ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

STAFF REPORT

MEETING DATE: 5/10/2023 **Staff Report No.** 22-588c

TO: AC Transit Board of Directors

FROM: Michael A. Hursh, General Manager/Chief Executive Officer

SUBJECT: Draft FY 2023-24 Operating and Capital Budgets

BRIEFING ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider receiving a report on the Draft FY 2023-24 Operating and Capital Budgets, including 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 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 2023-24 Operating Budget is balanced and includes a projected operating revenue and subsidy budget of $545.6 million and an operating expense budget of $545.6 million. These figures are outlined in Attachment 1.

The Draft FY 2023-24 Capital Budget includes a projected spending plan of $110.7 million, composed of $92.3 million in grant funds, and $18.4 million in District Capital funds. The Draft Capital Budget is shown in Attachment 2.

BACKGROUND/RATIONALE:

Overview

The District is looking ahead and preparing for projected future deficits after federal stimulus dollars run out. Staff has been communicating the need to use one-time funds from the American Rescue Plan (ARP) Act as judiciously as possible by controlling expenses where possible. To this end, the budgeting cycle was a period of heightened engagement to develop a budget that is as lean as possible while still being able on our mission:

"to deliver safe, reliable, sustainable transit service that responds to the needs of our customers and community."

The Draft FY 2023-24 budget is lean in both labor and non-labor expenses, reflecting refined priorities and emphasizing commitment to the District budget goals. To restrain labor expenses, executive leadership agreed to not add any new positions (instead managing what needs to be done with current approved positions). And to curb non-labor expenses, an "all hands-on deck" approach was employed, as described below.

Financial Outlook

With limited resources due to ongoing uncertainty around future revenues, FY 2023-24 expenses must be curtailed to limit the impact they may have on future years. While subsidy revenues have shown growth since the pandemic, operating revenues are still depressed. Farebox revenues may well be reduced for several years. Reduced ridership overall, and Transbay service in particular, will likely keep farebox revenue low. It is important to remember that revenues "lost" a few years of growth compared to expenses. The contractual and inflationary factors that drive expense growth did not stop during the pandemic.

Efforts to control expenses and prepare for potential financial difficulties also include the formation of a "Fiscal Cliff working group" to review the economic situation and strategize on ways to prepare for expected future financial challenges. In this context, the budget cycle kicked-off with the charge to produce a lean, yet adequate budget for FY 2023-24.

Department Labor Budget Process

Seventy percent of the operating budget is determined by position levels. Attachment 3 provides a detailed list of the 2,338 board-approved positions. Staff uses an advanced model in the budgeting system to arrive at labor costs that includes assumptions about vacancies and linked fringe and benefit costs. The positions are summarized as follows:

- Operators - 1,380
- Maintenance Staff -- 456
- Salaried - 438
- Clerical -- 64

Department Non-Labor Budget Process

The process to collect budget requests for non-labor expenses requires that department staff start fresh with a "zero-based" budget. Prior year budgets are not presumed to be the starting basis for the new fiscal year. Additionally, department staff are required to break down requests at the detailed line-item expense level. For every line-item request, department staff must provide a description and justification (with detailed explanations of cost) that is then reviewed using a priority lens for all non-discretionary budgeting needs. Certain non-labor categories such as fuel and bus parts are handled separately as they are usually linked to service levels.

To begin the process to collect non-labor budget requests for each department, budget staff collaborated closely with each executive leader, as well as directors and managers, to establish a reasonable "not-to-exceed" goal. However, as budget requests were discussed and tallied, staff grappled with the reality of a $13.0 million increase over FY 2022-23 due to unavoidable cost escalations in specific areas of non-labor (namely contracts for Paratransit and Security Services, as well as Bus Parts). A collective effort resulted in reductions that bring us to the current balanced budget with a moderate increase of $8.9 million in non-labor expenses.

Ways to save and avoid costs range from acknowledging the need to do more with less temporary staff and trying to be realistic about what is possible to get done within one fiscal year. Attachment 4 shows initiatives that were reviewed and either kept in or excluded from the budget based on whether the initiatives support the District's over-arching mission. Staff cautions that after these past few years of enhanced scrutiny there are no more easy reductions in non-labor without affecting the level of reporting, analysis and operational readiness that the Board demands.

Staff plans to present updated budgets for the Proposed and Recommended on the respective May 24th and June 14th board meetings.

Draft Budget Assumptions

Revenue

Revenue of $545.6 million is an increase of only $600,000 from the FY 2022-23 budget. Most of the subsidy revenue increases are based on MTC and local government estimates. Staff is hopeful economic conditions do not impact these estimates in FY 2023-24, resulting in possible funding reductions.

- Farebox revenue of $31.5 million, a $2.7 million (9.4%) increase over the FY 2022-23 budget. A gradual increase in ridership and emergence from the pandemic should increase farebox revenue, however commuter behavior is still uncertain at this time.
- Other operating revenues of $4.4 million, a $2.1 million (32.1%) decrease due mostly to the discontinuation by BART of longstanding feeder service payments.
- Property and parcel taxes (Measure VV/C1) is budgeted at $167.3 million, a $3.0 million (1.8%) increase. Staff is hopeful commercial and personal property tax values remain steady next year.
- Sales Taxes (Measures BB/J, Transportation Development Act (TDA), and AB1107) of $242.2 million, a $8.0 million (3.5%) increase over the FY 2022-23 budget due primarily to continued strength in consumer spending. Continued layoffs in the tech sector and other factors pointing to a possible economic slowdown in 2024 are headwinds facing this revenue category.
- Other Federal, State, & Local revenues (allocations from State diesel taxes as well as federal ADA funds) of $65.6 million, a $10.4 million (18.9%) increase over the FY 2022-23 budget. This is primarily due to an increase in FY 2022-23 State Transit Assistance (STA) diesel sales tax funding carried over into FY 2023-24.
- Federal emergency funds of $27.8 million, a $20.7 million (42.6%) decrease from the budgeted amount of ARP Act funds for FY 2022-23. The reduction is primarily due to service realignments (resulting in lower operator costs), resilient funding from sales taxes, and significant efforts by staff to hold down the level of spending in the budget.

Labor expenses

Labor of $377.4 million is a decrease of $8.1 million (2.1%) from the FY 2022-23 budget. Since the District was unable to achieve the higher service levels budgeted last year, this year staff aims to be as precise as possible in the labor budget. As we move closer to the expected "fiscal cliff" staff cannot afford the luxury of "aspirational" budgeting as it makes projections into future years more difficult. If the District can increase the pace of hiring, this does not preclude the Board from deciding to increase the budget for increased service level.

- Salaries and Wages of $171.3 million, a $6.9 million (3.9%) decrease based on a combination of the below factors:
    - Reducing reliance on Overtime (approximately $1.2 million reduction from FY 2022-23 budget).
    - Adjusting budget for positions based on realistic and anticipated hiring levels.
    - No new positions proposed to be added to the FY 2023-24 budget.
- Fringe Benefits of $138.7 million, a $1.2 million (1.0%) decrease from FY 2022-23 budget. Fringe expense budget is projected based on wages, so the reduced wage budget leads to a reduced fringe budget.

Non-Labor expenses

The FY 2023-24 Draft budget adds $8.9 million (5.6%) in non-labor expenses, the bulk of which is attributed to projected cost increases for Paratransit Services (+$5.2 million) and bus parts (+$1.8 million).

- Services expense of $50.0 million, a $1.0 million (2.1%) increase from the FY 2022-23 budget. Usually, this category sees the highest year over year growth in budget, however the District is carefully reviewing "initiatives" and electing to not pursue certain areas of discretionary spending. Attachment 4 shows the predominant reductions were made in this category.
- Fuel and Lubricants of $18.4 million, a $128,000 (0.7%) increase from FY 2022-23 budget. Fuel prices are not projected to increase to the levels seen earlier in FY 2022-23, however staff is watching fuel prices closely and may adjust the budget, if necessary, at the mid-year.
- Other Materials & Supplies of $21.3 million, a $1.7 million (8.7%) increase from FY 2022-23 due to inflationary pressures on bus parts.
- Utilities & Taxes of $8.9 million, a $736,000 (9.0%) increase over FY 2022-23 budget due to increased rates from PG&E for electricity and gas.
- Casualty and Liability expense of $23.8 million, a $200,000 (0.8%) decrease from FY 2022-23 budget due to anticipated lower insurance premium.
- Paratransit and Other Purchased Transportation of $37.5 million, a $4.9 million (15.3%) increase over FY 2022-23 budget. The cost increase is due to contractually bound hourly rate increases for paratransit services.

Capital Budget

The Draft FY 2023-24 Capital Budget includes a projected spending plan of $110.7 million, composed of $92.3 million in grant funds, and $18.4 million in District Capital funds. The Draft Capital Budget is shown in Attachment 2.

The Draft FY 2023-24 Capital Budget includes 11 new and 37 continuing projects, for a total of 48 projects. These projects have a total estimated spending for the fiscal year of $110.7 million, composed of $92.3 million in grant funds, $18.4 million in District Capital funds. Capital projects are mainly supported by grant funds, particularly facilities and bus purchases. However, District Capital funds are needed as match for certain grants, and for projects that are difficult to fund with grants. The Capital Budget this year includes a higher number of new projects, especially security and corridor projects. Most of the new projects in the coming capital budget are included because of new grant funds that were secured for them.

The new projects include the Traffic Signal Priority projects on MacDonald Avenue in Richmond and Fruitvale Corridor in Oakland, which are two corridors in critical need of improving service performance. To advance the zero-emission program, there is new funding to begin the design of a new hydrogen fueling station at Division 6 and to rehabilitate maintenance bays at all divisions to equip them specifically for zero-emission buses.

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 2023-24 Operating Budget. Staff is in the process of refining alternatives and evaluating recommendations to be presented in the Proposed and Recommended budgets.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 22-588 FY24 Budget Development Process and Calendar
SR 22-588a FY24 Budget Goals
SR 22-588b FY24 Revised Budget Goals

ATTACHMENTS:

1. FY24 Draft Operating Budget - table
2. FY24 Draft Capital Budget - table
3. FY24 Position List
4. FY24 Budget Initiatives
5. Presentation

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