measure VV/C1) are projected to be $144.7 million, which is a minor $895,000 (-0.6%) reduction from the FY19-20 budget.
- Sales Taxes (Measures B/BB/J, Transportation Development Act (TDA), and AB1107) are projected to be down $58.6 million (-29.5%) from the FY19-20 budget. This is in the middle of the 20-40% staff forecast range.
- State Transit Assistance (STA) is projected to be down $7.0 million (-25.3%) from the FY19-20 budget.
- Regional Measure 2 (RM2) is projected to be down $4.6 million (-35.0%) based on toll revenue projections from MTC.
- Regional Measure 3 (RM3) subsidy is not included in the draft budget. The funds are still being held in escrow pending resolution of legal action.
- Other subsidies are up $10.8 million (109.8%) due to use of cap and trade Low Carbon Transit Operating Program (LCTOP) funds for BRT operations and timing of federal paratransit operating subsidies.

Labor expenses:

- Salaries and Wages are down $1.8 million (-1.1%) based on the combination of the below factors:
    - Wage costs include a 3% wage increase for ATU employees and a 3% wage increase and one-time 1% equity adjustment for IBEW employees, both per their respective labor contracts.
    - No wage increase is included for unrepresented employees.
    - The current hiring freeze except for critical positions is expected to continue.
    - Attrition of eight operators per month is assumed over the fiscal year
    - Operator count is reduced by 70 currently vacant positions
    - Operator overtime is significantly reduced (43.0%) from the FY19-20 budget. This is because of an increased amount of operators available per service hour due to the reduction in service hours.
- As noted, no new positions are included in the Draft Budget.
- Fringe Benefits increase $469,000 (0.4%) primarily due to increases in various ATU non-wage costs from the approved contract and the Healthcare premium increases of 3% for Kaiser and 5% for HealthNet.
- Pension contribution is $63.3 million, a $4.3 million (7.3%) increase from the FY19-20 budget.

Non-Labor expenses:

- Services Expense increases by $2.8 million (7.4%). Staff has included all department requests in this category for the draft, but is already reviewing requests with the departments and executives to decrease the amount for the Proposed Budget. Part of the increase is also due to a $1 million increase in the District’s portion of the Salesforce Transit Center (STC) operating charge. This 25% increase is due to reduced revenues for the STC.
- Fuel and Lubricants are down by $2.0 million (-13.0%) from the FY19-20 budget. Fuel prices have recently hit a very low point but are forecast to gradually increase, and service levels will be increasing

also as described in the overview.

- Other Materials and Supplies are down by $3.2 million (-18.8%) from the FY19-20 budget. This is primarily driven by reduced parts costs from the reduced service levels. Offsetting is the increased expense for PPE and cleaning supplies.
- Utilities and Taxes are down by $605,000 (-8.5%) from the FY19-20 budget primarily due to reduced use tax from the reduced materials expenses.
- Casualty and Liability costs are up significantly by $3.9 million (23.5%) due to insurance cost increases.
- Paratransit and Purchased Transportation costs are down by $3.6 million (-10.4%). This is mainly due to continued low East Bay Paratransit ridership through the first half of the FY. Reduced RM2 funding is also forcing a reduction in Dumbarton Express service.

Capital Budget

The Draft FY20-21 Capital Budget includes 13 new and 41 continuing projects, for a total of 54 projects. These projects have a total estimated spending for the fiscal year of $81.9 million, composed of $54.8 million in grant funds, $7.8 million in District Capital funds, and $19.3 million of Line of Credit funds specific to the Tempo/BRT Project. Staff worked to reduce the amount of District Capital spending through deferrals or use of grant funding where available. District Capital spending is reduced by $1.9 million (-19.5%) from the FY19-20 Capital Budget. The Draft Capital Budget is shown in Attachment 2.

The 13 new projects are shown in Attachment 2 with “NEW” for a Project ID. The new projects have total spending of $5.5 million, which is 86% grant funded ($4.7 million). Three new vehicle projects are included because they are planned to go into contract, but they will not have any actual expenses in FY20-21 as vehicle purchases in general do not incur expense until delivery. Delivery times for buses vary, but are generally at least a year, and often 18-24 months. All new projects are from the approved Capital Improvement Plan with the partial exception of the vehicles purchases. The vehicle purchases have been changed based on staff discussion, updated fleet analysis, and practical implementation constraints of the transition to zero-emission. Otherwise for some of the new projects the planned years and amounts for spending may have shifted based on a variety of factors.

Of the 41 continuing projects, six are yearly programmatic projects. Beginning with FY20-21 a new yearly programmatic project for BRT Capital Maintenance has been added to the five existing yearly projects. This is funded initially at $100,000, which will increase in future years as warranties expire on installed equipment.

ADVANTAGES/DISADVANTAGES:

This report is being provided as an initial 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 2020-21 Operating Budget. Staff is in the process of refining alternatives and evaluating recommendations proposed by the Board of Directors, in support of a plan to present a more comprehensive budget proposal in the next round of budget deliberations with the Board of Directors.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 20-062 FY 2020-21 Budget Goals & Objectives // SR 20-062a Delay in Adoption of FY20-21 Budget and Continued Spending Authority

ATTACHMENTS:

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

Prepared by:
Chris Andrichak, Director of Management and Budget

In Collaboration with:
Richard Oslund, Budget Manager
Mary Archer, Finance Project Manager
Evelyn Ng, Manager of Capital Planning & Grants

Approved/Reviewed by:
Claudia L. Allen, Chief Financial Officer