

## ISSUE BRIEF: FY2024 Budget Preview

**Meeting:** Board of Directors Meeting

**Meeting Date:** July 20, 2023

<b>INFORMATION TYPE:</b>
Decision Preparation
<b>RECOMMENDED ACTION(S):</b>
Receive for information a preview of the operating and capital budget for FY2024.
<b>ALTERNATIVE OPTION(S):</b>
Financial planning and budgeting is legally required, required by Board policy, and essential; there is no prudent alternative.
<b>PRIOR RELEVANT BOARD ACTIONS &amp; POLICIES</b>
<ul style="list-style-type: none"> <li>• Governance Process: Policy 3.2.7 "...the Board has direct responsibility to create...approval of the annual budget developed and recommended by the CEO."</li> <li>• Executive Limitation: Policy 2.4 Financial Planning/Budgeting</li> </ul>
<b>ISSUE SUMMARY:</b>
<p>This issue brief presents a preview of the FY2024 budget before a formal first draft will be presented to the Board in August. The preview budget is balanced, which means that revenues are sufficient to cover expenses without deficits during the fiscal year. Preliminary discussions in July and August will help ensure support for the recommended budget, which is to be presented for Board adoption in September.</p>
<b>BACKGROUND:</b>
<p>AAATA staff developed this preview FY2024 operating and capital budget that furthers Board Ends within Executive Limitations and provides multi-year context. The Michigan Uniform Budgeting and Accounting Act of 1968 requires the Board to adopt a balanced operating budget by Board Resolution for our next fiscal year, which begins October 1. In addition, the Board needs to authorize a multi-year capital program for federal funding. A formal public hearing for the budget is required and will be held at the August 17<sup>th</sup> Board meeting. Final approval will be sought in September.</p>
<b>IMPACTS OF RECOMMENDED ACTION(S):</b>
<ul style="list-style-type: none"> <li>• Budgetary/Fiscal: Budget adoption is required by state law and Policies 2.4, 3.2.7.</li> <li>• Social/Environmental: Provision of public transportation authorized by the budget is necessary to ensure achievement of social and environmental ends per Board policy.</li> <li>• Governance: The Board is responsible to approve the annual budget (Policy 3.2.7)</li> </ul>
<b>ATTACHMENTS:</b>
<ol style="list-style-type: none"> <li>1. FY2024 Budget Preview</li> <li>2. FY2024 Budget Timeline</li> </ol>

# Attachment 1: FY2024 Budget Preview

## Introduction

The FY2024 Operating and Capital Budget (the Budget) is the fiscal year's financial plan that supports activities to accomplish goals and objectives as defined in Board's Ends Policies and is aligned with TheRide's Corporate Business Plan. All policies and plans support the stated policy of providing public transportation options that contribute to the Ann Arbor-Ypsilanti Area's social, environmental, and economic vitality at a cost that demonstrates value and efficient stewardship of resources.

The Board's Ends are what the organization is committed to achieving. Executive Limitations are the operational and risk boundaries provided to the CEO, within which staff methods, decisions, and activities can be responsibly left to professional staff to lead and manage.

The Corporate Business Plan (the Business Plan) clarifies the strategic goals (Ends policies) and outlines how it will achieve them within a 5-year operating plan and a 10-year capital plan. The operating workplan is shorter to allow a detailed focus on day-to-day operational aspects and more specifically new service improvements.

Aligned with the Business Plan, the Budget provides funding to maintain transportation services to the communities we serve and provides for expansion of services, execution of the Long-Range Plan and continuous process improvement. A large majority of funding in the Budget is for maintaining services, with additional funding to support implementation of the Long-Range Plan and continuous process improvement.

The Budget is a balanced budget that provides a plan for execution of the Board's Ends and the organization's highest priorities. Development of the Budget also considers impacts of economic and industry conditions and the impact on financial and operational plans. Financial assumptions are reasonably conservative and are provided in the context of our approach to addressing opportunities and risks for the current year and a five-year projection. The Budget will also support the priorities and initiatives represented in the Business Plan.

This presentation of the FY2024 Budget Preview (the Budget Preview) illustrates initial assumptions of revenues and expenses needed to maintain current service levels (a base budget). The Budget Preview does not include funding for new initiatives as decisions about priorities are still being evaluated. Approved initiatives will be recommended in the context of organizational priorities, available resources, and in the context of the Business Plan, as determined by staff evaluation and in consideration of Board discussions. Additional initiatives may be incorporated into the next draft of the budget, as funding allows.

The Budget Preview assumes that federal pandemic relief funds will be used to the full extent possible for eligible expenses. As presented in previous projections, pandemic relief funds will be exhausted by the second quarter of FY2024, resulting in a significant decrease in that revenue line in the budget.

Additionally, the Budget Preview includes approximately \$2 million of additional expenses for preparation and initial startup costs for the expansion of services approved in the FY2024 millage, which are expected to begin in August of 2024. Part of the additional expenses include beginning the Washtenaw Express service earlier than planned, which will be funded by the discretionary grant received for that service for two years. Another portion of the increase is the requirement to add operations staff to be prepared to begin service in August, and the actual service to run in August and September 2024. The latter does not have a funding source until

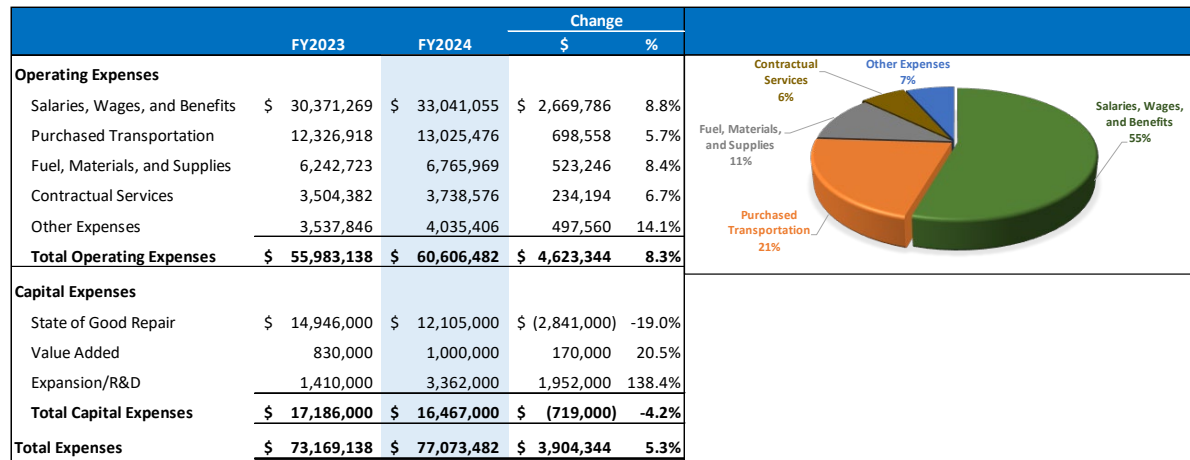
the millage funding arrives, which will not be available until October 1, 2024 (FY2025). As a result, the Budget Preview assumes the use of additional Federal Operating Assistance for operations through the end of FY2024. This approach is still under review and may be adjusted through the budget development period this summer.

In summary, the Budget Preview provides reasonably conservative assumptions to maintain current services and incorporates funding for service expansions approved by voters on August 2, 2022. Updated assumptions and funding for additional initiatives will be incorporated as the budget process continues. The budget will be updated as staff recommendations are finalized, and information will be provided to the Board in accordance with the budget timeline. The FY2024 Draft Budget presented in August will incorporate all these elements comprehensively and be shared in the context of future projections. The outlook for the budget is stable, and is supported by the existing millage, in place until 2023, as well as the use of federal funds to provide critical transportation services and expand services.

### FY2024 Operating Budget Preview

The emerging operating budget is balanced for FY2024. The Budget Preview expenses and revenues are presented below and compared to the approved FY2023 Budget.

Figure 3: FY2024 Operating and Capital Expenses



### Expense Assumptions

Operating expenses are budgeted at **\$60,606,482**, 8.3% higher than FY2023. Key expense assumptions are as follows:

- The budget assumes that fixed route services will be maintained as planned in the previous year with expansions of services phasing in throughout the year. Expenses related to the Washtenaw express bus expansion are phased into the budget beginning in the second quarter of the fiscal year. Expenses for the additional expansion of services beginning in August 2024 are phased into the budget beginning in the third quarter of the fiscal year.
- Salaries, wages, and benefits include contractual pay rate increases for bargaining unit employees and a projected 3.0% annual increase for non-union employees (still under review). Fringe benefits rates are consistent with prior years, as no major program changes have been implemented. Benefits expenses are increasing by 8.9% due to increased budgeted salaries due to planned increases in overall staffing levels and supported by the approved millage. The total number of budgeted full-time employees

increases from 298 in FY2023 to 333 in FY2024 due primarily to staff needed to provide the new service expansions. Additional information regarding staffing levels, phasing in of staff for expanded services and the impacts on salaries, wages and benefits assumptions will be provided during the presentation at the next Board meeting.

- Purchased transportation expenses are 5.7% higher than FY2023. Inflationary impacts on contracted rates account for 3.8% and the new expansion of services account for 1.9% of the increase. FY2024 will be the final contract year for the current service provider for NightRide, FlexRide and GoldRide services. We are currently reviewing a request by the service provider to increase rates for the final year of the contract due to inflationary pressures. No decisions have been made and the budget preview assumes rates under the current contract agreement. This is an emergent issue that will be followed throughout the budget process, but the overall risk to the budget is expected to be manageable.
- Fuel, materials, and supplies are 8.4% higher than FY2023. The main driver is increased cost of repair parts, which is currently estimated to increase by \$548k compared to budget, however the FY2023 budget is less than current year projections as we may have under-estimate the inflationary impacts of parts for this year. This assumption is still under review and may be adjusted in future drafts of the budget. Also, Diesel and Gasoline is expected to be \$287k lower than last year's budget, partially offsetting various other small increases. The FY2023 budget was developed during a time of high fuel prices. Fuel prices have come down and stabilized during 2023, resulting in savings.
- Contracted services are 6.7% higher than FY2023 primarily due to increased contracted maintenance service for vehicles. Large repairs are required to be outsourced due to staff shortages with mechanics.
- Other expenses budgets currently anticipate a 14.1% increase, mainly due to higher insurance premiums. This assumption will be reviewed as we are in the process of renewing our insurance policies. This assumption will be updated in the August draft of the budget and more information will be discussed once the renewals are finalized.
- Capital Expenses are still under significant review. The budget preview assumes a significant increase in bus prices (included in the state of good repair budget) as our current bus supplier has announced they are pulling out of the U.S. market, and we will likely be exposed to market risk for bus costs on our next bus purchase. More information will be provided on this topic throughout the budget process.

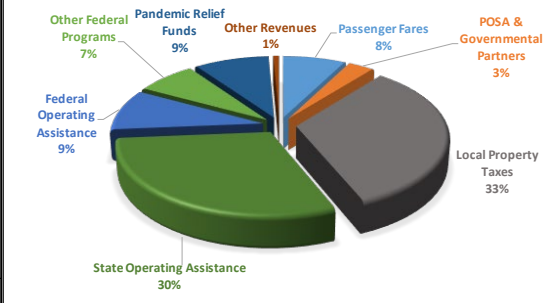
The state of good repair budget is currently projected to decrease due to the planned completion of the roofing and HVAC project that was budgeted in FY2023. However, that project will likely not be completed this fiscal year. Initial proposals for the project were higher than expected due to inflation of labor and materials costs. The project scope and costs are under review. After further evaluation and timing considerations, we will likely be moving that project into FY2024 with updated cost estimates, which would increase the state of good repair expenses significantly in the next draft of the budget.

Expansion projects in the capital budget are included as projected from last year and are consistent with the long-range plan. The timing of these projects are still being evaluated and any changes will be included in the next draft of the budget.

Figure 4: FY2024 Operating and Capital Revenues

**FY2024 Budgeted Revenues (with FY2023 Comparison)**

	FY2023	FY2024	Change	
			\$	%
<b>Operating Revenues</b>				
Passenger Fares	\$ 4,085,548	\$ 4,617,913	\$ 532,365	13.0%
POSA & Governmental Partners	1,905,957	1,893,365	(12,592)	-0.7%
Local Property Taxes	19,070,301	20,022,123	951,822	5.0%
State Operating Assistance	17,443,827	18,132,197	688,370	3.9%
Federal Operating Assistance	3,000,000	5,565,077	2,565,077	85.5%
Other Federal Programs	4,201,180	4,427,100	225,920	5.4%
Pandemic Relief Funds	17,277,770	5,508,448	(11,769,322)	-68.1%
Other Revenues	524,279	440,259	(84,020)	-16.0%
<b>Total Operating Revenues</b>	<b>\$ 67,508,862</b>	<b>\$ 60,606,482</b>	<b>\$ (6,902,380)</b>	<b>-10.2%</b>
<b>Capital Revenues</b>				
Federal Contribution	\$13,249,000	\$ 12,514,000	\$ (735,000)	-5.5%
State Contribution	3,612,000	3,628,000	16,000	0.4%
Local Contribution	25,000	25,000	-	0.0%
Federal Earmark	300,000	300,000	-	0.0%
<b>Total Capital Revenues</b>	<b>\$ 17,186,000</b>	<b>\$ 16,467,000</b>	<b>\$ (719,000)</b>	<b>-4.2%</b>
<b>Total Revenues</b>	<b>\$ 84,694,862</b>	<b>\$ 77,073,482</b>	<b>\$ (7,621,380)</b>	<b>-9.0%</b>



**Revenue Assumptions**

Operating revenues are budgeted at **\$66,606,482** a reduction of 10.2% from the FY2023 budget year. Key revenue assumptions are:

- Passenger fare revenue is increasing by \$532k, driven by current ridership projections, primarily in Fixed Route service. Fixed Route ridership is expected to increase in FY2024 from FY2023 actual ridership and be consistent with last year’s projection. Ridership is continuously increasing year over year and progressively returning to pre-pandemic levels. Total ridership is anticipated to be approximately 76% of pre-pandemic levels and there is an additional slight increase in ridership of 0.7% due to the start-up of expanded services.
- Local property tax collections are expected to increase by approximately 5.0%, which is based on the increase in assessed property values from FY2022 to FY2023. Impacts from the approved millage increases will be realized in FY2025.
- State Operating Assistance revenue is expected to increase by 3.9% due to the increase in eligible operating expenses. Although there has been some discussion of additional state funding for transit, the budget preview does not assume increases associated with that as that has not been approved by the state. The topic will be followed, and additional information will be provided throughout the budget process as it becomes available.
- Federal Operating Assistance is increasing by 85.5% due to the current assumption that Federal Formula Funds may be used to supplement operations while expanded services are phased in throughout FY2024. Additional property taxes generated by increased millage rates approved in August 2022 will fund the expansion of services, but the initial start-up for the services will occur before funds are realized. The additional funds will be received in late summer 2024, but expenses will be incurred before that as the agency hires staff and begins additional service. As mentioned in the introduction, this funding approach is still under review and may be adjusted through the budget development period this summer.

- As planned, the use of Pandemic Relief Funds for operating assistance in FY2024 is expected to be approximately \$5.5 million, and the funds will be completely utilized. As a result, the use of these funds decreases from prior year by \$11.7 million and there will be no surplus generated this fiscal year.

### Contingent Budgets

There is still a fair amount of uncertainty regarding revenues and expenses, particularly the impact of expense assumptions due to inflationary factors, impacts of workforce challenges, and impacts of state and local funding. The FY2024 Budget proposal is likely to change before a recommended budget is presented to the Board for adoption. The following revenues and expenses are likely to change:

- Fare and contract revenues may vary based as ridership projections are updated.
- Property tax collections could be higher or lower than anticipated.
- State operating and capital contributions will depend upon the state's budget adoption, which isn't likely to occur before early September.
- Fuel, materials, and supplies cost assumptions may be adjusted based on impacts of inflation.
- Purchased transportation costs may vary depending on the negotiation of the NightRide, FlexRide and GoldRide contract.
- Additional expenses may be added to accommodate Corporate Business Plan initiatives.
- Phasing in of service expansions will continue to be reviewed and will likely result in changes to expenses, primarily affecting staff salaries, wages, and benefits.
- Revenue assumptions for Federal Operating Assistance and Pandemic Relief Funds may be adjusted based on changes in expenses and further evaluation of the funding strategy for service expansions prior to receiving additional property tax revenues. The approved millage for those services will be levied in FY2024 but will not be available until FY2025 (beginning October 1, 2024).
- The Capital Plan is still being evaluated and it is expected that some significant updates will be made throughout the process.

Budgets to be presented during the budget cycle will represent the staff's best attempts to make financial projections using the economic inputs available to us from our industry, local, state, and federal leaders. Additional information to be provided throughout the budget process will include additional context of multi-year projections, cash flows, capital reserve projections and alignment with the Business Plan and the Board's Ends.

Figure 5 below provides a preview of the Budget at this initial stage of the development process.

Figure 5: FY2024 Budget Comparison (Prior Year Actuals and Current Year Projected)

**TheRide**  
**FY2024 Operating Budget**

	FY2022	FY2023	FY2024	Budget Variance	
	Actual	Budget	Budget	\$	%
<b>OPERATING REVENUES</b>					
Passenger Revenue	\$ 2,993,557	\$ 4,085,548	\$ 4,617,913	\$ 532,365	13.0%
Local Property Tax Revenue	19,272,242	19,070,301	20,022,123	951,822	5.0%
POSA & Other Governmental Partners	1,272,546	1,905,957	1,893,365	(12,592)	-0.7%
State Operating Assistance	17,237,135	17,443,827	18,132,197	688,370	3.9%
Federal Operating Assistance	2,108,116	3,000,000	5,565,077	2,565,077	85.5%
Other Federal Programs	1,654,998	4,201,180	4,427,100	225,920	5.4%
Pandemic Relief Funds	18,398,909	17,277,770	5,508,448	(11,769,322)	-68.1%
Advertising, Interest, and Other	280,825	524,279	440,259	(84,020)	-16.0%
<b>TOTAL REVENUES</b>	<b>\$ 63,218,328</b>	<b>\$ 67,508,862</b>	<b>\$ 60,606,482</b>	<b>\$ (6,902,380)</b>	<b>-10.2%</b>
<b>OPERATING EXPENSES</b>					
Salaries, Wages and Benefits	\$ 27,640,700	\$ 30,371,269	\$ 33,041,055	\$ 2,669,786	8.8%
Purchased Transportation	11,099,116	12,326,918	13,025,476	698,558	5.7%
Diesel Fuel and Gasoline	2,860,719	3,480,000	3,192,822	(287,178)	-8.3%
Materials and Supplies	2,561,138	2,762,723	3,573,147	810,424	29.3%
Contracted Services	3,560,392	3,504,382	3,738,576	234,194	6.7%
Utilities	671,415	661,056	713,890	52,834	8.0%
Casualty & Liability Insurance	1,483,929	1,560,000	1,827,000	267,000	17.1%
Other Expenses	468,908	1,316,790	1,494,516	177,726	13.5%
<b>TOTAL EXPENSES</b>	<b>\$ 50,346,317</b>	<b>\$ 55,983,138</b>	<b>\$ 60,606,482</b>	<b>\$ 4,623,344</b>	<b>8.3%</b>
<b>SURPLUS (DEFICIT)</b>	<b>\$ 12,872,011</b>	<b>\$ 11,525,724</b>	<b>\$ -</b>	<b>\$ (11,525,724)</b>	<b>-100.0%</b>
Operating Reserve Transfer	\$ -	\$ -	\$ -	\$ -	0.0%
Capital Reserve Transfer	(12,872,011)	(11,525,724)	-	11,525,724	-100.0%
<b>OPERATING BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

**FY2024 Capital Budget Preview**

Figure 4: FY2024 Capital Budget

**\$16,467,000** in capital projects are budgeted for the following capital budget categories:

<b>CAPITAL PROJECTS</b>	<b>FY2024 Budget</b>	<b>FY2024-FY2032 Program</b>
State of Good Repair	\$12,105,000	\$98,925,294
Value Added	\$1,000,000	\$22,737,639
Research & Development	\$25,000	\$200,750
Expansion	\$3,337,000	\$203,253,740
<b>TOTAL EXPENSES</b>	<b>\$16,467,000</b>	<b>\$325,117,423</b>
<b>FUNDING SOURCES</b>	<b>FY2024 Budget</b>	<b>FY2024-FY2032 Program</b>
State & Federal Grants	\$16,142,000	\$169,438,915
Federal Earmark	\$300,000	\$0
Local Capital Reserve	\$25,000	\$32,796,491
Unidentified Funding	\$0	\$122,882,017
<b>TOTAL REVENUE</b>	<b>\$16,467,000</b>	<b>\$325,117,423</b>
<b>UNIDENTIFIED FUNDING PORTION</b>	<b>FY2024 Budget</b>	<b>FY2024-FY2032 Program</b>
Unidentified Funding %	0%	38%

State of Good Repair:

- Vehicles: Includes \$8.2 million to replace 10 large buses, 4 cutaway buses and 3 non-revenue vehicles according to the fleet replacement plan.
- Equipment: \$435,000 for capital bus components and maintenance equipment.
- Existing Facilities: \$3.5 million for FY2024 projects including general facilities maintenance, lighting improvements (LED), and interior facilities improvements.

Value Added:

- Bus Stop Improvements: \$350,000
- Bus Lane Improvements and Other Transit Priorities: \$500,000
- Technology Upgrades: \$150,000

Expansion Projects (as approved in the Long-Range Plan):

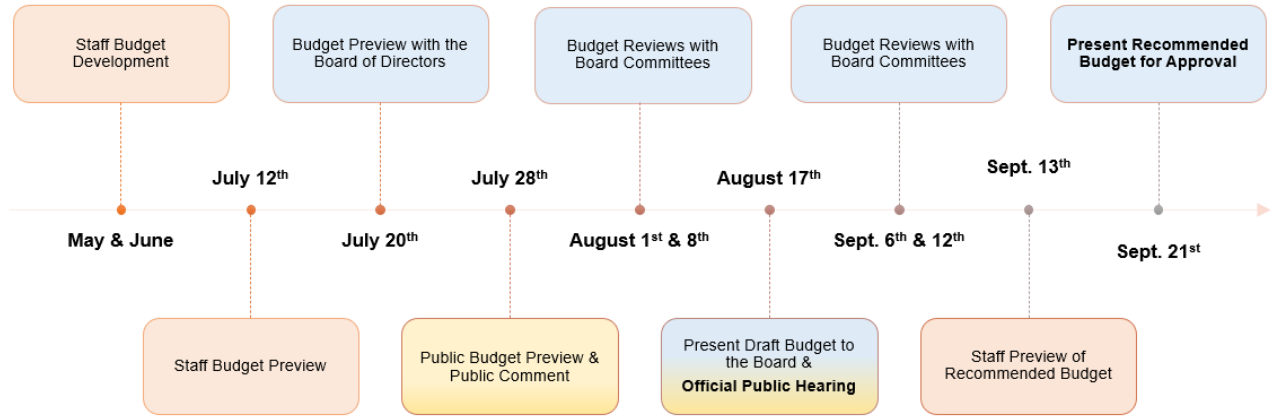
- Ypsilanti Transit Center: \$1,965,000 million for the planning and design of the YTC and the potential for land acquisition if approval is requested and granted from the Board (timing still under review by staff and to be determined).
- Bus Maintenance and Storage Facility: \$350,000 to begin planning and design.



- Bus Rapid Transit: \$350,000 to begin planning and design.
- Information Technology: \$530,000 for customer experience technology, first and last mile solutions and operational innovations.

# Attachment 2: FY2024 Budget Timeline

Figure 1: Budget Timeline



1. Budget Preview: Board of Directors Meeting, July 20, 2023

*An early draft of the budget and multi-year forecast will introduce the strategic context and assumptions used in budgeting and financial planning.*

2. Public Input Period: July 28, 2023 through September 21, 2023

*Federal regulations require a 30-day review and public input period for AAATA’s capital program using Federal funds. Both the capital program and the operating budget will be available for public review and input starting July 28<sup>th</sup>, through budget adoption on September 23<sup>rd</sup>.*

3. Draft Budget Introduction: Board of Directors Meeting, August 17, 2023

*The Board’s budget inputs continue, and discussion will commence upon introduction of a draft budget by staff at Board Committees and the monthly Board of Directors meeting.*

4. Public Hearing: Board of Directors Meeting, August 17, 2023

*As required by state law, meaningful public input to the budget will be obtained through an official public hearing to run concurrent with the Board of Directors meeting.*

5. Board Adoption: September 21, 2023

*Adoption of the FY2024 Operating and Capital Budget is required before any expenditures may be incurred on October 1, the first day of the new fiscal year.*