Parallel Strategies to Address Deficits

**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
  - Pursue

- Cost Containment: HOLD THE LINE ON EXPENSE GROWTH, LOOK FOR SAVINGS
  - Explore
  - But do not act

- One-Time Sources: NOT SUSTAINABLE BUT MAY BRIDGE
  - Do not pursue

- Deferrals: SHORT-TERM SAVINGS, LONG-TERM COSTS
  - Do not pursue now

- Service and Workforce Reductions: NOT PURSUING
  - Do not pursue now
# Summary of Strategies to Reduce Deficits

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

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

**Operating cost growth below inflation**

2019 vs. 23 Average Annual Operating Budget Growth

**Improved efficiency of service delivery**

2019 vs. 2023 Growth in Cost Per Service Hour

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

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

* 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.

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

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

- 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

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 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.

*Chart is for illustrative purposes only*

*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*
Rail Has High Fixed Costs and Low Marginal Costs

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

Source: BART FY23 O&M Cost Model
## 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

<table>
<thead>
<tr>
<th>Car Hours</th>
<th>Operating Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-65%</td>
</tr>
<tr>
<td></td>
<td>-20%</td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Car Hours</th>
<th>Operating Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-85%</td>
</tr>
<tr>
<td></td>
<td>-30%</td>
</tr>
</tbody>
</table>

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

If BART service were not available, nearly one in four wouldn’t make the trip.

51% of BART Riders Report Household Incomes under $50,000

BART Ridership by Ethnicity

- Multi-racial, other
- American Indian
- Asian/Pacific Islander
- African American
- Hispanic
- White
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