FY27 Operating Budget Scenarios

BART Board of Directors

May 8, 2025

AGENDA

- Context and goals
- Review:
  - Budget strategy timeline (workshop)
  - BART cost structure (workshop)
  - Preliminary budget (3/31)
- FY27 balancing scenarios

Context and goals

- BART forecasts ~**$375M+** annual operating deficits beginning in FY27
- The state legislature is considering authorizing legislation for a **transit revenue measure for November 2026** that could close most of this gap for a minimum of 10 years beginning in <u>FY28</u> (beginning July 1, 2027)
- The FY26 & FY27 Preliminary Budget released on March 31 shows a $379M deficit in FY27. This presentation details **potential budget-balancing interventions as an exercise** for consideration in FY27 in two scenarios:
    1. If the measure succeeds
    2. If the measure fails

Context and goals (*cont.*)

- This presentation illustrates what it might take to close a $379M deficit in FY27, examining extreme cuts to baseline spending rather than deferrals or limited one-time sources if BART does not receive additional funding

- The "measure fails" scenario outlines a series of cuts that would be **deeply disruptive** and have **serious consequences** for the Bay Area and BART beginning in FY27. These kinds of reductions and fare increases are **not sustainable or practical**

- This is not a budget proposal – it is an exercise meant to inform FY27 budget discussions

BART Is Focused on Revenue and Cost Control

Increase Fare Revenue

- Installing new fare gates to reduce fare evasion
- Maintaining inflation-based fare increases

Grow Ridership

- Offering new fare products like Clipper BayPass
- Promoting taking BART for non-work trips
- Station activations & events
- Improving transit coordination

Advance Revenue Generating Programs

- Negotiating new agreements for telecommunications revenues
- Longer term strategies include transit-oriented development and potential sale of excess land

Labor Savings

- Implementing a strategic hiring freeze while protecting safety and service quality
- Renegotiated with unions to reduce near term retiree healthcare costs

Targeted Cuts

- Targeted reductions to operating costs across all departments
- Reduced and eliminated some contracts and agreements

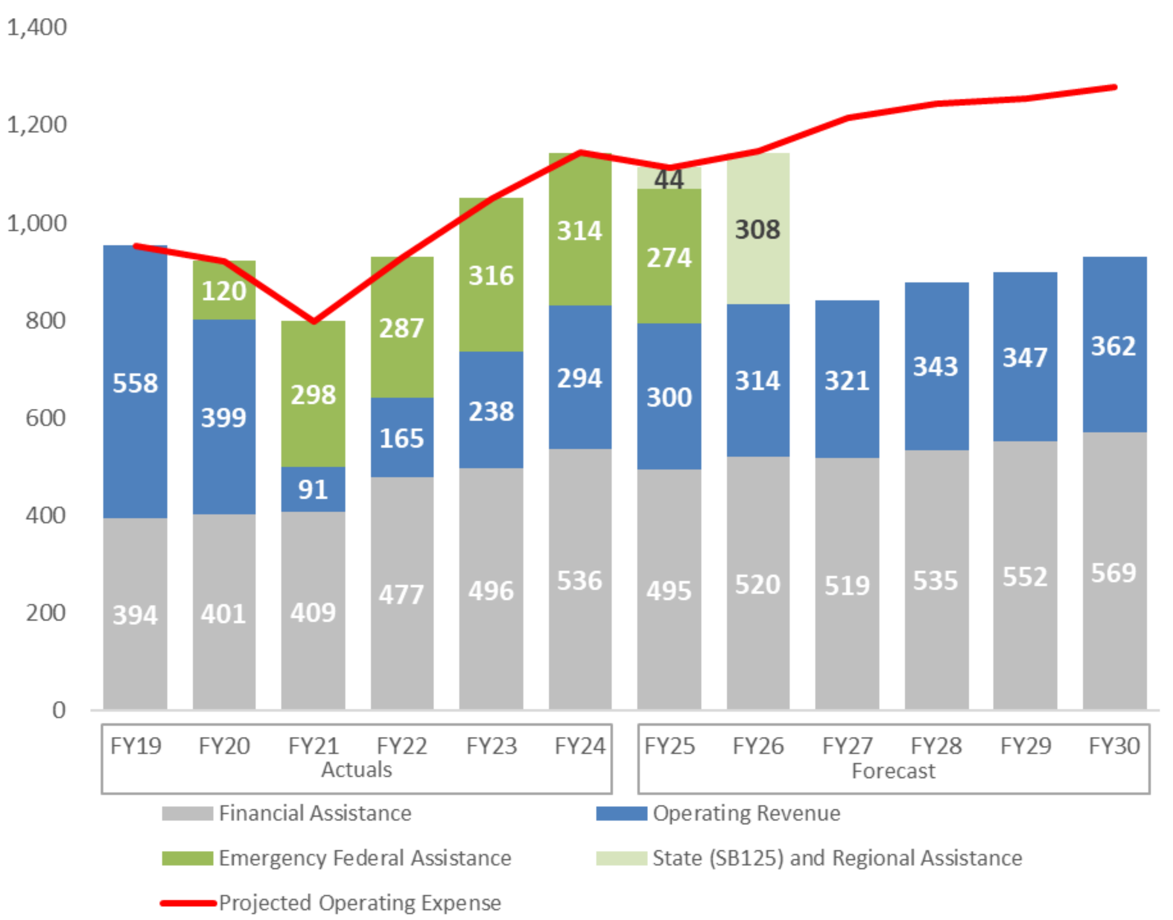
Efficiencies

- Running shorter trains
- Locked-in low renewable electricity costs
- Implementing operational efficiencies and contract oversight recommendations from the Inspector General
- Modernize technology

Structural Reduction in Operating Revenue

- BART cannot assume FY19 levels of ridership-generated revenue going forward
- One-time federal, state, and regional assistance will be fully expended by FY27
- Constrained revenues do not support BART's current service levels

BART's Funding Sources ($M)



Board Workshop Recap

Budget Strategy Timeline

We are here. | November 2026 General Election | 2026 Revenue Measure Funds Flow

FY25	FY26	FY27	FY28	FY29

Getting to 2026 Measure
FY26 (balanced budget) and FY27 ($375-400M gap)

Successful 2026 Measure:
Ongoing High-Quality Service

Strategy Approach:

- **High Quality Service:** focus on high-quality service, continue right-sizing service-plan based on ridership trends
- **Bridge the Funding Gap:** efficiencies, one-time actions, limited consideration of deferrals
- **Funding Measure, Advocacy & Education:** engage on enabling legislation, advocate for funding, public education on negative impacts of service cuts

Beyond 2026 if Measure Fails
Unsustainable Funding Model

Strategy Approach:

- **Deep Cuts to Service and Customer Experience:** implement major service cuts and workforce reductions (ex: close stations, reduce hours and frequency), resulting in reduced fare revenue and worse customer experience
- **Implement Emergency Financial Measures:** increase fares and parking fees, increase future costs by deferring current obligations
- **Funding Measure, Advocacy & Education:** continue to engage, advocate, educate the public, and explore funding options

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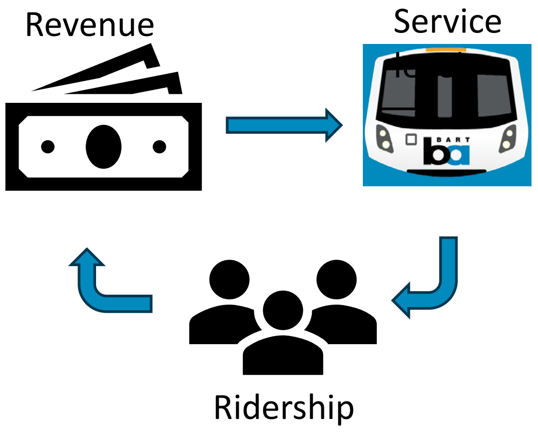
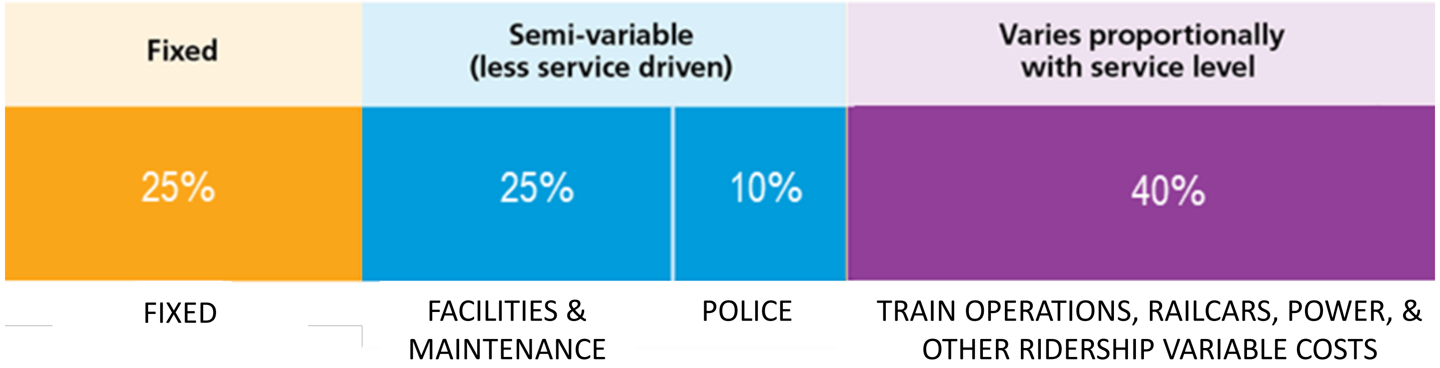
BART Cannot Close Deficits with Service Cuts

- Cutting BART operating expenses requires a disproportionate service reduction
  - Only 40% of BART's operating costs scale directly with service levels
  - In FY20, a 40% service reduction reduced operating cost by approximately 12%
- Even dramatic service cuts would close less than half of the FY27 deficit
- Reduced capacity means reduced fare revenue, putting BART's $300M+ operating revenue at risk
- Dramatic cuts would make BART an inconvenient travel option, further reducing ridership and fare revenue, beginning death spiral



Transit death spiral: *major service reductions result in ridership loss, resulting in revenue loss, requiring additional cuts to service. This cycle then continues.*

BART'S FY 2025 Fixed and Variable Annual Operating Costs



FY26 & FY27 Preliminary Budget

($Millions)	FY26 Prelim	FY27 Prelim
Operating Revenues	321	320
Financial Assistance	513	519
Total Regular Revenues	**834**	**839**
Operating Expense	1,045	1,087
Debt Service & Allocations	107	131
Total Uses	**1,152**	**1,218**
Operating Result	*(318)*	*(379)*
Total Emergency Assistance	318	0
Total Net Result	**0**	**(379)**

- The **FY26 Preliminary Budget is balanced** without service cuts by using BART's remaining $318M of state and regional emergency assistance funds
- The FY27 Preliminary Budget, which includes no emergency assistance, shows a **$379M deficit**
- A regional revenue measure vote is expected to occur during FY27 (in November 2026)
- BART's response to the outcome will impact only the second half of FY27 (January-June 2027)

Balancing FY27: Two Scenarios

FY27

First half of FY27 Election Result Unknown	Second half of FY27 Respond to Election Result

Adopt FY27 Budget

- Strategic budget reductions and cuts
- Defer capital allocations & retiree medical contributions
- One-time sources or reserves
- **Goal: Maintain service & customer experience**

Scenario 1 Measure Succeeds

- Six months of new revenues allow BART to avoid service & customer experience cuts
- Strategic budget reductions and cuts continue
- Reduce deferrals to capital allocations & retiree medical contributions

Scenario 2 Measure Fails

- Implement unsustainable emergency budget reductions:
    - Station closures, reduced hours of operation, and reduced train frequency (70% fewer train dispatches)
    - Increase fares & parking fees by 30%
    - Deep cuts to support functions

Cuts contemplated would result in a reduction in force of approximately 1,000 FTEs (26% of Operating-funded positions)

FY27 Balanced Budget: Scenario 1, Measure Succeeds

All scenarios: Target $26M in cost annual reductions

Balancing Q1-2 (election result unknown, same across scenarios):

- Defer retiree medical contributions ($19M) and Core Capacity commitment & capital reinvestment allocations ($35M)
- Use $122M in other deferrals or reserves to maintain service & customer experience

Balancing Q3-4 (election result known, scenario 1):

- Use revenue measure proceeds to maintain service and customer experience
- Make additional cost cuts if measure proceeds are insufficient

Measure Succeeds			
Incremental Changes to Budget	*All Scenarios*	*Scenario 1*	*Proposed*
$Millions; Favorable/(Unfavorable) Variance	**FY27 Half 1**	**FY27 Half 2**	**FY27**
Operating Expense Cuts	13	13	26
Defer Capital Allocations	35		35
Defer Retiree Medical	19		19
Total Incremental Change to Uses	**67**	**13**	**81**
One-Time Reserves/Deferrals	122		122
New Measure Revenue		176	176
Total Incremental Change to Sources	**122**	**176**	**298**
Total Net Result - Scenario 1	**189**	**189**	**379**

If Revenue Measure Fails, Balancing FY27 Would Require Drastic Cuts and Fare Increases

Deep Service Cuts

- 3-line, 30 min service
- Peak Transbay capacity reduced from 15 to 4 trains per hour
- Fewer, more crowded trains
- Impacts to on-time performance

Closed Stations & Reduced Hours

- 9pm close
- Close 10 stations

Impacts to Customer Experience

- Impacts to police response times & progressive policing
- Impacts to cleanliness
- Impacts to infrastructure performance (e.g. elevator/escalator)
- Cuts to Quality of Life Initiatives

Emergency Financial Measures

- Defer capital allocations that leverage matching external funding for Core Capacity and state of good repair
- Defer retiree medical liabilities
- Deploy reserves

Fare & Parking Fee Increase

- 30% fare increase
- 30% parking fee increase
- BART is less affordable, with fewer riders

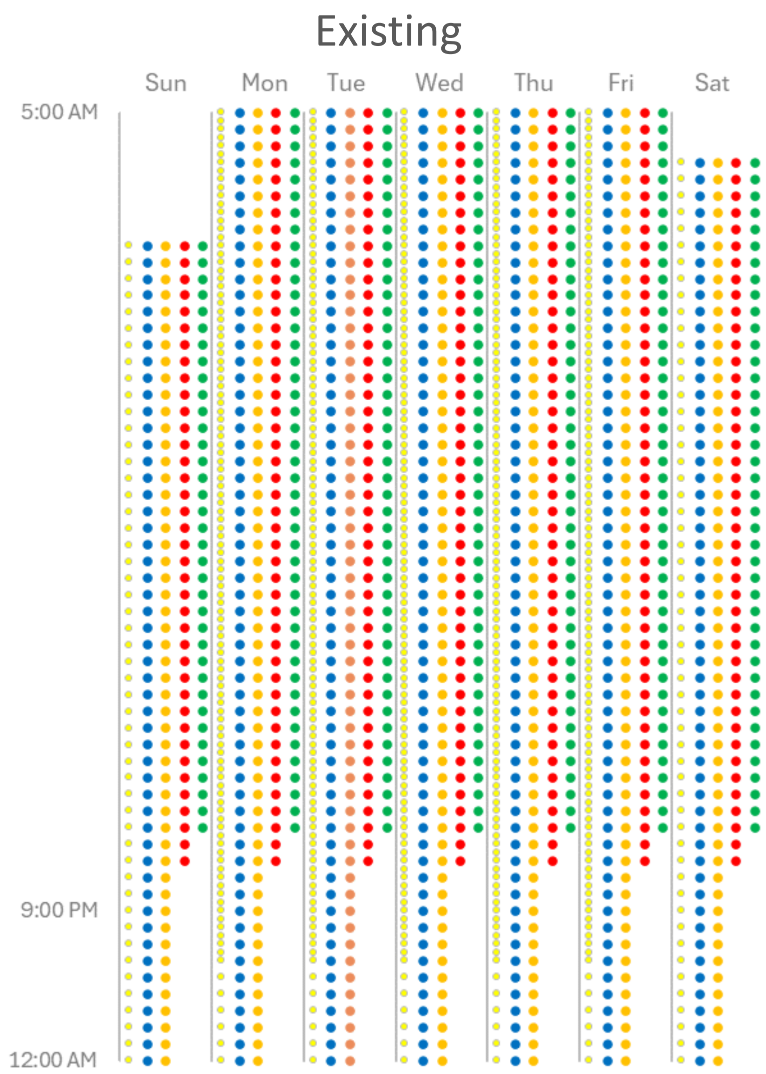
Impacts to Administrative Capacity

- Reduced administrative performance (slower invoicing, slower hiring, slower project delivery, reduced resources for advocacy, planning, development opportunities)
- Reduced capacity to restore service

Recovery from cuts of this scale would be very difficult and take many years to restore service, rehire, and train staff.

These cuts would reduce workforce by approximately 1,000 FTEs (26% of Operating-funded positions)

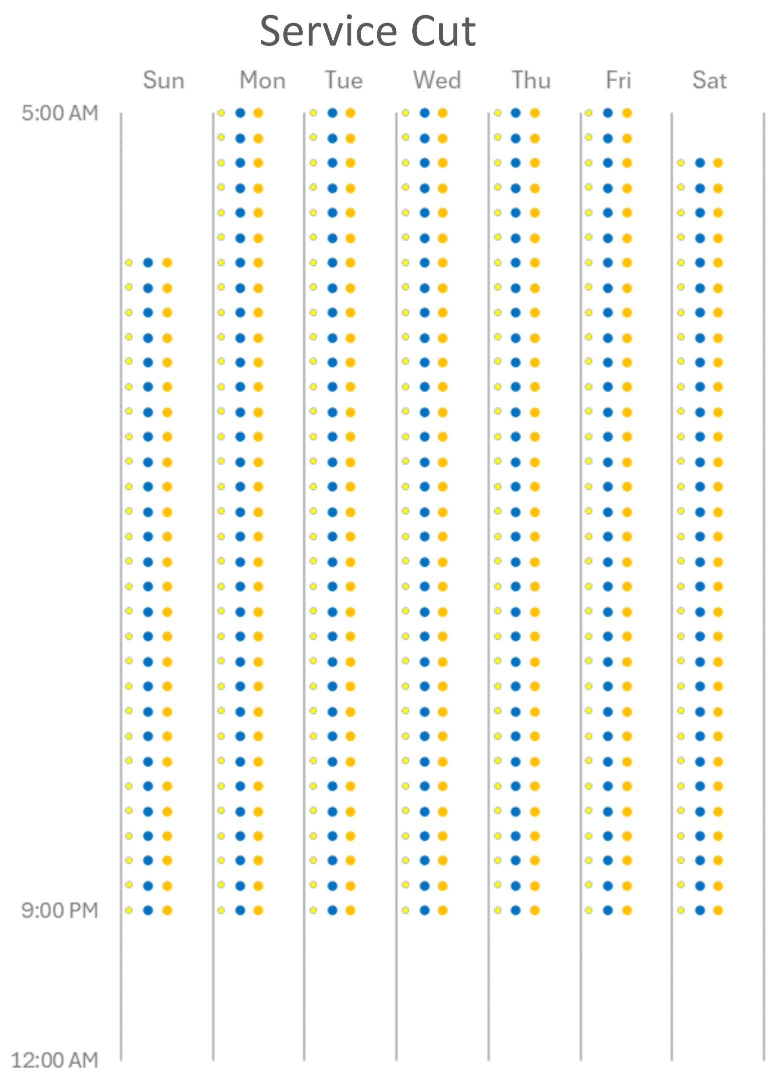
Service Levels



Existing	Service	Service Cut
12AM close	Hours	9PM close
10-20 min	Headways	30 min
5-line	Routes	3-line
50	Stations	40
4,100	Weekly Dispatches	1,300

- Transbay Tube peak direction capacity reduced from 15 to 4 trains per hour
- Evening service eliminated
- More transfers with 3-line service

Note: BART has modelled even lower service levels, but estimated impacts to revenue outweigh additional cost savings



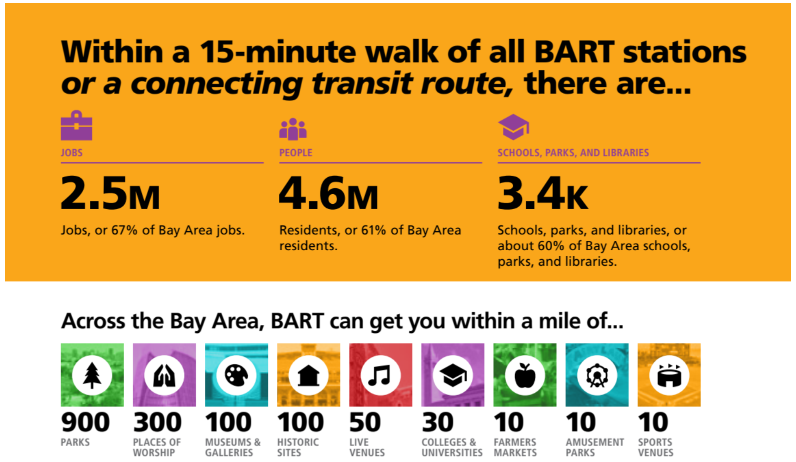
Impact to Ridership, Fare Revenue, Financial Assistance

Combined, service cuts and fare increases would reduce ridership by an estimated 14M trips annually (26%), with risk of additional losses due to non-service cut impacts to customer experience.

	Revenue Impact, $M ***Annualized***	**Revenue Impact, $M** ***2nd half of FY27***
User Fee Reduction due to Ridership Loss • Fare Revenue • Parking Revenue	-$58	-$29
Fare Increase (30%) • Raises more revenue • Further decreases ridership	+$52	+$26
Financial Assistance • Service/cost cuts reduce VTA's proportional contribution • Low Carbon Fuel Standard revenues reduced	-$32	-$16
Total Reduction	**-$38**	**-$19**

Regional Consequences of Severe BART Cuts

- **Stifle the Regional Economy:** decreased access to employment, commerce, education and other opportunities reduces productivity and economic activity
- **Exacerbate Congestion:** daily miles driven could increase by up to 780,000-1,560,000 miles and drivers would lose more time to traffic congestion, including up to 73% more traffic on the Bay Bridge and 22% more through the Caldecott Tunnel
- **Increase Emissions:** Emissions per passenger mile for driving is 42 times higher compared to BART
- **Undermine the Transit Network:** the regional network would fail to function without BART as the backbone, with cascading effects across operators and diminishing the value of
other regional transit investment
- **Impact Communities Inequitably:** proportion of low-income BART riders (47 percent) is higher than the region's proportion of low-income households (33 percent)



Non-Service Plan Cuts Would Have Serious Impacts and Risks

- Service reductions would yield an estimated cost reduction of $179M (annualized), offset by a net revenue loss of $38M after ridership losses and fare increases

- Balancing the budget requires a further $106M (annualized) in cost reductions not directly related to the service plan. To achieve this target, cuts of 15-40% would impact nearly all other BART functions.

Example Impacts: Customer Experience

- Reduced **station cleanliness**
- **Impaired infrastructure** performance (e.g., fare gates, elevators, escalators, lighting)
- **Accessibility issues** for riders
- **Slower emergency response times** and worse crime deterrence
- **Limited customer service** and passenger information

Example Impacts: Internal / Organizational

- **Reduced capacity** to deliver projects
- **Limited** capacity for advocacy and planning would limit funding opportunities
- **Limited ability to procure critical supplies** for safety and reliability
- **Slower invoicing, payments, and procurement**
- **Reduced capacity to hire** would slow system recovery

FY27 Balanced Budget: Scenario 2, Measure Fails

This budget scenario is <u>not sustainable</u> and <u>carries critical risks</u>; needs further evaluation and risk assessment

Balancing Q3-4 (election result known, scenario 2):

- Implement emergency budget reductions:
    - Close stations, reduce hours of operation, reduce train frequency
    - Increase fares & parking fees
    - Deep cuts to all other functions

Measure Fails

Incremental Changes to Budget	*All Scenarios*	*Scenario 2*	*Balanced Budget*
$Millions; Favorable/(Unfavorable) Variance	**FY27 Half 1**	**FY27 Half 2**	**FY27**
Operating Expense Cuts	13	13	26
Service Reductions		89	89
Other Non-Service Plan Expense Cuts		53	53
Defer Capital Allocations	35	35	71
Defer Retiree Medical	19	19	38
Total Incremental Change to Uses	**67**	**209**	**276**
One-Time Reserves/Deferrals	122	-	122
Fare Revenue Due to Service Reductions		(29)	(29)
Fare Increase		26	26
Financial Assistance		(16)	(16)
Total Incremental Change to Sources	**122**	**(19)**	**103**
Total Net Result - Scenario 2	**189**	**189**	**379**

Scenarios Recap

<u>In all scenarios</u>: Target $26M of limited strategic, non-customer facing cost reductions, building on $35M in deficit reductions used to balance FY26

<u>First half of FY27:</u>

- Defer planned capital allocations & retiree medical contributions
- Use $122M of additional reserves / deferrals to maintain service prior to regional measure

<u>Second half of FY27:</u>

If measure passes:

- Close remaining FY27 budget gap with $176M from 6 months of measure proceeds
- Depending on the amount of revenue from the measure, we might still face difficult cuts to balance FY28 and beyond

If measure fails: To close the remaining gap with spending cuts and fee increases would require:

- Ongoing deferrals of capital allocations and retiree medical contributions
- 70% cut in train dispatches: reduced frequency, 10 closed stations, no evening service, reduced capacity
- 30% fare & parking fee increase
- Deep cuts to almost all other functions

Conclusion

- **Cuts would have severe impacts.** Together, the cuts needed to balance FY27 without new revenue would have severe impacts to performance and customer experience
- **Cuts at this scale are risky and not sustainable.** This scenario can't be sustained over multiple years – ultimately cuts on this scale would result in system shutdown
- **This is not a budget proposal.** The material presented here is intended as a starting point for continued discussions about how to balance FY27
- **More analysis is needed.** More operational analysis is required to determine true feasibility and risk

Discussion