



FY24 & FY25 Operating and FY24 Capital Budget

Board of Directors

June 23, 2023

Chuck Farmer, Chief Financial Officer

Overview of Today's Presentation

- FY24 Operating Budget
 - Changes from May Budget
 - FY23 – FY24 Budget Summary
 - FTE Changes
- FY25 Operating Budget
 - FY24 – FY25 Budget Summary
- FY24 Capital Budget/Portfolio
- Projected Operating Reserves
- 5 Year Projections
- Appendix
 - Operating Budget Risks
 - FY24 & FY25 Budget Assumptions
 - FY24 & FY25 Additional Information
 - Budget Timeline

FY24 – FY25 Operating B

FY24 Operating Budget

FY23 – FY24 Budget Summary

<i>\$000's</i>	FY23 Budget	FY24 Budget
Operating Revenue		
Passenger Fares	\$ 2,437	\$ 3,080
Special Transit Fares	5,953	6,095
Total Operating Revenues	\$ 8,390	\$ 9,175
Operating Expense		
Labor - Regular **	\$ 20,415	\$ 20,220
Labor - OT	1,325	1,171
Fringe	21,172	21,813
Non-Personnel	12,108	17,700
Total OpEx	\$ 55,019	\$ 60,911
Operating Surplus/(Deficit)	(\$ 46,629)	(\$ 51,736)
<i>Farebox Recovery</i>	<i>15.2%</i>	<i>15.1%</i>
Non-Operating Revenue/(Expense)		
Sales Tax/including Measure D	\$ 30,775	\$ 31,808
Federal/State Grants	14,496	20,415
COVID Relief Grants	15,477	9,959
Pension UAL/Bond Payment*	(5,643)	(4,173)
All Other	676	1,240
Total Non-Operating Revenue	\$ 55,483	\$ 59,250
Operating Surplus/(Deficit) before Transfers	\$ 8,853	\$ 7,514
Transfers and Other		
Transfers to Capital/Bus Replacement/Sustainability Funds	(\$ 8,853)	(\$ 9,976)
(To)/From COVID Recovery Fund		2,462
Operating Surplus/(Deficit) after Transfers	-	-

*Bond Payment started in FY23

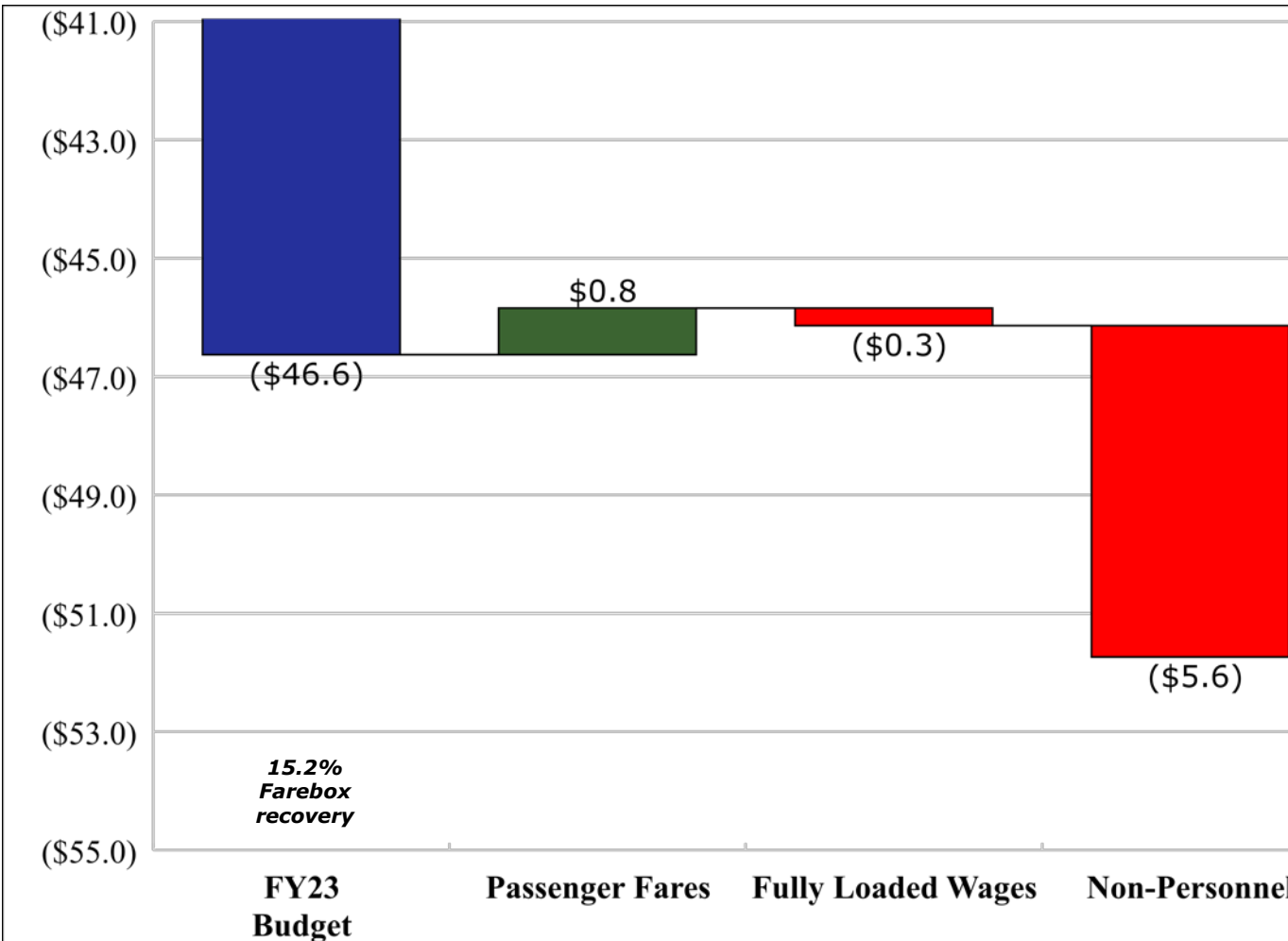
** No COLA's have been considered for this budget

Numbers may not foot due to rounding

FY23-FY24 Budget Drivers of Open Surplus/(Deficit)

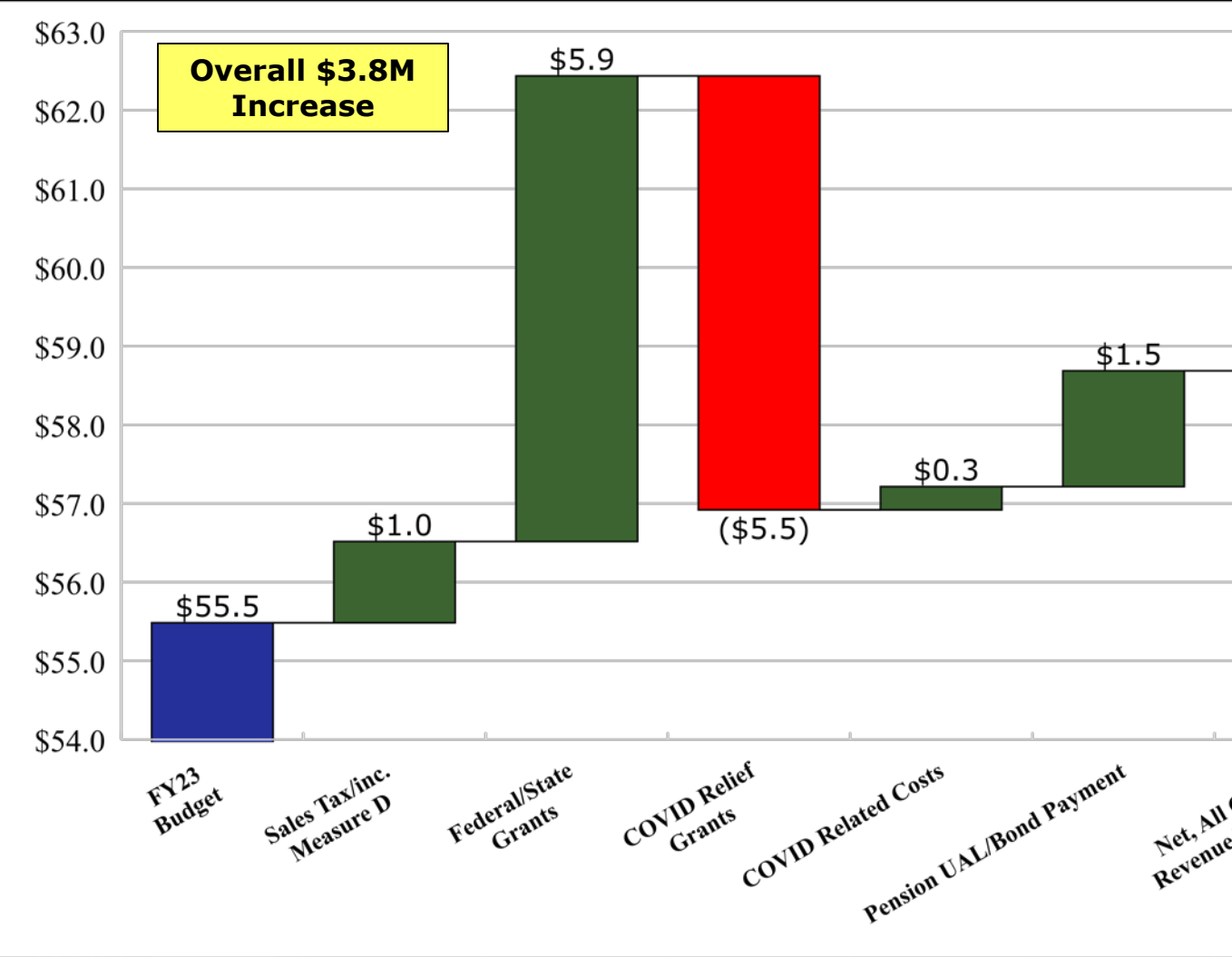
**Overall \$5.9
Increase**

\$ in millions



FY23-FY24 Drivers of Non-Oper Revenue/Expense

\$ in millions



FY23 – FY24 Proposed FTE Change

329 Funded FTEs :		Final Adopted FY23 06-24-2022
De-Fund FTEs: 9		• Mechanic I – II • Assistant Safety & Training Coordinator • Financial Analyst • Upholster I • Customer Service Rep – 2 FTE • Customer Service Assistant • Parts & Materials Clerk • Paratransit Clerk III
Fund FTEs: 11		• Grants/Legislative Analyst • Mechanic III • Sr. Payroll Administrator • Dispatcher/Scheduler – 2 FTE • Assistant Ops & Customer Service Manager • Parts and Materials Manager • Sr. Customer Service Representative* • Safety & Training Coordinator* • Maintenance Trainer* • HR Analyst I (24 month provisional position)
331 Funded FTEs :		FY24 Budget, 06-01-2023

* FTE's approved for hire in FY23

FY24 & FY25 Budget Assumption

FY23 – FY24 Budget Operating Revenue A

- Passenger Fares increase \$643K, or 26.4%, to \$ increased ridership across all modes
 - Fixed Route increase \$237K, or 14.6%, to \$
 - Paratransit increase \$16K, or 8.0%, to \$210
 - Highway 17 Fares increase \$394K, or 66.4%
- Special Transit Fares increase \$142K, or 2.4%, t primarily due to contractual increases and increa recovery as impact from COVID declines
 - UCSC increase \$95K, or 2.0%, to \$4,876K
 - Cabrillo College increase \$12K, or 2.0%, to \$
 - City of Santa Cruz increase \$25K, or 73.1%,
 - Highway 17 Contracts increase \$11K, or 2.0
- Overall increase \$785K, or 9.4%, to \$9,175K vs

Operating Expense Assumptions

Personnel – Overall increase \$294K, or 0.7 %, to \$20,514K

- Regular Labor Costs – decrease \$194K, or 1.0%, to \$19,320K
 - No labor increase year over year except step increases and longevity increases
 - Incremental net 2 new position added
 - Overtime costs - decrease of \$154K, or 11.0%, to \$1,171K as recruitment increases to fill vacancies
- Fringe costs - increase of \$641K, or 3.0%, to \$21,685K, primarily due to increased cost for Medical/Dental Insurance (\$324K, or 2.6%, to \$12,595K), along with Retirement CalPERS cost (\$331K, or 13.9%, to \$16,926K), partially offset by lower SDI (\$46K, or 16.8%, to \$1,171K), SUI (\$12K, or 25.8%, to \$35K), and Other Fringe (\$22K, or 10.8%, to 185K)

Operating Expense Assumptions,

Non-Personnel - Overall increase \$5,300K, or 42%
\$17,706K

One Time Costs - \$2,782K, primarily driven by:

- Marketing - \$707K due to the launch of a multi-year organizational rebranding program aimed to reposition as a strong community partner and ultimately contribute to meeting our strategic goals of attracting and increasing ridership
- Internal Audits/Strategic Planning - \$1,068K due to Safety, Advance Technology, Maintenance & Operations Strategic Revenue Planning, Facilities Master Plan, and Range Plan
- Hydrogen Infrastructure Training in Fleet Department to ensure staff is ready for Hydrogen Bus Fleet
- All Other one time costs - \$685K to cover things like IT & Facilities upgrades/studies, Project Manager for Grant, as well as one time recruitment costs

Operating Expense Assumptions

Non-Personnel –

Ongoing cost increases – \$2,188K, or 12.9%, to \$ primarily driven by:

- Fuel Revenue Vehicles - \$1,764K, or 88.2%, to to CNG fuel costs experiencing significant price
- Repair Equipment - \$594K, or 62.2%, to \$1,549 due to IT contracts for maintenance/cloud hosting equipment maintenance and repair

Non-Operating Revenue/Expense Ass

• Increased Non-Operating Revenue

- Sales Tax, including Measure D increase \$1,033K, or 3.4%, to \$30.3M
- American Rescue Plan Act (ARPA) COVID Relief grants decrease \$10.0M, or 35.7%, to \$10.0M based on reimbursable costs and previous year's funding
- Federal/State Grants, net increase \$5.9M, or 40.8%, to \$20.0M to
 - TDA – STA Operating grant increase \$1.6M, or 35.0%, to \$6.4M due to higher allocations from State Transit Assistance for FY24
 - LCTOP Grant increase \$0.2M, or 38.9%, to \$0.7M
 - TIRCP Grant increase \$0.3M, or 100%, to \$0.3M
 - FTA 5307 Op Assistance grant increase \$3.8M, or 100%, to \$3.8M
 - Fuel Tax Credit increase \$0.3M, or 100.0%, to \$0.3M due to Fuel tax credit through December 2024
- All Other Revenue increased \$0.6M, or 83.4%, to \$1.2M primarily due to increased interest income on the cash balance at the Treasurer's Office

• Decreased Non-Operating Expense

- Unfunded Accrued Liability (UAL) decrease \$1.5M, or 35.2%, to \$4.0M due to Sales Tax Bond sold in FY23 which eliminated the UAL for FY23
- COVID related costs decrease \$0.3M, or 100.0%, as a result of California and Federal governments ending the COVID-19 S

Transfers

- Transfers**

- Total transfers increase 12.5% vs. FY23 budget; Reserve Replenishment increase of \$1.3M and in \$0.3M related to the Fuel Tax Credit
- The Fuel Tax Credit was renewed through Decem part of the Federal Inflation Reduction Act

<i>\$000's</i>	FY23 Budget	FY24 Budget
Capital/Bus Replacment Fund	\$ 2,353	\$ 2,353
CalPERs UAL & OPEB liability	2,000	2,000
Fuel Tax Credit	-	-
Grant Matching/ERP System	4,500	4,500
Reserve Replenishments	-	1,300
TOTAL OPERATING/CAPITAL TRANSFERS	\$ 8,853	\$ 9,153

FY24 – FY25 Budget Summary

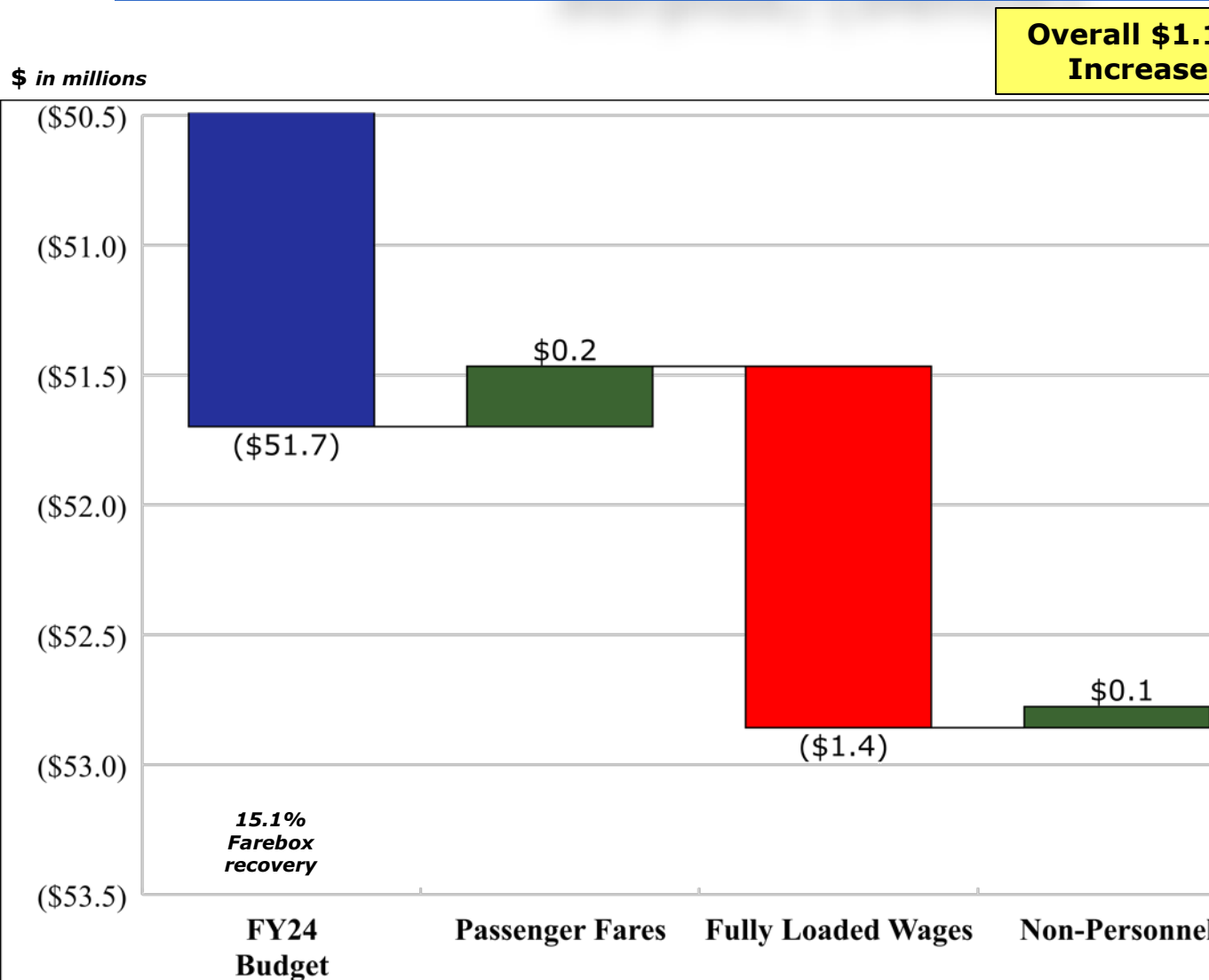
<i>\$000's</i>	FY24 Budget	FY25 Budget
Operating Revenue		
Passenger Fares	\$ 3,080	\$ 3,186
Special Transit Fares	6,095	6,221
Total Operating Revenues	\$ 9,175	\$ 9,407
Operating Expense		
Labor - Regular **	\$ 20,220	\$ 20,499
Labor - OT	1,171	1,196
Fringe	21,813	22,900
Non-Personnel	17,706	17,625
Total OpEx	\$ 60,911	\$ 62,220
Operating Surplus/(Deficit)	(\$ 51,736)	(\$ 52,814)
<i>Farebox Recovery</i>	<i>15.1%</i>	<i>15.1%</i>
Non-Operating Revenue/(Expense)		
Sales Tax/including Measure D	\$ 31,808	\$ 32,126
Federal/State Grants	20,415	27,036
COVID Relief Grants	9,959	-
Pension UAL/Bond Payment*	(4,173)	(4,177)
All Other	1,240	1,220
Total Non-Operating Revenue	\$ 59,250	\$ 56,205
Operating Surplus/(Deficit) before Transfers	\$ 7,514	\$ 3,392
Transfers and Other		
Transfers to Capital/Bus Replacement/Sustainability Funds	(\$ 9,976)	(\$ 8,991)
(To)/From COVID Recovery Fund	2,462	5,599
Operating Surplus/(Deficit) after Transfers	-	-

*Bond Payment started in FY23

** No COLA's have been considered for this budget

Numbers may not foot due to rounding

FY24-FY25 Budget Drivers of Operating Surplus/(Deficit)



FY25 Budget Operating Assump

- **Operating Revenue**

- Passenger Fares increase \$106K, or 3.4%, to \$3
- UCSC, Cabrillo College, and Highway 17 partners contracted amount, increase of \$126K, or 2.1%,

- **Operating Expenses**

- Salary and wages only include step and longevity \$278K, or 1.4%, to \$20,499K
- Overtime increase of \$25K, or 2.2%, to \$1,196K step/longevity increases
- Fringe, increase \$1,087K, or 5.0%, to \$22,900K to increased Medical costs assumed to be 7.2%
- Non-Personnel decrease of \$81K, or 0.5%, to \$1 primarily due to non-recurring costs from FY24, by CPI increase in other areas

FY25 Budget Non-Operating Assumptions

- **Non-Operating Revenue**

- Sales Tax/including Measure D, increase \$0.3M, or 0.1% of \$32.1M
- American Rescue Plan Act (ARPA) COVID Relief Fund, decrease of \$10.0M, or 100.0% driven by the final accounting of remaining available funds occurring in FY24
- Federal/State Grants, increase \$6.6M, or 32.4% of \$20.4M to FTA 5307 and STIC grants increase of \$7.8M offset by TDA – STA decrease of \$1.5M

- **Non-Operating Expenses**

- Sales Tax Revenue Bond Payment – virtually flat, or 0.0% increase

FY24 – FY25 Operating B Risks

FY24 & FY25 Operating Budget Risks

- **Revenues**

- Passenger Fares and Paratransit Fares
 - Fluctuations in ridership
- Special Transit Fares
 - Contracts being eliminated or severely reduced (U
City of Santa Cruz)
- Sales Tax and TDA – LTF
 - Consumer spending uncertain as inflation continues
country faces a possible recession
- Federal FTA 5307, STIC, 5311
 - Subject to appropriation/reauthorization
- Economic downturn from recession
- Natural disaster such as fires, floods or earthquake

FY24 & FY25 Operating Budget Risks

- **Expenses**

- CNG/Electric/Diesel Engine Failures
- Fuel Costs Volatility
- Workers Comp Insurance
- Medical Insurance
 - Final costs come out in January
- Contract renewals and rebids
 - Costs could come in higher than budgeted
- Settlement Costs
 - Costs could come in higher than previous years
- Aging Fleet
 - Increased Maintenance Costs
- Changes in Unfunded Mandates
- Overtime costs due to shortage of drivers
- Government mandates for employee paid leaves

FY24 & FY25 Additional Informati

Board Authorized METRO Support A

Santa Cruz County Fair	Trunk or Treat (Soquel/Santa Cruz)
Christmas Parade - Tentatively Santa Cruz & Watsonville	One Ride at a Time Events – World War II Ups, Youth Field Trips
4th of July Parades - Tentatively Scotts Valley, Aptos, & Watsonville	Youth Cruz Free Events – school Grades K – 12
Leadership Santa Cruz	Press Events – to launch new campaign
Santa Cruz County Chamber of Commerce Business Expo	Senior Events – for P
Earth Day Event - SJ State University, Pacific Station, & potentially Watsonville	Employee Events
CA Clean Air Day Event - Pacific Station & potentially Watsonville	Transit Worker Appreciation
Stuff the Bus – Potentially one in November, one in December	Operator Appreciation
Transit Equity Day	Customer Service Appreciation
Downtown Santa Cruz Kids Day	Employee Picnic
Downtown Day (for UCSC students)	Holiday Party
Veterans Day	Rodeo

Memberships

Administration

American Public Transportation Association (APTA) Annual Dues

Bus Coalition

California Association for Coordinated Transportation (CALACT) Membership

Chamber of Commerce Membership

Community Transportation Association of America (CTAA)

California Transit Association (CTA)

Center for Transportation (CTE)

Eastern Contra Costa Transit Agency (ZEBRA)

Monterey Bay Economic Partnership (MBEP)

Press Banner Annual Subscription

San Jose Mercury News Annual Subscription

San Lorenzo Valley Post Annual Subscription

SC Sentinel

The Pajaronian Annual Subscription

Finance

California Society of Municipal Finance Officers (CSMFO) Membership

Government Finance Officers Association (GFOA) Membership

Kiplinger Letters

Memberships

Human Resources

California Chamber of Commerce (CalCHamber)
California Public Employers Labor Relations Association (CALPELRA)
John Dash
Next Concept HR Association (NCHRA)
Society of Human Resources Management (SHRM)

Planning

American Planning Association and American Planning Association (AICP) and

Safety & Risk Management

Professional Associations

Purchasing

Amazon Prime annual fees
California Association of Public Procurement Officials (CAPPO)

Memberships

Fleet Maintenance

All Data

Allison Doc (Transmission Software)

Cummins (Insite Pro Fleet Books Software)

Mitchell (Online Vehicle Manuals)

Snap-On (Fleet Scanner Software)

Valley Power (John Deere Software)

FY24 Total: \$102,319

FY25 Total:

Board Member Travel Budget Assu

American Public Transportation Association (APTA)

Annual Conference October 2023 Orlando, FL Two Board Members	Legislative Conference April 2024 Washington, DC Three Board Members
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California Transit Association (CTA) Meeting

Annual Meeting November 2023 Pasadena Convention Center One Board Member	Legislative Conference May 2024 TBD One Board Member
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Additional Travel

Meetings with legislators and government officials in Washington, San Francisco, Sacramento, as approved by the Chair of the Board.

Expenses related to Board Members meeting with CEO/General Manager and Sta

Employee Incentive Program

Event/Activity	FY24	FY25	De
Agency Rodeo			
Company Picnic	\$ 22,555	\$ 23,683	Administr
Holiday Party			
Transit Driver Appreciation Day			
Awards			
Safe Driver Patches	9,690	10,175	Bus Oper
Line Instruction Patches			
Awards			
Incentive program	2,500	2,500	ParaCruz
Bus Rodeo			
Safety awards	12,534	12,910	Safety & I
Summer Driver Appreciation Event			
District Service Awards	4,222	4,433	Administr
			Administr
			Finance
			Customer
Employee Appreciation Event	26,143	27,390	Human R
			Operation
			Fleet Mai
Employee Welcome & Promotion kits	2,500	2,500	Human R
Total	\$ 80,144	\$ 83,591	

FY24 Capital Budget/Portfolio

FY24 Capital Budget Projects

<i>\$000's</i>	FY24 Budget	FY25 & Beyond
Project Category:		
Revenue Vehicle		
29 Hydrogen Buses	\$ 0	\$ 35,500
10 CNG Artic Buses	1,000	
7 Paratransit Vans	994	
5 Electric Buses	231	
3 New Flyer Lease	117	
AVL/APC	422	
Sub Total	\$ 2,763	\$ 35,500
Construction Projects		
ParaCruz Facility	\$ 1,020	\$ 1,020
Pacific Station Redevelopment	1,662	2,800
Hydrogen Fueling Station	5,975	5,975
Rapid Bus Enhancements - Soquel Drive	2,159	7,300
Scotts Valley Roof, including Solar	100	
Watsonville Parking Lot	1,500	
Watsonville Station Redevelopment	-	8,500
Sub Total	\$ 12,416	\$ 25,600

Notes:

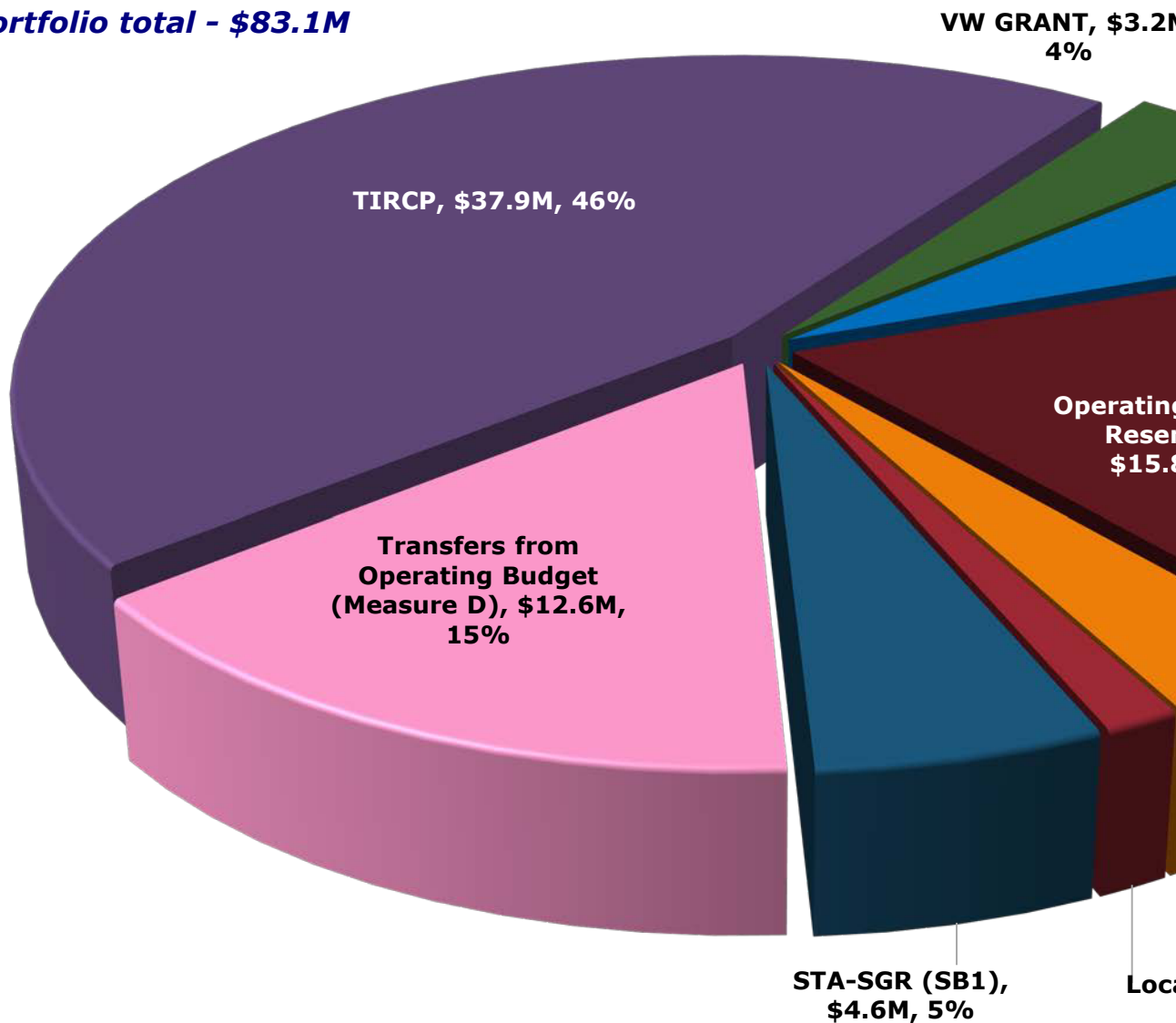
- ✓ Only projects with identified and approved funding are represented

FY24 Capital Budget Projects, con't

<i>\$000's</i>	FY24 Budget	FY25 & Beyond
Project Category:		
Facilities Repair & Improvements		
Maintenace Facility Upgrade for Hydrogen Buses	\$ 1,500	\$ -
12 Bus Shelters	300	-
Security Gates - Automated	295	-
All Other Facilities projects	614	-
Sub Total	\$ 2,710	\$ -
IT Projects		
ERP System	\$ 2,119	\$ 49
Website Design	250	-
Integrated Ticket & Scheduling Optimazation	375	-
Sub Total	\$ 2,744	\$ 49
Other Miscellaneous		
Security Cameras - Buildings & Buses	\$ 200	\$ -
Other Miscellaneous	527	-
Sub Total	\$ 727	\$ -
Grand Total	\$ 21,359	\$ 61,7

FY24 Capital Budget/Portfolio* – Funding Source

Portfolio total - \$83.1M



* Projects that are funded and may or may not have yet been started. All commitments from the prior year.

**Projected Operating Re
Balances
As of June 30, 202
(estimate)**

Operating Reserves as of 06/30/20 **(estimate as of 5/25/2023)**

\$2.3M



Fully Funded

\$0.7M



Fully Funded

\$16.3M



Fully Funded

No minimum Balances for these Funds



****Balances committed against Projects in the FY24 Capital Portfolio:**

\$10.8M**

\$13.2M**

\$31.5M

*Balances in the various Reserve categories are aligned with METRO Reserve Fund policy (revised and adopted by Board of Directors 12/15/2022)
Bus Replacement Fund – Minimum \$3M annual commitment from Measure D sales tax and STA-SGR, uncommitted to other projects
UAL & OPEB – Minimum \$2M annual commitment

Reserve Fund Explanations/Us

Fund Title	Explanation and Us
Operating and Capital Reserve Fund	Support operations and grant matching for Capital projects
Operations Sustainability Reserve Fund	3 Months of Reserves to cover all Operating Expenses
CalPERS UAL & OPEB Liability Reserve	Pay down future CalPERS unfunded pension liability and increasing costs for retiree health care liabilities
Cash Flow Reserve Fund	Funding to cover the timing of cash “inflows” and “outflows” frames
COVID Recovery Reserve Fund	Reserves to cover operating losses as METRO recovers and extend the Fiscal Cliff another year or two
Workers Compensation Reserve Fund	Funds set aside for the possible payment on the long term compensation
Liability Insurance Reserve Fund	Funds set aside to pay the cost of outstanding liability and

5 – Year Budget Plan

5 Year (FY24 – FY28) Budget P

\$000's

REVENUE:	BUDGET FY23	BUDGET FY24	PLAN FY25	PLAN FY26
Operating Revenue				
Passenger Fares	\$ 2,437	\$ 3,080	\$ 3,186	\$ 3,256
Special Transit Fares	5,953	6,095	6,221	6,344
Total Operating Revenue	\$ 8,390	\$ 9,175	\$ 9,407	\$ 9,601
Operating Expense				
Labor - Regular	\$ 20,415	\$ 20,220	\$ 20,499	\$ 20,687
Labor - OT	1,325	1,171	1,196	1,220
Fringe	21,172	21,813	22,900	23,943
Non-Personnel	12,108	17,706	17,625	18,422
Total Operating Expense	\$ 55,019	\$ 60,911	\$ 62,220	\$ 64,272
Operating Surplus/(Deficit)	(\$ 46,629)	(\$ 51,736)	(\$ 52,814)	(\$ 54,672)
<i>Farebox Recovery</i>	<i>15.2%</i>	<i>15.1%</i>	<i>15.1%</i>	<i>14.9%</i>
Non-Operating Revenue/(Expense)				
Sales Tax/including Measure D	\$ 30,775	\$ 31,808	\$ 32,126	\$ 32,769
Federal/State Grants	14,496	20,415	27,036	27,267
COVID Relief Grants	15,477	9,959	-	-
COVID Related Costs	(298)	-	-	-
Pension UAL/Bond Payment*	(5,643)	(4,173)	(4,177)	(4,181)
All Other Revenue	676	1,240	1,220	1,205
Total Non-Operating Revenue/(Expense)	\$ 55,483	\$ 59,250	\$ 56,205	\$ 57,059
Operating Surplus/(Deficit) before Transfers	\$ 8,853	\$ 7,514	\$ 3,392	\$ 2,388
Transfers				
Transfers to/(from) Operating & Capital Reserve Fund	(\$ 8,853)	(\$ 9,976)	(\$ 8,991)	(\$ 7,101)
Transfers (To) / From Covid-19 Recovery Fund	-	2,462	5,599	4,714
Operating Surplus/(Deficit) after Transfers	\$ -	\$ -	\$ -	\$ -

Numbers may not foot due to rounding

Assumptions for 5 Year Project

- Revenue Assumptions
 - Ridership continues to grow, slowly returning to 2019 levels
 - Sales tax grows at 2% per year based on CPI
- Expense Assumptions
 - Personnel
 - Only contractual obligations of step increases – no merit increases included
 - CalPERS retirement employer contribution decreases ~0.2%
 - Medical insurance premiums increase ~5% each year
 - Non-Personnel
 - General expenses increase at 2.3% per year – as of 2019 level

Appendix

Operating Surplus/(Deficit) Budget

May 19, 2023 – June 23, 2023

June Presentation vs May Presentation

\$000's

May FY24 Budget Operating Surplus before Transfers

Change in Expenses

Net Change Wages/Fringe adjustments

California Hydrogen Business Council (CHBC) membership

Total OpEx

Operating Surplus/(Deficit)

Changes in Non-Operating Revenue/(Expense)

Net Change Federal/State Grants

Total Non-Operating Revenue

Sub Total of Changes

FY24 Budget Operating Surplus before Transfers

FY24 TO FY25 Walk down

\$000's

FY24 Budget Operating Surplus

Changes in Revenue

Passenger Fares increase in ridership

Contracted Increases

Total Operating Revenues

Change in Expenses

Salary/Fringe step/longevity increases

All Other

Total OpEx

Operating Surplus/(Deficit)

Changes in Non-Operating Revenue/(Expense)

Sales Tax/including Measure D

Federal/State Grants

COVID Relief Grants

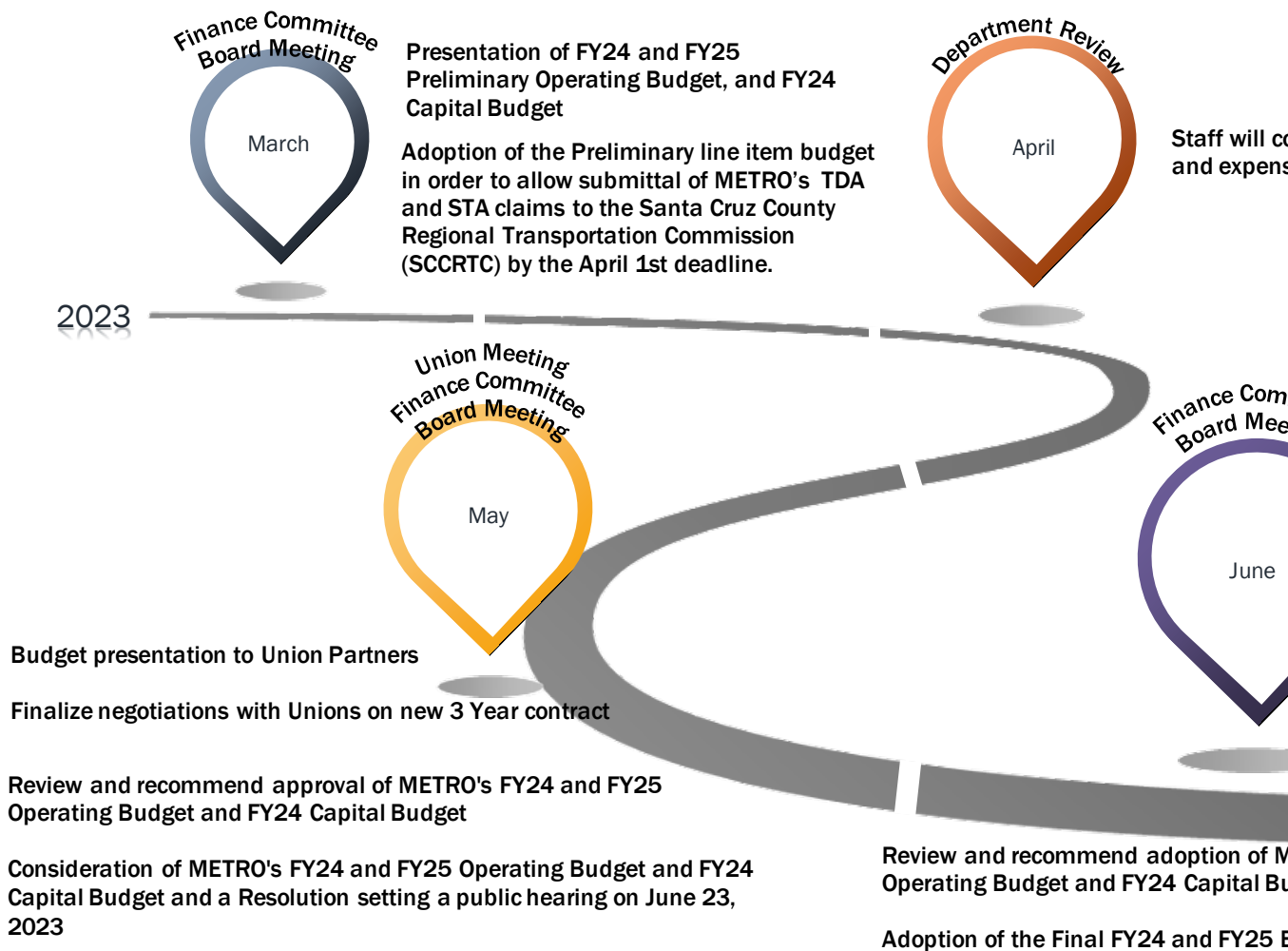
All Other

Total Non-Operating Revenue

Sub Total of Changes

FY25 Budget Operating Surplus before Transfers

Budget Timeline



*Santa Cruz Metropolitan
Transit District*



DATE: June 23, 2023
TO: Board of Directors
FROM: Chuck Farmer, Chief Financial Officer
SUBJECT: ADOPTION OF THE FINAL FY24 AND FY25 BUDGET

I. RECOMMENDED ACTION

That the Board of Directors approve the adoption of the FY24 and FY25 Operating Budget and FY24 Capital Budget.

II. SUMMARY

- The FY24 and FY25 Operating Budget, and FY24 Capital Budget-Portfolio are presented this month for Board of Directors (Board) and public review. A public hearing has been scheduled for 9:00 am, or as soon thereafter as possible, during the June 23, 2023 board meeting.
- On June 24, 2022, the Board adopted the Final FY23 and FY24 Operating Budget. Santa Cruz METRO produces a 2-year rolling Budget. This Budget revises the June 2022 FY24 Budget and presents a new FY25 Operating Budget.
- The 5 – Year Plan for Santa Cruz Metropolitan Transit District (METRO) is presented in Attachment B. It depicts the proposed two-year FY24 and FY25 Operating Budget and Forecasts for FY26 to FY28.
- The proposed two-year FY24 and FY25 Operating Budgets – Attachment C total \$65,083,522 and \$66,397,455 respectively.
- In addition, METRO will be transferring:
 - \$2.3M in FY24 and FY25 to the Capital Budget (Bus Replacement Fund)
 - \$2.0M in FY24 and FY25 for the UAL & OPEB liability
 - \$4.0M in FY24 and FY25 for Grant matching
 - \$1.3M in FY24 and \$0.5M in FY25 to Reserve Replenishment
 - \$2.4M in FY24 and \$5.6M in FY25 from the COVID-19 Recovery Fund

- The Authorized and Funded Personnel lists are presented in Attachment D.
- The Draft FY24 Capital Budget-Portfolio – Attachment E totals \$83,081,176
- Staff recommends that the Finance, Budget and Audit Standing Committee Board receive input on the Draft FY24 and FY25 Operating Budget and FY24 Capital Budget-Portfolio and provide additional direction to staff as necessary regarding the contents of the Draft Operating and Capital Budgets, for final adoption on June 23, 2023 and forward the Budget to the full Board for initiation at the Public Hearing.

III. DISCUSSION/BACKGROUND

The Board of Directors must adopt the Final FY24 and FY25 Operating Budget and FY24 Capital Budget-Portfolio by June 30, 2023. The Draft FY24 and FY25 Operating Budget and the FY24 Capital Budget-Portfolio are presented this month for Board and public review. A public hearing has been scheduled for 9:00 am, June 23, 2023.

On June 24, 2022, the Board adopted the Final FY23 and FY24 Operating Budgets. Santa Cruz METRO produces a 2-year rolling Budget. This Budget revises the June 2022 FY24 Operating Budget and presents a new FY25 Operating Budget.

Metro held a Budget Workshop with the Unions on May 1, 2023 to answer questions about the two-year Draft FY24 and FY25 Operating Budget and FY24 Capital Budget-Portfolio to obtain input from its union partners.

The presentation of financials on the Summary page in Attachment C are presented in this format:

Operating Revenues are directly associated with ridership and represent the amounts paid by the rider or organizations to use transit services. The categories includes Passenger-paid fares (Local and Highway 17 Fares) and Organization-paid fares (Special transit fares: contracts with the local colleges and Highway 17 partners).

Operating Expenses are the expenses associated with the operation of the transit agency and goods and services purchased for the operation of the system, such as Labor (Salaries & Wages), Fringe Benefits, Non-Personnel Expenses (Services, Materials and Supplies, Utilities, Insurance, and Other expenses). This provides a quick and easy view of the Farebox Recovery.

The Non-Operating Revenue and Expenses section provides insight into revenue and expenses that are not directly or/and immediately impacted by increase/decrease of ridership.

Non-Operating Revenues represent external sources such as Sales Tax Revenue.

These changes will align Metro's financial reporting more closely to other transportation agencies and allow for an easier comparison of revenues and costs related to ridership and external sources.

Attachment C – Page 1

A. Operating Revenues

Operating Revenues, related to ridership, total \$9,175K in FY24 and \$9,407K in FY25. Major Operating Revenue assumptions in the Draft FY24 Budget over the FY23 Final Budget, adopted in June 2022, include:

- Passenger Fares – overall increase \$643K, or 26.4%, to \$3,080K due to increased ridership across all modes: Fixed Route increase \$237K, or 14.6%, to \$1,858K; Paratransit increase \$16K, or 8.0%, to \$210K; Highway 17 Fares increase \$394K, or 66.4%, to \$988K
- Special Transit Fares – overall increase of \$142K, or 2.4%, to \$6,095K; primarily due to contractual increases and increased ridership recovery as impact from COVID declines: UCSC increase \$95K, or 2.0%, to \$4,876K, Cabrillo College increase \$12K, or 2.0%, to \$595K, City of Santa Cruz increase \$25K, or 73.1%, to \$59K, Highway 17 Contracts increase \$11K, or 2.0%, to \$562K

Moderate increases of ~2.5% to \$9,407K overall for Operating Revenue sources are budgeted in FY25.

B. Operating Expenses

Operating Expenses, excluding Pension UAL/Sales Tax Revenue Bond payments (which are discussed in Section C), total \$60,911K in FY24 and \$62,220K in FY25. Operating Expenses assumptions in the Draft FY24 Budget over the FY23 Final Budget, adopted in June 2022, include:

Personnel Expenses (Labor and Fringe Benefits) increased overall by \$294K, or 0.7%, to \$43,205K vs. FY23 Budget

- Regular Labor Costs – decrease \$194K, or 1.0%, to \$20,220K
 - Contractual items of step and longevity increases
 - Net 2 new FTE added, proposed incremental positions

- Sr. Customer Service Representative
 - Grants/Legislative Analyst

Offset by proposed positions to be defunded

- Mechanic I & II
 - Paratransit Clerk III
 - Assistant Safety & Training Coordinator
 - Customer Service Rep – 2 FTEs
 - Financial Analyst
 - Parts & Materials Clerk
 - Upholster I
 - Customer Service Assistant
- Overtime - decrease of \$154K, or 11.6%, to \$1,171 as recruitment increases to fill vacancies
 - Fringe Benefits costs - increase of \$641K, or 3.0%, to \$21,813K; primarily due to increased cost for Medical/Dental/Vision insurance (\$324K, or 2.6%, to \$12,595K), along with higher Retirement CalPERS cost (\$331K, or 13.9%, to \$2,709K); partially offset by lower SDI (\$46K, or 16.9%, to \$228K), SUI (\$12K, or 25.8%, to \$35K), and Other Fringe Benefits (\$22K, or 10.8%, to 185K)

Non-Personnel Expenses Excluding Sales Tax Revenue Bond related costs (which are represented in Section C below) increase of \$5,300K, or 42.7%, to \$17,706K vs FY23 Budget

- Services – \$7,702, an increase 32.4% or \$1,886K primarily due to:
 - Admin/Bank Fees increase 42.5% in anticipation of restoring the cash revenue pickups to twice a week, as ridership slowly returns to pre-pandemic levels;
 - Professional/Technical Fees increase 41.8% due to multiple initiatives and programs, among which the launch of a multidimensional organizational rebranding program aimed to reposition Metro as a strong community partner and to meet our strategic goals of attracting and increasing ridership, Internal Audits for Advanced Technology, Facilities Master Plan, Maintenance & Operations, Safety Plan, Strategic Revenue Planning, Long Range Plan along with Project Management for the TIRCP Grant;
 - Legislative Services increase 155.8% due to anticipated spending for consultant services to assist with future funding of the zero emission program;

- Fuel & Lube increase 88.2% as a result of higher costs for both Revenue and Non-Revenue vehicles, primarily the CNG costs which have had a significant price increase in 2023
- Revenue Vehicle Parts increase 32.4% primarily due to higher costs for Cummins and New Flyer bus parts
- Other Materials & Supplies – \$903K, an overall increase of 21.7% or \$161K primarily related to printing for new marketing campaigns, One Ride at a Time bus wraps, and materials related to the Strategic Revenue planning initiatives and workshops; partially offset by decreased spending related to COVID supplies
- Utilities – \$911K, an increase of 10.2% or \$84K primarily due to estimated increase for Gas & Electric (expected rate increase from PG&E) along with increased Propulsion Power as more ZEB buses are purchased and put into service
- Casualty & Liability – \$1,327K, an increase of 22.7% or \$245K related to the increase of insurance premiums; will be adjusted when the invoices are available in June 2023
- Taxes – \$58K, an increase of 3.3% or \$2K due to higher costs for Customer Service parking permits and increased Co-Op fees; partially offset by lower Fuel Tax
- Misc. Expense – \$1,048K, an increase of 178.0% or \$671K primarily due to increased Local Meeting Expenses as monthly BoD meetings will return to in-person meetings, Employee Training for Workforce Training for new Hydrogen Bus & Infrastructure, and increased Marketing costs for Advertising
- Interest Expense & Debt Service
 - Interest Expense - Loan – \$0.9K, a decrease of 89.0% or \$7K due to interest payment on bus lease contract ending in FY24
 - Debt Service – Interest Expense POB and Principal POB are discussed in Section C below
- Leases & Rentals – \$327K, an increase 93.8% or \$158K primarily due to lease of new facility in Watsonville for ParaCruz and Operations

Major Operating Expense assumptions in the preliminary Draft FY25 Budget over the FY24 Budget include:

Personnel Expenses (Wages, Overtime, and Fringe Benefits) increased overall by \$1,390K, or 3.2%, to \$44,595K excluding the Pension UAL costs

- Wages – increase \$278K, or 1.4%, to \$20,499K

Non-Personnel Expenses Excluding Sales Tax Bond related costs (which are represented in Section C below) decreased by \$81K, or 0.5%, to \$17,625K; primarily due to non-recurring costs from FY24

C. Non-Operating Revenue/(Expense)

Non-Operating Revenue/(Expense) totals \$59,250K in FY24 and \$56,205K in FY25. Non-Operating Revenue/(Expense) assumptions in the Draft FY24 Budget over the FY23 Final Budget, adopted in June 2022, include:

Sales Tax Revenues

- 1979 Gross Sales Tax (1/2 cent) – increase of \$926K, or 3.5%, to \$27,540K which is a conservative estimate based on overall inflation and decline of amounts received in FY23
- 2016 Net Sales Tax (Measure D) – increase of \$107K, or 2.6%, to \$4,269K. The projected increase mirrors the anticipated increase in the 1979 Gross Sales Tax (1/2 cent).

Federal/State Grants

- Transportation Development Act (TDA-LTF) - \$8,912K, an decrease of 3.3% or \$306K, as per recent allocations
- FTA 5307 – \$3,830K, an increase 100%, based on the amount needed to cover operating expenses as a result of available American Rescue Plan Act of 2021 (ARPA) funding in FY24
- LCTOP – \$747K, an increase of 38.9% or \$209K, amounts are based on funding allocated from the State Controller's Office (SCO) from the Greenhouse Gas Reduction Fund via the Regional Transportation Commission (RTC).
- TDA – STA – Operating (includes SB1) – \$6,044K, an increase of 35.0% or \$1,568K, reflecting the recent increased allocation estimates from the State Controller's Office (SCO), STA funds are derived from the statewide excise tax on diesel fuel and are allocated based on population and revenue for the prior fiscal year

COVID Relief Grants

- American Rescue Plan Act of 2021 (ARPA) – \$9,959K, a decrease 35.7% or \$5,518K; based on the anticipated draw down in FY24 for reimbursement of allowable personnel and operating expenses.

All Other Revenue

- Interest Income – \$756K, an increase of 202.2% or \$506K, based on current trends and the cash balance at the Treasury
- All Other Income – \$206K, an increase of 111.8% or \$108K, primarily due to the CNG sales as a result of higher prices Metro can pass through to customers

COVID-19 Related Expense

Decrease of 100% or \$298K, as a result of both the California and Federal governments ending the COVID-19 State of Emergency. Going forward any/all costs will be absorbed in the general operating expenses.

Pension UAL/Sales Tax Revenue Bond Debt Service

Expense of \$4,173K is a decrease of 35.2%, or \$1,470K, primarily due to the Pension UAL payment that was eliminated for FY24 as a result of the sale of the Bond in March 2022

Increases in Non-Operating Revenue Sources budgeted in FY25, are:

- Sales Tax, including Measure D – increase of 1.0%, to \$32.1M
- American Rescue Plan Act (ARPA) COVID Relief grant, decrease of 100.0% driven by the final drawdown of remaining available funds occurring in FY24
- Federal/State Grants – increase \$6.6M, or 32.4%, \$27.0M primarily due to FTA 5307 and STIC grants increase of \$7.8M; partially offset by TDA – STA decrease of \$1.5M

Attachment C – Page 4

D. Transfers & Operating Balance

Operating Balance before Transfers total \$7,513,813 in FY24 and \$3,391,899 in FY25. Assumptions in the preliminary FY24 budget over the FY23 Final budget, adopted in June 2022, include:

- Transfers to Capital Budget/Bus Replacement Fund of \$2,350K is a decrease by 0.2% or \$4K. This amount is consistent with the goal to honor our commitment to the Capital Budget and maintain assets in a state of good repair by committing a minimum of \$3.0M each year from the Measure D and TDA-STA transfer from Operating, along with STA-SGR that goes directly to the Capital Budget.
 - Available Measure D revenues are 0.2% or \$4K lower than FY23
 - STA-SGR grant of \$812K is 5.3%, or \$41K, higher than FY23, going directly to the

- Reserves Replenishments – increase by 100% or \$1,335K transfer to the Operational Sustainability Reserve Fund to meet target balance of three (3) months of the average operating expenses for the most current fiscal year's budget, in accordance with Metro's Revised Reserves Policy, adopted on Nov, 15, 2019).
- Operating and Capital Reserve Fund of \$4,000K is a decrease of 11.1% or \$500K; Funds are committed 100% or as local match for multiple Capital Projects (detailed in Attachment B) presented to the Board for consideration and approval as part of the Adoption of the Final Budget in June 2023.
- Transfers from Covid Recovery Fund of \$2,462K is an increase of 100%; Funds from the Covid Recovery Fund will be reinvested in the FY24 Budget and beyond to sustain services during the period of ridership recovery to pre-pandemic levels and will be primarily allocated to one time programs and initiatives.

Changes in the budgeted Transfers & Operating Balance in FY25 of \$ 6,660K is 12.7%, or \$966K, lower

- Reserves Replenishments will decrease by 61.5%, or \$821K, to \$514K
- Operating and Capital Reserve Fund (including Fuel Tax Credit) will decrease by 4.9%, or \$146K, to \$4,146K
- Covid Recovery Fund transfer will increase 127.3%, or \$3,137K, to \$5,599K

E. Capital Budget

The Draft FY24 Capital Budget-Portfolio as shown in Attachment E totals \$83,081K.

The current FY24 Capital Budget-Portfolio consists of ongoing projects rolled forward from FY23 along with new projects which are funded by a variety of sources.

In FY18, a new capital Budget funding strategy was adopted by the Board that results in a minimum of \$3.0M per year being dedicated to the annual capital Budget. This new strategy created the "Bus Replacement Fund" and establishes consistent annual transfers of STA-SB1 funds and Measure D funds to the capital Budget that are needed to provide funding and stability for the required local match for obsolete fixed-route buses and Paratransit vehicles.

Annual unspent Measure D and STA-SGR funds will 'accumulate' in the Bus Replacement Fund until they are allocated to specific projects and spent on new replacement buses and vans.

The following amounts are dedicated to the Bus Replacement Fund in FY24:

forward towards a sustainable future, in support of the METRO 10-Year Strategic Business Plan, and was approved by the Board on November 15, 2019.

- Ongoing – Pacific Station/Metro Center Redevelopment with the City of Santa Cruz – \$4,491K, of which \$3,991K will come from the Bus Replacement Fund and the remaining \$500K from The Transit and Intercity Rail Capital Program (TIRCP) grant toward the redevelopment of the facility.
- New – Hydrogen Fueling Station – \$11,950K funded by a \$8,950K TIRCP grant and \$3,000K from the Operating & Capital Reserve Fund for the design and construction of a permanent hydrogen fueling station. Metro will partner with several experts in the industry to design and construct the fueling station. It is anticipated that the construction will begin in late 2023 and conclude by 2025 when the vehicles are delivered for testing and acceptance.
- New – Rapid Bus Enhancement - \$9,500K funded by a \$5,100K TIRCP grant and \$4,400K from the Operating & Capital Reserve Fund to provide transit enhancements along the Soquel Drive Corridor in the County of Santa Cruz, from La Fonda Avenue to Freedom Boulevard.
- New – Scotts Valley Transit Center roof replacement - \$100K from the Operating & Capital Reserve Fund will be used to replace the roof that is past its useful life and is showing signs of deterioration. Solar panels will be added to reduce overall expenses to the site.
- New – Watsonville Parking Lot - \$1,500K from the Operating & Capital Reserve Fund.
- New – Watsonville Station Redevelopment - \$8,500K from the TIRCP grant to redevelop the Watsonville Transit Center into an updated Transit and Mobility Center, with a four-story, 60+-unit, net-zero affordable housing development, to assist in serving historically disadvantaged communities with increased access to affordable housing and supporting mode shift from Single Occupancy Vehicle (SOV) use to transit.
- New & Ongoing- IT Projects
 - Ongoing – Enterprise Resource Planning (ERP) System – The current financial system was purchased in the late 1990's, more than 20 years ago. The new system will incorporate Core Financials, Fixed Assets, HCM, Payroll, Purchasing, and Budgeting for a more efficient and integrated system. The total Budget is \$3,850K – of which \$200K for consulting costs were paid in FY23 from Operating Expenses with the remaining \$3,650K to be capitalized and funded from the Operating &

- card tap and go. Phase 2 will involve schedule optimization across local and regional agencies in order to reduce transfer times.
- New & Ongoing – Facilities Upgrades and Improvements
 - Ongoing - Maintenance Yard – Security Hardening and Expanded Parking - \$404K from the Operating & Capital Reserve Fund. This is Phase 3 of the project which will continue to improve the security and access to the Maintenance yard. Tasks to be completed include, but are not limited to, retrofit of Bay 11 for the ARTIC buses and gate relocation.
 - Ongoing - JKS Facility – Upper security gates; this project will automate two gates along with the installation of a pedestrian access gate at JKS which will be funded with \$195K from the Operating & Capital Reserve Fund.
 - Ongoing - Fueling Station Awning – construction of an awning over the fueling station to protect staff and equipment from the weather elements. This project is funded with Federal funds of \$235K.
 - New – Hydrogen Maintenance Facility Upgrades - \$1,500K from TIRCP grant for the infrastructure improvement and modifications needed to maintain and support the addition of hydrogen cell buses to METRO's fleet
 - New – 12 Bus Shelters - \$300K from the Operating & Capital Reserve Fund to purchase and install bus shelters, including the creation of a pad if needed and solar lighting. This will provide safer locations for riders to wait for the bus, as well as provide consistent branding for METRO as it looks to increase ridership over the next several years
 - New & Ongoing – Vehicle Replacement & Infrastructure Projects – Santa Cruz METRO has been awarded grants from a variety of Federal, State, and local agencies to replace aging revenue and non-revenue (service) vehicles which are in alignment with Santa Cruz METRO's strategy to begin replacing its fossil-fueled bus fleet with all zero emission buses by 2040.
 - Ongoing - JKS Facility-ZEB Yard Charging Electric Bus Infrastructure \$231K
 - Ongoing - Automatic Vehicle Locator (AVL/ITS) \$422K.
 - Ongoing - CNG buses (3) Capital Lease, final year \$117K
 - New - Hydrogen Fuel Cell buses (29) to assist in the replacement of obsolete CNG and Diesel vehicles \$35,560K; vehicles are expected to be delivered in 2025 and 2026 for testing and acceptance

F. Projected Operating Reserves as of June 30, 2023

Balances in the various Reserve categories are aligned with METRO Reserve Fund policy (revised and adopted by the Board on Nov 15, 2019). Estimates as of May 25, 2023

- \$2.3M Worker's Compensation Fund
- \$0.7M Liability Insurance Fund
- \$16.3M Operations Sustainability Fund
- \$3.0M Cash Flow Fund
- \$31.5M COVID Recovery Fund
- \$6.0M UAL/OPEB
- Committed against Projects in the FY24 Capital Portfolio
 - \$10.8M Bus Replacement Fund
 - \$13.2M Operating & Capital Reserve Fund

IV. STRATEGIC PLAN PRIORITIES ALIGNMENT

This report pertains to METRO's Financial Stability, Stewardship & Accountability.

V. FINANCIAL CONSIDERATIONS/IMPACT

The proposed two-year FY24 and FY25 Operating Budgets – Attachment C total \$65,083,522 and \$66,397,455 respectively. In addition, METRO will be transferring: \$2,349,727 in FY24 and \$2,330,955 in FY25 to the Capital Budget (Bus Replacement Fund), \$2,000,000 in FY24 and FY25 for the UAL & OPEB liability, \$4,291,096 in FY24 and \$4,145,548 in FY25 for Grant matching (includes Fuel Tax Credit), \$1,334,701 in FY24 and \$514,067 in FY25 to Reserve Replenishment, and \$2,461,711 in FY24 and \$5,598,671 in FY25 from the COVID-19 Recovery Fund

These results match the total Operating Revenue Budget of \$72,597,335 in FY24 and \$69,789,354 in FY25. This is a Draft Budget, which reflects available data regarding revenues and expenses. The Final two-year Budget will be presented to the Board of Directors on June 23, 2023.

The Draft FY24 Capital Budget-Portfolio– Attachment E totals \$83,081,176.

VI. ALTERNATIVES CONSIDERED

There are no recommended alternatives at this time. Staff recommends that the Finance

VIII. ATTACHMENTS

Attachment A:	Presentation of FY24 and FY25 Draft Operating Budgets and FY24 Capital Budget-Portfolio
Attachment B:	5 – Year Budget Plan
Attachment C:	FY24 and FY25 Operating Budgets
Attachment D:	Authorized and Funded Personnel
Attachment E:	FY24 Capital Budget/Portfolio
Attachment F:	FY24 Board Member Travel
Attachment G:	FY24 & FY25 Employee Incentive Program
Attachment H:	FY24 & FY25 Board Authorized METRO Support Activities
Attachment I:	FY24 & FY25 Memberships
Attachment J:	Preliminary Schedule of Reserve Balances
Attachment K:	Measure D: 5-Year Program of Projects (FY24 – FY28)
Attachment L:	Resolution Acceptance of Budget

Prepared By: Cathy Downes, Sr. Financial Analyst

IX. APPROVALS:

Approved as to fiscal impact:

Chuck Farmer, Chief Financial Officer

Michael S. Tree, CEO/General Manager
