Board Budget Workshop: Strategies to Reduce the Deficit

October 26, 2023

Parallel Strategies to Address Deficits

FY24 FY28

EXTEND RUNWAY
Forecast deficit is $678M through end of FY27

- Advocate for emergency operating funds
- Explore one-time sources and deferrals
- Contain costs without harming service or public safety

ESTABLISH A SUSTAINABLE OPERATING MODEL
Average deficits of $289M per year after FY28

- Work with partners to establish a new sustainable source of operating revenue
- Deliver continuous improvement to moderate escalation in cost per service hour
- Invest in ridership recovery (safety, service, customer experience, regional integration, etc)

Strategies Under Consideration to Reduce Deficits

Long-Term New Funding CRITICAL PATH

Cost Containment HOLD THE LINE ON EXPENSE GROWTH, LOOK FOR SAVINGS

One-Time Sources NOT SUSTAINABLE BUT MAY BRIDGE

Deferrals SHORT-TERM SAVINGS, LONG-TERM COSTS

Service and Workforce Reductions NOT PURSUING

PURSUE

EXPLORE BUT DO NOT ACT

DO NOT PURSUE NOW

BART

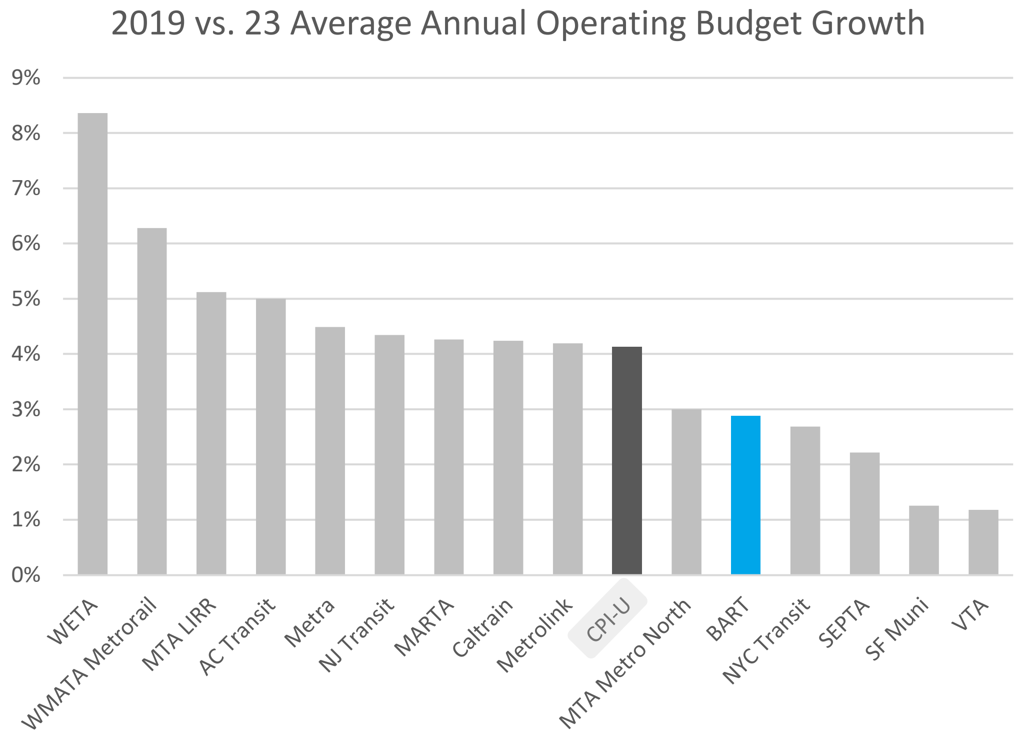
Summary of Strategies to Reduce Deficits

Item under consideration	Time to implement	Long term financial or operational effects	Savings through FY27	Increases costs after FY28?	Staff Recommendation
Short- and Long-Term New Funding	Varies	Stabilizes financial outlook, preserves current service levels	TBD	No	Continue to pursue
Cost Containment	6-36 months	Improves operating efficiencies	Minor	Reduces costs	Continue to pursue
One-Time Sources: Additional capital allocations deferrals	6 months	Risk impact to reliability and customer experience due to deferred capital work	Moderate	TBD	Continue evaluating opportunities
One-Time Sources: Asset sales	18-36 months	May give up higher sale prices in future; no assets tied to service would be considered	Moderate	No	Continue evaluating opportunities
Deferrals: Retiree medical	3 months	No operational effect; constrains budgets through FY47	Moderate	Yes	Do not pursue now, but put in place in case necessary
Deferrals: Debt options	3 months	No operational effect; constrains budgets through FY58, potential credit impact	Moderate	Yes	Do not pursue now, but put in place in case necessary
Service and Workforce Reductions	6-12 months	Failure to deliver on agency mission, lost ridership and lost revenue; devastating effect on retention & recruitment; difficult to recover	Minor	Yes	Do not pursue now
Reserves	3 months	Reserves are the last option	Moderate	No	Do not pursue now

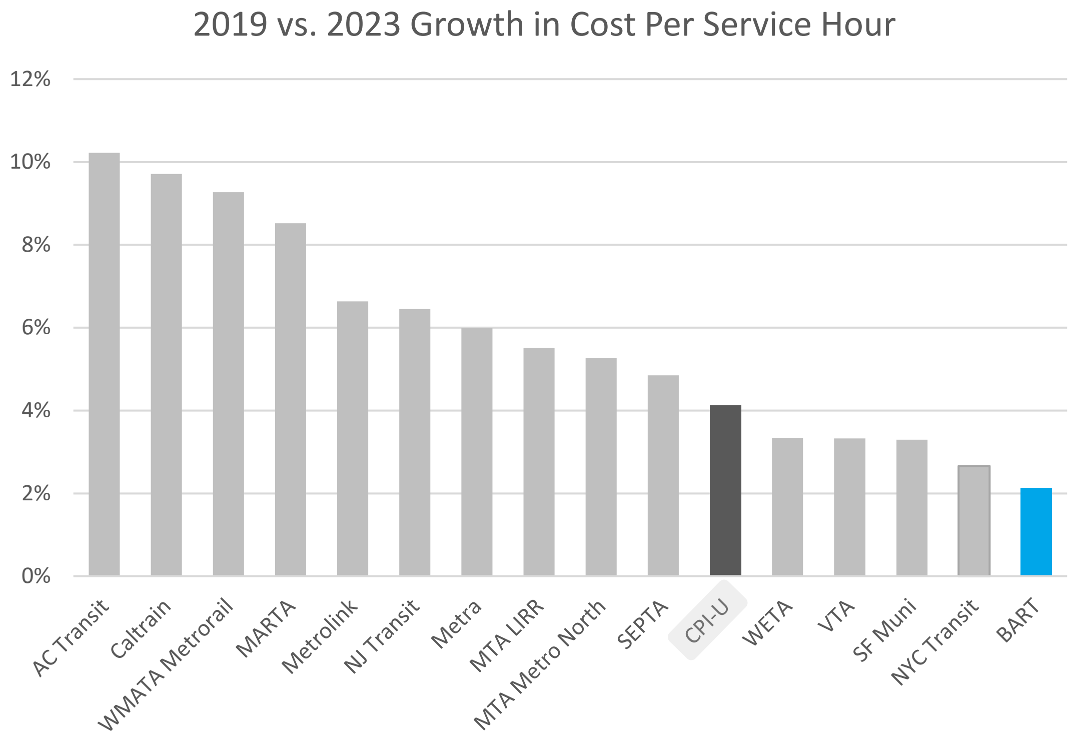
Cost Containment: Managing Expense Growth

- BART operating expense growth since 2019 is below inflation despite opening Silicon Valley Extension

Operating cost growth below inflation



Improved efficiency of service delivery



Source: BART FY23 Budget Performance Report (BPR); Agency Budgets; National Transit Database; Bureau of Labor Statistics

Cost Containment: FY24 & FY25 Adopted Budget

- Despite operating in a high-cost area, BART has worked to carefully steward federal assistance without impacting service quality by strategically reducing costs

Cost reduction	Approx. 5 Year Impact ($M)	Notes
Baseline capital escalation	6.3	Reduces ability to leverage federal funds for capital work
Sustainability allocation	34.5	Puts BART's ability to meet sustainability goals at risk
Section 115 Pension Trust allocation*	60.0	Reduces District flexibility around retirement obligations in future years
Priority capital shift	17.0	Reflects timing of cashflow needs for major capital projects
Transfer payments	51.0	No longer financially sustainable with current ridership
Railcar contingency	90.0	Project under budget; contingency was not needed
Total	**258.7**	

** Figure shown includes mid-year suspension of FY23 budgeted amount*

Cost Containment: Looking Ahead

- Staff identified savings and efficiencies within BART's current spending and are working to implement them
- Securing larger savings will require partnering with BART's Labor Partners

Deficit reduction strategy	Approx. 5-year impact ($M)	Considerations
Revenue enhancement	5 – 10	High staff time investment, relatively low return
Labor expense	10 – 20	Efficiencies outside of Labor negotiations
Non-labor reductions	25 – 50	Cuts in this area would primarily affect efforts around rebuilding ridership and customer experience
Business process improvement	10 – 20	BART has numerous efforts underway, but lead times are in the 6 – 36-month timeframe

One-Time Sources

Source	What is it?	Considerations and Tradeoffs
Future capital commitments	Deferral or swap of committed funds/projects (incl. Link21) ▪ Up to $150M could be accessed across BART's capital portfolio	▪ Could limit future service ▪ Reliability or State of Good Repair impacts ▪ Less capacity to leverage state/federal grant funding ▪ Timing (which fiscal year funds are currently programmed into) ▪ May require negotiations with funding partners ▪ Risk of increased capital costs due to escalation
Asset sales	Sale of land or other assets ▪ $35M – $50M in estimated potential sale proceeds; value dependent on market conditions	▪ BART is not considering sale of rail infrastructure, stations, facilities, or station parking ▪ BART purchased several larger parcels totaling ~200 acres in the late 1980s/early 1990s in anticipation of future expansion projects ▪ Longer timeline
Reserves	BART has built up multiple reserves for emergency use ▪ Total of $145M (as of March 2023)	▪ Reserves should only be used to bridge a short funding gap ▪ BART is not considering reserve drawdowns at this time

Cost Deferrals

- Cost deferrals are actions that allow BART to defer (not reduce) costs in the near-term to out years, at increased expense
- Currently exploring two potential cost deferral actions:
  - Restructure retiree medical trust funding liabilities
  - Restructure sales tax debt or borrow short term gap funding

Advantages:

- Short term cost deferrals could help close the deficit between FY24-28
- No impact to service
- Scalable – BART can choose how much to defer based on need
- Quick to implement – estimate a 3-month timeline to implement

Risks:

- Increases total cost to BART
- Increases projected deficits in future years (as far out as FY58)

Defer Retiree Medical Liability Payments

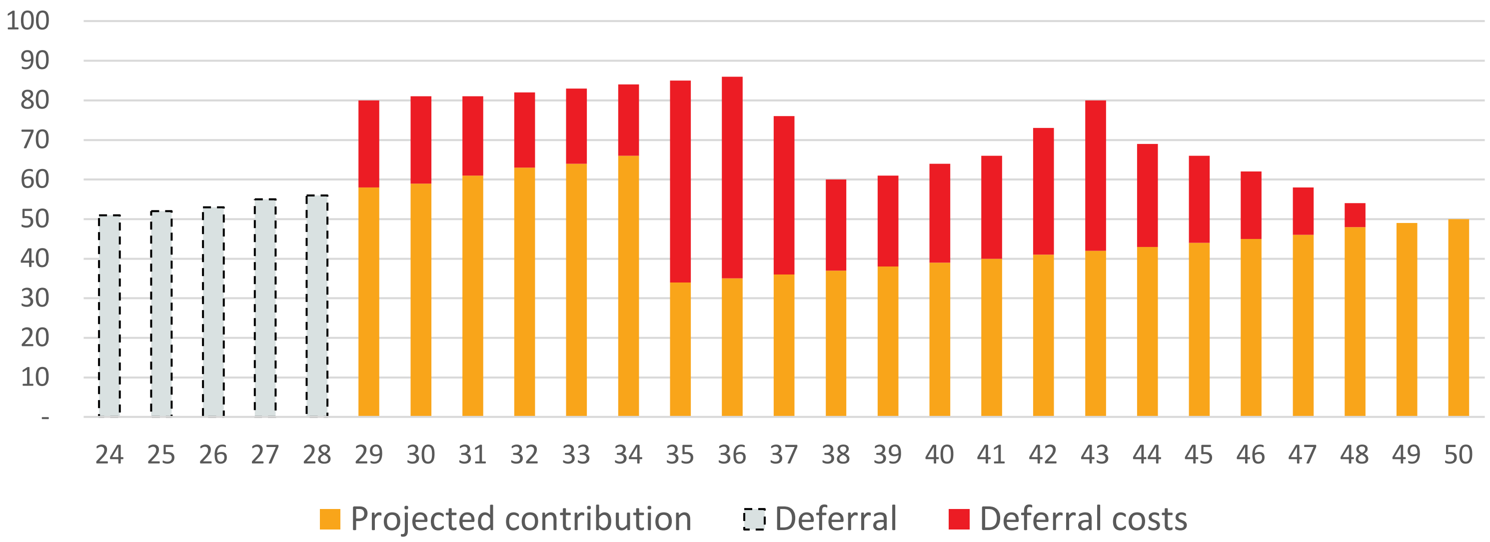


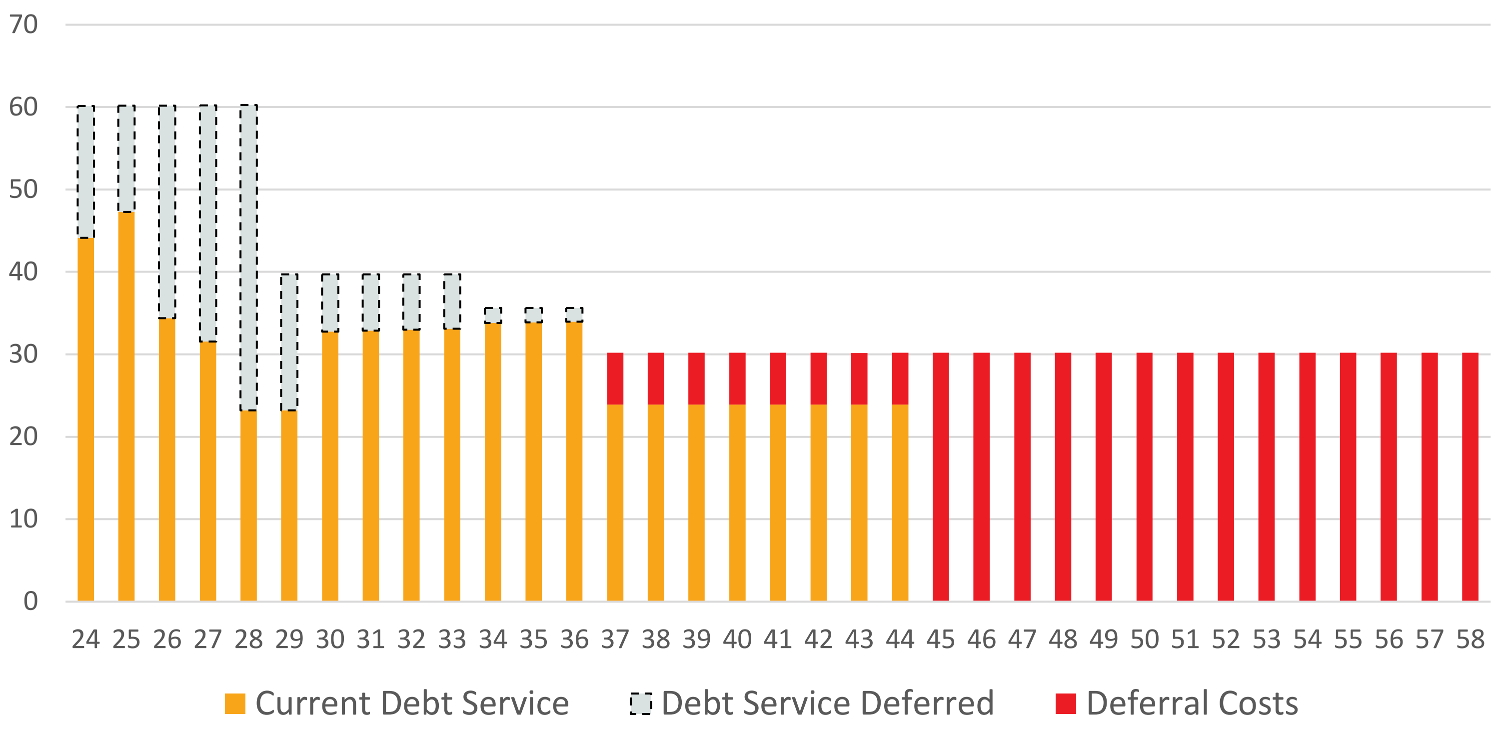
Chart is for illustrative purposes only

Final dollar amounts will change based on transaction timing and external negotiations

Deferral years and out year costs shown above are illustrative

- BART currently pays into a trust to prefund all retiree health liabilities by 2034
- By deferring these payments and/or drawing down from the trust, BART could reduce its budget deficit without affecting service levels or employee benefits
- BART is currently bargaining for this flexibility; final deferral amounts and costs are subject to negotiation and approval through the annual budget process
- For example, deferring all retiree medical costs through FY28 would defer a total of $267M while incurring a net $246M in additional costs through FY48
- Board action would be required; BART is working to ensure this option is available should it be necessary, but not moving forward at this time

Debt Options



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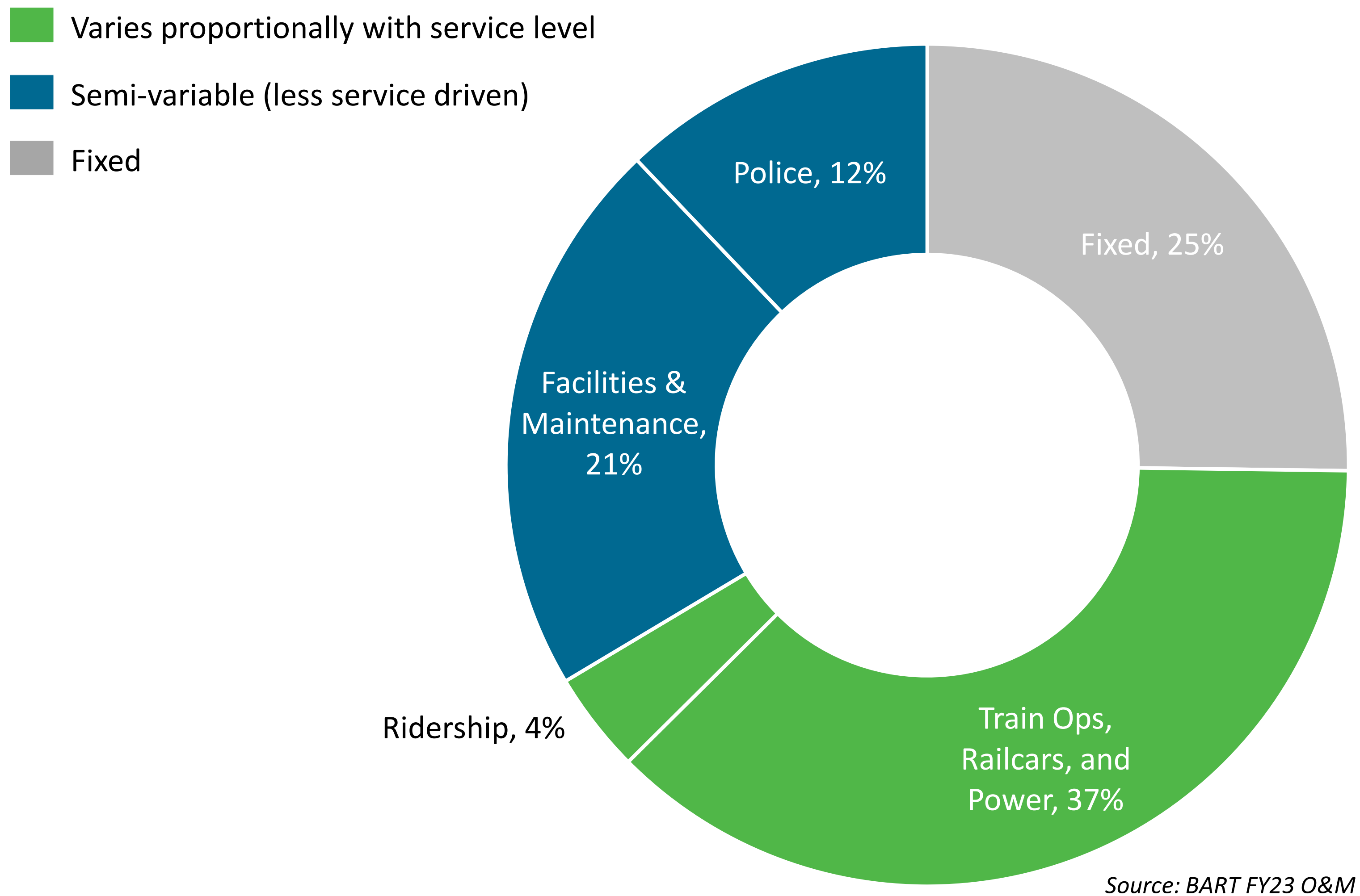
Final dollar amounts will change based on transaction timing and market conditions

Amount of debt service deferred is driven by out year debt service capacity

- BART staff are currently working with financial advisors to explore options around refinancing existing debt and/or borrowing additional funds to reduce the short-term budget deficit
- BART could defer up to $137M in existing debt service costs; this deferral could incur $304M in net additional debt service costs through FY58
- BART could also borrow additional funds, depending on how much long-term debt service the District is willing to pledge
  - A $60M annual debt service cap through FY58 would secure a $339M loan
- Potential impact to BART's credit rating
- Board action would be required; BART is working to ensure this option is available should it be necessary, but not moving forward at this time

Rail Has High Fixed Costs and Low Marginal Costs



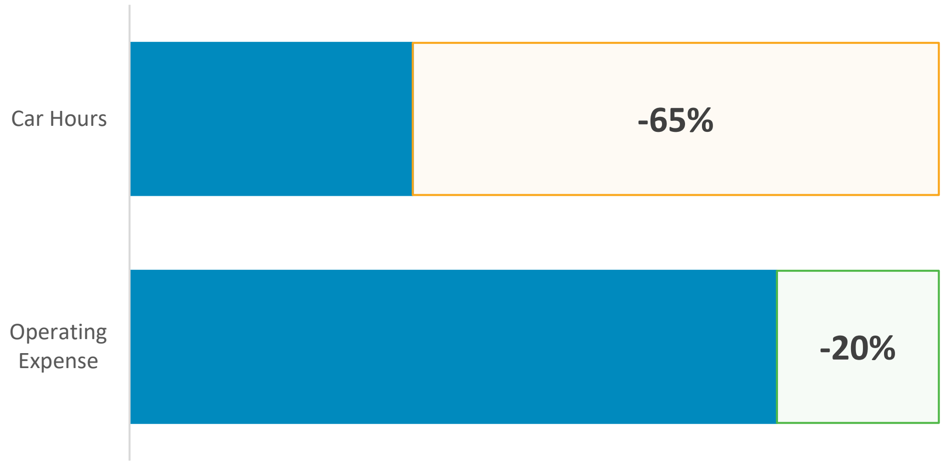
Source: BART FY23 O&M Cost Model

- Approx. 40% of BART's operating expenses scale proportionally with service
- Less service limits ridership revenue without proportional savings

Cost Savings Are Not Proportional to Service Reductions

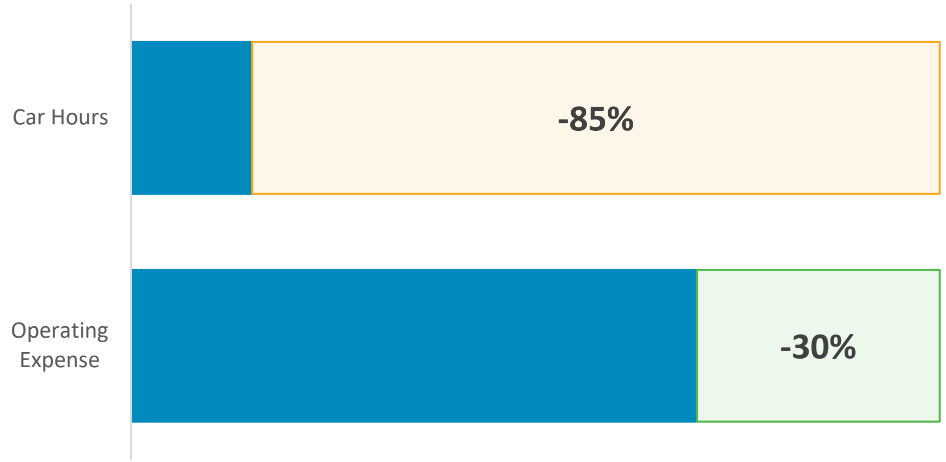
Service Reduction Scenario 1

- Saves ~$140M/year but requires:
  - 9 PM close
  - 3-Route Service, 30 min headways
- Reduced service = reduced ridership = reduced savings



Service Reduction Scenario 2

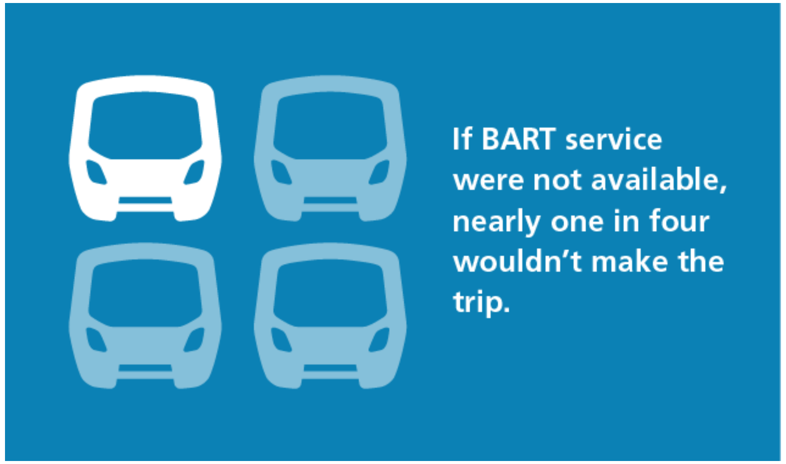
- Saves ~$ 230M/year but requires:
  - 9 PM close
  - 3-Route Service, 60 min headways
  - 9 station closures
  - No weekend service
- Reduced service = reduced ridership = reduced savings

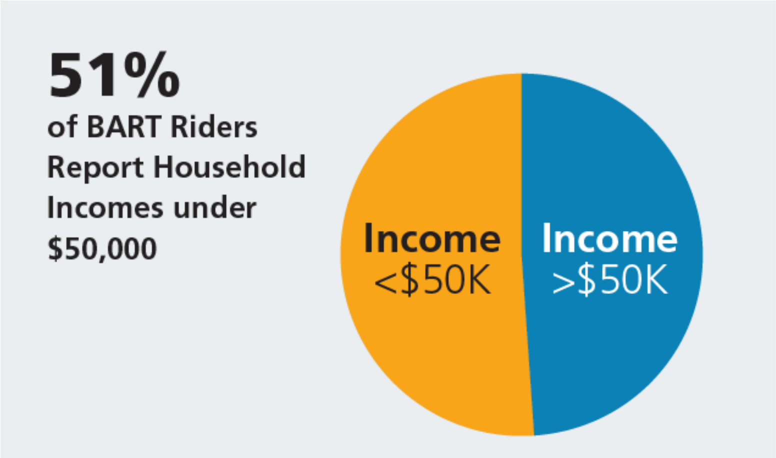


BART is not planning service or workforce reductions at this time

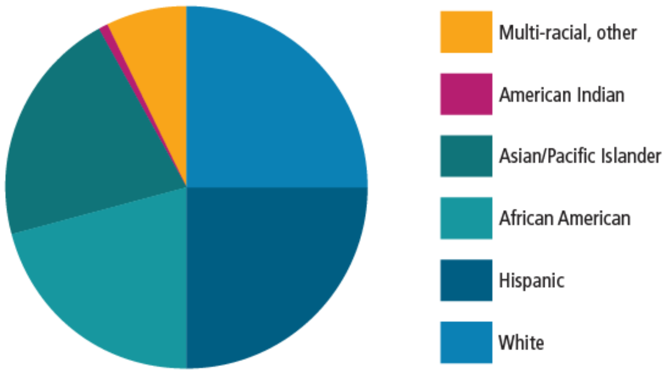
Reductions in Service Do Not Serve BART’s Mission

- Service reductions would be contrary to BART’s mission to provide safe, reliable, clean, quality service for riders
- Impacts to service would have disproportionate equity impacts
- 90% of all transit transfer trips involve a leg on BART – reducing BART service would have consequential impacts on connecting transit agencies
- Long-term financial stability depends on growing ridership





BART Ridership by Ethnicity



Next Steps: Budget Process

October

Board Budget Workshop

February

Board Workshop:

- Updated revenue & expense estimates
- External funding update
- Follow up on items discussed today

March 31

Preliminary Budget released

April - June

Board budget review & adoption

Summer 2024

Continue advocacy & focus on cost containment

Public Comment & Board Discussion