EXECUTIVE DECISION DOCUMENT

GENERAL MANAGER APPROVAL: 3 OCT 2019		GENERAL MANAGER ACTION REQ'D:		
DATE: 9/27/2019		BOARD INITIATED ITEM: No		
Originator/Prepared by: Kate Jordan Steiner Dept: Budget Signature/Date: 9/30/19	General Counsel 10/2/19 [ ]	Controller/Treasurer 10/2/19 [ ]	District Secretary [ ]	BARC 9/30/19 [ ]

Fiscal Year 2019 Year-End Budget Revision

PURPOSE: To amend the Fiscal Year 2019 (FY19) Budget for year-end adjustments.

DISCUSSION: The District finished FY19 favorable by 1.8%, or $16.2 million (M). Sources were $30.4M (3%) favorable and uses were $14.2M (2%) unfavorable. Results are summarized below with additional detail in Attachments 1, 2, and 3.

FY19 Operating Results ($ million)

		Budget	Actual	Var.	%
Sources	Operating Revenue	$ 560.8	$ 558.4	$ (2.5)	-0.4%
	Sales Tax	264.6	280.4	15.8	6.0%
	Other Assistance	96.7	113.8	17.1	17.6%
	Total Sources	**922.2**	**952.5**	**30.4**	**3.3%**
Uses	Labor	560.7	554.2	6.5	1.2%
	Non-Labor	207.1	204.0	3.2	1.5%
	Total Expense	**767.8**	**758.1**	**9.7**	**1.3%**
	Debt Service	46.6	46.7	(0.0)	0.0%
	Capital & Other Allocations	107.8	131.6	(23.8)	-22.1%
	Total Debt Service & Allocations	**154.4**	**178.2**	**(23.8)**	**-15.4%**
	Total Uses	**922.2**	**936.4**	**(14.2)**	**-1.5%**
	NET RESULT	**$ -**	**$ 16.2**	**$ 16.2**	

Note: For clarity, the above table excludes Other Post Employment Benefit (OPEB) Unfunded Liability and GASB 68 and GASB 75 pension and OPEB adjustments, which do not impact the Net Result. Results including such adjustments are shown in Attachment 3.

BACKGROUND: The District finished FY19 within 1.8% of budget:

- Approximately $30.4 (3%) favorable in sources, due to $12.3M better-than-budget Low Carbon Fuel Standard (LCFS) revenue, plus receipt of $15.8M of sales tax revenue;
- Approximately $9.7M (1%) favorable in labor and non labor expenses, due to vacant positions and reduced power costs;
- Offset by approximately $23.8M (22%) of increased allocations to various reserves.

Total Operating Sources were $30.4M (3.3%) favorable for FY19. Operating Revenue was $2.5M unfavorable to budget, including unfavorable passenger revenue ($3.2M) and favorable other operating revenue ($0.8M). Passenger trips in FY19 totaled 118.1M, 1.4% unfavorable to budget and average weekday ridership was 410,774, 0.5% unfavorable. The $0.8M favorable result in other operating revenue was due to better than budget investment revenue ($2.3M), parking revenue ($0.4M), and miscellaneous other revenue ($2.1M); but was offset by unfavorable results in advertising ($2.8M) and fiber optics and cell site revenue ($1.2M).

In Financial Assistance, sales tax was favorable to budget by $15.8M with much of the variance due to delays in FY18 sales tax revenues remitted by the state to the District in FY19. The California Department of Tax and Fee Administration (CDTFA), which collects and distributes sales tax revenues, has experienced sustained reporting challenges following a spring 2018 change in their data systems. As a result, sales tax recipient agencies, including BART, have seen delays in payments and resulting uncertainty when projecting future sales tax receipts. Staff expects this uncertainty to continue into FY20.

Other Assistance was $17.1M favorable, mostly from property tax revenue ($1.3M), local financial assistance ($1.6M), various federal funds ($1.0M), and revenue from the sale of Low Carbon Fuel Standard (LCFS) credits($12.3M).

Total FY19 operating expenses were $9.7M (1%) favorable to budget. Net labor and benefits were $6.5M (1%) favorable to budget due to vacant operating positions. FY19 overtime totaled $75.6M, including $54.8M of operating overtime plus $20.8M of capital overtime. Over-budget operating overtime totaled $30.9M, driven by increased maintenance needs and filling behind vacant positions.

Non-labor was $3.2M (2%) under budget due to reduced power costs due to lower than expected electric consumption, and reductions in transmission and distribution costs; offset by increased utility costs driven by extensions and rate increases; ongoing maintenance and station cleaning; OSHA/ADA compliance efforts; operating support for Measure RR; increased inventory write-offs; and increased materials delivery to support car maintenance. Note that $0.2M of access funds, originally programmed for Station Design Guidelines, will be used to address state and federal historic preservation requirements associated with BART infrastructure approaching 50 years old.

Capital and other allocations were $23.8M greater than budget largely due to increased allocations to reserves including:

a. $3.5M of the year-end positive result added to the District's operating reserve per the Financial Stability Policy which requires increasing the reserves to 15% of operating expense by allocating half of a positive operating result up to $3.5M;
b. $12.2M of over-budget Low Carbon Fuel Standard (LCFS) Program revenue, allocated equally between capital reserves for sustainability and the District's LCFS operating reserves, per LCFS Policy; and
c. $7.5M of the year-end positive result added to the District's pension reserve to address the Board priority of increasing fiscal stability related to pensions. Combined with $2.5M set aside at FY18 year end, this completes the first $10M commitment to the pension reserve.

Additional allocations include $0.4M for stations and access due to over budget parking revenue, of which staff recommends directing $0.3M towards Mobility as a Service (MaaS) improvements to be delivered by the Office of the Chief Information Officer, plus $0.1M to the above-noted state and federal historic preservation requirements.

Increased allocations to reserves were slightly offset by reduced allocations to both the SFO net reserve and priority capital projects due to under budget fare revenue.

The allocation listed in (a) above increases the District's operating reserve to approximately $50.2M, or 6.3% of the FY20 operating expense budget.

SUMMARY OF PROPOSED YEAR-END ALLOCATIONS:

Staff recommends balancing the FY19 budget by allocating $16.2M of unprogrammed favorable result as follows:

- $10.0M to reserves for economic uncertainty, to protect the District against severe operating funding shortfalls projected for the next several years,
- $4.7M to fund systems hardening and modernization including fare gate improvements, cyber security investments, and communications upgrades to protect our assets and our riders, and
- $1.5M to fund Quality of Life efforts, including addressing fare evasion, safety and security, homelessness, cleanliness, and the pilot ambassador program.

All budgeted allocations have been made in FY19 and no projects will be impacted by this recommended action.

In addition to the proposed capital allocations discussed above, the budget revision also requests Board approval for other adjustments that conform the final budget to Board Rules. These adjustments increase or decrease categories of expense, revenue and allocations and offset each other. For example, the budget for revenue is decreased; budgets for various categories of financial assistance are increased; budgets for labor and non labor are decreased; and certain allocations are increased as described in the Background section of this document.

FISCAL IMPACT: Board approval of the proposed allocations closes the fiscal year and results in a balanced FY19 Budget.

ALTERNATIVES: If the Board does not approve the recommended allocations, the District would end the year with a favorable result of $16.2M. Alternatively, the Board could change the split of funding between the recommended uses of systems hardening and financial stability; or identify alternate uses for the funding.

RECOMMENDATION: Approval of the motion below.

MOTION: Approval of the attached resolution "In the Matter of Amending Resolution No. 5373 regarding Fiscal Year 2019 Annual Budget."

Revenue

- Average weekday trips for the quarter were 413,362, 0.8% over budget but 0.8% below the same quarter last year. For FY19, avg weekday ridership was 410,774, 0.5% under budget, and total trips were 118.1M, 1.4% under budget. Total trips were 2.0% lower than FY18.
- FY19 net passenger revenue was $3.2M unfavorable due to below budget ridership.
- Parking revenue was $0.4M favorable for FY19 due to above-budget single-day reserve, daily non-reserve, and long-term parking revenue.
- Other operating revenue was $0.4M favorable for FY19 due to investment income, but offset by below budget advertising & telecom revenue.

Expense

- Labor (excluding OPEB and GASB) was $6.5M favorable in FY19 due to savings from vacancies, offset by unfavorable overtime.
- Power was favorable in FY19, mostly due to lower than expected electric consumption and reductions in transmission and distribution costs.
- Other Non Labor was over budget for the year driven by $3.1M in unbudgeted Inventory Write Offs and materials supporting RR projects; $1.5M in Utility rate increases and additional usage for new facilities; and $1.5M in inventory adjustments, ongoing maintenance and station cleaning, and OSHA/ADA compliance efforts. Unfavorable variance was offset by underspending of Professional Fees and rent credit for Lakeside.

Financial Assistance and Allocations

- FY19 Sales Tax grew 8.7% over FY18 and was $15.8M favorable due to FY18 payments recieved in FY19 (2.6% growth budgeted). These results overstate actual year-over-year growth in sales tax because they include receipt of delayed sales tax payments from the State associated with an ongoing reporting problem at CDTFA.
- Property Tax was $1.3M favorable. State Transit Assistance was $0.7M favorable. Other financial assistance was $1.3M favorable.
- Low Carbon Fuel Standard (LCFS) Program revenue for FY19 was $12.3M favorable due to higher than anticipated sale of credits generated as a result of high market prices.
- Debt service was on budget at $46.7M.
- Capital and other allocations for FY19 were $23.8M greater than budget due to $18.5M of LCFS Program revenue, which is allocated equally between operating reserves and the Sustainability Group per the LCFS Policy; $3.5M allocated to operating reserves per Financial Stability Policy; $7.5M of the year-end positive result added to the District's pension reserve to address the Board priority of increasing fiscal stability related to pensions; $1.6M under budget SFO Ext fare revenue; and $1.0M under budget incremental fare increase revenue.

Net Operating Result

- The Net Operating Result for Q4 was $2.7M unfavorable driven by year end expense reconciliation. FY19 total year Net Operating Result was $16.2M favorable, primarily due to Sales Tax revenue that exceeded budget, a one-time revenue increase related to state payment issues.

Attachment 1

Quarterly Financial Report
Fourth Quarter
Fiscal Year - 2019

Current Quarter			($ Millions)	Year to Date		
Budget	Actual	Var		Budget	Actual	Var
			Revenue			
122.3	127.6	4.3%	Net Passenger Revenue	485.9	482.6	-0.7%
9.2	9.5	3.2%	Parking Revenue	36.7	37.0	1.0%
6.9	4.7	-32.2%	Other Operating Revenue	38.3	38.7	1.0%
138.4	**141.8**	**2.4%**	**Total Net Operating Revenue**	**560.8**	**558.4**	**-0.4%**
			Expense			
140.2	133.0	5.1%	Net Labor	560.7	554.2	1.2%
0.0	36.7	-	GASB 68 Pension Adjustment	0.0	36.7	-
0.0	(4.0)	-	GASB 75 OPEB Adjustment	0.0	(4.0)	-
11.0	10.1	8.0%	Electric Power	43.8	39.2	10.5%
7.6	7.1	5.6%	Purchased Transportation	30.2	29.9	1.1%
36.6	44.8	-22.3%	Other Non Labor	133.1	134.8	-1.3%
195.3	**227.7**	**-16.6%**	**Total Operating Expense**	**767.8**	**790.8**	**-3.0%**
(56.9)	**(85.9)**	**-51.1%**	**Operating Result (Deficit)**	**(206.9)**	**(232.4)**	**-12.3%**
			Taxes and Financial Assistance			
69.6	65.4	-6.0%	Sales Tax	264.6	280.4	6.0%
21.4	24.1	12.7%	Property Tax, Other Assistance	52.2	56.3	7.9%
19.0	20.9	9.9%	State Transit Assistance	38.0	38.7	1.8%
1.6	5.2	219.8%	Low Carbon Fuel Std Prog	6.5	18.8	189.1%
(11.7)	(11.7)	0.0%	Debt Service	(46.6)	(46.7)	0.0%
(35.2)	(53.5)	-51.9%	Capital and Other Allocations	(107.8)	(131.6)	-22.1%
0.0	36.7	-	GASB 68 Pension Adj. Offset	0.0	36.7	-
0.0	(4.0)	-	GASB 75 OPEB Adj. Offset	0.0	(4.0)	-
64.8	**83.3**	**28.5%**	**Net Financial Assistance**	**206.9**	**248.6**	**20.2%**
7.9	**(2.7)**	**(10.6)**	**Net Operating Result**	**(0.0)**	**16.2**	**16.2**
70.9%	72.7%	1.8%	**System Operating Ratio**	73.0%	73.7%	0.6%
0.416 ¢	**0.413 ¢**	**0.8%**	**Rail Cost / Passenger Mile**	**0.412 ¢**	**0.410 ¢**	**0.4%**

* Totals may not add due to rounding to the nearest million.

No Problem

Caution: Potential Problem/Problem Being Addressec

Significant Problem

Attachment 2

Explanation of GASB 68 and 75

Governmental Accounting Standards Board (GASB) Statements No. 68 and No 75 establish accounting and financial reporting standards and requirements related to pension liability and post-employment benefits other than pensions (Other Post-Employment Benefits or OPEB), respectively, for state and local government employers. The standards represent a shift from the "funding based approach" to an "accounting based approach" and are intended to provide standardization and additional transparency for public agency pension and OPEB reporting. The standards call for public agencies to report their present obligation to pay future benefits. These future benefits are recognized in the financial statements but not paid. Therefore, the expenses reported in the District's financial statements, which follow Generally Accepted Accounting Principles (GAAP) and GASB guidelines, will be different than the amounts required to be paid to CalPERS annually to fund the pension plans and contributions to OPEB. The District's annual operating budget accounts for actual payment to CalPERS as an expense based on the amount of funds contributed to pensions during the year and the amounts contributed to OPEB per actuarial calculations. The expenses determined under GASB 68 and GASB 75 are not funded by the District, so the recognized expenses are backed out as non-expense allocations to reconcile with the District's annual operating budget.

The main changes to financial statements from adopting the GASB 68 and 75 are that employers now report the pension and OPEB liabilities on their balance sheet, and expenses are calculated in a different manner than the payments required to fund the contributions. Local governments now receive two actuarial reports for each pension plan and OPEB program, one for funding contributions and a second valuation for financial reporting. The actuarial reports for GASB 68 and GASB 75 use new fiscally conservative pension and OPEB measurements. For example, for pensions investment returns are amortized over five years vs. the CalPERS actuarial method of a fixed thirty year period. Similar differences are applied to OPEB programs. It should be noted that GASB 75 applies to all OPEB programs, which include retiree medical, survivor benefits, and life insurance. Prior to GASB 75, the "OPEB Unfunded Liability" listed in BART budget resolutions referred to primarily life insurance.

<u>Attachment 3</u>

FY19 Operating Results, Including Accounting Adjustments

FY19 Operating Results ($ million)

		Budget	Actual	Var.	%
Sources	Operating Revenue	$ 560.8	$ 558.4	$ (2.5)	-0.4%
	Sales Tax	264.6	280.4	15.8	6.0%
	Other Assistance	96.7	113.8	17.1	17.6%
	Total Sources	**922.2**	**952.5**	**30.4**	**3.3%**
Uses	Labor	560.7	554.2	6.5	1.2%
	OPEB Unfunded Liability (1)	-	-	-	
	Pension - GASB 68 Adjustment (2)	-	*36.7*	*(36.7)*	
	Non-Pension - GASB 75 Adjustment (3)	-	*(4.0)*	*4.0*	
	Non-Labor	207.1	204.0	3.2	1.5%
	Total Expense	**767.8**	**790.8**	**(23.1)**	**-3.0%**
	Debt Service	46.6	46.7	(0.0)	0.0%
	Capital & Other Allocations	107.8	131.6	(23.8)	-22.1%
	Total Debt Service & Allocations	**154.4**	**178.2**	**(23.8)**	**-15.4%**
	Total Uses	**922.2**	**969.1**	**(46.9)**	**-5.1%**
	OPEB Unfunded Liability (1)	-	-	-	
	Pension - GASB 68 Adjustment Offset (2)	-	*(36.7)*	*36.7*	
	Non-Pension - GASB 75 Adjustment Offset (3)	-	*4.0*	*(4.0)*	
	Total Uses - After Adjustments	***922.2***	***936.4***	***(14.2)***	***-1.5%***
	NET RESULT	**$ -**	**$ 16.2**	**$ 16.2**	

(1) OPEB Unfunded Liability: Other Post Employment Benefits, primarily life insurance (non-cash adjustment)

(2) GASB 68 requires restating of pension expense (non-cash adjustment)

(3) GASB 75 requires restating of non-pension post-employment expense (non-cash adjustment)

BEFORE THE BOARD OF DIRECTORS OF THE
SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

In the matter of amending Resolution No. 5373 regarding Fiscal Year 2019 Annual Budget

Resolution No. ____________

RESOLVED, that Resolution No. 5373 is amended by changing the following line items in Exhibit A thereof:

Fund Source Line Item:	Current Amount	Increase/ (Decrease) In This Resolution	Amended Amount
Operating Revenue	$ 560,837,443	$ (2,453,018)	$ 558,384,425
Property Tax	$ 46,762,737	$ 1,323,228	$ 48,085,965
1/2 ¢ Sales Tax	$ 264,622,284	$ 15,762,658	$ 280,384,942
Measure B, BB, & J Assistance	$ 4,418,238	$ 1,089,048	$ 5,507,286
Other Financial Assistance	$ 110,000	$ 685,262	$ 795,262
Caltrain - Millbrae Station Joint Use	$ 915,774	$ -	$ 915,774
State Transit Assistance	$ 38,012,361	$ 666,332	$ 38,678,693
Low Carbon Fuel Standards Program	$ 6,500,000	$ 12,291,000	$ 18,791,000
Financial Assistance - Federal	$ -	$ 1,005,612	$ 1,005,612
Fund Use Line Item:			
Net Labor Expense	$ 560,662,421	$ 26,208,399	$ 586,870,820
Non-Labor Expense	$ 207,109,680	$ (3,151,191)	$ 203,958,489
Revenue Bond Debt Service	$ 46,639,568	$ 20,610	$ 46,660,178
Allocations to Capital - Rehabilitation	$ 29,867,309	$ 4,687,853	$ 34,555,162
Allocations to Capital - Priority Capital Programs	$ 42,862,759	$ (1,057,477)	$ 41,805,282
Allocations to Capital - Stations & Access Projects	$ 3,725,140	$ 364,905	$ 4,090,045
Allocations to Capital & Operating - Other	$ 4,638,703	$ 15,366,167	$ 20,004,870
Allocation to Rail Car Project from SFO Net Result	$ 4,827,714	$ (1,594,594)	$ 3,233,120
Allocation to Reserves from LCFS	$ 3,250,000	$ 6,119,256	$ 9,369,256
Allocation to Capital - Sustainability	$ 3,250,000	$ 6,119,256	$ 9,369,256
Allocation - Operating Reserves for Economic Uncertainty	$ 15,345,543	$ 10,000,000	$ 25,345,543
PERS Employer Current Year Contrib - Offset (GASB 68)	$ -	$ 73,476,168	$ 73,476,168
PERS Pension Expense - Offset (GASB 68)	$ -	$ (110,170,231)	$ (110,170,231)
Non-Pension Employer Current Year Contrib - Offset (GASB 75)	$ -	$ 40,545,000	$ 40,545,000
Non-Pension Expense - Offset (GASB 75)	$ -	$ (36,564,000)	$ (36,564,000)