



Agenda Item No. (9)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 28, 2020

From: Jennifer Mennucci, Director of Budget and Electronic Revenue
Amy Frye, Director of Capital and Grant Programs
Joseph M. Wire, Auditor-Controller
Denis J. Mulligan, General Manager

Subject: **INITIAL PRESENTATION OF THE PROPOSED FY 2020/2021
OPERATING AND CAPITAL BUDGET**

Recommendation

The initial presentation of the Proposed Budget for Fiscal Year 2020/2021 (FY 20/21) is scheduled for the Finance-Auditing Committee meeting of May 28, 2020. It is scheduled for further discussion at the Finance-Auditing Committee meeting on June 25, 2020, and subsequent Board action on June 26, 2020. At that time, the Finance-Auditing Committee may recommend that the Board of Directors approve the FY 20/21 Proposed Operating and Capital Budget that:

1. Authorizes the following items as contained in the budget:
 - a. District Goals, Projects, and Accomplishments;
 - b. Changes to the Reserve Structure;
 - c. Changes to the Table of Organization;
2. Incorporates a recently ratified contract with the Amalgamated Transit Union (ATU) which covers the period of September 1, 2018-August 30, 2021 that included a 7.6% increase in the hourly wage rate upon ratification and a 3.5% wage increase effective September 1, 2020 for bus operators. No budgeted salary increase is included for non-represented employees or for those represented by the Coalition, whose MOU is the subject of current negotiations.
3. Authorizes a Capital Contribution amount of \$21 million.
4. Authorizes the following items not currently included in the Proposed Budget but will be included in the Adopted Budget:
 - a. Any Board approved actions through June 30, 2020 that have a fiscal impact to the FY 20/21 Capital and/or Operating Budget;
 - b. Carryover any incomplete projects in the FY 19/20 Capital Budget to FY 20/21 as authorized by the General Manager;
 - c. Move capital projects from the FY 21/22 list to the FY 20/21 budget, authorized by the General Manager, as staff resources become available in FY 20/21; and,
 - d. Any final FY 19/20 budget transfers needed to comply with the Board's budget policy will be implemented in the FY 20/21 Adopted Budget Book.

Summary of Expenses and Revenues

The Proposed FY 20/21 Budget is a policy document that identifies the strategic direction and priorities of the Board of Directors for the coming budget year. The Proposed Budget is a tool with which the Board sets policy directives and initiatives that were developed in its Strategic Financial Planning process. It carries out the stated mission of the Golden Gate Bridge, Highway and Transportation District (District) within the bounds of that Strategic Financial Plan.

The Proposed Budget was in its final form before the long-term impact of COVID-19 became evident. The sudden onset of the pandemic and the associated Shelter-in-Place Orders caused an unprecedented, and almost instantaneous drop in District revenues and has presented unique challenges in presenting the Proposed FY20/21 Budget. It appears that the global health crisis has triggered a global economic crisis.

At this juncture there is tremendous uncertainty regarding how quickly and to what level Bridge toll and transit fare revenues will rebound as restrictions on business and community activities are eased through revised Shelter-in-Place Orders. Such uncertainty lends itself to the adoption of a baseline budget that shows a placeholder for future policy decisions.

In the coming weeks and months we will see how Bridge traffic and transit ridership responds to the reopening of the economy, and we will have a better understanding of any additional state and/or federal COVID-19 funding assistance. This information will inform those upcoming expense and revenue policy decisions.

The Proposed FY 20/21 Budget includes:

- Operating Budget revenues of \$144 million.
- Operating Budget expenditures (including capital contribution and depreciation) of \$242.2 million.
- Assumption of \$98.2 million in future increase in revenues or decrease in expenses to balance the budget.
- Capital Budget revenues of \$29.1 million.
- Capital Budget expenditures of \$48.7 million.
- District reserves of \$19.6 million to be used to fund the FY 20/21 Capital Budget.

The Proposed Budget includes the second year of the five-year toll increase approved by the Board and the fourth year of the fare increase plan for transit. These increases are more than offset by COVID-19 related public health Orders that decreased Bridge traffic, bus ridership, ferry ridership, and caused a projected 25% reduction in the allocation of the State Operating Assistance, projected lower investment income and a projected 40% drop in Regional Measure 2 (RM-2) funding. The projected reductions in future tolls, fare revenues, and state and local revenues are based on the best available data known today, and will likely change.

Budget Development Process for the Proposed FY 20/21 Budget

As mentioned, this has been a very unusual year for the preparation of the District's budget. The proposed budget was developed between December and mid-March based on the policy objectives of the Board and the then current assumptions for District business activity. At the exact time that the budget was completed, the state's Shelter-in-Place Orders took effect, and the usual demand

for District services drastically changed. In reaction to that change, the Board will need to change its policy direction and priorities.

This proposed budget now comes to the Board at a time of great and continuing uncertainty as to if and when the District's customers, and thus revenues, will return to their previous levels. In the next few months, staff will work with the Board to determine what changes in expenses and revenues are necessary to balance the budget. This budget projects that \$98.2 million in future decreases in expenses and/or increases in revenues will be required to balance the budget in FY 20/21.

This overview for the Board will first examine the impact of COVID-19 on the District's finances then provide an overview of the District's Proposed FY 20/21 Operating and Capital Budget.

COVID-19 Status and Overview

The District has experienced an unprecedented drop in customer demand in all three of its transportation modes. After the Shelter-in-Place mandates were issued, Bridge traffic declined 70%, ridership on Golden Gate Transit declined by 92%, and Golden Gate Ferry's ridership declined by 99%. Those dramatic changes were on top of existing signs of a minor decline in both traffic and ridership over the last two years. Overall, this is a time of unprecedented uncertainty for the District's businesses and changes in human behavior over both the short and long-term will dictate revenues and the availability of funds for operations. The District must monitor these changes and adjust its bus and ferry service levels accordingly.

COVID-19 Impact on District Revenue in the Proposed FY 20/21 Operating Budget

Bridge Division

Bridge traffic dropped quickly and stabilized at approximately 30% of pre-COVID-19 traffic. From March 1- May 16, that corresponding cumulative revenue loss was approximately \$18.5 million. Bridge traffic slowly has begun to improve in May but is still only 40% of normal. The Proposed Budget assumes that revenues from bridge traffic will recover in FY 20/21, based on the economic growth projected for the U.S. Highway 101 corridor counties, as well as projected changes in customer behavior. The growth projections assume traffic starting from 37% of normal in July 2020 and growing to 82% by the end of FY 20/21. In comparison, the Bay Area region is estimating a slower growth path for toll traffic with an average of 47% reduction in toll traffic through end of calendar year 2020.

Bus Division

Bus ridership dropped quickly with the Shelter-In-Place Orders, and has now crept back up to 12% of pre-COVID-19 levels. From March 1- May 16, the cumulative revenue loss was approximately \$2 million. Given the uncertainty as to the duration of the COVID-19 public health Orders, it is not clear when ridership will recover. The Proposed FY 20/21 Operating Budget contains ridership growth projections that assume 20% pre-COVID-19 ridership levels in July 2020 with growth to 55% of pre-COVID-19 ridership levels by end of FY 20/21.

Ferry Division

Ferry ridership dropped quickly after the Shelter-In-Place Orders were issued and has stabilized at 1% of pre-COVID-19 levels. From March 1- May 16, the cumulative revenue loss was

approximately \$3.5 million. Given the uncertainty of the duration of the COVID-19 public health Orders, it is not clear when ferry ridership will recover. The Proposed FY 20/21 Operating Budget contains ridership growth projections that assume ridership of 10% of pre-COVID-19 ridership levels in July 2020 with growth to 51% of pre-COVID-19 ridership levels by the end of FY 20/21.

Operating Budget Overview

The Proposed FY 20/21 Operating Budget projects that it will take \$98.2 million in increased revenues or decreased expenditures to balance. This is almost entirely due to COVID-19 impacts on the District's revenues. This projected deficit already contemplates the estimated \$49.5 million from the CARES Act funding for the District's transit expenses. The District will use those funds before the end of this fiscal year on June 30, 2020.

Expenses

The Proposed FY 20/21 Operating Budget of \$242.2 million in expenses is \$20.4 million more than the FY 19/20 Estimated Actual expenses of \$221.9 million. This 9.2% increase includes the following: fully funding vacant positions, re-funding commercial paper debt service due to the indenture requirement, as well as covering the increased cost of salaries and benefits, and District-wide contracted professional services. The budget incorporates the previously implemented salary increase and an additional 3.5% salary increase effective September 1, 2020 for ATU represented employees. The budget does not include a salary increase for non-represented employees or for Coalition-represented employees, whose MOU is now under negotiation.

Revenues

Revenues are estimated to be \$144 million in FY 20/21, which represents a decrease of approximately \$97.8 million compared with FY 19/20 Estimated Actual revenue of \$241.8 million. This 40.4% decrease is the result of estimated decreases in Toll Revenues (\$25.2 million), Transit Fares (\$12.1 million), Other Operating Income (\$2.0 million), State and Federal Operating Assistance (\$3.1 million), Investment income (\$5.3 million), and Marin Local Service (\$600,000), as well as the absence of the one-time funding from CARES Act of \$49.5 million that is available in FY 19/20.

Reserves

The Proposed FY 20/21 Operating Budget is projected to be balanced (once changes in the form of increased revenues and/ or decreased expenses are implemented), and the Capital Budget is estimated to use \$19.6 million in District funds for a net increase in the reserves of \$12.7 million.

Changes to Table of Organization

The Proposed FY 20/21 Budget adds three (3) positions, reclassifies six (6) positions, effects one (1) department transfer, and one (1) position title change in the organization.

Strategic Financial Plan

The Proposed FY 20/21 Budget is the final year for which the District's 2014 Strategic Financial Plan is applicable. The FY 20/21 Proposed Budget is a baseline budget that implements various Financial Plan initiatives, yet also continues to reflect current service levels in Bridge, Bus, and Ferry operations. The goals of the Strategic Financial Plan include: 1) Reducing the District's long-term deficit; 2) Guiding the District to a healthy, sustainable financial condition; and, 3) Ensuring replenishment of the necessary reserve account.

Capital Budget Overview

The Proposed FY 20/21 Capital Budget includes total anticipated expenditures of \$48.7 million, funded with \$19.6 million District funds and \$29.1 million federal, state and local grant funds. It supports the implementation of 68 (14 new and 54 continuing) projects necessary to maintain existing services and facilities, as well as the implementation of high-priority safety and security projects. The \$48.7 million Proposed Capital Budget is allocated to the following projects: 3% to the Golden Gate Bridge Seismic Retrofit; 62% to the Suicide Deterrent System; 7% to other Bridge Division Projects; 6% to the Bus Division; 15% to the Ferry Division; and 7% for Information Systems and other District Division projects. The Proposed Capital Budget contains estimated actual FY 19/20 project expenditures and assumes that eight projects will be completed by June 30, 2020.

In an effort to reduce the number of new projects in the FY 20/21 budget, each division prioritized its capital projects. Higher priority projects were included in the FY 20/21 budget to allow project managers to continue working and focusing their efforts on those projects. The remaining projects were included in the FY 21/22 capital project list, which consists of projects that are ready to be included in the FY 20/21 budget pending the availability of staff resources and funding for the projects. The passage of the budget will authorize the General Manager to move capital projects from the FY 21/22 list to the FY 20/21 budget, should the necessary resources be available.

Two continuing projects will increase in size and scope through the budget process:

- **Project 1441: Gangways and Piers – Sausalito Construction (from \$11,500,000 to \$22,560,000)**

This project involves upgrading the Golden Gate Ferry passenger boarding system to maintain safety and service reliability for its passengers at its Sausalito ferry terminal in Marin County, California. With the FY 20/21 budget, the scope of this project has been updated to reflect current construction design estimates. [Operating Budget Impact: Reduction of more than \$100,000.]

- **Project 1916: San Rafael A&D Admin Office Improvements (from \$456,000 to \$471,000)**

This project involves assessing how additional workspaces can be added to the Administration and Development (A&D) office space in San Rafael. The original project goal was to create 21 cubicles, 3 work area conference tables, and storage space, as well as to re-paint and carpet office areas. With the FY 20/21 budget, the scope of this project has been expanded to include improvement of the Planning Department office space with a goal of facilitating better workspace for collaborative projects. [Operating Budget Impact: No significant impact.]

Appendix D: 10-Year Capital Plan

The Proposed FY 20/21 Budget includes a draft 10-Year Capital Plan (Plan) in Appendix D. Staff will update the Plan for the Adopted Budget Book based on ongoing analyses of asset conditions and asset replacement schedules.

Use of Reserves

The Proposed FY 20/21 Budget was developed to support and implement the Board's efforts toward achieving long-term financial sustainability. It has taken years of determined fiscal stewardship by the Board to build up the District reserves necessary to maintain the billions of dollars' worth of District capital assets. With the change in customer demand brought on by the pandemic and the COVID-19 Shelter-in-Place Orders, the staff and Board will need to make significant efforts to reduce expenses or find new revenues or those reserves set aside for essential capital projects will be spent on operating expenses. Failure to maintain and replace the District's capital assets will significantly reduce the District's ability to maintain and provide essential transportation services into the future.

For the first time in almost two decades, the reserves set aside for future capital projects will need to be reduced to re-fund the Emergency and Operating reserve funds because those funds are projected to be spent on Bridge and Transit operations in FY 19/20 and the first months of FY 20/21. The amount of the reduction in funds set aside to fund future capital projects can be limited by decreases in operating expenses or increases in revenues. If staff and the Board make such changes in the August/September timeframe, the District can limit the reduction in funds set aside to fund future capital projects to \$25.4 million or even less, which is the amount necessary to re-fund the District's Emergency and Operating Reserves.

In summary, the Proposed FY 20/21 Operating Budget is projected to be balanced with the \$98.2 million in reduced expenses or increased revenues and the Proposed Capital Budget is estimated to use \$19.6 million of District funds for a net increase in the reserves of \$12.7 million. The net increase in reserves is possible because the Proposed FY 20/21 Budget includes \$32.3 million in transfers (capital contribution and depreciation) to reserves.

Fiscal Impact

The Proposed FY 20/21 Budget projects Operating Revenues of \$144 million, provides a spending plan for \$242.2 million in Operating Expenses (including capital contribution and depreciation) and a need to make \$98.2 million in future reductions to expenses or increases in revenues to result in a balanced budget. The Proposed Budget also projects Capital Revenues of \$29.1 million and \$48.7 million in Capital Expenditures.

Attachment: FY 20/21 Proposed Budget, will be made available on our website:
www.goldengate.org