

## ISSUE BRIEF: FY2023 Budget Preview

**Meeting:** Board of Directors Meeting  
**Meeting Date:** July 21, 2022

<b>INFORMATION TYPE:</b>
Decision Preparation
<b>RECOMMENDED ACTION(S):</b>
Receive for information a preview of the operating and capital budget for FY2023.
<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 FY2023 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 FY2023 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 18<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. FY2023 Budget Preview</li> <li>2. FY2023 Budget Timeline</li> </ol>

# Attachment 1: FY2023 Budget Preview

## Introduction

The FY2023 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 Budget process began by evaluating impacts of economic and industry conditions on financial and operational plans, collecting historical and current trend data, developing information-based assumptions, identifying opportunities, creating strategic themes, and having tactical discussions to develop prioritized initiatives for the next five years.

The coronavirus pandemic significantly impacted the world, our state, and communities directly beginning in March 2020. Financial and operating impacts were unparalleled, with fare revenue and transit ridership losses in the millions. Relief from the impacts of the virus began in 2021 with wide availability of coronavirus vaccinations. We began FY2022 by focusing on recovery, but significant financial and operational volatility and uncertainty is continuing. The labor market has been slow to recover and resulted in reduced service levels for a portion of the year as we endeavored to maintain adequate levels of staff for operations. Financial markets are seeing levels of inflation that haven't been realized in decades. However, the current presidential administration has acknowledged the impacts of these challenges in the transportation industry and has been providing new sources of operational funding in addition to stable and increased levels of funding for capital investment for transportation agencies that rely on public funding.

In the wake of the unpredictable impacts of the coronavirus pandemic, the additional funding provides stability for our agency and a sense of optimism in opportunities to continue restoration of ridership through growth in service opportunities and investing in organizational efficiencies. As a result, the *FY2023 Corporate Business Plan (the Business Plan)* focuses on initiatives focused on retaining and attracting ridership, implementing the Long-Range Plan, and agency-wide continuous improvements.

The Budget is a balanced budget that supports recovery efforts by providing funding to maintain transportation services to the communities we serve. Development of the Budget 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 FY2023 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 initiatives to support the Business Plan, as decisions about priorities related to the Business Plan are still being evaluated. Approved Business Plan initiatives will be recommended in the context of organizational priorities and available resources as determined by staff evaluation and in consideration of Board discussion of the Business Plan on July 21, 2022. Initiatives will be incorporated into the next draft of the budget. The Budget Preview assumes that federal pandemic relief funds will be used to the full extent possible for eligible expenses. Consequently, a portion of local property tax revenues is anticipated to provide a surplus in FY2023, which will provide additional funding

for capital infrastructure projects approved in the capital plan, as approved by the Board. As a result, any increases in future drafts of the budget that are not offset by additional revenues or expense savings will reduce the estimated funding available for the capital reserve. Without the use of pandemic relief funds, the budget as presented here would show a deficit that would need to be addressed to meet the balanced budget requirement.

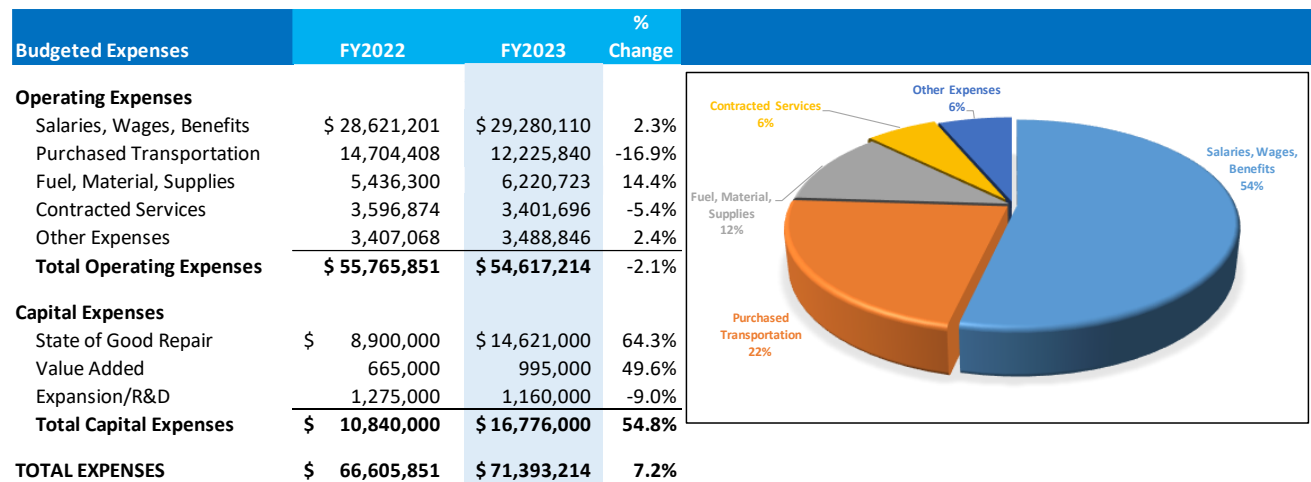
Prior forecasted budgets showing the emergence of deficits has not been resolved in a sustainable way. While utilization of federal aid provided by pandemic relief funds have provided short-term relief with respect to the operating budget, restoration of services, inflationary growth and other cost pressures are a reality and still result in a structural deficit. This issue is being addressed with the millage proposal on local ballots for August 2, 2022. Impacts of the millage results are not contemplated in the Budget Preview and may result in recommended adjustments to future drafts of the Budget.

In summary, the Budget Preview provides reasonably conservative assumptions to maintain current services. Updated assumptions, funding for Business Plan initiatives and any impacts resulting from the millage decision in August 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 FY2023 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, and the use of federal relief funds to provide critical transportation services as our communities continue to recover.

### FY2023 Operating Budget Preview

The emerging operating budget is balanced for FY2023 and maintaining current services. The Budget Preview expenses and revenues are presented below and compared to the approved FY2022 Budget.

Figure 3: FY2023 Operating and Capital Expenses



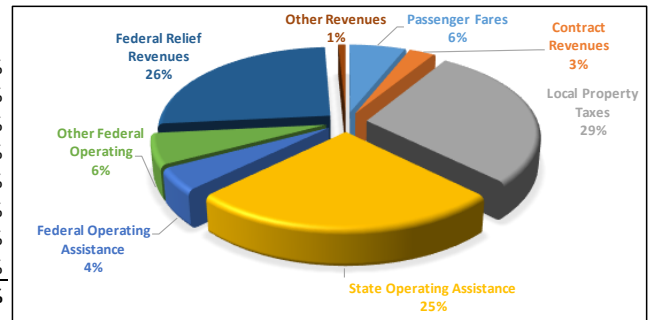
### Expense Assumptions

Operating expenses are budgeted at **\$54,617,214**, 2.1% lower than FY2022. Key expense assumptions are as follows:

- Fixed route services are maintained as planned in the previous year. Although some fixed route services were temporarily suspended for part of FY2022, we anticipate operating full-service levels for the duration of FY2023. A-Ride will continue to be operated as a contracted service. All other services will continue as planned in the previous year.
- Salaries, wages, and benefits include contractual pay rate increases for bargaining unit employees and a 4.0% annual increase for non-union employees. Fringe benefits are increasing by 3.0% based on the increase in pay rates. The total number of budgeted full-time employees has not changed in these assumptions. Although the increase in budgeted salaries, wages and benefits is 3.5%, it appears as 2.3% in the year over year budget comparison because in FY2022 there was a one-time budget assumption for union negotiations that is removed in FY2023. More detail regarding salaries, wages and benefits assumptions will be provided during the presentation at the next Board meeting.
- Purchased transportation expenses are 16.9% lower than FY2022. The main contributor to the reduced budget a reduction in A-Ride bus services. The A-Ride contract is currently being negotiated and is expected to be finalized by August. Current assumptions reflect negotiations as they stand currently, and expenses are decreased significantly due to reduction in demand and ridership compared to the prior year budget assumptions. Additionally, demand for GoldRide service has been significantly less than planned in the previous year, driving a significant reduction in expected expenses for that service in FY2023.
- Fuel, materials, and supplies are up 14.4%. Fuel is budgeted \$1.1M higher than FY2022 due to the increased cost of gasoline and diesel fuels. Some increases are offset by reductions in computer software costs and emergency related supplies and materials.
- Contracted services budget is reduced by 5.4%. The reduction is the result of lower budgets in legal fees, agency fees and reductions in estimates for emergency related purchased services. Services related to the pandemic are resulting in new normal levels of activity and expenses have been adjusted according to current levels of activity.
- Other expenses budget will increase by 2.4% mainly due to higher insurance premiums. This increase is partially offset by reductions in cellular fees, media fees and the removal of parking lot rental fees.
- Capital Expenses are increasing by 54.8%, mostly due to increased costs for state of good repair facilities requirements and increased costs for rolling stock fleet purchases. Independent cost estimates for roof replacement, HVAC replacement, and fleet purchase costs have increased significantly due to inflation of labor and materials costs. We are still evaluating the estimates and our strategy to address the cost increases.

Figure 4: FY2023 Operating and Capital Revenues

Budgeted Revenues	FY2022	FY2023	% Change
<b>Operating Revenues</b>			
Passenger Fares	\$ 4,165,723	\$ 4,085,548	-1.9%
Contract Revenues	1,721,873	1,855,668	7.8%
Local Property Taxes	19,258,842	19,070,301	-1.0%
State Operating Assistance	16,914,298	17,047,709	0.8%
Federal Operating Assistance	3,000,000	3,000,000	0.0%
Other Federal Operating	3,878,890	4,091,317	5.5%
Federal Relief Revenues	18,653,477	17,277,770	-7.4%
Other Revenues	391,000	524,279	34.1%
<b>Total Operating Revenues</b>	<b>\$ 67,984,103</b>	<b>\$ 66,952,592</b>	<b>-1.5%</b>
<b>Capital Revenues</b>			
Federal Contribution	\$ 8,191,145	\$ 12,921,000	57.7%
State Contribution	2,247,786	3,530,000	57.0%
Federal Earmark	-	300,000	n/a
Local Contribution	401,069	25,000	-93.8%
<b>Total Capital Revenues</b>	<b>\$ 10,840,000</b>	<b>\$ 16,776,000</b>	<b>54.8%</b>
<b>TOTAL REVENUES</b>	<b>\$ 78,824,103</b>	<b>\$ 83,728,592</b>	<b>6.2%</b>



### Revenue Assumptions

Operating revenues are budgeted at **\$66,952,592** a reduction of 1.5% from the FY2022 budget year. Key revenue assumptions are:

- Passenger fare revenue is reduced by 1.9% due to lower-than-expected actual ridership in FY2022. Fixed Route ridership is expected to increase in FY2023 from FY2022 actual ridership but less than the FY2022 ridership projection.
- Contract revenue has increased 7.8% due to higher local contributions expected for the D2A2 and Nonurban services (People’s Express)
- Local property tax collections are reduced by 1.0% due to lower current FY2022 projections. The FY2023 assumption is a 3.0% from the FY2022 actual projection.
- State Operating Assistance revenue is increased by 1.0% due to a slight increase in the projected reimbursement rate based on historical performance.
- Other federal operating assistance is expected to increase 5.5% primarily as a result of higher capital cost of contracting (5307 Operating) funding that will be utilized.
- Other income is higher by 34.1% due to increased revenue from investment income and advertising revenue. This increase is expected as investment rates continue to rise in the current market along with higher investment levels for the capital reserve and advertising sales are restored.
- \$17.3 million in federal pandemic relief funds is expected to be used for operating assistance in FY2023. The estimated transfer of local property taxes to the board approved capital reserve is \$12.3 million.

## 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 FY2023 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 revenue and contract revenue may vary based upon ridership projections.
- 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 costs may be adjusted based on impacts of inflation.
- Purchased transportation costs may vary depending on the negotiation of the A-Ride contract.
- Additional expenses may be added to accommodate Corporate Business Plan initiatives.
- Impacts of the millage results are not contemplated in this draft and may result in recommended adjustments to future drafts of the Budget.

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.

**Figure 5: FY2023 Budget Comparison (Prior Year Actuals and Current Year Projected)**

	FY2021	FY2022	FY2023	2023 vs. 2022	
	Actual	Budget	Budget Preview	\$	%
<b>OPERATING REVENUES</b>					
Passenger Revenue	\$ 1,624,502	\$ 4,165,723	\$ 4,085,548	\$ (80,175)	-2%
Local Property Tax Revenue	17,991,318	19,258,842	19,070,301	(188,541)	-1%
POSA & other Governmental Partners	1,288,708	1,721,873	1,855,668	133,795	8%
State Operating Assistance	13,338,529	16,914,298	17,047,709	133,411	1%
Federal Operating Assistance	1,350,000	3,000,000	3,000,000	-	0%
Other Federal Conditional Assistance	1,329,208	3,878,890	4,091,317	212,427	5%
CARES/CRRSAA/ARP	17,100,201	18,653,477	17,277,770	(1,375,707)	-7%
Advertising, Interest, and Other	1,014,866	391,000	524,279	133,279	34%
<b>TOTAL REVENUES</b>	<b>\$ 55,037,332</b>	<b>\$ 67,984,103</b>	<b>\$ 66,952,592</b>	<b>\$ (1,031,511)</b>	<b>-2%</b>
<b>OPERATING EXPENSES</b>					
Salaries, Wages and Benefits	24,928,712	28,621,201	29,280,110	658,909	2%
Purchased Transportation	5,943,543	14,704,408	12,225,840	(2,478,568)	-17%
Diesel Fuel and Gasoline	1,100,612	2,400,000	3,480,000	1,080,000	45%
Materials and Supplies	2,229,069	3,036,300	2,740,723	(295,577)	-10%
Contracted Services	3,084,422	3,596,874	3,401,696	(195,178)	-5%
Utilities	676,261	675,200	661,056	(14,144)	-2%
Casualty & Liability Insurance	1,314,924	1,450,000	1,716,000	266,000	18%
Other Expenses	1,600,633	1,281,868	1,111,790	(170,078)	-13%
<b>TOTAL EXPENSES</b>	<b>\$ 40,878,176</b>	<b>\$ 55,765,851</b>	<b>\$ 54,617,214</b>	<b>\$ (1,148,637)</b>	<b>-2%</b>
<b>Surplus (Deficit)</b>	<b>14,159,156</b>	<b>12,218,252</b>	<b>12,335,377</b>	<b>117,125</b>	<b>1%</b>
Operating Reserve Transfer	(2,220,556)	-	-	-	
Capital Reserve Transfer	(11,938,600)	(12,218,252)	(12,335,377)	(117,125)	
<b>Operating Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

## FY2023 Capital Budget Preview

Figure 4: FY2023 Capital Budget

**\$16,776,000** in capital projects are budgeted for the following capital budget categories:

<b>CAPITAL PROJECTS</b>	<b>FY2023 Budget</b>
State of Good Repair	\$14,621,000
Value Added	\$995,000
Research & Development	\$25,000
Expansion	\$1,135,000
<b>TOTAL EXPENSES</b>	<b>\$16,776,000</b>
<b>FUNDING SOURCES</b>	<b>FY2023 Budget</b>
State & Federal Grants	\$16,451,000
Federal Earmark	\$300,000
Local Capital Reserve/Share	\$25,000
Unidentified Funding	\$0
<b>TOTAL REVENUE</b>	<b>\$16,776,000</b>
<b>UNIDENTIFIED FUNDING PORTION</b>	<b>FY2023 Budget</b>
Unidentified Funding %	0%

### State of Good Repair:

- Vehicles: Includes \$5.5 million to replace 8 large buses, 4 cutaway buses and 3 non-revenue vehicles according to the fleet replacement plan.
- Equipment: \$419,000 for capital bus components and maintenance equipment.
- Existing Facilities: \$8.5 million for FY2023 projects including a new roof and adjacent HVAC life-cycle replacements for the Dawn Gabay Operations Center, park-and-ride lot repairs, and interior maintenance and administration facility renovations.
- Technology Upgrades: \$235,000 for technology life-cycle replacement projects such as switches, firewalls, and fare collection equipment.

### Value Added:

- Bus Stop Improvements: \$445,000
- Bus Lane Improvements and Other Transit Priorities: \$300,000
- Technology Upgrades: \$250,000

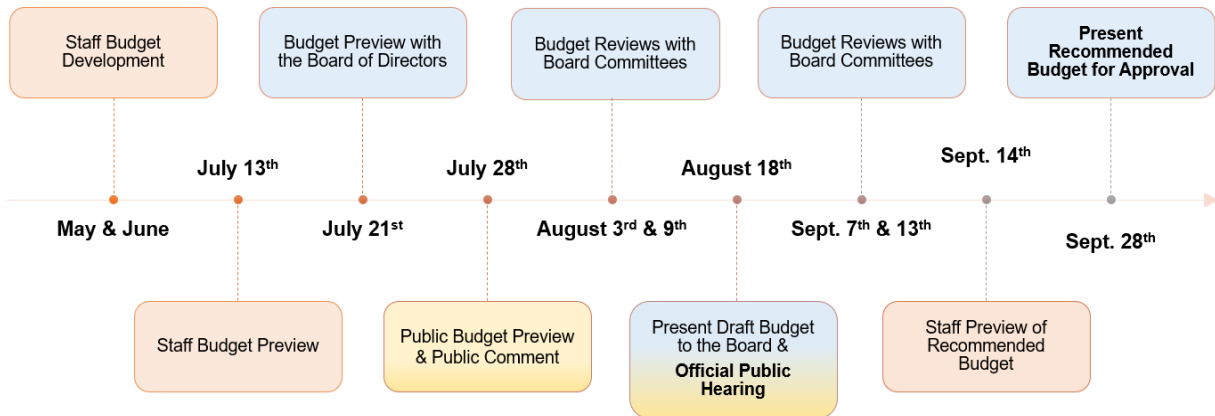
Expansion Projects (as presented in the Long-Range Plan):

- Ypsilanti Transit Center: \$585,000 for the planning and design of the YTC.
- Bus Maintenance and Storage Facility: \$100,000 to begin planning and design.
- Bus Rapid Transit: \$150,000 to begin planning and design.
- Information Technology: \$300,000 for customer experience technology and operational innovations.



## Attachment 2: FY2023 Budget Timeline

Figure 1: Budget Timeline



1. Budget Preview: Board of Directors Meeting, July 21, 2022

*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, 2022—September 23, 2022

*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 18, 2022

*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 18, 2022

*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 28, 2022

*Adoption of the FY2023 Operating and Capital Budget is required before any expenditures may be incurred on October 1, the first day of the new fiscal year.*