

# ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



## STAFF REPORT

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**MEETING DATE:** 5/28/2025

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

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**TO:** AC Transit Board of Directors  
**FROM:** Salvador Llamas, General Manager/Chief Executive Officer  
**SUBJECT:** Proposed FY 2025-26 Operating and Capital Budgets

### ACTION ITEM

**AGENDA PLANNING REQUEST:** ☐

**RECOMMENDED ACTION(S):**

Consider receiving a report on the Proposed 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

The FY 2025-26 Proposed Budget represents staff's final revenue and expense projections. It is presented to the Board for information and direction, which will be incorporated into the Recommended Budget and presented to the Board in June for final approval. The FY 2025-26 Fiscal Year begins on July 1, 2025.

**BUDGETARY/FISCAL IMPACT:**

The Proposed FY 2025-26 Operating Budget projects operating revenues of \$564.7 million and operating expenses of \$606.3 million, resulting in an operating deficit of \$41.5 million. Both the revenue and expense budget amounts are slightly lower than those presented in the Draft Budget in April. Staff recommends covering the operating deficit using District reserves. These figures are outlined in Attachment 1.

The Proposed FY 2025-26 Capital Budget includes projected maximum investment of \$393.5 million, composed of \$368.2 million in grant funds and \$25.3 million in District Capital funds. The Proposed Capital Budget is shown in Attachment 2. Because of the projected operating budget deficit for the fiscal year, staff 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 the best estimates of spending for a given fiscal year.

**BACKGROUND/RATIONALE:**

Overview

Even after an extensive effort to limit non-salary expenses, it is not possible to balance the FY 2025-26 Budget; expenses are higher than revenues by \$41.5 million and District reserves will be required to make up the difference. Since the Draft Budget was presented in April, staff received additional bad news from the Metropolitan Transportation Commission on sales taxes that resulted in a \$2.3 million decrease in revenue. Overall revenues have decreased \$41.1 million from the FY 2024-25 budget.

There is relatively good news for expenses compared to the Draft Budget presented in April. Final insurance premiums are \$3.6 million lower than the Draft FY 2025-26 budget. The cost of Casualty & Liability is still increasing overall from FY 2024-25 budget by \$2.4 million (8.4%) - just not as much as expected. Labor expenses remain unchanged, although staff lowered the position count in some classifications to align them with the current level of service needs; this did not impact expenses because the positions were unfunded last year and in the Draft Budget. Other changes in non-labor expenses reflect continued “tightening of the belt.” For example, staff consolidated all travel and training budgets except for the Board/District Secretary and General Counsel into one account in the GM’s department, and reduced the amount of budget District-wide by over 60% from the prior year budget .

Change to Authorized Position Count for Bus Operators, Mechanics, and Service Employees

For the past few years, the District has maintained essentially the same position count for operators, mechanics and service employees as before the pandemic. The amount of budget for those positions, though, was reduced to reflect the actual level of service that the District could provide, based on both available revenue and ability to hire and retain operators (about 85% of pre-pandemic service levels).

The FY 2025-26 budget for operators, mechanics, and service employees will be reduced to the number of positions needed to provide the service level approved by the Board for August 2025 and will fully fund those positions. This change reflects the unfortunate reality of the District’s financial situation: going forward, there is a significant challenge to bring in enough new external funding just to maintain the current service level, and increasing above that is not likely to happen anytime soon. Reducing the position count does not reduce the budget, however, since the removed positions were not filled or budgeted - the budget for this year is already set based on the service need and achievable hiring level.

**Position Changes**

<b>Classification</b>	<b>FY 24-25 Approved Positions</b>	<b>FY 25-26 Proposed Positions</b>	<b>Currently Filled Positions</b>
Bus Operator	1379	1250	1222
Mechanic	208	182	177
Service Employee	95	92	92

The authorized operator count of 1250 meets the planned August 2025 service level with a small buffer to account for the variations in filled positions due to hiring, attrition, and movement into and out of long term leave status (per Board Policy 311 operators on long term leave do not count towards the position count).

### Proposed Operating Budget

#### *Revenue*

Since presenting the Draft budget to the board on April 23rd, updated information has resulted in a \$2.3 million decrease in revenues: State Transit Assistance (STA, sales tax on diesel fuel) decreased \$1.8 million and AB1107 (BART district sales tax) decreased \$1.0 million, however these decreases are partially offset by an increase of \$540,000 in Regional Measure 2 (RM2, bridge tolls).

The overall Operating Revenue for next year, at \$564.7 million, is a decrease of \$41.1 million (6.8%) from the FY 2024-25 budget. The primary decrease is in Federal and State “emergency” funding, which will be reduced from \$52.2 million in the FY 2024-25 budget to \$21.0 million.

As mentioned earlier, funding from sales taxes shows signs of weakness as evidenced by the revenue estimates MTC provided in February, which were worse than staff had been expecting. Property taxes are still expected to increase since changes in the economy take a while to influence these revenues.

Below is a summary of the major revenue categories, and changes from the current year budget:

- 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 that is effective July 1, 2025.
- Property and parcel taxes (Measure VV/C1) remain resilient and are budgeted at \$199.9 million, a \$9.7 million (5.1%) increase over FY 2024-25 budget, which is in line with recent trends.
- *(Changed from Draft)* Sales Taxes (Measures BB/J, Transportation Development Act (TDA), and AB1107) are budgeted at \$225.4 million, a \$1.0 million decrease from the Draft budget and a \$14.7 million reduction from the FY 2024-25 budget.
- *(Changed from Draft)* Other Federal, State, & Local revenues (STA, Federal and State operating assistance, RM2 and RM3 operating support) of \$60.5 million, a \$1.3 million reduction from the Draft budget and a \$8.1 million reduction from the FY 2024-25 budget.
- Federal and State emergency funds of \$52.2 million are decreasing to \$21.0 million (-59.7%). Federal emergency funding is exhausted in this fiscal year and drops to zero. The \$21.0 million budget for next fiscal year is entirely from the second and final year of SB125 state funding.

#### *Expenses*

Since the Draft Budget, Staff identified a net decrease of \$3.8 million in expenses.

#### *Labor expenses*

The only change from the Draft Budget in labor costs is \$1.3 million added in Fringe Benefits to include the Workers Compensation Administrative fee. Overall, the FY 2025-26 Labor budget increases \$10.5 million (2.6%) over the FY 2024-25 budget, \$7.7 million (4.2%) in Salaries & Wages and \$8.1 million (5.3%) in Fringe Benefit. The increase is primarily due to contractual salary increases and projected increases in Healthcare.

Pension costs will decrease by \$5.3 million (7.5%) based on the most recent actuarial information.

- Salaries and Wages of \$191.3 million, a \$7.7 million (4.2%) increase based on a combination of the following factors:
  - Expected average wage increases of 3.0%
  - Continued reliance on overtime for operators, maintenance, and salaried (Planning, Scheduling, and Transportation Supervision) to maintain service levels
  - There are no new positions included in this budget, and only essential vacancies will be filled.
- *(Changed from Draft)* Fringe Benefits of \$159.5 million, a \$8.1 million (5.3%) increase over FY 2024-25 budget. An increase of \$1.3 million from the Draft to Proposed Budget reflects the addition of the Workers Compensation Administrative fee. In general, the increases in Fringe from the FY2024-25 Budget are 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*

Since the Draft budget was presented in April, the non-labor budget has been reduced by a total of \$5.2 million (\$5.5 million reductions; \$280,000 increases). Changes in non-labor expenses since the Draft was presented in April:

- Reduce \$3.6 million based on updated information on Insurance Premiums;
- Reduce \$402,000 based on updated information from the Transportation Joint Powers Authority (TJPA);
- Reduce \$350,000 in loss recoveries, an offset that was mistakenly omitted (this accounts for recovery from insurance against claim and settlement expenses) and lowered the budget;
- Reduce \$300,000 by transferring appropriate costs to the Capital budget;
- Reduce \$293,000 based on reduced need for support in dispatch software upgrades for Paratransit;
- Reduce \$254,000 from original estimate for Election of Directors based on updated information;
- Reduce \$140,000 based on decision to not install digital signage at select stops;
- Reduce \$120,000 in consultant work for financial system improvements;
- Add \$160,000 for employee events (Family Day, Division Holiday Celebrations, and District Diversity Events).
- Add \$120,000 for Temporary Help in the Drug & Alcohol Compliance department.

Below is a summary of the non-labor expense categories:

- *(Changed from Draft)* Services expense of \$51.7 million, a \$4.6 million reduction from the FY 2024-25 budget. Staff made significant cuts to Services during the process of developing the Draft FY 2025-26

budget, as outlined in that document. After the Draft Budget, staff transferred an additional \$300,000 from the Services budget to the Capital Budget, for some expenses that are more appropriately classified as capital. Several small adjustments (such as reduced scope for consultant work) were made in the Finance budget, saving \$120,000. However, these savings are offset by an increase of \$120,000 for Temporary Help in the Drug & Alcohol department, which is required to implement sufficient testing to meet compliance requirements.

- Fuel and Lubricants of \$16.4 million, a \$1.7 million (9.6%) reduction from the FY 2024-25 budget, and a modest increase over the projected spending for this year.
- *(Changed from Draft)* Other Materials & Supplies of \$21.7 million, a \$500,000 reduction from the FY 2024-25 budget. An additional reduction of \$140,000 was made from Draft to Proposed Budget, based on the removal of budget for an initiative for digital screen signage and a reduction in stationery supplies.
- *(Changed from Draft)* Casualty & Liability of \$30.7 million, a \$3.9 million (8.4%) increase over the FY 2024-25 budget. Staff estimates for the Draft FY2025-26 Budget were conservative and based on significant claims settlements in the context of a generally strained insurance market in California. The Proposed FY 2025-26 allows for a \$3.6 million reduction from the Draft based on the latest information available on insurance premiums. An additional reduction of \$350,000 is included (mistakenly omitted from the Draft) to account for Loss Recoveries, which is how the District records insurance reimbursements that offset against claim and settlement expenses.
- *(Changed from Draft)* Purchased Transportation (East Bay Paratransit and Dumbarton Express) of \$54.4 million, a \$4.2 million (7.2%) reduction over FY 2024-25 budget. Since the Draft budget was presented in April, staff identified an opportunity to save \$293,000 from software support work that is currently being completed. The overall 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 \$1.7 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 \$2.7 million (5.5%) increase over the projected actuals for this fiscal year.
- *(Changed from Draft)* The Other expense category of \$5.1 million, a \$1.6 million (23.5%) reduction from the FY 2024-25 budget. Reductions in this category are made up of various accounts such as TJPA Lease, Election of Directors, Travel & Training, Dues & Subscriptions, and Employee Incentive. After presenting the Draft budget to the board in April, staff received updated budget information leading to a reduction of \$402,000 for the TJPA lease and was also able to reduce the budget for Election of Directors by \$254,000. Other updates to the Proposed budget since the presentation of the Draft include various increases to department budgets for dues & subscriptions and employee events (such as Family Day, Division Holiday Celebrations, and Diversity Events), which brings the reductions since the Draft to be \$448,000.

### Proposed 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 Bus Transition Plan, and Clean Corridors Plan.

The Proposed FY 2025-26 Capital Budget includes a projected maximum investment of \$393.5 million, composed of \$368.2 million in grant funds (94%), and \$25.3 million (6%) in District Capital funds. The Draft Capital Budget is shown in Attachment 2. The Proposed FY 2025-26 Capital Budget includes 9 new, 39 continuing, and 7 annual projects for a total of 55 projects.

The Budgeted amounts for capital projects represent what is necessary to complete the projects (usually the full project, but 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 (Attachment 1). This is to better show what the size of the net deficit will be in the fiscal year including Capital

Capital projects are mainly supported by grant funds that are restricted to a specific project, 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, a 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, 14 have been completed and another 13 are anticipated to close by the end of the fiscal year.

In preparing this year's budget, staff prioritized completing 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 proposed deferring discretionary projects, delaying projects that require a significant local match to enable them to seek additional grant funding, and used flexible cost savings from closing projects to offset District Capital.

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

Since the Draft Budget was brought to the Board, the District has received preliminary notices of award for new grants under the Air District's Community Air Protection Program, and Alameda County Transportation Commission's Comprehensive Investment Program. Additionally, for better representation of funding certainty, funds anticipated under the state Hybrid and Zero Emission Truck and Bus Voucher Incentive Program and Alliance for Renewable Clean Hydrogen Energy Systems (ARCHES) have been moved from the Planned Funding column to FY26.

Of note, the Proposed 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.

**ADVANTAGES/DISADVANTAGES:**

This report is being provided as a Proposed Budget and does not recommend a course of action with notable advantages or disadvantages.

**ALTERNATIVES ANALYSIS:**

Staff analyzed many possible expense item reductions and requests from all departments. The Proposed Budget builds on feedback from the Board and all departments received after the Draft Budget.

**PRIOR RELEVANT BOARD ACTION/POLICIES:**

1. SR 24-480 FY 2025-26 Budget Development Calendar
2. SR 24-480a FY 2025-26 Budget Guidelines
3. SR 24-480b FY 2025-26 Draft Budget and Financial Projections

**ATTACHMENTS:**

1. FY 2025-26 Operating Budget Table
2. FY 2025-26 Capital Budget Table
3. Presentation
4. Supplemental Information and Responses to Board Questions
5. Proposed Budget Book

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