

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



STAFF REPORT

MEETING DATE: 5/24/2023

Staff Report No. 22-588d

TO: AC Transit Board of Directors
FROM: Michael A. Hursh, General Manager/Chief Executive Officer
SUBJECT: Proposed FY 2023-24 Operating and Capital Budgets

BRIEFING ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider receiving a report on the Proposed FY 2023-24 Operating and Capital Budgets.

Staff Contact:
Chris Andrichak, Chief Financial Officer

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.

BUDGETARY/FISCAL IMPACT:

The Proposed FY 2023-24 Operating Budget is balanced and includes a projected operating revenue and subsidy budget of \$545.9 million and an operating expense budget of \$545.9 million. These figures are outlined in Attachment 1.

The Proposed FY 2023-24 Capital Budget includes a projected spending plan of \$114.8 million, composed of \$95.8 million in grant funds, \$18.9 million in District Capital funds. The Proposed Capital Budget is shown in Attachment 2.

BACKGROUND/RATIONALE:

Overview

The Proposed Operating Budget changes slightly from the Draft budget presented to the Board on May 10, 2023. Revenue and expenses increase by \$282,000. This increase reflects an increase of \$360,000 in Labor, which is offset by a decrease of \$78,000 in Non-Labor.

The Proposed FY2023-24 Capital Budget includes a projected spending plan of \$114.8 million, composed of \$95.8 million in grant funds and \$18.9 million in District Capital funds, resulting in an increase of \$4.3 million

over the Draft budget.

The District's priority for the FY 2023-24 budget is to maintain or, if financially and operationally possible, increase service levels. To do this an increase in the rate of recruiting and training will be required as well as the ability to maintain financial stability and a balanced budget.

At the April 26th Board meeting, staff presented three 10-year forecast scenarios (Best, Expected and Worst). As shown by these forecasts the District will likely be facing significant deficits starting in FY 2024-25.

The Proposed FY 2023-24 budget is balanced, but because of the significant efforts to rein in expenses there is little to no margin for unforeseen expenses. Through a highly engaged process, staff compiled the itemized expenses and will manage to the budget ultimately adopted until the budget can be re-visited and refined as needed at mid-year.

Proposed Budget

Revenue

Revenue of \$545.9 million is an increase of \$1.0 million over the FY 2022-23 budget. The change from Draft to Proposed is \$282,000, primarily to include the additional labor expense for a Human Resources Retention Program. An additional \$282,000 in American Rescue Plan (ARP) Act funding is used to balance the budget. All other revenue budget categories are the same as submitted for the Draft budget presentation.

- 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 from FY 2022-23 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 over the FY 2022-23 budget. Staff is hopeful commercial and personal property tax values will remain steady next year.
- Sales Taxes (Measures BB/J, Transportation Development Act (TDA), and AB1107) of \$241.2 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 \$64.9 million, a \$10.7 million (19.8%) 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 \$28.1 million (increased by \$282,000 from the Draft Budget), a \$21.4 million (43.2%) 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

The change from Draft to Proposed includes an increase of \$360,000 for a Human Resources (HR) Retention Program that is being developed. From the FY 2022-23 budget, overall, Labor decreases \$7.8 million (2.0%). Decreases are identified below. The only significant increase from FY 2022-23 is \$4.2 million (6.3%) in Pension based on the most recent actuarial projections.

- Salaries and Wages of \$171.6 million, a \$6.6 million (3.7%) decrease from FY 2022-23 based on a combination of the below factors:
 - Reducing reliance on Overtime (\$1.2 million reduction).
 - Adjusting budget for positions based on realistic and anticipated hiring levels.
 - No new positions proposed to be added to the FY 2023-24 budget.
 - Increase of \$360,000 (from the Draft Budget) for an HR Retention Program being developed.
- Fringe Benefits of \$134.6 million, a \$5.4 million (3.9%) 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.
- Pension of \$71.5 million, a \$4.3 million (6.3%) increase from FY 2022-23 based on the most recent actuarial projections.

Non-Labor expenses

The change from Draft to Proposed includes \$78,000 reduction primarily in Services based on a further refinement of needs. The FY 2023-24 Proposed budget adds \$8.8 million (5.5%) in non-labor expenses compared to the FY 2022-23 budget, the bulk of which is attributed to Paratransit Services (\$5.2 million), Bus Parts (\$1.8 million), Software Licenses (\$1.3 million) and Security (\$1.2 million).

- Services expense of \$50 million, a \$1.1 million (2.2%) 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.
- 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 \$1.6 million (8.1%) increase from FY 2022-23 due to inflationary pressures on bus parts.
- Utilities & Taxes of \$8.9 million, a \$696,000 (8.5%) increase over FY 2022-23 budget due to increased rates from PG&E for electricity and gas.
- Casualty and Liability expense of \$23.9 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 \$5.0 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 Proposed FY2023-24 Capital Budget includes a projected spending plan of \$114.8 million, composed of \$95.8 million in grant funds, and \$18.9 million in District Capital funds. This is an increase of just under \$4.1

million from the Draft budget, comprised of \$3.5 million in grant funds and \$542,000 of District Capital funds.

The majority of the increase comes from two projects: the Alameda County Transportation Commission announced the award of grant funds for the High Priority Bus Stop Improvements project, and also an increase in grant funds awarded to the Fruitvale Corridor TSP project, both of which require adding more District funds as match. The Proposed Capital Budget is shown in Attachment 2.

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 the feedback from the Board and all departments received after the Draft Budget.

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
SR 22-588c FY24 Draft Operating and Capital Budget

ATTACHMENTS:

1. Proposed Operating Budget Table
2. Proposed Capital Budget Table
3. Proposed Budget Book

Prepared by:

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