

ISSUE BRIEF: FY2026 Budget Preview

Meeting: Board of Directors

Meeting Date: July 24, 2025

INFORMATION TYPE:
Decision Preparation
RECOMMENDED ACTION(S):
Receive for information a preview of the operating budget draft for FY2026, along with an update on the capital budget process.
ISSUE SUMMARY:
This Issue Brief provides a preview of the FY2026 budget before draft and recommended budgets will be presented to the Board in September. The budget preview is balanced, which means that revenues are sufficient to cover expenses without deficits during the fiscal year. Discussions in July, August and September will help ensure support for the recommended budget, which is to be presented for Board adoption in September.
BACKGROUND:
AAATA staff is developing the operating and capital budget to further Board Ends within Executive Limitations and provide transparency in financial planning in a multi-year context. The Michigan Uniform Budgeting and Accounting Act of 1968 requires the Board to adopt a balanced operating budget by Board Resolution for our next fiscal year, which begins October 1. In addition, the Board needs to authorize a multi-year capital program for federal funding. A formal public hearing for the budget is required and will be held at the August 21 st Board meeting. Final approval will be sought in September.
PRIOR RELEVANT BOARD ACTIONS & POLICIES
<ul style="list-style-type: none"> • Governance Process: Policy 3.2.7 "...the Board has direct responsibility to create...approval of the annual budget developed and recommended by the CEO." • Executive Limitation: Policy 2.4 Financial Planning/Budgeting
IMPACTS OF RECOMMENDED ACTION(S):
<ul style="list-style-type: none"> • Budgetary/Fiscal: Budget adoption is required by state law and Policies 2.4, 3.2.7. • Social/Environmental: Provision of public transportation authorized by the budget is necessary to ensure achievement of social and environmental ends per Board policy. • Governance: The Board is responsible to approve the annual budget (Policy 3.2.7)
ALTERNATIVE OPTION(S):
Financial planning and budgeting is legally required, required by Board policy, and essential; there is no prudent alternative.
ATTACHMENTS:
<ol style="list-style-type: none"> 1. FY2026 Budget Preview 2. FY2026 Budget Timeline

Attachment 1: FY2026 Budget Preview

Introduction

The FY2026 Operating Budget (the Budget) is the fiscal year's financial plan that supports activities to accomplish goals and objectives as defined in Board's Ends Policies and is aligned with TheRide's Corporate Business Plan. All policies and plans support the stated policy of providing public transportation options that contribute to the Ann Arbor-Ypsilanti Area's social, environmental, and economic vitality at a cost that demonstrates value and efficient stewardship of resources.

The organization is committed to achieving The Board's Ends. Executive Limitations are the operational and risk boundaries provided to the CEO, within which, staff methods, decisions, and activities can be responsibly left to professional staff to lead and manage.

The Corporate Business Plan (the Business Plan) clarifies strategic goals (Ends policies) and outlines how it will achieve them within a 5-year operating plan and a 10-year capital plan. The operating workplan is shorter to allow a detailed focus on day-to-day operational aspects and more specifically new service improvements.

Aligned with the Business Plan, the Budget provides the financial plan to maintain transportation services to the communities we serve. The Budget provides funding to accomplish the following:

- Excellence in Service Delivery and Customer Retention → Operational, Financial and Administrative Excellence
- Attract New Riders and Increase Ridership → Long-Term Infrastructure, Service Enhancements and Influence Demand for Transit
- Continuous Improvement → Team and Staff Development, Internal Effectiveness & Efficiency, and Sustainability Planning

A large majority of funding in the Budget is for maintaining services, with additional funding to support growth and continuous process improvement.

The Budget is a balanced budget that provides a plan for execution of the Board's Ends and the organization's highest priorities. Development of the Budget considers impacts of economic and industry conditions and impacts on financial and operational plans. Financial assumptions are reasonably conservative and are provided in the context of our approach to addressing opportunities and risks for the current year and a five-year projection. The Budget supports the priorities and initiatives represented in the Business Plan.

This presentation of the FY2026 Budget Preview illustrates initial assumptions of revenues and expenses needed to maintain current service levels (a base budget). The Budget Preview does not include additional funding for new initiatives as decisions about priorities are still being evaluated. Approved initiatives will be recommended in the context of organizational priorities, available resources, and the Business Plan, as determined by staff evaluation and in consideration of Board discussions. Additional initiatives will be incorporated into the next draft of the budget, as funding allows.

The Budget Preview assumes full-service operations, reflecting the impact and data collected from this first complete year of expanded services funded by the higher millage rate passed in August 2022. It includes a substantive increase in property tax revenue based on actual receipts and more refined forecasting derived from historical analysis along with recent data from

Washtenaw County. It also accounts for a substantial reduction in state operating assistance, based on early guidance from MDOT to public transit agencies in Michigan.

In summary, the Budget Preview provides reasonably conservative assumptions to maintain current services while taking into consideration important current year operational data and key exogenous factors. Updated assumptions and funding for additional initiatives will be incorporated as the budget process continues. The Budget will be updated as staff recommendations are finalized, and information will be provided to the Board in accordance with the budget timeline. The outlook for the budget is stable with funding from the existing millage, in place until 2028, and state and local governments, which are adequate to provide the Ann Arbor-Ypsilanti communities with planned levels of public transportation services.

FY2026 Operating Budget Preview

The emerging operating budget is balanced for FY2026. Figure 1 is a preview of revenues and expenses at this stage of the development process. Current estimates are shown in comparison to the approved FY2025 Budget for context. Note that the prior year budget is the Board-approved budget, which is fully developed and includes initiatives; the Budget Preview is still under development with further refinements of assumptions and incorporation of initiatives to be incorporated over the next couple of months. Multi-year projections will be provided when the Budget is more refined in the Draft Budget presentation in August.

Figure 1: FY2026 Operating Revenues and Expenses

	FY2025 Approved Budget	FY2026 Budget Preview	2026 vs. 2025 Changes	
			\$	%
OPERATING REVENUES				
Passenger Revenue	\$ 3,800,535	\$ 4,118,392	\$ 317,857	8.4%
Local Property Tax Revenue	37,494,802	41,647,533	4,152,731	11.1%
POSA & Other Governmental Partners	2,939,682	3,027,872	88,190	3.0%
State Operating Assistance	22,198,615	18,819,906	(3,378,710)	-15.2%
Federal Operating Assistance	-	-	-	0.0%
Other Federal Programs	1,446,166	1,577,500	131,334	9.1%
Advertising, Interest, and Other	1,909,143	1,496,680	(412,463)	-21.6%
TOTAL REVENUES	\$ 69,788,943	\$ 70,687,884	\$ 898,940	1.3%
OPERATING EXPENSES				
Salaries, Wages and Benefits	\$ 37,984,127	\$ 38,894,464	\$ 910,337	2.4%
Purchased Transportation	13,554,686	13,221,688	(332,998)	-2.5%
Diesel Fuel and Gasoline	3,417,000	3,417,000	-	0.0%
Materials and Supplies	4,259,770	4,371,296	111,526	2.6%
Contracted Services	4,956,685	5,040,348	83,663	1.7%
Utilities	929,800	1,018,500	88,700	9.5%
Casualty & Liability Insurance	2,121,050	2,607,604	486,554	22.9%
Other Expenses	1,493,453	1,788,519	295,066	19.8%
TOTAL EXPENSES	\$ 68,716,571	\$ 70,359,418	\$ 1,642,848	2.4%
SURPLUS (DEFICIT)	\$ 1,072,373	\$ 328,465	\$ (743,908)	30.6%
Operating Reserve Transfer	-	-		
Capital Reserve Transfer	-	-		
Operating Balance Transfer	\$ 1,072,373	\$ 328,465	\$ (743,908)	-69.4%
OPERATING BALANCE	\$ 20,476,878	\$ 20,805,343	\$ 328,465	1.6%

Revenue Assumptions

Operating revenues are budgeted at **\$70,687,884**, an **increase of 1.3%** compared to FY2025. While aggregate revenues are relatively steady, there are significant changes to AAATA's largest sources of revenue, property taxes and state operating assistance. Interest income assumptions have also been adjusted to better reflect changes in external economic conditions.

- **Local property tax revenues** are derived from property taxes collected from Ann Arbor, Ypsilanti, and Ypsilanti Township. Projections for FY2026 are based on a 4.7% average annual increase in assessed property values from 2014 to 2024 and a millage rate of 2.38 mills. The assumptions are supported by updated data from Washtenaw County received this spring, which shows a 5.3% increase in property assessments for the upcoming summer tax collection compared to FY2024.

To improve projection accuracy, prior year gross assessments and billing data are reconciled with historic actuals and used as the base for assumptions and adjusted for changes in assessed property values to develop current Budget assumptions. Data is compiled from Washtenaw County, Ann Arbor, Ypsilanti, and Ypsilanti Township. All relevant deductions, including the Headlee Amendment rollback, and tax captures, such as those from the Ann Arbor Downtown Development Authority, have been factored into the revenue assumptions. Estimates are consistent with AAATA's L-4029 forms prepared for the summer 2025 tax collection.

The FY2026 Budget Preview reflects a total increase of approximately \$4.2 million, or 11.1%, over the FY2025 approved budget. Two key factors drive this significant increase. First, actual FY2024 receipts exceeded initial conservative estimates which were more closely aligned with projections used during the 2022 millage campaign. The FY2025 approved budget was intentionally somewhat conservative, as AAATA had not yet completed a full collection cycle under the increased millage rate and lacked sufficient data last summer to confidently support a higher projection. Based on refined forecasting and actual collection data, AAATA anticipates FY2026 property tax revenues to solidly support service continuity and financial resilience.

- **State Operating Assistance** is provided as a percentage of total eligible operating expenses for public transit agencies by the Michigan Department of Transportation (MDOT). For FY2026, MDOT has advised transit agencies to plan for a reduced reimbursement rate for State Operating Assistance, lowering it from 29.15% in FY2025 to approximately 26.04% for FY2026. Based on current budgeted operating expenses, this change represents an estimated \$1.6 million decrease in revenue compared to FY2025 year-end projections.

Further reductions in budgeted State Operating Assistance revenues in FY2026 are due to prior year budget assumptions that a larger share of expenses would be eligible, or qualify for reimbursement, via state operating assistance. Analysis of more current data and prior year-end calculations has improved projections of eligible expenses as defined by MDOT, but results in lower expected revenues.

In total, State Operating Assistance revenues are now forecasted to decrease by approximately \$3.4 million in FY2026, or 15.2%, compared to the FY2025 Budget. This decrease reflects both the lower reimbursement rate expected from MDOT and the change in AAATA's internal calculation of eligible expenses. Higher-than-expected property tax revenues will offset this shortfall both in this and next fiscal year though, mitigating the overall impact on AAATA's total revenues.

AAATA will continue monitoring the state budget process and any updates from MDOT over the summer, adjusting as needed to reduce financial risk. While the change in the state reimbursement rate presents a challenge, AAATA remains in a strong position due to dedicated local support through property tax funding. It is notable that relative to other Michigan transit agencies, local funding puts AAATA in a much stronger position to weather these changes in the short-term. If the State Operating Assistance rate returns to historical levels, AAATA would gain additional flexibility within its operating budget.

- **Advertising, Interest and Other income** is primarily driven by changes in Interest income, which represents over 75% of this revenue category. **Interest income** is conservatively projected for FY2026. AAATA considers information provided by account managers at the Bank of Ann Arbor (BOAA), who provide expertise on interest rates fluctuations and trends, when determining budget assumptions. BOAA has shared that indicators are driving expectations that interest rates may decline significantly over the next year. Their assumptions reflect broader economic trends and likely federal policy shifts.

As of May, AAATA has collected \$1.85 million in interest income, already far exceeding the full-year FY2025 Budget. Despite this overperformance, the FY2026 Budget holds interest income at \$1.4 million. This conservative stance reflects both the volatility of rate movements and AAATA's inability to influence them. Staff will continue tracking interest rate developments over the summer but does not anticipate increasing this projection unless economic conditions shift substantially.

Advertising and other miscellaneous revenue, though a relatively small portion of the overall budget, have also been revised downward in the Budget to align more closely with actual trends. These sources remain less predictable than other revenues and are budgeted cautiously. Combined with the interest income forecast, the total reduction to this revenue line in the Budget is \$412,463, or 21.6%.

- **Passenger Revenues** have been trending above budget for FY2025. Current year revenues are anticipated to come in 8.4% higher than approved in the FY2025 budget, so the Budget reflects this increase to continue into FY2026. Assumptions regarding ridership and fare revenues are still undergoing significant review and are expected to be updated throughout July and early August.

Expense Assumptions

Operating expenses are budgeted at **\$70,359,418, 2.4% higher** than FY2025. The changes in year-over-year expenses are primarily due to expected increases in salaries and wages, along with higher insurance and miscellaneous expenses, particularly employee development. Key expense assumptions are as follows:

- **Salaries, wages and benefits** in FY2026 assume that all positions are filled in line with AAATA's current staffing plan, with pay increases ranging from 3-6%, depending on employee classification. Salary changes are consistent with the negotiated CBA (Collective Bargaining Agreement) for union-represented employees, which expires at the end of March 2026. Assumptions related to wages and benefits remain under active review and will be updated throughout July and August, as current year projections are refined following the close of the third quarter.
- **Casualty and Liability Insurance** projections for FY2026 are based on midyear forecasting completed for FY2025, factoring in a 5% increase on the projection for this year. This line item is currently tracking significantly higher than the FY2025 budget due

to changes in coverage related to vehicle procurements and disposals, as well as the timing of those changes within the fiscal year. Renewal underwriting for AAATA's FY2026 insurance policies is currently in progress, and additional clarity is expected as that process concludes later in July. Initial assumptions are that Casualty and Liability Insurance is expected to be \$486,554 higher than in the FY2025 approved budget, an increase of 22.9%.

- **Other Expenses** include expenses for employee uniforms, employee development and travel, equipment and parking lot rental, Board Governance, and write-offs. There are several factors to increases in this category. Uniform costs have risen due to inflationary pressures, Employee Development and Travel are higher as AAATA continues to invest in staff training and professional development across multiple departments, and Property Tax Write-Offs are increasing in proportion to the anticipated growth in property tax revenue for FY2026. Combined, these changes result in an increase of \$295,066 from FY2025, or 19.8%.
- **Utilities** for FY2026 are budgeted to align with FY2025 actuals, which are currently trending above expectations as the summer approaches. Natural gas usage was higher than expected, largely due to colder weather this past winter compared to the previous year. Additional analysis will be conducted as part of the FY2025 year-end projection process, and any necessary adjustments to the Budget will be made after further analysis of actual expenses through the third quarter of the current fiscal year are finalized.
- **Deisel Fuel and Gasoline** costs in FY2025 are currently tracking well below budget, and initial assumptions for the fuel budget holds expenses flat. This approach provides a hedge against potential volatility in fuel prices and broader macroeconomic uncertainty over the coming year. Additional analysis will be conducted as part of the FY2025 year-end projection process, and any necessary adjustments to the Budget will be made after further analysis of actual expenses through the third quarter of the current fiscal year are finalized.

Contingent Budgets

There is still a fair amount of uncertainty regarding revenues and expenses, particularly the final reimbursement rate for state operating assistance to be decided on in the state budget. The FY2026 Budget proposal will continue to evolve based on emerging information prior to the final staff recommendation in September. The following revenues and expenses are likely to change:

- The final State Operating Assistance reimbursement rate, as approved in the state budget, may differ from the preliminary guidance provided by MDOT.
- Changes in interest rates or inflation from current assumptions could affect interest income, as well as costs for fuel, materials, and supplies.
- Union contract negotiations for a new Collective Bargaining Agreement (CBA) are scheduled for January, and any resulting changes may impact the fourth quarter of FY2026.
- Additional analysis is needed to improve forecasting for employee benefits, including workers' compensation, beyond simple trend-based projections.
- Additional funding will be added for priority initiatives outlined in the Corporate Business Plan, dependent on available resources.

The Capital Plan is currently under development and will be presented in August.

Budgets to be presented during the budget cycle will represent the staff's best attempts to make financial projections using economic inputs available to us from our industry, local, state, and federal leaders. Additional information to be provided throughout the budget process will include additional context of multi-year projections, cash flows, capital reserve projections and alignment with the Business Plan and the Board's Ends.

Attachment 2: FY2026 Budget Timeline

Figure 2: Budget Timeline



1. Budget Introduction: Board of Directors Meeting June 19, 2025

An overview of the budget will be presented to introduce the strategic framework and key financial planning assumptions that guide its development. This introduction will also provide context on the external environment (political, economic, and intergovernmental) that is shaping the budget, and outline how these factors are being considered.

2. Budget Preview: Board of Directors Meeting, July 24, 2025

A more detailed draft of the budget, along with multi-year forecast, expanding on strategies and assumptions used in budgeting and financial planning to address the factors presented in the budget introduction.

3. Public Input Period: July 31, 2025—September 18, 2025

Federal regulations require a 30-day review and public input period for AAATA's capital program using Federal funds. Both the capital program and the operating budget will be available for public review and input starting July 31st, through budget adoption on September 18th.

4. Draft Budget Presentation: Board of Directors Meeting, August 21, 2025

The Board's budget inputs continue, and discussion will commence upon the introduction of a draft budget by staff at Board Committees and the monthly Board of Directors meeting.

5. Public Hearing: Board of Directors Meeting, August 21, 2025

As required by state law, meaningful public input to the budget will be obtained through an official public hearing to run concurrent with the Board of Directors meeting.