

# ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



## STAFF REPORT

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**MEETING DATE:** 4/10/2024

**Staff Report No.** 23-513b

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**TO:** AC Transit Board of Directors  
**FROM:** Michael A. Hursh, General Manager/Chief Executive Officer  
**SUBJECT:** Financial Projection and Draft FY 2024-25 Operating and Capital Budgets

### BRIEFING ITEM

**AGENDA PLANNING REQUEST:**

**RECOMMENDED ACTION(S):**

Consider receiving a report on the Draft FY 2024-25 Operating and Capital Budgets, which includes revised Budget Goals, a financial projection and an overview of the major assumptions and drivers to the operating revenues and operating expenses.

Staff Contact:  
Chris Andrichak, Chief Financial Officer

**STRATEGIC IMPORTANCE:**

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

Presenting a Financial Projection and Draft Budget to the Board allows for an early picture of what the District's financial is likely to be for the coming fiscal year.

**BUDGETARY/FISCAL IMPACT:**

The Draft FY 2024-25 Operating Budget is balanced and includes a projected operating revenue and subsidy budget of \$598.2 million and an operating expense budget of \$598.2 million. These figures are outlined in Attachment 3.

The Draft FY 2024-25 Capital Budget includes projected maximum investment of \$250.6 million, composed of \$223.5 million in grant funds, \$27.1 million in District Capital funds. The Draft Capital Budget is shown in Attachment 4.

**BACKGROUND/RATIONALE:**

*Overview*

A new fiscal year budget represents a new beginning, and a renewed plan to deliver on the District mission and Strategic Plan. Relative to other transportation agencies, AC Transit has emerged from the pandemic in reasonably good shape due to a diverse revenue base, however unavoidable expense increases are looming,

and the future is not without new challenges. As emphasized in the revised FY 2024-25 Budget Goals (Attachment 1), one of the District's main priorities is directing resources toward hiring and retaining operators to improve and increase service. The labor market is still tight and AC Transit, as well as other transportation agencies, continues to struggle to fill positions. The economy has been doing well and revenues continue to increase, but staff is seeing signs of the economy slowing and sales tax revenues are starting to taper. Overall, for FY 2024-25, while the District is currently in a healthy position at current service levels, the fiscal cliff continues to approach.

In FY 2024-25 the District will rely more heavily on federal American Rescue Plan (ARP) Act funds since "regular revenues" have not kept up with the growth in expenses. FY 2024-25 subsidy revenue estimates from MTC and local governments are reducing compared to prior years. And although farebox revenue is budgeted to continue a gradual increase, it is only expected to be about 55% of pre-pandemic levels.

The cost of doing business has dramatically risen over the last three years. Inflation, supply chain issues, and a tight labor market have all contributed to an escalation of prices. Insurance premiums are rising due to a variety of issues including natural disasters. Paratransit costs are still preliminary and may rise even higher than the large increase already included in the Draft budget. These cost increases are placing additional stress on District financials.

#### *Revised Budget Goals*

Staff updated the budget goals as per board member requests - adding a new budget goal to reflect the priority for service improvements and bus operator hiring: "Prioritize funding support for improvements in service levels and the hiring and retention of bus operators."

The budget goals, inclusive of the District's Strategic Plan, keep the use of District funds aligned with District priorities.

Attachment 1 provides the revised and complete list of budget goals.

#### *Financial Outlook and Projection*

The three main drivers of the financial projection have been the economy, the end of ARP funding, and service level assumptions. Heading into 2023, the predictions were nearly unanimous: a recession was coming. However, while the economy slowed down somewhat, the feared recession did not arrive. So far in 2024, the Federal Reserve continues to keep interest rates high to slow down the economy, continuing efforts to reduce inflation. The downside of this is that the longer interest rates stay high, the higher the chance of a recession. Even this less than rosy projection does not attempt to factor in when a recession or significant economic shock might occur, as one eventually will. It is not enough to simply plan how much revenue is necessary to meet desired service levels, staff also has to attempt to insulate the District from downturns so that our riders can count on service continuing despite them.

Staff is projecting a continued economic slowdown in FY 2024-25 with a mild impact on District revenues. A chart showing the projection is included on page 4 of Attachment 4 (Presentation). Total "regular revenues" are expected to see reductions in FY 2024-25 but are projected to return to normal annual increases in the following years. Farebox revenues are projected to increase by 10% annually over the next two years and then

taper off to a 2% annual increase. This increase is based on ridership growth without fare increases.

Federal emergency pandemic funding has supported District operations since FY 2019-20 and is now projected to be largely used up in FY 2024-25 with a small amount available in FY 2025-26. After that, cash reserves and new sources of funding will need to make up for the shortfall since “regular revenues” have not kept up with the pace of growing expenses. Staff expects the District will need to depend heavily on cash reserves in FY 2026-27. Cash reserves use can help with temporary shortfalls but is not sustainable over any length of time. Additional state revenue support will come from Senate Bill 125 funding in FY 2024-25 (\$4.0 million) and FY 2025-26 (\$28.5 million). SB 125 support substantially reduces our projected deficit in FY 2025-26 but does not provide help beyond that year.

An expected reduction in pension contribution expense will help reduce deficits starting in FY 2027-28, however deficits will remain consistently high in future years. District expenses, despite significant efforts by staff over the past few years, continue to increase more than revenues. The economic slowdown and the end of ARP funding was expected in previous financial projections, but the size of some expense increases was not. Large increases in expenses such as paratransit and insurance premiums have made managing the fiscal cliff and planning for service level increases much more difficult.

The current financial projection assumes 85% service levels for all future years. Providing service at 100% of pre-pandemic levels (by revenue hours) would add approximately \$33 million annually in operator and maintenance labor expenses which would drive deficits even higher. To achieve the higher service levels everyone desires, additional funding must be found, possibly from a proposed regional measure.

#### Draft Budget

The Draft operating and capital budgets are necessarily high-level - the details will be filled in with the Proposed and Recommended budgets. The Draft budget is important in that it provides a “reasonable” starting point and highlights major issues that should be considered when evaluating District financials and deciding what should be included in the Proposed budget. As shown by Attachment 2, expense categories for Purchased Transportation (primarily Paratransit) and Casualty & Liability are pushing the limits of available revenue sources, forcing the District to increase reliance on limited ARP revenues. This takes away ARP funding support from future years and results in increased future deficits.

One of the most important considerations is the level of service the District can provide. Given the challenge to recruit sufficient bus operators, the August signup service level will continue to be at 85% of pre-pandemic levels. The Draft budget expenses support this level of service. It is important to note that the budget is based on the service levels that a cross-department group of staff believes are achievable in the fiscal year. If more operators were available for service, the budget would be based on a higher service level - within the limits of the District’s available revenues to support that service level.

The capital budget shown in Attachment 4 includes current projects that will be continuing into FY 24-25 as well as a preliminary list of new projects to be added.

#### Draft Operating Budget Assumptions

### *Operating Revenue*

Revenue of \$598.2 million is an increase of \$29.2 million (5.1%) over the FY 2023-24 budget. The primary increase in "regular revenue" (not ARP) is property tax funding. Farebox revenue is also assumed to increase due to continued gradual ridership growth. On the other hand, sales taxes are beginning to show signs of weakness due to the slowing economy. And due to lack of substantial growth in "regular revenues," the District will need to rely heavily on ARP funding to balance the budget and cover the sharply increasing costs for paratransit and other expenses.

- Farebox revenue of \$36.7 million, a \$5.3 million (16.8%) increase from FY 2023-24 budget. No fare increases are assumed in the draft operating budget.
- Property and parcel taxes (Measure VV/C1) remain resilient and is budgeted at \$190.2 million, a \$15.5 million (8.9%) increase, which is in line with recent trends.
- Sales Taxes (Measures BB/J, Transportation Development Act (TDA), and AB1107) reduce and are budgeted at \$240.1 million, a \$11.9 million (4.7%) reduction from FY 2023-24 due primarily to reductions in MTC and local government estimates.
- Other Federal, State, & Local revenues (allocations from State diesel and sales tax as well as federal ADA funds) of \$77.3 million, a \$6.4 million (9.0%) increase over the FY 2023-24 budget due to an increase in State Transit Assistance (STA) diesel sales tax funding.
- Federal emergency funds of \$37.9 million from ARP is an increase of \$14.3 million from the FY 2023-24 budgeted amount.

### *Labor Expenses*

Labor of \$403.1 million is an increase of \$11.8 million (3.0%) over the FY 2023-24 budget, primarily due to contractual salary increases and accelerated efforts to hire operators and fill vacancies.

- Salaries and Wages of \$184.5 million, a \$7.8 million (4.4%) increase based on a combination of the below factors:
  - Planned wage increases of 3.25%
  - Continued reliance on overtime to maintain service levels
  - Assuming no new position increases
- Fringe Benefits of \$148.1 million, a \$4.9 million (3.5%) increase over FY 2023-24 budget, primarily due to increasing Healthcare costs. The large Healthcare increases that were included in the FY 2023-24 mid-year budget adjustment will carry forward into FY 2024-25.
- Pension contribution of \$70.5 million, a \$1.0 million (1.4%) decrease from the FY 2023-24 budget due to a preliminary estimated reduction in the District pension liability.

### *Non-Labor Expenses*

The FY 2024-25 Draft budget adds \$17.5 million (9.8%) in non-labor expenses, the bulk of which is attributed to increased costs for Paratransit Services. The District is also obligated to pay increased costs for Casualty & Liability insurance.

- Services Expense of \$56.6 million, a \$1.1 million (2.1%) increase from the FY 2023-24 budget primarily due to anticipated updates in software and other services such as security-related increases stemming from the development of the Public Transportation Agency Safety Plan (PTASP).

- Fuel and Lubricants of \$18.6 million is the same as FY 2023-24 budget. Staff is watching fuel prices closely and will adjust the budget, if necessary, at the mid-year since geo-political and federal actions are in flux.
- Casualty & Liability of \$27.9 million, a \$3.7 million (15.2%) increase over FY 2023-24 budget due to anticipated insurance premium increases.
- Purchased Transportation (Paratransit and Dumbarton) of \$52.8 million, a \$12.3 million (30.3%) increase over FY 2023-24 budget. The increase is a preliminary estimate and assumes the renewed Paratransit Contract cost is \$48.2 million (up from \$36.2 million in FY 2023-24). Paratransit contract negotiations are ongoing and staff will update this cost with the Proposed budget.

*Draft Capital Budget*

The Draft FY 2024-25 Capital Budget includes projected maximum investment of \$250.6 million, composed of \$223.5 million in grant funds, and \$27.1 million in District Capital funds. The Draft Capital Budget is shown in Attachment 3.

The Draft FY 2024-25 Capital Budget includes 7 new, 47 continuing projects, and 8 annual projects for a total of 62 projects. Capital projects are mainly supported by grant funds, particularly facilities and bus purchases. However, District Capital commitment is needed as match for certain grants, and for projects that are difficult to fund with grants. The Capital Budget is significantly higher this year due to several new bus purchases that are expected to be completed or initiated this coming fiscal year, namely 51 fuel cell buses and 50 forty-foot diesel buses.

Additionally, many projects included in the FY 2023-24 Capital Budget have not yet commenced due to delays in getting executed grants from funding agencies. Consequently, of the \$251 million total commitment identified in FY25, \$89 million is in existing grants and \$19 million is existing District Capital commitments.

The Capital Budget adds new grants on several corridor projects including MacDonald Ave TSP, Tempo Lane Delineation, Durant and MacArthur quick builds, and Telegraph Ave. Additionally, the District recently won a grant for Climate Adaptation Planning. New projects also include new vehicle purchases, additional funding for TEC modernization, and facilities state of good repair projects identified in the current Capital Improvement Plan (CIP).

**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 2024-25 Operating and Capital budgets. Staff is receiving recommendations from the board and in the process of refining alternatives in support of a more refined and comprehensive budget proposal to be presented at the May 22<sup>nd</sup> board meeting.

**PRIOR RELEVANT BOARD ACTION/POLICIES:**

23-513 FY25 Budget Development Process and Calendar  
23-513a FY25 Budget Goals

**ATTACHMENTS:**

1. Revised Budget Goals
2. Draft Operating Budget Table
3. Draft Capital Budget Table
4. Presentation

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