Agenda Item: 0.0

ISSUE BRIEF: FY2027 Budget Preview

Meeting: Board of Directors
Meeting Date: July 16, 2026

INFORMATION TYPE

Decision Preparation

RECOMMENDED ACTION(S)

Receive for information a preview of the draft operating budget for FY2027, along with an update on the capital budget process.

ISSUE SUMMARY

This Issue Brief provides a preview of the draft FY2027 budget before a recommended budget is presented to the Board in September. The budget is balanced, which means that revenues are sufficient to cover expenses without a deficit during the fiscal year. Discussions and information provided in July, August, and September are intended to ensure support for the recommended budget, which is to be presented for Board adoption in September.

BACKGROUND

AAATA staff developed this draft FY2027 operating and capital budget that furthers Board Ends within Executive Limitations and provides 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 the 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 20th Board meeting. Final approval will be sought in September.

PRIOR RELEVANT BOARD ACTIONS & POLICIES

- 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)

- 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 for approving the annual budget (Policy 3.2.7)

ALTERNATIVE OPTION(S)

Financial planning and budgeting are legally required, required by Board policy, and essential; there is no prudent alternative.

ATTACHMENTS

1. FY2027 Budget Preview
2. FY2027 Budget Timeline

Attachment 1: FY2027 Budget Preview

Introduction

The FY2027 Operating and Capital 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 Board's Ends are what the organization is committed to achieving. 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 the 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 funding to maintain transportation services to the communities TheRide serves and provides for expansion of services, execution of the Long-Range Plan, and continuous process improvement. A large majority of funding in the Budget is for maintaining services, with additional funding to support implementation of the Long-Range Plan 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 also considers the impacts of economic and industry conditions on financial and operational plans. Financial assumptions are reasonably conservative and are provided in the context of TheRide's approach to addressing opportunities and risks for the current year and a five-year projection. The Budget also supports the priorities and initiatives represented in the Business Plan.

This presentation of the FY2027 Preliminary Budget (the Budget Preview) illustrates initial assumptions of revenues and expenses needed to maintain current service levels (a base budget). The Budget Preview does not include 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 data collected since the expansion of services funded by the higher millage rate approved by voters in August 2022. It includes continued growth in property tax revenue based on actual receipts and refined forecasting derived from historical analysis along with recent data from Washtenaw County. It also reflects the State Operating Assistance reimbursement rate recommended by MDOT for the coming year.

In summary, the Budget Preview provides reasonably conservative assumptions to maintain current services while taking into consideration important current-year operational data and key external 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 and is supported by the existing millage, in place through FY2028, as well as the use of federal funds to provide and expand critical transportation services.

FY2027 Operating Budget Preview

The emerging operating budget is essentially balanced for FY2027, with revenues modestly exceeding expenses. The Budget Preview of revenues and expenses presented below provides a preview of the Budget at this initial stage of the development process and is compared to the approved FY2026 Budget. Holding a modest surplus is a prudent position at this stage of the process, before approved initiatives are evaluated and incorporated, and it reflects a conservative posture in the revenue forecast. Limited line-item contingencies are included for key expenses.

Figure 1: FY2027 Operating Revenues and Expenses

TheRide
FY2027 Operating Budget

	FY2026 Approved Budget	FY2027 Budget Preview	2027 Draft vs. 2026 Approved	
			$	%
OPERATING REVENUES				
Passenger Revenue	$ 4,138,392	$ 4,000,371	$ (138,021)	-3.3%
Local Property Tax Revenue	41,647,533	44,369,124	2,721,591	6.5%
POSA & Other Governmental Partners	3,060,136	3,268,623	208,488	6.8%
State Operating Assistance	19,015,038	21,777,764	2,762,726	14.5%
Other Federal Programs	1,970,057	1,595,875	(374,182)	-19.0%
Advertising, Interest, and Other	1,645,911	2,296,888	650,976	39.6%
TOTAL REVENUES	**$ 71,477,067**	**$ 77,308,645**	**$ 5,831,578**	**8.2%**
OPERATING EXPENSES				
Salaries, Wages and Benefits	$ 39,656,741	$ 42,221,031	$ 2,564,290	6.5%
Purchased Transportation	13,902,463	13,156,092	(746,371)	-5.4%
Diesel Fuel and Gasoline	2,878,389	3,700,000	821,611	28.5%
Materials and Supplies	4,190,622	5,059,509	868,888	20.7%
Contracted Services	5,885,173	6,739,718	854,545	14.5%
Utilities	1,018,500	983,972	(34,528)	-3.4%
Casualty & Liability Insurance	2,184,370	2,186,420	2,050	0.1%
Other Expenses	1,760,809	1,905,509	144,699	8.2%
TOTAL EXPENSES	**$ 71,477,067**	**$ 75,952,252**	**$ 4,475,185**	**6.3%**
SURPLUS (DEFICIT)	**$ -**	**$ 1,356,393**	**$ 1,356,393**	

Revenue Assumptions

Operating revenues are budgeted at $77.3 million, an increase of **8.2%**, or approximately $5.8 million, over the approved FY2026 budget. Growth is concentrated in TheRide's two largest revenue sources, property taxes and state operating assistance, both of which increase in FY2027. Investment income also rises relative to the FY2026 budget, reflecting the current interest-rate environment, while passenger fare revenue is held close to recent actual collections.

- **Local property tax revenue** is TheRide's largest funding source and is budgeted at $44.4 million in FY2027, an increase of approximately $2.7 million, or 6.5%, over the approved FY2026 budget. The projection is based on the two millages. First, the current voter-approved millage rate of 2.38 mills, unchanged since voters approved the current millage in August 2022, applied to taxable values in the three taxing jurisdictions of Ann Arbor, Ypsilanti, and Ypsilanti Township. The second is statutory millages from the cities of Ann Arbor and Ypsilanti of 2.5 and 0.9789 mills respectively.

Assessed taxable values are forecasted to grow by roughly 4.6% from 2026 to 2027, but the budget variance from FY2026 to FY2027 is slighter higher due to higher than projected assessed values for this fiscal year. All relevant deductions, including the Headlee rollback and tax captures such as those from the Downtown Development Authority, are factored into the forecast using data compiled from Washtenaw County.

- **State Operating Assistance** is budgeted at $21.8 million in FY2027, an increase of approximately $2.8 million, or 14.5%, over the approved FY2026 budget. Since 1998, Michigan's State Operating Assistance program, also known as LBO funding, has reimbursed at or above 29% of eligible operating costs for local bus service. For FY2027, TheRide is budgeting the planning rate recommended by the Michigan Department of Transportation (MDOT) of 28.09%, applied to a larger base of eligible expenses.

  The FY2026 budget was built on a more conservative planning rate, so the FY2027 increase reflects both the higher recommended rate and growth in eligible costs. Because nearly all of TheRide's expenses are eligible and the budget base is large, small movements in the reimbursement rate have a significant effect on this revenue line. Staff will continue to monitor the state budget process over the summer and adjust as more information becomes available. TheRide remains in a strong position relative to other Michigan transit agencies because of the dedicated local property tax support approved by voters.

- The "**Advertising, Interest, and Other**" revenue category is budgeted at $2.3 million in FY2027, an increase of approximately $651,000, or 39.6%, over the approved FY2026 budget. The increase is driven primarily by investment income, which continues to benefit from the current interest-rate environment. This income is budgeted conservatively relative to recent collections, recognizing that rates can move quickly and are outside TheRide's control. The increase in budgeted investment/interest income partially offsets higher fuel costs caused by the exogenous shock of international conflict, providing a natural hedge related to economic inflation.

- Revenue from **purchase-of-service agreements** and other governmental partners is budgeted at $3.3 million, an increase of approximately $208,000, or 6.8%, over the approved FY2026 budget. Agreements reflected in the budget refer to services provided to communities and partners outside of the service area that request service from TheRide. It includes Pittsfield, Scio and Superior Townships. Passthrough revenues, which net to zero with related expenses, for services provided by subrecipients WAVE and People's Express are also included in this category. Purchase-of-service agreement revenues are adjusted for standard inflationary impacts and any service level changes that generate additional revenue.

- **Passenger fare revenues** are budgeted at $4.0 million in FY2027, a decrease of approximately $138,000, or 3.3%, from the approved FY2026 budget. The budget assumes no change in fare prices and aligns fare revenue with recent ridership and collection trends across TheRide's services. Assumptions regarding ridership and fares remain under review and may be updated later in the budget process.

- **Other federal programs** are budgeted at $1.6 million in FY2027, a decrease of approximately $374,000, or 19.0%, from the approved FY2026 budget. The change reflects a conservative estimate of federal operating funds and a reduction in pass-through funding for regional partners related to non-recurring capital expenditures in FY2026. Staff will refine this estimate as federal and state award information is confirmed.

Expense Assumptions

Operating expenses are budgeted at $75.95 million, an increase of **6.3%**, or approximately $4.5 million, over the approved FY2026 budget. Year-over-year growth is driven primarily by inflationary pressure in health care, fuel, and vehicle parts, consistent with the assumptions presented in the June budget introduction. An increase of this size in a year without a service expansion is unusual, and staff are still reviewing each major category as part of budget development. Current key expense assumptions are as follows:

- **Salaries, wages, and benefits** are budgeted at $42.2 million, an increase of approximately $2.6 million, or 6.5%, over the approved FY2026 budget. The budget is consistent with TheRide's current staffing plan and a standard wage increase. Health insurance is the primary driver of increases in benefit costs. Union contract negotiations are ongoing, so wage and benefit assumptions for a large share of the workforce will depend on the outcome of the negotiated agreement, and no settlement is reflected in this draft of the budget.

- **Purchased transportation** is budgeted at $13.2 million, a decrease of approximately $746,000, or 5.4%, from the approved FY2026 budget. The decrease in expense reflects alignment with current demand trends, which are lower than what was anticipated in FY2026. Reduced demand for VanRide and regular FlexRide services is partially offset by substantive growth in NightRide and HolidayRide. A-Ride demand also plays a role in this forecast. Ridership has been declining slightly during FY2026, and the decline is more substantive when measured against the growth assumed in the FY2026 budget.

- **Diesel fuel and gasoline** are budgeted at $3.7 million, an increase of approximately $822,000, or 28.5%, over the approved FY2026 budget. Consumption is forecasted to be flat with FY26 due to no service changes. The estimated cost per gallon is pegged to the change in rates by quarter forecasted in the Short-Term Energy Outlook from the U.S. EIA, Energy Information Administration, which has current fuel prices as the peak of a trend downward through the rest of calendar year 2026 into 2027. The average rate per gallon in FY2026 thus far is $2.71/gallon, with recent months continuing to pull it higher, and is budgeted to be $3.61/gallon in FY2027.

- **Materials and supplies** are budgeted at $5.1 million, an increase of approximately $869,000, or 20.7%. The increase in materials and supplies is concentrated in vehicle repair parts, where an aging fleet and continued inflation and tariff pressure on parts are raising costs. Staff continue to review parts and maintenance needs as year-end projections are finalized.

- **Contracted services** are budgeted at $6.7 million, an increase of approximately $855,000, or 14.5%, over the approved FY2026 budget. The increase predominantly reflects higher contracted maintenance to support necessary repairs to vehicles in TheRide's fleet.

- **Casualty and liability insurance** is budgeted at $2.2 million, essentially unchanged from the approved FY2026 budget. Renewal underwriting for TheRide's FY2027 policies is in progress, and this line will be updated as renewal results are finalized later in the summer. Preliminary insurance reviews indicate these costs are not likely to change significantly.

- **Other operating expenses** are budgeted at $1.9 million, an increase of approximately $145,000, or 8.2%. A majority of the costs in other operating expenses are allocated to: employee development & appreciation, conferences, media costs, write-offs plus bad debt, and uniforms.

  The increase in these costs reflects general inflation and is still preliminary. Additional review will be done prior to the next draft of the FY2027 budget.

Contingent Budgets

There is still a fair amount of uncertainty regarding revenues and expenses, and the FY2027 budget will continue to change before a recommended budget is presented to the Board for adoption. The following items are among those most likely to change:

- The final State Operating Assistance reimbursement rate, as approved in the state budget, may differ from the planning rate recommended by MDOT.
- Changes in interest rates or inflation from current assumptions could affect investment income as well as costs for fuel, materials, and supplies.
- Union contract negotiations for a new Collective Bargaining Agreement are ongoing, and the outcome will affect wage and benefit assumptions for a large share of the workforce. It is unknown if a contract will be reached prior to the budget recommendation in September.
- Health insurance renewal costs will be refined as updated information becomes available, and staff will continue to strengthen forecasting for employee benefits.
- Additional funding will be evaluated for priority initiatives outlined in the Corporate Business Plan, dependent on available resources.

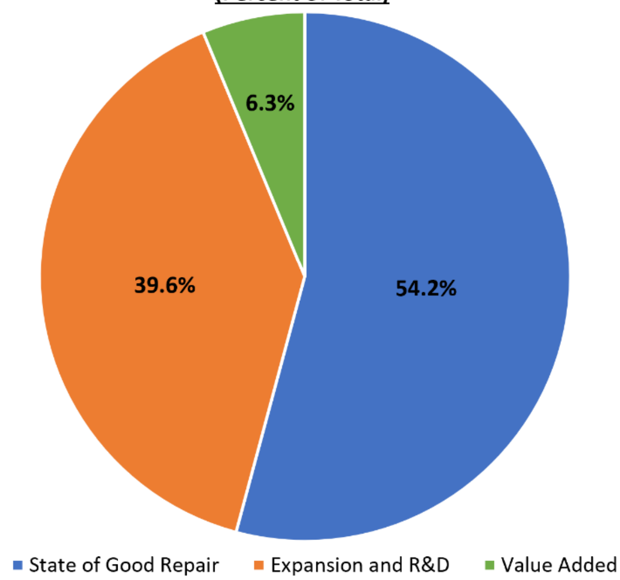
Capital Budget

Work is also underway on the capital budget. Every year, TheRide produces a rolling 10-year capital plan to prioritize and schedule anticipated major capital expenses, which preliminarily totals to $470.2 million, with $36.6 million programed in FY2027. Capital expenditures are assets with an initial cost of more than $5,000 and a useful life greater than one year, such as buses, facilities, equipment, and technology. While the 10-year plan provides long term context, the Board authorizes only one year of capital expenditures at a time, and the remaining years are planning estimates. The annual capital budget is developed from this plan, aligns with the Board approved Long-Range Plan, and supports the asset condition targets in TheRide's Transit Asset Management Plan.

The capital plan is prepared and presented by category and project level line item. State of Good Repair projects generally receive the highest priority for funding because maintaining current assets is required to provide transportation services, and FTA regulations require federally funded agencies to maintain assets at specific condition levels to continue receiving federal funding. Value Added projects are typically the second highest priority because enhancing current services and improving existing operations is necessary for maintaining existing ridership and increasing efficiencies to maintain fiscal responsibility. Expansion projects are often the third highest priority because expanding or increasing services typically requires significantly more funding than is available through traditional funding sources and creates future operating commitments that must be planned in advance. A small allowance for emergent research and development is also maintained.

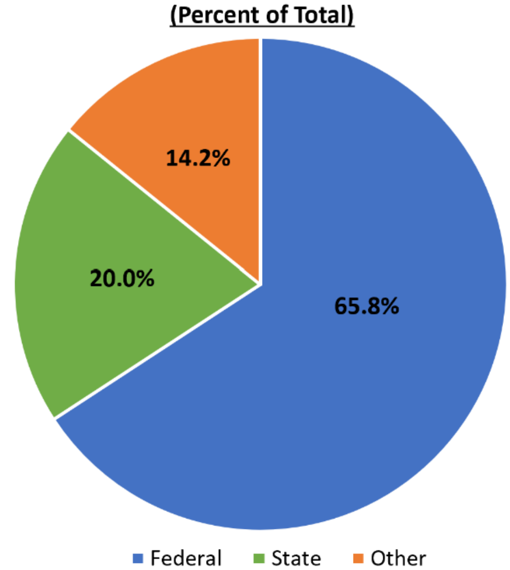
The preliminary FY2027 capital program reflects the upcoming year of the rolling 10-year plan presented during the last budget cycle, updated for staff's current working recommendations. Staff will continue to refine this program as the recommended FY2027 capital budget is developed. Because projects are planned well in advance of purchase, significant changes from this preview to the recommended budget normally represent changes in timing rather than savings or unexpected costs. Figure 2 illustrates the composition of forecasted FY2027 capital costs by category.

Figure 2: Forecasted FY2027 Capital Costs by Category (Percent of Total)



The capital program is funded through a combination of federal, state, and local sources. Federal formula grants, primarily Section 5307 urbanized area funding and Section 5339 bus and bus facilities funding, are the foundation of the program. These are supplemented by competitive and discretionary awards. Most federally funded projects carry an 80 percent federal share, with the required match provided through state Comprehensive Transportation Fund capital assistance. Figure 3 illustrates the anticipated funding sources for the FY2027 capital program.

Figure 3: Anticipated FY2027 Capital Funding Sources (Percent of Total)

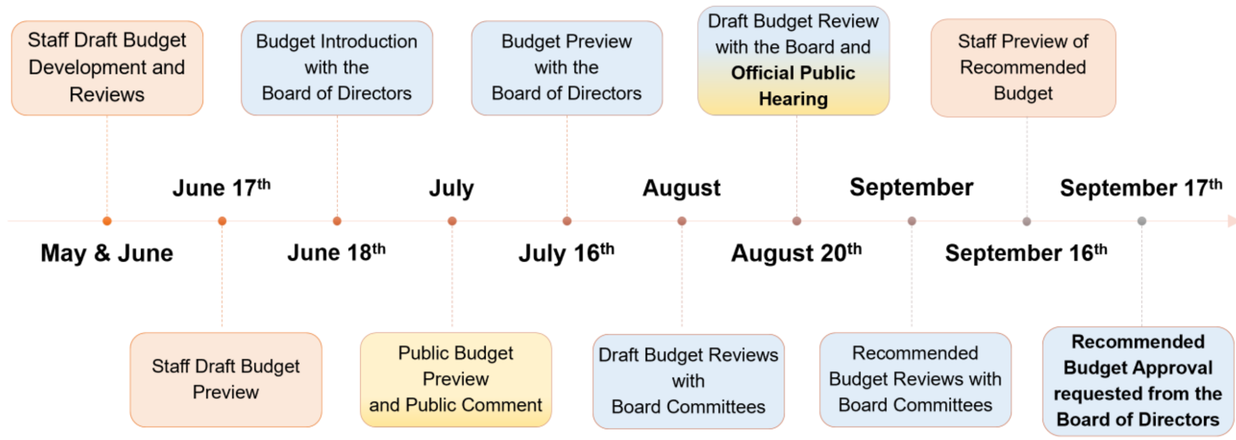


The capital budget will be updated as staff recommendations are finalized, and projects and associated costs are expected to change as more information is collected and reviewed. Capital initiatives recommended by the Executive Team are not yet included and will be added in the next version of this budget. Key changes to assumptions and the budget will be provided in accordance with the budget timeline. The outlook for the capital budget is stable, and it is supported by formula fund grants, discretionary grants, and the capital reserve, if approved by the Board.

Budgets presented during the budget cycle represent staff's best financial projections using the economic information available from industry, local, state, and federal sources. Additional information provided throughout the budget process will include multi-year projections, cash flows, and capital reserve projections, in alignment with the Business Plan and the Board's Ends.

Attachment 2: FY2027 Budget Timeline

Figure 4: Budget Timeline



1. Budget Introduction: Board of Directors Meeting, June 18, 2026

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 16, 2026

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, 2026 to September 17, 2026

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 17th.

4. Draft Budget Presentation: Board of Directors Meeting, August 20, 2026

The Board's budget inputs continue, and discussion will commence upon 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 20, 2026

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.

6. Board Adoption: Board of Directors Meeting, September 17, 2026

Adoption of the FY2027 Operating and Capital Budget is required before any expenditures may be incurred on October 1, 2026, the first day of the new fiscal year.