County Connection

INTER OFFICE MEMO

To: Administration and Finance Committee — Date: May 6, 2020

From: Erick Cheung, Chief Finance Officer — Reviewed by: Rick Ramacier, GM

SUBJECT: Update to Fiscal Year 2021 Draft Budget and Ten Year Forecast

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SUMMARY:

Contra Costa County continues to feel the impact of the Coronavirus (COVID-19) as there are 842 confirmed cases reported by the Contra Costa Health Services as of April 28th. The number of COVID-19 cases continue to increase each day, but the steps taken by the Bay Area to shelter-in-place (SIP) appear to be flattening the curve. While the data is heading in a positive direction, it is unclear when a phased reduction of the SIP can begin. The SIP was set to expire on May 3rd, but the Bay Area counties announced an extension through May with limited easing of specific restrictions for a small number of low risk activities.

As we continue to follow the SIP order for the health and safety of the population, the financial impact is being felt by many Americans. The unemployment filings over the last 6 weeks amounted to 30 million Americans, which would equate to an unemployment rate near 20%. Economists believe the true unemployment rate is between 10% to 15% depending on when we can reopen the economy, but even that is significantly higher than were we started in February at 3.5%. The Gross Domestic Product (GDP) contracted 4.8% in the first quarter which officially ended the United States longest ever expansion. To mitigate the financial concerns, the Federal Government has approved several stimulus packages in recent weeks from CARES Act 3 to provide $2 trillion stimulus package to help individuals, families, business, state and local agencies. This package includes $25 billion for mass transit nationwide. CARES Act 4, which was recently approved, provides $484 billion to provide additional small business assistance, hospital funds to treat COVID-19 patients, and funds for expanding medical testing.

Last month we submitted a Fiscal Year (FY) 2021 Draft Budget and Forecast for the purpose to submit our Transportation Development Act (TDA) claim to Metropolitan Transportation Commission (MTC) so we can receive our TDA funds timely. The budget proposed $45,230,433 in operational and capital expenses. Our main revenue source is TDA 4.0 funds from MTC; the budget proposed using $22,269,389, which is $2,853,809 less than MTC estimates we will receive next fiscal year of $19,415,580 (estimate from February 2020 – prior to COVID-19 SIP). *TDA reserves are estimated to end lower* in FY 2021 with a balance of $15,284,000.

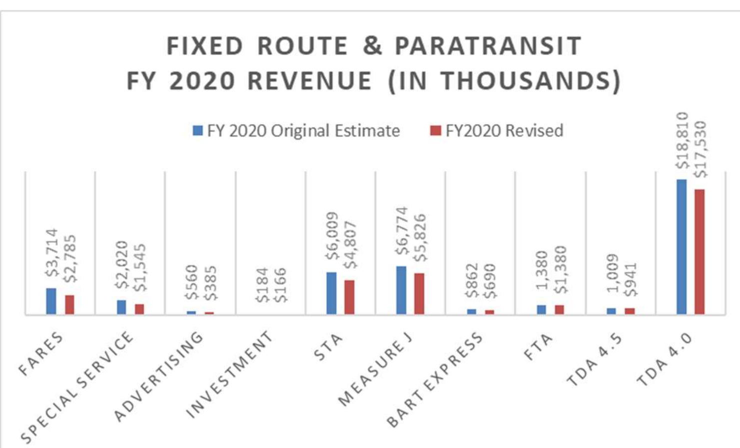
Staff wanted to provide the A&F Committee with known information and current assumptions regarding revenue even though there is still minimal economic information. We will bring back an updated budget in June with the understanding that amendments will be needed in the following fiscal year. <u>Staff is currently estimating that the net impact to TDA reserves combined for FY 2020 & FY 2021 is a decrease of $5,330,784</u>. This is based on revenue declines shown in the table below and no current changes to expenses based on the Proposed FY 2021 Budget. The calculation also assumes County Connection will receive the full amount of the CARES Act funds of $11,586,361, which is not guaranteed and described in more detail below.

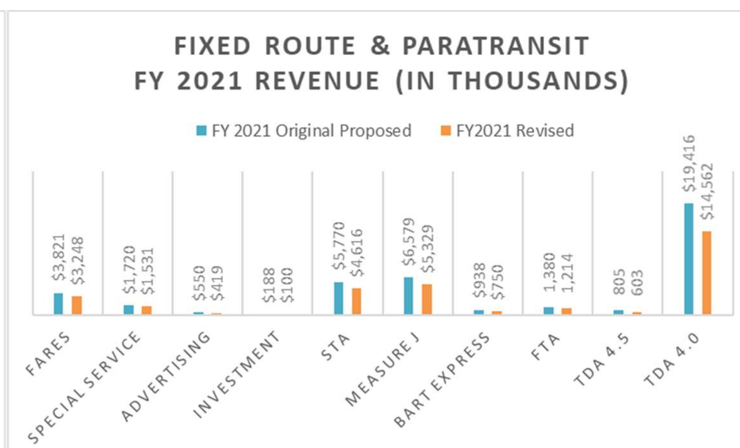
Revenues:

The table below provide a summary with additional information by revenue type.

CARES Act - FTA								
MTC 1st allocation of CARES Act Funds based on 61% of total allocation							$7,067,680	
MTC 2nd allocation of CARES Act Funds remaining allocation of 39%, but MTC may change allocation method based on need							$4,518,681	
Total CARES Act - FTA (1)							$11,586,361	
FIXED ROUTE & PARATRANSIT ESTIMATED REVENUE LOSS								
Revenue	**FY 2020 Original Estimate**	**FY2020 Revised**	**$ Diff**	**% Diff**	**FY 2021 Original Proposed**	**FY2021 Revised**	**$ Diff**	**% Diff**
Fixed Route								
Fares	$3,189,106	$2,485,000	($704,106)	-22.1%	$3,296,050	$2,801,643	($494,407)	-15.0%
Special service revenue	$2,020,388	$1,544,647	($475,741)	-23.5%	$1,719,628	$1,530,836	($188,792)	-11.0%
Advertising Revenue	$560,002	$385,002	($175,000)	-31.2%	$550,000	$418,750	($131,250)	-23.9%
Investment Income	$184,323	$165,891	($18,432)	-10.0%	$187,900	$99,535	($88,365)	-47.0%
State Transit Assistance (STA)	$5,160,136	$4,128,109	($1,032,027)	-20.0%	$4,944,721	$3,955,777	($988,944)	-20.0%
Measure J	$4,960,085	$4,265,673	($694,412)	-14.0%	$4,826,198	$3,909,220	($916,978)	-19.0%
BART Express Funds	$861,895	$689,516	($172,379)	-20.0%	$938,028	$750,422	($187,606)	-20.0%
Paratransit								
Fares	$525,000	$300,000	($225,000)	-42.9%	$525,000	$446,250	($78,750)	-15.0%
FTA	1,380,000	1,380,000	$0	0.0%	$1,380,000	$1,214,400	($165,600)	-12.0%
State Transit Assistance (STA)	848,487	$678,790	($169,697)	-20.0%	$825,000	$660,000	($165,000)	-20.0%
TDA 4.5	1,009,387	$940,694	($68,693)	-6.8%	$804,507	$603,380	($201,127)	-25.0%
Measure J	1,814,243	$1,560,249	($253,994)	-14.0%	$1,752,787	$1,419,757	($333,030)	-19.0%
Fixed Route & Paratransit								
Transportation Dev Act (TDA) *	$18,810,111	$17,530,000	($1,280,111)	-6.8%	$19,415,580	$14,561,685	($4,853,895)	-25.0%
Total	**$41,323,163**	**$36,053,570**	**($5,269,592)**	**-12.8%**	**$41,165,399**	**$32,371,655**	**($8,793,744)**	**-21.4%**
Total Estimated Revenue Loss for FY 2020 & 2021 (2)							($14,063,336)	
PROPOSED USE OF TDA RESERVES IN FY 2021 BUDGET (April 2020) (3)							($2,853,809)	
ESTIMATED USE OF TDA RESERVE THRU FY 2021 (1)-(2)-(3)							($5,330,784)	
* Original and Proposed amounts are based on MTC's estimated TDA revenue. Budget amount is different as that is based on expenses.								

Graphical representation of the FY 2020 & FY 2021 Fixed Route & Paratransit Original and Revised amounts above.





CARES Act - Federal Transit Administration (FTA)

On March 27, 2020, the president signed CARES Act 3 into law, which provides $2 trillion to fund programs and support efforts to respond to COVID-19. One of them, was an appropriation of $25 billion in supplemental FTA funds to support transit agencies through this pandemic. The Bay Area portion of the funding is approximately $1.3 billion.

This funding addresses operating losses as a result of the pandemic, including reduced funding sources and increased costs. It may be used for operating expenses related to COVID-19, including reimbursement for operating costs and lost revenue, the purchase of personal protective equipment, and paying the administrative leave of operations personnel due to reductions in service. Additionally, such funding is eligible for up to a 100% federal share (compared to a typical 80% or 50% maximum for federal share).

MTC is responsible for programming the region's FTA program funds. On April 22, 2020, the MTC Board approved programming approximately $780 million or 61% of this supplemental funding after their staff worked with the region's transit operators. The remainder of the funding would be programmed in future months as further transit revenue impacts become clearer. County Connection's allocation for the first portion is approximately $7.1 million with the balance of $4.5 million still to be determined by MTC. Based on the estimates above, the remaining balance of the CARES Act funds is essential to address the revenue shortfall and additional expenses in response to COVID-19. Finally, staff has already submitted to FTA the required documentation to receive the funds, but this still needs to go through the federal approval process before we can receive the funds.

Fares

County Connection fare revenues declined 80% for fixed route and 90% for paratransit services with the SIP order. On March 23rd, fare collections ceased on fixed route and paratransit services to improve safety by minimizing interaction between operators and riders. The financial impact of not collecting fare revenues is approximately $50 thousand a month for fixed route and $10 thousand a month for paratransit services. Assuming no fare revenue through the end of June, this would mean losses of $704 thousand in fixed route and $225 thousand in paratransit services in FY 2020. Even if the SIP is lifted, ridership will slowly return and will be approximately 70% of normal for the first six months. This means additional losses in FY 2021 for $494 thousand in fixed route and $79 thousand for paratransit services.

Special Service Revenue

Special service revenue are agreements we have with various agencies such as California State East Bay, Bishop Ranch and the City of Walnut Creek to provide service for agreed upon amounts. This revenue source has declined due to the elimination of service and/or free fares that began on March 23rd. Assuming the SIP order continues through June, we would lose revenue of approximately $476 thousand in FY 2020. For FY 2021, assuming it will take 3 months to 6 months to return to normal, which would result in losses of $189 thousand.

Advertising Revenue

County Connection has not received revenue since March, the advertising provider notified us that payment was stopped due to COVID-19 and service reductions. Staff has been in contact with the advertising provider of our current status of service. The FY 2020 budget assumes no additional revenue will be received through the fiscal year and will lose $175 thousand. Assumes that for FY 2021, that we will not receive payments till the 2nd quarter which means lost revenue of $131 thousand.

State Transit Assistance (STA)

STA revenue is generated by the sales tax on diesel fuel and provides funding for transit programs and agencies. The last estimate done by the State of California was in in January to provide an estimate to MTC for planning and programming purposes. There have been no updates by the State of California and assumes the next revision will be in the Governor's May Budget revise. Staff is currently assuming a 20% drop in FY 2020 and FY 2021, which means losses of nearly $1 million each year.

Measure J

Measure J (formerly Measure C) is a ½ cent sales tax in Contra Costa County administered by CCTA for transportation planning, projects, and programs. Measure J provides funding for fixed route and paratransit services to County Connection. CCTA staff provided an update to the budget for FY 2020 and FY 2021 last week. They are currently assuming a loss in FY 2020 and FY 2021 of 14% and 19%, respectively. This would mean losses in FY 2020 of $1.5 million and FY 2021 of $1.2 million.

Transportation Development Act (TDA)

TDA revenue is a ¼% state sales tax to finance transportation programs and projects. The amounts in the table above are based on the estimated amounts based on TDA receipts. This amount will differ from the FY 2021 Proposed Budget, since the budget assumes the amount needed to offset expense. In February, the Contra Costa County Auditor-Controller's Office (County) revised our estimate for FY 2020 downwards from $20,909,368 to $18,810,111 which is a decrease of $2,099,257 or 10%. This information is based on sales tax collected through November of the previous year and obviously did not have COVID-19 factored in nor the changes to AB-1147 online sales tax collection (Wayfair Decision) that began on October 1, 2019. TDA revenue is not accrual based but based on actual cash receipts in the fiscal year. Therefore, the true up for April through June sales tax will be not be known till August and the impact will be felt in the following fiscal year. The May TDA revenue will represent a true-up of January through March collections and the June TDA revenue is based on Board of Equalization estimate. Staff is assuming a 50% decrease for the remaining two months which mean a loss of an additional $1.3 million in FY 2020. FY 2021 assumes a 25% drop in sales tax revenue which would mean lost revenue of $4.9 million.

Prior to COVID-19, County Connection was already facing financial issues due to the decreasing revenue estimates from TDA, STA, and increasing costs to paratransit services. We could absorb some of the changes in revenue and expenses in the short term due to the Board being prudent with TDA reserves at $16.7 million or 43.8% of operating budget as of June 30, 2019. The budget presented in April assumed we would be drawing down TDA reserve for $2.9 million which would not be sustainable long-term but had time to make necessary changes. This in combination with COVID-19 means we may draw down $5.3 million in TDA reserves by the end of FY 2021. The pandemic will probably require us to accelerate changes to the new reality, absent additional funding from the federal and/or state government.

Federal Emergency Management Assistance (FEMA)

County Connection may be eligible for FEMA funding and has submitted the information necessary to begin the process through the California Office of Emergency Services (Cal-OES). It is unknown at this time when we will be notified of approval, but this could provide another source of funding for our costs incurred due to COVID-19. The key for staff is not to duplicate reimbursements between the CARES Act funds and FEMA funds (if approved).

Expenses:

County Connection is currently tracking expenses separately for COVID-19 as we need to provide safety to our riders and employees. The expenses to date relate to personal protective equipment, additional cleaning supplies and materials and are approximately $15 thousand to date but will continue to increase. There are also costs associated with leave due to the Families First Responsive Cares Act (FFRCA) which expanded sick leave and Family Medical Leave Act (FMLA). The portions related to the employer are only now beginning to incur and will provide an update in the coming months.

RECOMMENDATION:

Staff request that the A&F Committee accept the updated report and forward to the Board of Directors.