

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 5/26/2021

Staff Report No. 21-140b

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager
SUBJECT: Proposed FY 2021-22 Operating and Capital Budgets

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving a report on the Proposed FY 2021-22 Operating and Capital Budgets.

STRATEGIC IMPORTANCE:

Goal - Financial Stability and Resiliency

Initiative - Financial Efficiency and Revenue Maximization

Presenting a Proposed Budget to the Board allows staff opportunity to receive and incorporate feedback from the Board in preparation of a Recommended Budget for the coming fiscal year. This report also gives Board members the opportunity to review financial projections of service level increases.

BUDGETARY/FISCAL IMPACT:

The Proposed FY 2021-22 Operating Budget is balanced and includes a projected operating revenue and subsidy budget of \$479.7 and an operating expense budget of \$479.7. These figures are outlined in Attachment 1.

The Proposed FY 2021-22 Capital Budget includes a projected spending plan of \$76.4 million, composed of \$69.2 million in grant funds, \$7.2 million in District Capital funds. The proposed capital budget amount is adjusted to accommodate an increased budget for one project, another new project and a revived continuing project.

BACKGROUND/RATIONALE:

The COVID-19 pandemic has caused stress and hardship for the District, but so far AC Transit has weathered the storm due to the resilience of its workforce as well as additional help from federal stimulus packages. The Coronavirus Aid, Relief, and Economic Security (CARES) Act has allowed the District to continue at a 75% service level through FY 2020-21. The Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act is expected to allow the District to operate in FY 2021-22 at a proposed 85% service level. Additional stimulus funding is expected from the American Rescue Plan (ARP) Act but is not included in this Proposed Budget as the amount the District will be allocated is not yet known. Staff plans to incorporate ARP funds with the mid-year budget revision.

The District must now decide how best to move forward and restore service that was reduced during the pandemic. The community relies on this service and the need will only increase as COVID restrictions are lifted. The District must create an operational and financial plan that takes into consideration the immediate need for increased service while making sure the District is on a path towards financial and operational stability over the long-term.

Service Level

This budget proposes an increase to 85% of pre-pandemic service levels, an increase of 10% over the current 75% level. This increase is based on a restoration of supplemental service for the coming school year, but is constrained by the District's ability to recruit, hire, and train new operators at a rate greater than the District's normal attrition levels. An operator count sufficient to operate at the 85% service level must be achieved. This must be accomplished while abiding by Centers for Disease Control (CDC) and California Occupational Safety and Health Administration (CalOSHA) requirements and recommendations.

Based on the level of service (LOS) scenarios shown in Staff Report 21-213 on April 28, 2021, the District will need 1,217 operators for an 85% service level or 1,278 operators for a 90% service level. There are 1,280 operator positions currently budgeted which are sufficient for either scenario. Staff will evaluate this level for the mid-year budget if hiring achieves an above-average pace. Staff is looking at all available options and methods to recruit and train new operators, but it is likely going to be difficult to achieve even the 1,217 operator count for 85% service levels by the December signup. The District will face significant competition for new hires as all the larger bus transit operators in the region are also looking to hire operators to restore service, along with all the other businesses that are hiring as the region emerges from the long pandemic shelter-in-place orders.

The District's long-term challenge is increasing service at a rate that makes sense given operational resources and financial outlook. Staff is consciously planning for restored service to rely less on built-in overtime, include sufficient extraboard bus operators, and adequately accommodate required rest and meal breaks. Staff does not want to return to the conditions that went along with pre-pandemic service levels - a significant number of missed trips, high overtime costs, overworked operators, and no extraboard flexibility. This means that restoring to a 100% service level post-pandemic will require more operators and cost more than before. It also means that restored service should have improved on-time performance and reliability, which are consistently the top desires of bus transit riders.

American Rescue Plan Act Funding

The challenge in increasing operator ranks along with the as-yet unknown allocations are the reasons that staff is not including ARP Act funds in the Proposed Budget. Attachment 4 is a list of expenses, primarily made up of increased service, that could be added to the budget once ARP Act funds are known. A description of the items is below. It is important to note that it does not make sense to budget and plan for service levels that the District does not think it can actually achieve. The pace of operator hiring over the next several months will determine what amount of planned service and matching ARP Act funds to incorporate in the budget on or even before the mid-year adjustment. Once the ARP Act funds are allocated to the District, they can be used over the next few years to grow and sustain service levels that match the workforce the District can achieve.

The list in Attachment 4 contains several items. There are rough costs to increase service from the 85% level to either 90% or 100%. Again, this ignores whether the District will have sufficient operator count to implement those service levels. Department requests for the coming fiscal year included 22 new positions from all departments except finance. An initial round of reviews identified 10 positions with a full year cost of \$1.7 million that the General Manager and budget staff felt comfortable recommending for approval. Attachment 5 indicates the requested positions. Separately, Operations Training has identified the hiring of three additional trainers with a cost of \$611,000 as the primary way to help increase production of trained new operators. For non-labor requests from departments, an additional \$1.5 million was denied as part of the budget development process. And finally, deferring the July 1, 2021, local fare increase by 12 months reduced budgeted revenue by \$2.3 million and required a reduction in expenses of the same amount. Staff identified a package of partial expense reductions for services and fuel that do not occur until the second half of the fiscal year, which can be added back to the budget when ARP Act funding is added in.

Proposed Budget

The Proposed budget assumes relatively minor changes over the Draft. Revenues and expenses both increase by \$1.4 million maintaining break-even for the District at \$479.7 million. Farebox revenue remains at about half of the FY 2018-19 pre-pandemic levels. Sales Taxes subsidies remain unchanged from the Draft and are assumed to increase within 98% of pre-pandemic levels. CRRSA Act funding is also unchanged from the Draft at \$55.5 million. This budget does not include ARP Act funding as previously discussed.

Revenue

- Farebox Revenues of \$27.5 million, a \$2.3 million reduction from the Draft due to deferral of the fare increase by 12 months.
- Other Operating Revenues (Parking Citations) of \$9.0 million, a \$347,000 increase over the Draft due to changes in Parking Citation assumptions.
- Property & Parcel Tax of \$153.9 million, a \$3.4 million (2.2%) increase over the Draft budget, which is in line with updated projections from the latter half of FY 2020-21.

Expenses

- Labor of \$350.5 million, a \$247,000 increase over budget due to slight changes in wage and benefit assumptions. No new positions have been added to the Proposed budget. Increases over FY 2020-21 are due primarily to restoration of service levels and 3% increases in wages for all employees. The budget does assume a normal vacancy level, which will allow filling of existing positions held vacant during the hiring freeze of the past year.
- Services of \$42.1 million, a \$5.5 million increase over the Draft budget. Deferred FY 2020-21 expenses led to lower-level original budget estimates in the Draft budget. Services also include Temporary Employee expenses which increased due to Temperature Checker requirements.
- Fuel & Lubricants expense of \$11.1 million, a \$1.7 million reduction from the Draft budget. The reduction is due to updated projections for hydrogen fuel and temporary reductions in second half expenses to offset fare deferrals.
- Other Materials & Supplies of \$17.9 million, a \$526,000 reduction from the Draft budget due to slight reduction in bus parts.
- Utilities & Taxes expenses of \$6.2 million, a \$43,000 increase from the Draft budget based on updated utility cost projections.
- Paratransit/Purchased Transportation of \$28.6 million, a \$1.6 million reduction from the Draft budget

due to the transfer of software upgrades from the operating budget to the capital budget.

- Other expenses of \$1.7 million, a \$521,000 reduction from the Draft budget due to decreases in Taxes and Interest Expense.

Financial Projections

Staff has created two 3-year financial projections to show 1) what ARP funds will be required to restore and sustain 100% of prior service levels, and 2) what deficit the District might face after ARP Act or other emergency federal aid revenue is used up. These projections are shown in Attachment 3.

These scenarios project the growth of “regular” (non-emergency federal aid) revenues and expenses through FY 2024-25. Expenses are primarily driven by the operator headcount increases required to sustain the identified service levels, as well as contractual wage increases. Revenues are driven by subsidies growth and farebox growth from increasing ridership. The \$114 million in CARES Act funds are shown in FY 2019-20 and FY 2020-21, and the \$56 million in CRRSA Act funding is shown in FY 2021-22. For these projections the service level is assumed to stay at 85% for the current FY 2021-22. If the District were to increase service levels beyond 85% in FY 2021-22, additional revenue (from the ARP Act) would be needed to fund the increased service level.

Projection Scenario 1

Scenario 1 can be considered a “baseline” as service levels increase to 85% in FY 2021-22 and remain flat through FY 2024-25. Projected “regular” revenues increase by 4% to 6% annually - and exceed pre-pandemic levels by FY 2023-24. (For reference, AC Transit’s total revenues increased by an average of 4.7% annually from FY 2014-15 through FY 2018-19). Ridership and farebox revenues are projected to increase to 85% of pre-pandemic levels by FY 2024-25. Total expenses increase gradually at an annual rate of 3% based mainly on current labor contract increases. FY 2021-22 expenses are driven by the requirement for 1,217 operators at the 85% service level.

Under this “baseline” Scenario 1, the District is expected to experience deficits totaling \$112 million over the three projected years. Under this scenario, \$112 million in ARP Act funds is required for the District to continue operating at an 85% service level through FY 2024-25.

Future shortfalls in years after FY 2024-25 would require increases in “regular” revenues that have not been identified yet. If the projection is extended into FY 2025-26 and no more emergency federal aid is assumed, “regular” revenues would need to increase by 10% for FY 2025-26 to match expenses. Alternatively, revenue growth would need to be over 6% (versus the past average of 4.7%) from FY 2022-23 through FY 2025-26 to meet projected expenses in FY 2025-26 of approximately \$540 million. Essentially what this means is that it will be challenging for the District to maintain an 85% service level after ARP Act funding is used up.

Projection Scenario 2

Scenario 2 is “aspirational”, with service levels assumed to increase to 100% in FY 2022-23. Ridership and farebox revenues are assumed to increase to 100% of pre-pandemic levels by FY 2024-25. All other revenue and expense assumptions are the same as “baseline: Scenario 1. Operator headcount must increase by 192, from 1,217 required at 85% to 1,409 required at 100%. A ramp-up of operator headcount this quickly will require a recruiting and training effort well beyond what the District currently has the resources to achieve.

Under this “aspirational” Scenario 2, the District is expected to experience deficits totaling \$163 million over the three projected years. Under this scenario \$163 million in ARP Act funds is required for the District to achieve a 100% service level in FY 2022-23 and continue that through FY 2024-25.

If the projection is extended into FY 2025-26 and no more emergency federal aid is assumed, “regular” revenues would need increase by 14% for FY 2025-26 to match expenses. Alternatively, revenue growth would need to be over 7% (versus the past average of 4.7%) from FY 2022-23 through FY 2025-26 to meet projected expenses in FY 2025-26 of approximately \$571 million. Essentially what this means is that it will be very challenging for the District to reach and maintain a 100% service level after ARP Act funding is used up.

These projections show that it is likely that expenses will surpass “regular” revenues once ARP Act funds are used up and no other additional operating support is found by FY 2024-25/FY 2025-26. Thus, the District must consider what impact increases in FY 2021-22 expenses and service levels will have on future years. While staff expects that subsidies will reach and surpass prior levels again in the next couple of years, operations revenues (farebox and others) are less likely to do so. Staff is concerned that farebox revenues may well stay at a reduced level for several years because of reduced ridership overall, and in Transbay service in particular. The low fare payment compliance seen so far on Tempo also is also a significant concern for farebox revenues since it is the District’s highest ridership line. Even when reliable revenue streams return, it is also important to remember that it will take several years to “catch up” since contractual and inflationary factors that drive expense growth did not stop during the pandemic.

Capital Budget

The Proposed FY 2021-22 Capital Budget is adjusted to projected spending plan of \$76.4 million, composed of \$69.2 million in grant funds and \$7.2 million in District Capital funds. The Proposed Capital Budget is shown in Attachment 2.

The Proposed FY 2021-22 Capital Budget includes 9 new and 37 continuing projects, for a total of 46 projects. The changes from the Draft Capital Budget include a continuing project that was initially expected to be completed in FY 2020-21 and a new \$1.5 million project, the East Bay Paratransit Software Purchase, which is the District’s share towards a major software upgrade for paratransit operations. The Conceptual Design of ZEB University project has been renamed TEC Modernization, and the anticipated budget increased by \$250,000 to \$500,000. This reflects the current progress in the grant application for these funds, which will be used for training materials and preliminary design of the Training and Education Center (TEC).

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 items and requests from all departments. The Proposed budget builds on the feedback from the Board and all departments received after the Draft budget.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 21-140 FY 2021-22 Budget Goals & Objectives
SR 21-140a Draft FY 2021-22 Operating and Capital Budgets

ATTACHMENTS:

1. Proposed Operating Budget
2. Proposed Capital Budget
3. Projections
4. ARP Act Expense Items
5. New Position Requests
6. Proposed Budget Presentation
7. Proposed Budget Book

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