



Agenda Item No. (7)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 18, 2023

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 23/24 OPERATING
AND CAPITAL BUDGET**

Recommendation

The initial presentation of the Proposed Budget for Fiscal Year 2023/2024 (FY 23/24) is scheduled for the Finance-Auditing Committee meeting of May 18, 2023. Further discussion is scheduled for the Finance-Auditing Committee meeting on June 22, 2023, with subsequent Board action on June 23, 2023. At its June 22nd meeting, the Finance-Auditing Committee may recommend that the Board of Directors approve the FY 23/24 Proposed Operating and Capital Budget that:

1. Authorizes the following items as contained in the budget:
 - a. District Goals, Projects, and Accomplishments;
 - b. 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 five Capital Projects by a total of \$785,000 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, 2023, that have a fiscal impact to the FY 23/24 Capital and/or Operating Budget;
 - b. Carryover any incomplete projects in the FY 22/23 Capital Budget to FY 23/24 as authorized by the General Manager;
 - c. Move any capital projects from the FY 24/25 list to the FY 23/24 budget, authorized by the General Manager, as staff resources become available in FY 23/24; and,

- d. Include final FY 22/23 budget transfers needed to comply with the Board's budget policy will be implemented in the FY 23/24 Adopted Budget Book.

Summary of Expenses and Revenues

The FY 23/24 Proposed Budget is a policy document that identifies the strategic direction and priorities of the Board of Directors for the fiscal year. The Proposed budget is the implementation tool for the Board's policy directions and initiatives that were developed in its long-term strategic financial planning process. The Board of Directors are currently undertaking a strategic planning process that is scheduled to be completed in calendar year 2023.

This is the fourth year in a row that the Golden Gate Bridge, Highway and Transportation District (District) has had to develop a budget with enormous uncertainty as to the level of customer demand it will see during the budget year. The budget is developed between December and mid-March based on the policy objectives of the Board and the current assumptions for the demand for District services at the time.

The FY 23/24 Proposed Budget assumes a very modest recovery in all service areas but still requires the use for the fourth year in a row of one-time COVID relief funding from the federal government to be balanced. The FY 23/24 Proposed Budget continues to project that the District will be required to make substantial changes to reduce its expenditures and/or increase its revenues to achieve its goal of a balanced budget in the future once the one-time federal funding is expended (estimated to be in FY 24/25.)

The Proposed Budget also includes the additional revenue from a toll increase effective July 1, 2023, the fifth and final year of the five-year toll increase plan previously approved by the Board; and it includes a first-year increase to a five-year transit fare increase plan on July 1, 2023, approved by the Board in March 2023.

The Proposed FY 23/24 Budget revenues and expenses each total \$314.3 million and are comprised of:

- Revenues
 - Operating Budget
 - \$216.4 million total operating revenues
 - \$55.0 one-time federal [American Rescue Plan (ARP)] funding
 - Capital Budget
 - \$18.3 million in government grants
 - \$24.6 million District reserves
- Expenses
 - Operating Budget
 - \$271.4 million in total operating expenses
 - Capital Budget
 - \$42.9 million in total capital expenses

The following is an overview of the Proposed FY 23/24 Operating and Capital Budget.

Operating Budget Overview

The Proposed FY 23/24 Operating Budget assumes an overall shortfall of \$55 million primarily due to dramatically lower toll and fare revenue due to the change in customer behavior caused by the pandemic. The proposed budget assumes that emergency one-time federal ARP funds will be used to balance the budget. The proposed budget assumes that ridership will return at a slow pace but allows for the restoration of Bus and Ferry transit service at a faster pace if customer demand warrants it.

Expenses

The Proposed FY 23/24 Operating Budget of \$271.4 million in expenses is \$43.1 million more than the FY 22/23 Estimated Actual expenses of \$228.3 million. This 18.9% 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 under negotiation.

Revenues

Revenues are estimated to be \$216.4 million in FY 23/24, which represents an increase of approximately \$8.9 million compared with FY 22/23 Estimated Actual revenue of \$207.5 million. The net increase is primarily due to the projected increase in state operating assistance and toll revenues with smaller increases in transit fare revenues, interest income, and Marin Transit Contract Revenue. An estimated that \$55 million in one-time federal funds will be used to balance the FY23/24 Proposed Budget.

Changes to Table of Organization

The Proposed FY 23/24 budget includes a net increase of seven positions in the Table of Organization.

Capital Budget Overview

The FY 23/24 Proposed Capital Budget includes total anticipated expenditures of \$42.9 million, funded with \$24.6 million District funds and \$18.3 million in federal, state, and local grant funds. It supports the implementation of 64 projects (18 new and 38 continuing) necessary to maintain existing services and facilities and to implement high-priority safety and security projects. The \$42.9 million Proposed Capital Budget is allocated to the following projects: Bridge Division Projects (72%); Bus Division (11%); Ferry Division (9%); and District Division projects (8%). The Proposed Capital Budget contains Actual FY 22/23 project expenditures. Ten projects were completed in FY 22/23.

In an effort to reduce the number of new projects in the FY 23/24 budget, each division prioritized its capital projects. Higher priority projects were included in the FY 23/24 budget to allow project managers to continue working and focusing their efforts on those projects. The remaining projects were included in the FY 24/25 capital project list, which consists of projects that are ready to be

included in the FY 23/24 budget pending the availability of staff resources to initiate the project. The passage of the budget will authorize the General Manager to move capital projects from the FY 24/25 list to the FY 23/24 budget.

Appendix D: 10-Year Capital Plan

The Proposed FY 23/24 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 Five (5) Capital Projects

The Proposed FY 23/24 Budget includes the requests for total budget increase to five (5) capital projects. Project justifications for the increases are summarized below. The fiscal impact due to the requested increases total \$785,000, 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. Bus Division, Project 1931 – Bus Division Office Improvements - \$420,000 to \$510,000 (increase of \$90,000 to be funded with District reserves)

This project involves making improvements to the kitchen/breakroom and general office areas at the Bus Division Offices in San Rafael. The focus of the project is to make non-structural improvements that enable staff to utilize the space more efficiently and create dedicated space to cook, eat and sponsor teambuilding activities. This project also includes improvements to the areas utilized by Bus Operations staff, primarily bus operators, dispatchers and Transit Supervisors, in between trips, runs and/or work activities at Divisions 1 (San Rafael) and 4 (San Francisco). Hundreds of employees utilize these spaces on a daily basis to rest, eat, collaborate, study, and receive information from the District and network with each other. The increase to the budget is to meet the division's evolving business needs.

2. Bus Division, Project 2330 – D1 Bird Netting – \$20,000 to \$40,000 (increase of \$20,000 to be funded with District reserves)

This project will remove and replace pre-existing bird netting in three wash bays. The bird netting must be able to withstand moderate wind loading. Zippers are to be added for light and ladder access, as required. Access is limited in some areas of the wash bays and may require specialized contractor-supplied man lifts. The increase to the budget is due to a change in scope to include bird netting for the wash rack at the San Rafael D-1 site.

3. District Division, Project 2110 – On-Site Medical Trailer Infrastructure – \$250,000 to \$675,000 (increase of \$425,000 to be funded with District reserves)

The project will provide a location in the San Rafael administration facility for an on-site medical nurse practitioner, with physical therapist and medical assistant to provide ergo, injury triage, pre-employment physicals, drug testing, annual audio and blood lead testing, physical therapy, random drug testing with cardio equipment, and access to all employees on site. The project budget requested the increase to cover the building and incidentals as Engineering begins doing preliminary electrical, plumbing, and other engineering work.

4. District Division, Project 2114 – CAD/AVL Clipper Integration – \$943,620 to \$993,620 (increase of \$50,000 to be funded with District reserves)

This project will establish the Next Generation Clipper fare payment system integration with the transit operator CAD/AVL System. This will allow bus transit operators to reduce data inconsistencies that may occur during manual entries of information. The budget increase requested is to cover staff labor that is needed to manage the remaining INIT change requests and the Cubic hardware upgrade across the Golden Gate Transit fleet.

5. Ferry Division, Project 2342 – Ferry Fleet & Infrastructure Electrification Concept – \$300,000 to \$500,000 (increase of \$200,000 to be funded with District reserves)

The purpose of this project is to perform feasibility studies and develop a design concept for future ferry electrification. This project will include the feasibility and concept for necessary shore-side charging infrastructure. The budget increase is necessary to support a larger-scale study and concept including charging infrastructure and electrification of District Ferry vessels.

Use of Reserves

The Proposed FY 23/24 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 FY 23/24 Proposed Budget is projected to utilize one-time federal COVID relief funding to balance the operating budget. The Capital Budget is estimated to use \$24.6 million in District reserve funds. As an offset to the Capital spending of \$24.6 million, the FY23/24 Proposed Budget also includes \$33.6 million in transfers to reserves resulting in a net reserve increase of \$9.1 million.

Fiscal Impact

The Proposed FY 23/24 Budget projects Operating Revenues of \$216.4 million, and provides a spending plan for \$271.4 million in Operating Expenses (including capital contribution and depreciation) resulting in a net operating loss of \$55 million. The Proposed FY 23/24 Budget includes the utilization of ARP funding of \$55 million to balance the budget. The Proposed Budget also projects utilization of Capital Revenues of \$24.6 million and \$42.9 million in Capital Expenditures.

Attachment: FY 23/24 Proposed Budget, will be made available on our website: www.goldengate.org

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