

**To:** Board of Directors

**Date:** 04/10/2024

**From:** Amber Johnson, Chief Financial Officer

**Reviewed by:** WC.

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**SUBJECT:** Proposed Fiscal Year 2025 Draft Operating and Capital Budget

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### Background:

County Connection's Fiscal Year (FY) 2025 Draft Operating and Capital Budget has been reviewed by the Administration and Finance Committee ("A&F Committee") and is forwarded for review and approval by the Board of Directors so that a timely Transportation Development Act (TDA) claim can be filed with the Metropolitan Transportation Commission (MTC). An updated draft budget will be presented in May, unless there have been no substantial changes made to the current proposed version. The final proposed budget will be submitted in June for Board approval following a public hearing.

This draft version of the budget includes proposed operating and capital revenues and expenditures for a single year. In general, Staff have taken a conservative approach to forecasting while still presenting a budget that provides services to meet the needs of Central Contra Costa County transit riders.

### Budget Summary:

County Connection's draft budget for July 1, 2024, to June 30, 2025 (FY 2025) proposes \$54.7 million in operational expenses for fixed route and paratransit services with revenues to offset these costs. An additional \$9.9 million is proposed in capital expenditures and associated revenue in the budget year.

The operating expense budget of \$54.7 million is a 10.1 percent increase over the FY 2024 budget and allows for a slight increase to service levels, with an optimistic assumption that vacant operator positions will be filled during the fiscal year. The capital budget of \$9.9 million includes revenue and non-revenue vehicle replacements and significant multi-year facility upgrade plans, funded by Federal Section 5307 and TDA capital funds.

In anticipation of adoption of County Connection's new reserve policy, the proposed budget also incorporates the transfer of discretionary revenues to a reserve account. Revenue sources that are considered discretionary include advertising revenue and interest income. This fund transfer is proposed to become effective at the end of the year-ending June 30, 2024, and will be considered in combination with the TDA reserve held by MTC when calculating County Connection's total reserve balance.

Table 1: Budget Summary

**County Connection**  
**CENTRAL CONTRA COSTA TRANSIT AUTHORITY**  
**FY 2025 BUDGET SUMMARY**

	FY 2023 Actuals	FY 2024 Budget	FY 2024 Estimated Actuals	FY 2025 Proposed Budget	% Over/Under Prior Year Budget
<b>Revenue:</b>					
Fixed Route Operations	\$34,065,665	\$40,208,222	\$38,745,834	\$43,879,203	9.1%
Paratransit Operations	8,453,921	9,469,667	10,207,916	11,245,384	18.8%
Capital	2,968,000	6,511,000	6,511,000	9,941,400	52.7%
<b>Total Revenue</b>	<b>42,519,586</b>	<b>49,677,889</b>	<b>48,953,750</b>	<b>55,124,587</b>	<b>11.0%</b>
<b>Expenditures:</b>					
Fixed Route	34,065,665	40,208,223	37,905,834	43,429,203	8.0%
Paratransit	8,453,921	9,469,667	10,207,916	11,245,384	18.8%
Capital	2,968,000	6,511,000	6,511,000	9,941,400	52.7%
<b>Total Expenditures</b>	<b>42,519,586</b>	<b>49,677,889</b>	<b>48,113,750</b>	<b>54,674,587</b>	<b>10.1%</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>840,000</b>	<b>450,000</b>	
<b>Operating and Capital Reserve</b>					
TDA Reserve Balance	36,782,552	47,056,942	48,608,880	41,295,247	
Discretionary Reserve Balance	-	-	840,000	1,290,000	
<b>Total Operating &amp; Capital Reserve</b>	<b>\$36,782,552</b>	<b>\$47,056,942</b>	<b>\$49,448,880</b>	<b>\$42,585,247</b>	

**Operating Revenues:**

Operating revenues are projected to exceed expenditures by the amount of discretionary revenues being held in reserves. Table 2 provides descriptions of each revenue category and assumptions for the budgeted amounts.

Table 2: Operating Revenues

Category	Description	Assumptions
Fare Revenue	Fares collected from passengers and other organizations who provide funding to replace passenger fares.	Continued recovery post-pandemic.
Special Service Revenue	Agreements with various agencies such as BART (bus bridges), the City of Walnut Creek, and St. Mary's to provide transit services for agreed upon amounts.	Some agencies have not resumed their pre-pandemic agreements; however, this revenue remains steady.
Advertising Revenue	Revenue earned from advertising on the bus fleet.	Current trends indicate that advertising revenue is declining.

<b>Category</b>	<b>Description</b>	<b>Assumptions</b>
Non-Operating Revenue	Primarily interest income earned on idle cash.	Conservatively budgeted since investment income is somewhat volatile.
State Transit Assistance (STA)	Funds collected from the sales tax on diesel fuel and distributed following a statutory allocation. STA funding is split 50% based on (a) locally generated revenue expended on transit operations (“revenue based”) and 50% based on (b) the population of the County (“population based”).	Diesel tax revenue remains steady. Budget year estimate provided by the Metropolitan Transportation Commission (MTC). Modestly estimated since this source has seen some volatility over the past several years.
Measure J Sales Tax	One-half cent sales tax in Contra Costa County administered by Contra Costa Transportation Authority (CCTA).	CCTA projects Measure J revenue to stay flat as compared to FY 2024.
Transportation Development Act (TDA) Articles 4.0 and 4.5	One-quarter cent state sales tax to finance transportation programs and projects. Article 4.0 is utilized on both fixed-route and paratransit; Article 4.5 is limited to paratransit only.	Current MTC estimates indicate allocation of \$24 million in 4.0 funding in FY 2025. The budget proposes the use of \$27.8 million in operating and \$4.1 million in capital funds for a total of \$31.9 million. The difference of \$7.9 million will be drawn from past reserves.  MTC estimates \$1 million in TDA 4.5 revenue to be used on paratransit services.
Federal Operating Funds	Coronavirus Aid, Relief, and Economic Security (CARES) Act, American Rescue Plan Act of 2021 (ARP) funds, and Coronavirus Response and Relief Supplemental Appropriation Act of 2021 (CRRSAA) were fully utilized in FY 2020 through FY 2024.  In FY 2025, the Authority plans to expend other federal operating funds for a transit corridor study.	No further federal relief funds are available.  Federal Highway Administration (FHWA) funds will be utilized on the transit corridor study.

<b>Category</b>	<b>Description</b>	<b>Assumptions</b>
FTA Section 5307 (Paratransit)	Federal funds made available to transit operators for ADA Paratransit operations under the Section 5307 Urbanized Area Program.	The FY 2025 projected allocation from MTC is 20% less than the prior year.
Low Carbon Transit Operations Program (LCTOP)	Cap-and-trade funding for transit to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities.	Funding is projected to decline slightly over the prior year.
BART Feeder Funds	Funding from BART to support feeder bus operators using BART's STA and TDA funds. Discussions are ongoing between BART, MTC and feeder bus operators regarding possible changes to the funding formula from the original 1997 agreement.	In response to BART's fiscal cliff concerns, the feeder bus operators agreed to a reduction in the amount of feeder bus funds for FY 2024 and FY 2025. However, growth in BART's share of STA revenues results in an increase of this revenue as compared to the prior year.
Paratransit Partner Revenues	Fees collected to offset the cost of managing shared ADA paratransit and One Seat program expenses.	Revenues are equivalent to projected purchased transportation expenses.

### **Operating Expenses:**

The budget assumes that ridership will continue to improve, and that recruitment efforts to fill vacant operator positions will be successful, resulting in an overall increase in operating expenses as compared to the current year. Table 3 provides descriptions of each major category and assumptions for the budgeted amounts. Pages 6 - 16 of the draft budget document (Attachment 1) also provide operating expense detail by general ledger account.

*Table 3: Operating Expenses*

<b>Category</b>	<b>Description</b>	<b>Assumptions</b>
Wages and Benefits	Wages and benefits are the Authority's largest expense. MOUs were successfully negotiated with all three of the represented bargaining groups in FY 2023 for three-year terms.	The budget assumes vacancies will be filled during the fiscal year and include agreed upon cost-of-living agreements for represented employees, plus allowances for step increases for employees who have not yet reached the top of the pay scale.

<b>Category</b>	<b>Description</b>	<b>Assumptions</b>
Pensions (included in Benefits)	A major component of employee benefits is the pension benefit. The Authority contracts with CalPERS for pension benefits and is required to pay a percentage of employee salaries to CalPERS (“normal cost”) plus an unfunded accrued liability payment (“UAL”). In FY 2023, the Authority opened a 115 trust for pensions to begin setting aside additional pension funds.	CalPERS experienced -6.1% net return on investments for the period that ended June 30, 2022, causing the Authority’s UAL to return after a \$0 UAL in the prior year.  The FY 2025 required UAL payment to CalPERS is \$522k. The budget also includes a contribution of \$478k to the 115 Trust for pensions, for a total of \$1 million in funds set aside for unfunded pension liabilities.
Services	Includes legal fees, service repair, promotions, software subscriptions, and on-call planning contracts.	The bulk of the increase in this category is due to inflationary increases in outsourced service repair, increased software costs for Swiftly and other software subscriptions, travel training costs, lobbyist costs, and other service development consultant costs.
Materials and Supplies	The largest expense in this category is fuel.	Fuel is expected to increase by 9% over the prior year’s budget due to the volatile nature of the market.
Taxes	Sales taxes collected on the purchase of goods are recorded in this category.	Inflationary increases to cost of goods has resulted in increased taxes paid.
Miscellaneous	Includes travel, conference, association memberships, employee training and event expenses.	The primary driver of the growth in this category is due to increased training needs in the maintenance department as new bus technologies are developed. Additionally, the Authority hosts a holiday event every other year, which will take place during FY 2025.

Category	Description	Assumptions
Purchased Transportation	<p>The Authority’s ADA paratransit service is provided under contract with Transdev, and the expense is recorded to this category. Transdev was awarded a new contract after a competitive recruitment in 2022.</p> <p>Other purchased transportation expenses are also categorized as fixed route, including the Alamo Creek shuttle, and a new Automated Driving Systems (ADS) demonstration project.</p>	<p>Paratransit demand has returned at a rapid pace in recent months, resulting in sharp growth in contract costs. The FY 2025 purchased transportation expense is based on 4% contract escalation costs, plus a 5% increase in ridership over the current year demand.</p> <p>In the fixed route budget, the Authority has pledged to support the new ADS demonstration project by funding three full-time Transdev staff persons to man the vehicles.</p>
Purchased Transportation for Partner Agencies	The Authority has partnered with neighboring transit agencies to provide shared paratransit services.	These costs are budgeted based on current service projections but have no impact to the Authority’s bottom line since they are reimbursed in full by the partner agencies.

**Capital Expenditures:**

The FY 2025 capital budget includes scheduled replacements of ten big bus and three paratransit vehicles that have reached the end of their useful life, plus replacement of six non-revenue vehicles and the addition of one non-revenue vehicle dedicated to the mobile lobby. It is anticipated that the Authority will utilize 80% federal funding for the bus procurements, matched with TDA capital funds. TDA capital funds will also be utilized on the non-revenue vehicle purchases.

In addition, several necessary facility maintenance and modernization projects are included in the budget. Major project additions include a fuel tank replacement, replacement of the five hydraulic lifts in the maintenance facility, concrete pad repairs, expansion of the upper parking lot, and necessary elevator improvements in both buildings. These projects are expected to take place during the next few years and will be funded with TDA capital funds.

**Financial Implications:**

Adoption of the draft FY 2025 budget will result in expenditure authority of \$54.7 million in operational expenses and \$9.9 million in capital expenditures for the budget year. The draft budget will serve as the basis for the Authority’s claim of TDA revenues for the year-ended June 30, 2025.

**Recommendation:**

The A&F Committee and staff recommend approval of the proposed FY 2025 Draft Operating and Capital Budget as the basis for the Authority's TDA claim with the MTC and authorization to file applications and supporting documents with MTC for allocation of TDA, STA, Regional Measure 2 and Regional Measure 3 funds for FY 2025.

**Action Requested:**

The A&F Committee and staff request the Board of Directors to approve the proposed FY 2025 Draft Operating and Capital Budget and adopt Resolution No. 2024-022 authorizing filing applications and supporting documents for allocations of funds by the MTC.

**Attachments:**

Attachment 1: Proposed FY 2025 Draft Operating and Capital Budget

Attachment 2: Resolution No. 2024-022