



Agenda Item No. (10)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 19, 2022

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 22/23 OPERATING
AND CAPITAL BUDGET**

Recommendation

The initial presentation of the Proposed Budget for Fiscal Year 2022/2023 (FY 22/23) is scheduled for the Finance-Auditing Committee meeting of May 19, 2022. Further discussion is scheduled for the Finance-Auditing Committee meeting on June 23, 2022, with subsequent Board action on June 24, 2022. At its June 23rd meeting, the Finance-Auditing Committee may recommend that the Board of Directors approve the FY 22/23 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. Includes salary increases for the Coalition and Non-Represented employees. Salary increases for ATU represented employees are to be negotiated.
3. Includes a Capital Contribution amount of \$21 million.
4. Authorizes budget increases for four Capital Projects by a total of \$8,477,000, to be funded with 100% District Reserves.
5. 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, 2022, that have a fiscal impact to the FY 22/23 Capital and/or Operating Budget;
 - b. Carryover any incomplete projects in the FY 21/22 Capital Budget to FY 22/23 as authorized by the General Manager;
 - c. Move any capital projects from the FY 23/24 list to the FY 22/23 budget, authorized by the General Manager, as staff resources become available in FY 22/23; and,
 - d. Any final FY 21/22 budget transfers needed to comply with the Board's budget policy will be implemented in the FY 22/23 Adopted Budget Book.

Summary of Expenses and Revenues

The Proposed FY 22/23 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 sudden onset of the pandemic, the associated Shelter-in-Place Orders, and the continuous flux of health protocols caused an unprecedented drop in District revenues and has kept them at that lower level for more than a two years. The District has been able to balance its FY 19/20, FY 20/21, and FY21/22 Budgets with substantial assistance from emergency one-time federal funding grants.

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 re-open, so to fund its transit operations the District will again be relying upon substantial assistance from emergency one-time federal money from the American Rescue Plan (ARP) Act to cover expenses during the FY 2022/23 fiscal year.

The Proposed FY 22/23 Budget includes:

- Operating Budget revenues of \$182.2 million and expenditures of \$255.9 million resulting to net loss of \$73.7 million.
- Operating Budget net loss will be offset by the remaining balance of the second tranche of ARP funding of \$37.6 million and part of the third tranche of ARP funding of 36.1 million.
- Capital Budget revenues of \$29.1 million.
- Capital Budget expenditures of \$54.1 million.
- District capital reserves of \$25 million will be used to fund the FY 22/23 Capital Budget.

The Proposed Budget includes the additional revenue arising from a toll increase effective July 1, 2022, the fourth year of the five-year toll increase previously approved by the Board; and it does not include a transit fare increase because the last increase in the five-year fare plan took effect on July 1, 2021. The toll increase is dwarfed by decreased revenue caused by lower bridge traffic, bus ridership and ferry ridership due to COVID 19 related public health orders and resulting change in the District's customers commute patterns.

Budget Development Process for the Proposed FY 22/23 Budget

As mentioned, this has been another unusual year for the preparation of the District's budget. The Proposed FY 22/23 Budget was developed between December and mid-March based on the current assumptions for District business activity for the proposed budget year. The Proposed FY 22/23 budget uses traffic and passenger assumptions that allow for a slow rise in returning customers and a faster increase in the amount of service the District is budgeted to provide.

The following overview of the Proposed FY 22/23 Budget includes a discussion of the impact of COVID-19 on the District's finances then short descriptions of the District's Proposed FY 22/23 Operating and Capital Budget.

Summary of the Impact of COVID-19 on the District's Finances

The District has experienced an unprecedented drop in customer demand in all three of its operations. After the COVID-19 Shelter-in-Place mandates were issued, bridge traffic declined 70%, ridership on Golden Gate Transit declined by 88%, and Golden Gate Ferry's ridership declined by 99%. Since those troughs in the spring of 2020, bridge traffic bounced back quickly to 65% of pre COVID levels and gradually over 87% while transit ridership has risen slightly in past year: Bus ridership has increased to approximately 36% of pre-COVID-19 levels and Ferry ridership to 33% of pre COVID levels. This fiscal year remains a time of unprecedented uncertainty for the District's businesses. Future changes in customer behavior over both the short and long-term will dictate revenues and the availability of funds for operations. The District will monitor these changes and adjust its bus and ferry service levels accordingly.

COVID-19 Impact on District Revenue in the Proposed FY 22/23 Operating Budget

Bridge Division

Bridge traffic growth projections assume starting from 84% of pre-COVID-19 traffic in July 2022 and growing to 85% by the end of FY 22/23.

Bus Division

Bus ridership in the Proposed FY 22/23 Operating Budget contains ridership growth projections that assume 32% of pre-COVID-19 ridership levels in July 2022 with growth to 33% of pre-COVID-19 ridership levels by end of FY 22/23.

Ferry Division

Ferry ridership in the Proposed FY 22/23 Operating Budget contains ridership growth projections that assume ridership of 25% of pre-COVID-19 ridership levels in July 2022 with growth to 29% of pre-COVID-19 ridership levels by the end of FY 22/23.

If these assumptions are not met, it will increase the need for reductions in expenses or increase the use of emergency one-time Federal COVID relief revenue in FY 22/23 beyond the \$73.7 million already identified.

Operating Budget Overview

The Proposed FY 22/23 Operating Budget assumes an overall shortfall of \$73.7 million due to the loss of bridge tolls and fare revenue. The proposed budget assumes that ridership will return at a slower pace than the restoration of Bus and Ferry transit service.

In addition, the proposed budget assumes that the emergency one-time federal ARP funds will be allocated in FY 22/23 and balance the Proposed FY 22/23 Budget.

Expenses

The Proposed FY 22/23 Operating Budget of \$255.9 million in expenses is \$37.6 million more than the FY 20/21 Estimated Actual expenses of \$218.3 million. This 17.2% increase includes the following: increased salary costs for Coalition and Non-Represented employees, fully funding vacant positions, re-funding commercial paper debt service due to the indenture requirement, as well as covering the increased cost of pension benefits, and District-wide contracted professional services. The budget does not include salary increases for ATU represented employees since those are still to be negotiated.

Revenues

Revenues are estimated to be \$182.2 million in FY 22/23, which represents an increase of approximately \$11.9 million compared with FY 21/22 Estimated Actual revenue of \$170.3 million. This 7% increase is primarily the result of an increase in toll revenue (8.9 million). In addition, the District will emergency one-time federal grants (ARP 2nd tranche of 37.6 million and ARP 3rd tranche of 36.1 million to balance the FY 22/23 budget.

Changes to Table of Organization

The Proposed FY 22/23 budget includes a net increase of one position in the Table of Organization.

Capital Budget Overview

The Proposed FY 22/23 Capital Budget includes total anticipated expenditures of \$54.1 million, funded with \$25.0 million District funds and \$29.1 million federal, state and local grant funds. It supports the implementation of 57 (9 new and 48 continuing) projects necessary to maintain existing services and facilities, as well as the implementation of high-priority safety and security projects. The \$54.1 million Proposed Capital Budget is allocated to the following projects: Bridge Division Projects (68%); Bus Division (5%); Ferry Division (24%); and District Division projects (4%). The Proposed Capital Budget contains estimated actual FY 21/22 project expenditures and assumes that fourteen projects will be completed by June 30, 2022.

In an effort to reduce the number of new projects in the FY 22/23 budget, each division prioritized its capital projects. Higher priority projects were included in the FY 22/23 budget to allow project managers to continue working and focusing their efforts on those projects. The remaining projects were included in the FY 23/24 capital project list, which consists of projects that are ready to be included in the FY 22/23 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 23/24 list to the FY 22/23 budget, should the necessary resources be available.

Appendix D: 10-Year Capital Plan

The Proposed FY 22/23 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.

Total Project Budget Increase to Four (4) Capital Projects

The Proposed FY 22/23 Budget includes the requests for total budget increase to four (4) capital projects. Project justifications for the increases are summarized below. The fiscal impact due to the requested increases total \$8,477,000, to be funded with 100% District reserves. These project budgets are requested to be increased now rather than at the time of award to allow the District to plan for the increased cost of these projects and the total cost of the District's capital plan.

1. Bridge Division, Project 1820 – Toll Plaza Gantry – Design/Construction - \$7,264,000 to \$10,264,000 (increase of \$3 million to be funded with District reserves)

This project will construct a new gantry support structure spanning all southbound traffic lanes to support the new All Electronic Toll System electronic equipment, including cameras, antennas, lights and other equipment. The project will also include modifications to the roadway structural section, installation of roadway traffic detection loops, and revised pavement delineation. The ongoing coronavirus pandemic has impacted material supply chains around the world and has resulted in significant material cost increases and labor increases. Staff recommend increasing the project budget to take into account these increases.

2. Bridge Division, Project 2220 – Fort Point Arch Maintenance Access Project – \$1,773,000 to \$6,000,000 (increase of \$4,227,000 to be funded with District reserves)

This project will clean, paint, and rehabilitate the steel members of the Fort Point Arch. The work will require the design, installation, maintenance, and removal of both land-based and hanging scaffolding. The scaffolding will be designed, furnished, installed, maintained, and removed by a scaffolding contractor. The original budget underestimated the amount of scaffolding necessary to perform the work and the duration the scaffolding will be needed to complete the work. Staff recommend increasing the project budget to address these factors.

3. Bridge Division, Project 2221 – South Approach Viaduct Stringer Rehab – \$5,000,000 to \$6,000,000 (increase of \$1 million to be funded with District reserves)

This project will rehabilitate the stringers and associated framing in Tower Span 2 and Tower Span 3 of the South Approach Viaduct. The rehabilitation work includes furnishing and installing temporary steel supports and new structural steel members. The ongoing coronavirus pandemic has impacted material supply chains around the world and has resulted in significant material cost increases and labor increases. Staff recommend increasing the project budget to take into account these increases.

4. District Division, Project 2212 – Cyber Security Strategic Plan and Mitigations – \$500,000 to \$750,000 (increase of \$250,000 to be funded with District reserves)

This project will enable the District to create a strategic plan for cyber security. Both during and after the strategic plan development process, the District will implement mitigation activities. The increase in the budget will support an expanded scope to include a Districtwide assessment. The

original scope of Project 2212 only covered the corporate network. The expanded assessment is for all seven District networks. The assessment will identify new projects for which staff will seek new funding. Staff recommend increasing the project budget to add the assessment.

Use of Reserves

The Proposed FY 22/23 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. 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.

The Proposed FY 22/23 Operating Budget is projected to be balanced and the Capital Budget is estimated to use \$25 million in District funds. As an offset to the Capital spending of \$25 million, the FY22/23 Proposed Budget includes \$33.8 million in transfers to reserves resulting in a net reserve increase of \$8.8 million.

Fiscal Impact

The Proposed FY 22/23 Budget projects Operating Revenues of \$182.2 million, provides a spending plan for \$255.9 million in Operating Expenses (including capital contribution and depreciation) resulting in a net operating loss of 73.7 million. The Proposed FY 22/23 Budget includes the utilization of ARP funding of \$73.7 million to balance the budget. The Proposed Budget also projects Capital Revenues of \$29.1 million and \$54.1 million in Capital Expenditures.

Attachment: FY 22/23 Proposed Budget, will be made available on our website:
www.goldengate.org