ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

STAFF REPORT

MEETING DATE: 6/12/2019 **Staff Report No.** 19-052c

TO: AC Transit Board of Directors

FROM: Michael A. Hursh, General Manager

SUBJECT: Recommended FY 2019-20 Operating and Capital Budget

ACTION ITEM

RECOMMENDED ACTION(S):

Consider adoption of Resolution No. 19-021 approving the FY 2019-20 Recommended Operating and Capital Budget.

BUDGETARY/FISCAL IMPACT:

The Recommended Operating Budget includes operating revenues and subsidies of $474.0 million and expenses of either $471.0 million for Option A (staff recommendation) or $474.0 million for Option B depending on which one the Board of Directors selects. Option A results in a planned surplus of $3.0 million, which is designated for three items at $1.0 million each: OPEB trust contribution; Salesforce Transit Center (STC) capital commitment payment; and District Capital contribution. Option B results in a balanced budget with no surplus and no planned contributions to any of the items listed for Option A.

The Recommended Capital Budget includes projected District Capital spending of $10.8 million, $15.0 million in East Bay Bus Rapid Transit (BRT) project financing proceeds, and grant spending of $81.0 million for total projected capital spending of $106.8 million.

The Recommended Budget revenue total is consistent with the Proposed Budget, and the expense total is consistent for Option A. Option B includes a 2.0% increase in salary for ATU represented staff, which is offset by eliminating the $3.0 million non-operating contributions and reducing operator overtime expense by $1.0 million.

For both Options, staff reallocated a total of $5.5 million in fringe benefit expenses from the various departments into District Overhead to match where they will ultimately be accounted for. There were also minor reallocations between accounts within departments.

BACKGROUND/RATIONALE:

For the Recommended Operating Budgets, staff is presenting two Options (A and B) for the Board to choose from in approving the final budget based on Board feedback. For both Options, staff made non-consequential reallocations for accounting reasons and based on department feedback.

Option A is the staff recommended Option and is consistent with the Proposed Budget previously presented with $471.0 million in expenses. It retains the non-operating contributions to OPEB, STC capital commitment, and District Capital. Option B includes an assumed 2% increase in wages (approximately $4.0 million) for ATU represented positions. This wage increase is offset by removing the $3.0 million in non-operating contributions and reducing operator overtime expense by $1.0 million. Expenses for Option B are $474.0 million and match revenues for a balanced budget.

Operating Revenues and Subsidies

Operating revenues and unrestricted subsidies of $474.0 million are projected to increase by $21.3 million (4.7%) over the FY 2018-19 Mid-Year Budget. Operating revenues are projected to increase by $3.8 million (5.1%) while subsidies are projected to increase $17.4 million (4.6%).

Operating Revenues:

- Farebox revenues are projected to increase by $1.8 million (3.1%) due to planned fare increases. While the District has experienced significant ridership growth over this fiscal year, staff is conservatively assuming flat ridership for farebox projection purposes.
- Contract Services are projected to increase by $1.7 million (19.5%) due to having a full year of BART Early Bird service.
- Other revenues have an overall increase of $344,000 (3.8%):
    - BART transfer payments are projected to increase by $291,000 (5.0%) based on the current transfer payment contract with BART.
    - Advertising income is projected to continue its slow decline by $48,000 (-4.0%) as static bus ads continue to lose ground to digital advertising.
    - Rental income is projected to increase $116,000 (8.0%) as leases are renewed and new tenants brought in.
    - Interest income is projected to increase by $30,000 (5.0%) due to higher interest rates for the full year.

Operating Unrestricted Subsidies:

- Sales tax-based subsidies including Transportation Development Act (TDA), AB 1107, Measure B, Measure BB, and Measure J are projected to increase by a total of $8.3 million (4.5%). The most significant projected increase is in TDA state sales tax funds of $4.2 million (5.8%). Local sales taxes (Measure B/BB, Measure J, and AB1107) are projected to increase an average of 3.3%.
- State Transit Assistance (STA) revenues are projected to increase by $3.2 million (16.4%).
- Property-tax based subsidies are projected to increase by $6.6 million (6.0%) based on performance during this fiscal year. Even if the regional economy slows greatly, property taxes would not be affected as much initially, so staff considers the continued growth projection reasonable.
- Other Federal, State & Local:
    - Regional Measure 2 Subsidies are essentially unchanged at $12.6 million and includes a continued $500,000 funding for Oakland Unified School District supplemental service.
    - The District will recognize another $500,000 in Federal operating support from the Bay Bridge Forward operating grant funds.

- The District is able to utilize $1.7 million in Cap & Trade funds for operating support this fiscal year due to the recent implementation of AC Go.

Operating Expenses

For Option A, operating expenses are projected to grow by $21.0 million (4.7%) compared to the FY 2018-19 Mid-Year Budget. Labor costs are projected to grow by $17.2 million (5.3%) and Non-Labor costs are projected to increase by $3.8 million (3.0%). For Option B, operating expenses are projected to grow by $24.0 million (5.3%) compared to the FY 2018-19 Mid-Year Budget. Labor costs are projected to grow by $20.2 million (6.2%) and Non-Labor costs are projected to increase by $3.8 million (3.0%).

Labor Costs:

- For Option A, Salaries & Wages is projected to increase by $7.5 million (4.8%). This does not include any general salary increase for ATU employees due to ongoing contract negotiations.
- For Option B, Salaries & Wages is projected to increase by $10.5 million (6.7%). This includes a representative 2% general wage increase for ATU employees. The net increase for Option B is $3.0 million, made up of a $4.0 million increase for regular wages offset by a reduction in operator premium time of $1.0 million. For simplicity the wage increase has only been added to the Salaries & Wages, but the $4.0 million actually includes the associated increases in Fringe Benefits and Pension Expense. If Option B is chosen, staff will correct the expense allocation when the budget is next adjusted (after ATU contract adoption or at mid-year).
- In both options, AFSCME and IBEW have a 3.25% increase per the final year of their active contracts.
- Fringe Benefits expenses are projected to increase by $5.6 million (5.0%) due to Healthcare cost increases. If Option B is selected this amount will increase due to the higher wage base.
- Pension contribution expenses are projected to increase by $4 million (7.3%) in part due to increased payroll expense and a decrease in the assumed rate of return on investments in the pension fund. If Option B is selected this amount will increase due to the higher wage base.

Non-Labor Costs:

- Services expenses are projected to increase by $1.1 million (3.3%). This increase is mainly due to a significant increase in the total expected operating and maintenance (O&M) costs of $4.4 million for the STC and Bus Storage Facility (BSF). The expenses are partly offset by $624,000 in sub-lease payments from the other bus deck operators. This is reduced from $1.3 million in the proposed budget due to reallocation of expenses within departments and is offset by increases in other non-labor categories.
- Fuels and Lubricants expenses are expected to decrease by $249,000 (-1.5%). The current budget was set during the Mid-Year Budget process, based on elevated diesel cost during the first half of the fiscal year with room for prices to increase further. However, diesel costs reduced in January, and have only recently increased close to what was observed in the first half of the year. Next year's budget assumes a base increase from current prices and an additional increase due to the renewable diesel mandate from the state.
- Other Materials and Supplies expenses are projected to increase by $850,000 (5.7%) due to increased inventory expectations.

- Utilities and Taxes expenses are projected to increase by $268,000 (4.0%) due to increased electricity costs from the five battery buses the District will receive soon and from expected rate hikes by PG&E. This amount is increased from $197,000 in the proposed.
- Casualty & Liability costs are projected higher by $1.3 million (8.7%) based on increased insurance premiums.
- Purchased Transportation expenses are projected to increase by $2.1 million (6.3%) due to increased East Bay Paratransit costs.
- Other Expenses are projected to decrease by $1.6 million (29.9%) due to the reduction in election expenses from the off year. To mitigate the large yearly swings in election expense, staff will begin spreading the election costs over multiple years so that the expenses will become relatively level each year after a short ramp-up period. This is increased by an amount smaller than significant for rounding (0.4%) from the proposed.

Positions

The Recommended Operating Budget includes 17 net new positions from the addition of 18 and removal of one vacant position with a total of $3.3 million in reoccurring expense as shown in Attachment 4. Ten of the new positions are in Operations, with five due to the pending BRT service and two for bus parking and service at the BSF. Operations will add two Training Instructors to increase its capacity to train a higher volume of students in each new bus operator class which in turn will help to decrease the current bus operator deficit. An additional permanent Dispatcher position would be added to fill in a position that is normally filled by an operator in an effort to keep as many operators available for service as possible.

The remaining eight new positions are spread in various departments. Finance would add two positions, with one Assistant Contracts Specialist to build capacity in purchasing and a Senior Project Manager to create a succession path for Finance management, build intra-departmental integration, and maintain process documentation. Both of these positions are partly in response to deficiencies noted in prior FTA reviews and audits. The General Counsel department would remove the currently vacant position of Senior Typist Clerk and add a Claims and Liability Analyst to meet changing needs in managing claims.

The General Manager's department would add a Safety Representative to help the District build and maintain its new Federal Transit Administration mandated Safety Management Systems-based plans and processes. A Senior Human Resources Administrator would be added to assist with hiring, onboarding, and general HR management. Innovation and Technology would add a Network Security Engineer to develop and maintain the District's cybersecurity, and a limited term (two years) full-time Database Administrator position would be added to help develop the District's data storage and analysis capabilities. An Environmental Compliance Specialist would be added to help ensure that the District can comply with increased regulatory and reporting requirements.

The budget also includes funding for nine intern positions which is in line with prior years. These positions are not included as part of the District's regular positions, and funding for interns may be shifted between departments during the year.

Capital Budget

The Recommended FY 2019-20 Capital Budget shown in Attachment 5 is composed mainly of existing projects that will continue into next fiscal year. A draft five-year Capital Improvement Program (CIP) is also being presented at this meeting. Since the coming fiscal year programming is mostly for ongoing projects, the final CIP will not significantly change what is shown in this report for FY 2019-20. The two changes in the Capital Budget from the Proposed are the addition of one ongoing project (D2 Hydrogen fueling upgrade) and the increase in the IT equipment purchase budget. The D2 Hydrogen fueling upgrade project is included based on a revised longer schedule that extends further into the coming fiscal year and so necessitates its inclusion in the coming year's capital budget. The project is fully grant funded and so does not affect the amount of District Capital spending. The IT Equipment Replacement project budget is increased from $100,000 to $200,000 based on a larger amount of capitally eligible purchases that are planned for the fiscal year.

There are six new projects in the Recommended Budget. Five of them are programmatic pools of capital funds for common needs that arise: Emergency Facilities Repair; Facilities Equipment Replacement; IT Equipment Replacement; Finance (Materials) Equipment Replacement; and Non-Revenue Vehicle Replacement. The sixth project continues the District's payments against its capital commitment to the STC. If Option B is selected for the Operating Budget, this payment will be deferred until FY 2020-21. The District has contributed $34.2 million of the $57.0 million total due up to this point.

The Recommended Capital Budget includes $10.8 million in District Capital spending and $81.0 million in grant -funded spending. The budget also includes $15.0 million in spending of proceeds of the $35.0 million three-year line of credit being procured to complete the BRT project. This $15.0 million is the amount of shortfall in grant funds that the District is estimated to have. As per the plan presented to the Board last year, once the BRT project is complete the District will pursue long-term financing to convert the short-term line of credit. The remaining funds in the line of credit will be used as an advance for delayed grant funds due to the BRT project and so are not shown as actual spending. The further remaining $6.9 million is a buffer for unexpected costs. Staff will bring the line of credit to the Board for approval in June.

ADVANTAGES/DISADVANTAGES:

Staff cannot identify any disadvantages to approving the recommended budgets.

ALTERNATIVES ANALYSIS:

Staff analyzed many possible expense items and requests from all departments. The Recommended budget builds on the feedback from the Board and all departments received after the Draft and Proposed budgets

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 19-052 - FY 2019-20 Budget Goals and Objectives
SR 19-052a - Draft FY 2019-20 Operating Budget
SR 19-052b - Proposed FY 2019-20 Operating and Capital Budgets
Board Policy 312 - Budget Policy

ATTACHMENTS:

1. Resolution 19-021
2. Recommended Budget Table Option A
3. Recommended Budget Table Option B
4. Recommended New Positions
5. Recommended Capital Budget
6. Classification Changes since FY 2018-19 Mid-Year
7. Recommended Budget Book

Approved by:
Claudia L. Allen, Chief Financial Officer

Reviewed by:
Denise C. Standridge, General Counsel

Prepared by:
Chris Andrichak, Director of Management and Budget