STAFF REPORT

MEETING DATE: 4/28/2021 **Staff Report No.** 21-140a

TO: **AC Transit Board of Directors**

FROM: **Michael A. Hursh, General Manager**

SUBJECT: **Draft FY 2021-22 Operating and Capital Budgets**

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving a report on the Draft FY 2021-22 Operating and Capital Budgets, including an overview of the major assumptions and drivers to the operating revenues and operating expenses.

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 2021-22 Operating Budget is balanced and includes a projected operating revenue and subsidy budget of $478.3 million and an operating expense budget of $478.3 million. These figures are outlined in Attachment 1.

The Draft FY 2021-22 Capital Budget includes a projected spending plan of $77.5 million, composed of $71.6 million in grant funds, $5.9 million in District Capital funds. The Draft Capital Budget is shown in Attachment 2.

BACKGROUND/RATIONALE:

Overview

The financial impact of the COVID-19 pandemic on the District has been greatly reduced by federal stimulus funding - $114.2 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and now $55.5 million from the Consolidated (CRRSA) Act. The District and its communities are beginning to look past the pandemic towards service restoration and some "new normal" of transportation. This draft budget utilizes the CRRSA Act funds to begin the restoration process, but there is still a long road ahead for the District towards that "new normal".

Based on current operator counts and available funding, this budget proposes an increase to 85% of pre-pandemic service levels, an increase of 10% over the current 75% level. The increase primarily happens during the August signup with the return of school supplementary service, which makes up 8% of the 10% increase.

This draft budget does not include American Rescue Plan (ARP) Act funding. While the ARP Act was signed into law on March 11, 2021, the Metropolitan Transportation Commission (MTC) is still working on a distribution formula for the funds, working with staff from AC Transit and other operators. Staff is continually reviewing and revising forecasts based on new information and updated assumptions. The most recent discussions are around allocation of a first tranche to be presented in May and approved by MTC in July. As the current draft budget is balanced, staff will likely bring a recommended budget without including ARP Act funds. Those funds and any changes in service levels or otherwise can be included in the mid-year revision.

The significant amount of federal operating support and higher than projected revenues from sales and property taxes have benefited the District and allowed for this budget to plan for restoring service. However, there is still significant uncertainty about the long-term economic impacts of the pandemic. The ARP Act is likely to be the last significant amount of federal operating support. While the ARP Act funds may allow for more service increases in the near term, staff does not want to overshoot the amount of revenues that will be available to the District after the federal funds have been used up.

Short-term and Long-term Challenges

The District faces challenges to restore service that are uniquely created by economic uncertainties and on-board capacity constraints brought on by the COVID-19 recession and safety guidance from the Centers for Disease Control (CDC) and the state.

Budget staff, in coordination with staff from Operations and Planning & Engineering, have been working collaboratively to address these three key issues: 1) understanding the appropriate level of service so as to prevent the need for pass-ups and support demand for post-pandemic travel; 2) being able to train and hire enough operators to meet the immediate desired and projected service levels; and 3) forecasting for long-term, reliable and continuous sources of sufficient funding to support sustainable operations.

The District’s operating budget is about 73% labor costs, which has not changed appreciatively due to the pandemic. It then makes sense that the workforce is the first place that must be considered as the District starts to look at restoring service. Most importantly the bus operator count is crucial to being able to deliver increased service levels as schools and businesses re-open.

In March the District started hiring and training bus operators again in an effort to counter the normal attrition that averages eight operators per month. The current physical distancing requirements inside both the classroom and the “rolling classroom” of the training bus limit the number of trainees and do not allow much margin to start increasing the operator count. A separate report will cover the workforce situation in more detail.

Financial Outlook

Staff is concerned that expenses will surpass available revenues once federal operating support is discontinued. Any increases in FY 2021-22 expenses and service levels must consider the impact they may have on future years. While it is likely that subsidies will reach prior levels again in the next couple years, operations revenues are less likely to do so. Farebox revenues may well be reduced for several years. Reduced ridership overall, and in Transbay service in particular, will likely keep farebox revenue low. Once revenue levels do return, it is also important to remember that revenues "lost" a year or two of growth compared to expenses. The contractual and inflationary factors that drive expense growth did not stop during the pandemic.

Despite near-term revenue projections, the District is hampered by constraints in hiring and training new bus operators to reach an operator count growth rate that is larger than attrition. Staff is also consciously planning for the 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 large amount of missed trips, high overtime costs, over-worked operators, and no extraboard flexibility. This means that restored service should improve on-time performance and reliability, but at a higher base hourly cost - and so the same planned level of service will cost more to operate than before the pandemic.

Draft Budget Forecasts and Assumptions

The Draft budget assumes an increase in all revenue sources over FY 2020-21 budget except from operations-based revenues, such as Contract Services. Farebox revenue, which is expected to be only half of FY 2018-19 revenue, is dependent on changing economic and public health guidance that determine service level restoration efforts. Staff anticipates that sales tax revenues will increase, but not yet to pre-pandemic levels. Federal stimulus funds have kept the District from taking emergency measures, however it is likely that the ARP Act will be the end of federal operating support.

- Farebox revenue of $29.8 million, a $7.9 million (36.2%) increase from FY 2020-21 budget. Increased service and reduced social distancing should increase ridership, but this level is still only half of the FY 2019-20 farebox revenues.
- Contract Services of $5.3 million, a $4.5 million (-45.8%) reduction from FY 2020-21 budget. This is primarily due to low expectations for BART bus bridge activity.
- Other operating revenues (primarily Alameda CTC's student pass program and BART transfers) of $8.6 million, a $709,000 (-7.6%) reduction due to lower expected usage.
- Property and parcel taxes (Measure VV/C1) of $150.5 million, a $3.3 million (2.2%) increase, which is in line with the latter half of FY 2020-21.
- Sales Taxes (Measures B/BB/J, Transportation Development Act (TDA), and AB1107) of $120.0 million, a $26.9 million (28.8%) increase over the FY 2020-21 budget, but a reduction of $8.0 million from the FY 2019-20 actual results. Recent MTC allocation instructions for STA and TDA indicate stronger than expected revenue projections.
- Other Federal, State, & Local revenues (allocations from State diesel and sales tax as well as federal ADA funds) of $108.4, a $7.7 million (7.7%%) increase over the FY 2020-21 budget.
- Federal stimulus funds of $55.5 million from the CRSSA Act, a $28.7 million (-34.1%) reduction from relief received in FY 2020-21 from the CARES Act.

Labor expenses

Most labor categories are projected to increase by at least 3% over FY 2020-21 budget, primarily due to contractual salary increases and the hiring of positions needed to restore service to 85% of pre-pandemic levels.

- Salaries and Wages of $159.6 million, a $5.6 million (3.6%) increase based on a combination of the below factors:
    - Restoring service levels.
    - Increasing wages 3% for all employees.
    - Filling some positions held vacant during the hiring freeze and hiring of an additional 33 new bus operators required for an 85% service level.
    - Limiting use of operator overtime.
    - No new positions have been added in the Draft budget. Position requests will be reviewed and included in the Proposed budget if deemed necessary.
- Fringe Benefits of $128.4 million, a $5.8 million (4.8%) increase over FY 2020-21 budget, primarily due to an increase in staffing levels.
- Pension contribution of $62.2 million, an estimated $1.5 million (2.4%) increase from FY 2020-21 budget.

Non-Labor expenses:

The FY 2021-22 Draft budget adds $5.8 million (4.7%) in non-labor expenses, the bulk of which is attributed to projected ridership demand for Paratransit/Purchased Transportation Services and increased fuel costs. The District is also obligated to pay increased costs for Casualty & Liability insurance, Salesforce Transit Center (STC) operations, and Election of Directors.

- Services Expense of $36.6 million, a $4.5 million (-10.8%) reduction from the FY 2020-21 budget. Reduced usage of services during FY 2020-21 is expected to continue into the first half of the year and start to pick up in the second half of the year.
- Fuel and Lubricants of $12.8 million, a $1.9 million (17.3%) increase from FY 2020-21 budget. Fuel prices declined early in the pandemic but have rebounded recently.
- Casualty and Liability of $21.7 million, a $1.2 million (5.8%) increase over FY 2020-21 budget due to anticipated insurance premium increases.
- Paratransit and Purchased Transportation of $30.2 million, a $7.0 million (30.2%) increase over FY 2020 -21 budget. East Bay Paratransit (EBP) ridership is expected to gradually increase to 80% of pre-pandemic in the latter half of the fiscal year. Staff included a $3.8 million increase for Paratransit operations, $579,000 increase for Dumbarton Express operations, and $2.5 million in costs related to the EBP office relocation and dispatch software upgrade.

Capital Budget

The Draft FY 2021-22 Capital Budget includes a projected spending plan of $76.7 million, composed of $70.8 million in grant funds and $6.0 million in District Capital funds. The Draft Capital Budget is shown in Attachment 2.

The Draft FY 2021-22 Capital Budget includes 8 new and 36 continuing projects, for a total of 44 projects. Staff worked to reduce the amount of District Capital spending through deferrals or use of grant funding where available. District Capital budget is reduced by $2 million (-26%) from the FY 2020-21 Capital Budget.

The new projects are mostly advanced from the current Capital Improvement Plan (CIP) as the coming fiscal year is the third year of the current CIP. A few of the new projects, such as the Quick Build Projects and Tempo Lane Delineation, are from successful grant applications that were for specific types of projects and were therefore opportunities to enhance existing equipment or systems. These projects are included in the upcoming FY 2022-2026 CIP, which will be presented to the board in May.

The largest project to be completed this fiscal year is the purchase of 40 zero-emission buses. The District anticipates taking delivery of the buses in the second half of the fiscal year and they will be placed in service in Divisions 2 and 4. Other vehicle purchases on the horizon include 19 additional Transbay buses and 50 new forty-foot diesel buses. Staff plans to begin procurement of these bus purchases in the coming fiscal year.

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 2021-22 Operating Budget. Staff is in the process of refining alternatives and evaluating recommendations proposed by the Board of Directors in support of a plan to present a more comprehensive budget proposal in the next round of budget deliberations with the Board of Directors.

PRIOR RELEVANT BOARD ACTION/POLICIES:

SR 21-140 FY 2021-22 Budget Goals & Objectives

ATTACHMENTS:

1. Draft Operating Budget Table
2. Draft Capital Budget Table
3. Presentation

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