Operating Financial Outlook Update & MTC’s Reimagined Short Range Transit Plan DRAFT

BART Board – October 2022

BART's Traditional SRTP compared to 'Reimagined' SRTP

- **Traditional SRTP:**
  - Operating financial outlook over 10 years
  - Reflects BART's budget & current revenue/expense forecasts
  - Includes full cost of planned service, identifies funding shortfalls
  - Last published in 2019, not required this year by MTC/FTA

- **MTC's Reimagined SRTP:**
  - New MTC commission guidelines require all operators to estimate feasible service levels over 5 years corresponding with 3 specified revenue scenarios
  - Tests the question: *could BART achieve fiscal stability through service cuts?*
  - Board must adopt final by December 2022 to meet MTC Commission requirement

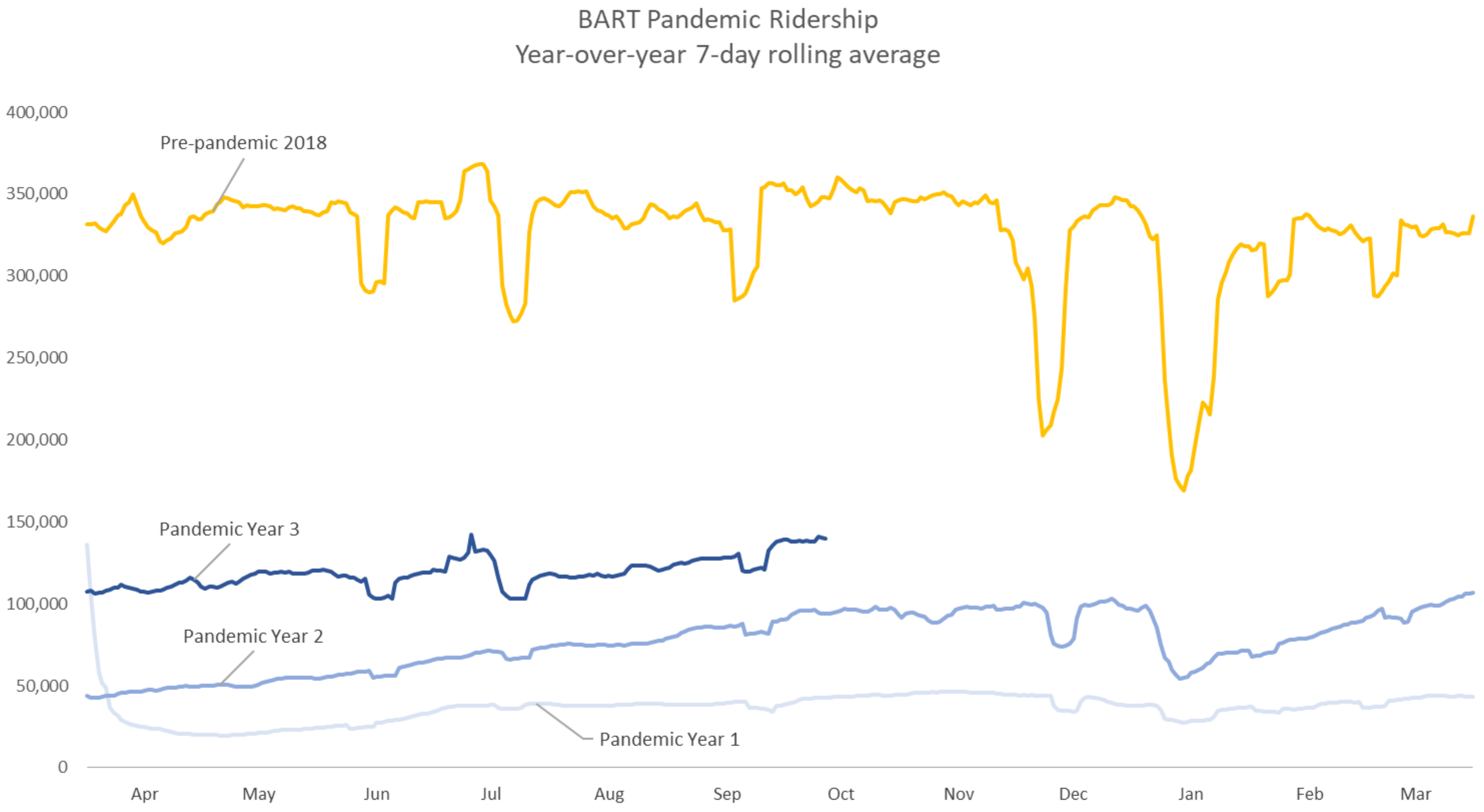
This Presentation

1. 10-year operating financial outlook (in lieu of traditional SRTP)
    - Ridership trends & outlook
    - Operating financial outlook & federal assistance timeline
    - Fiscal stability strategies

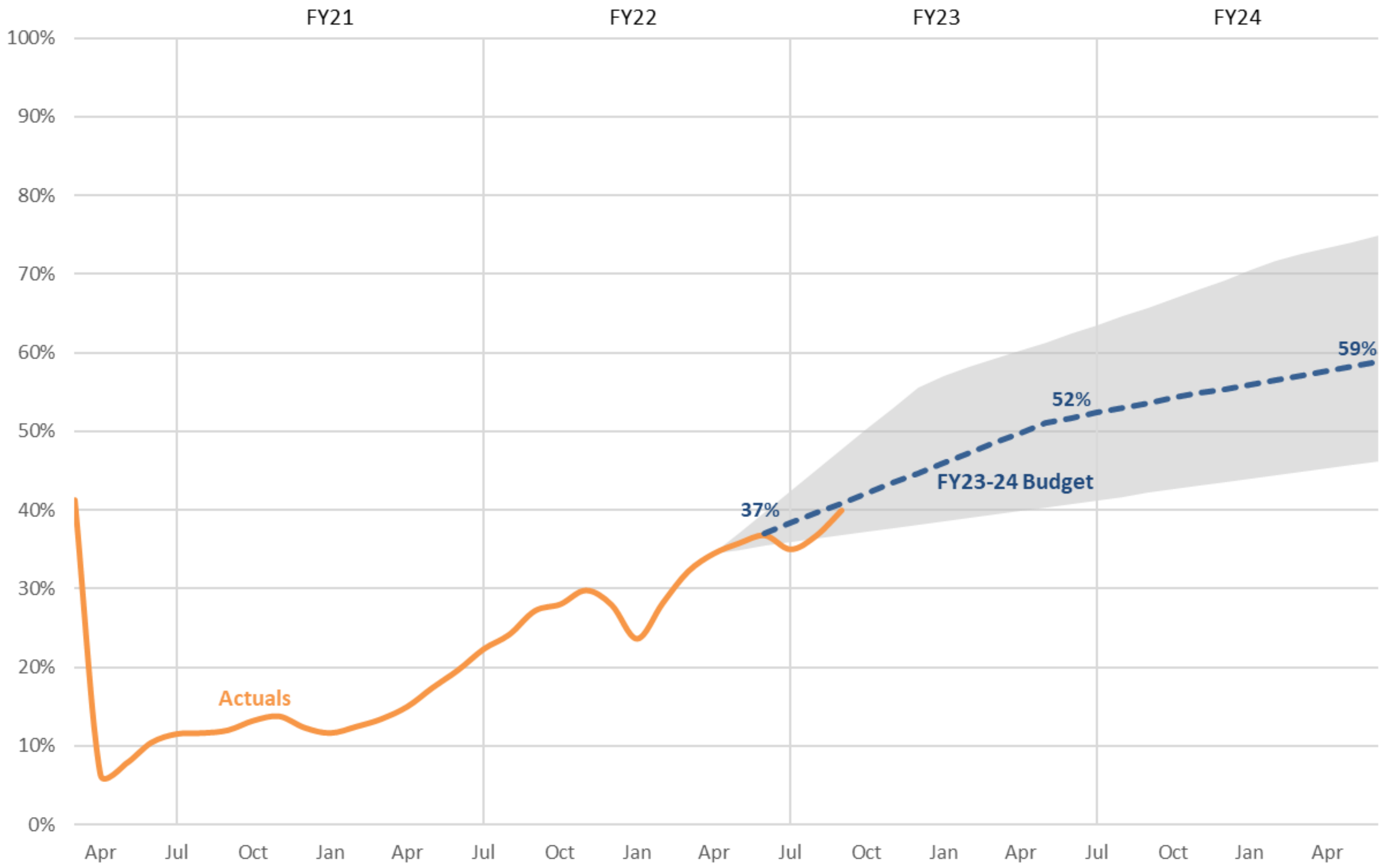
2. Summary of DRAFT Reimagined SRTP
    - Focus: Could BART cut service to reach fiscal stability?

10-Year Operating Financial Outlook

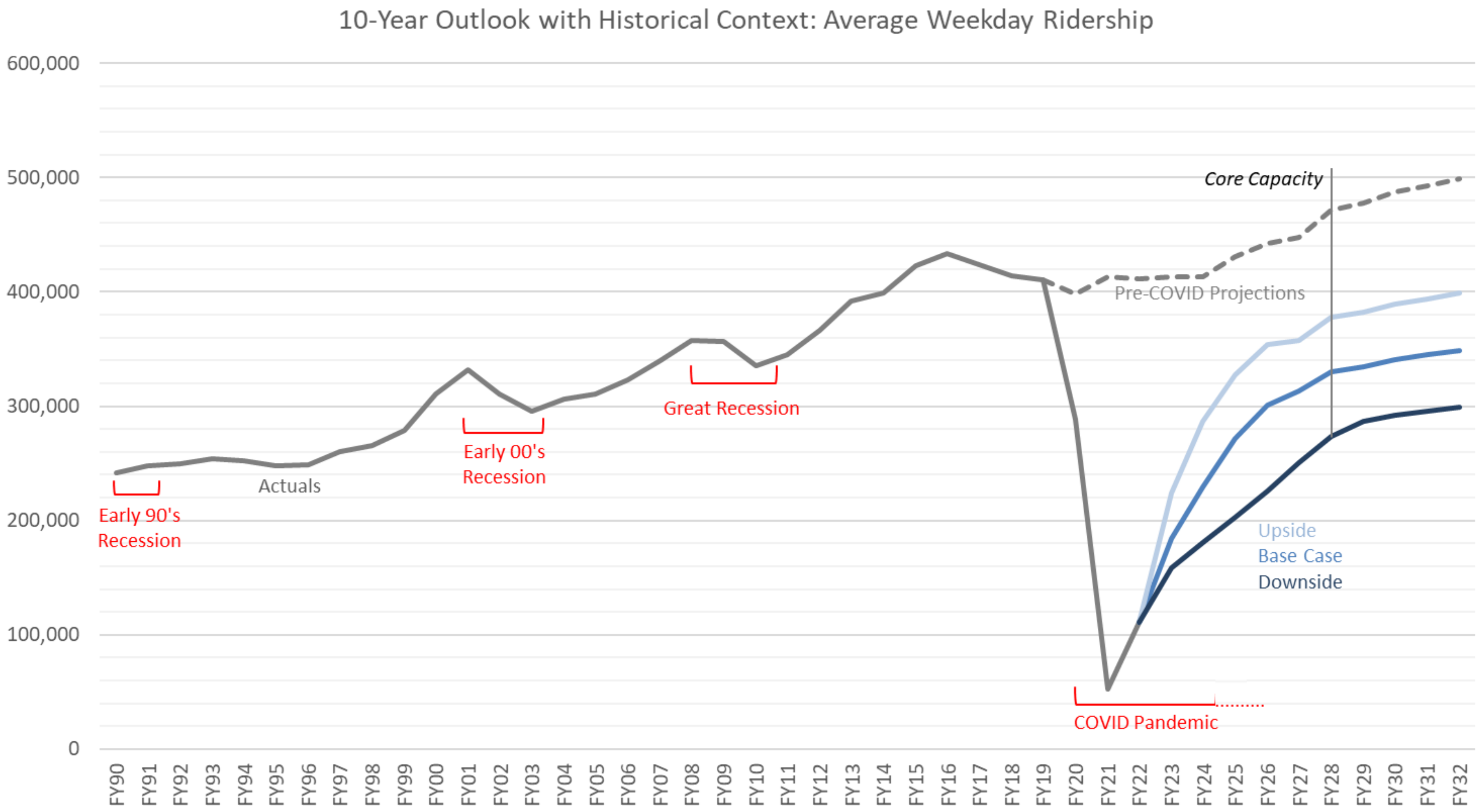
Ridership: Slow recovery since 2020



FY23 – 24 slow ridership growth projected to continue through budget period



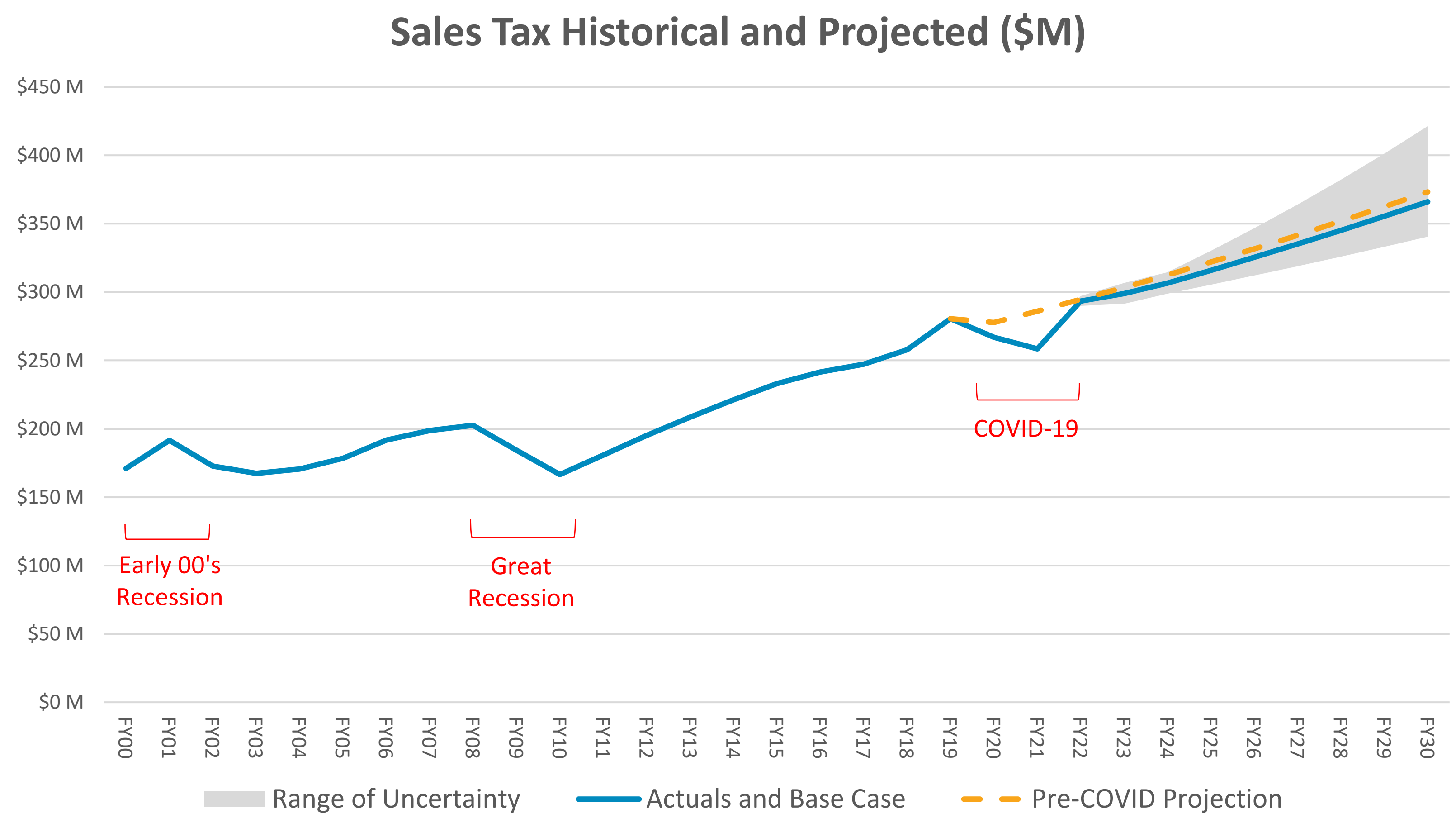
Planning for a Range of Recovery Scenarios



Assumptions for long-term ridership recovery

- Upside: stabilize at 80% of pre-COVID forecast
- Base Case: stabilize at 70%
- Downside: stabilize at 60%

Sales Tax Projections

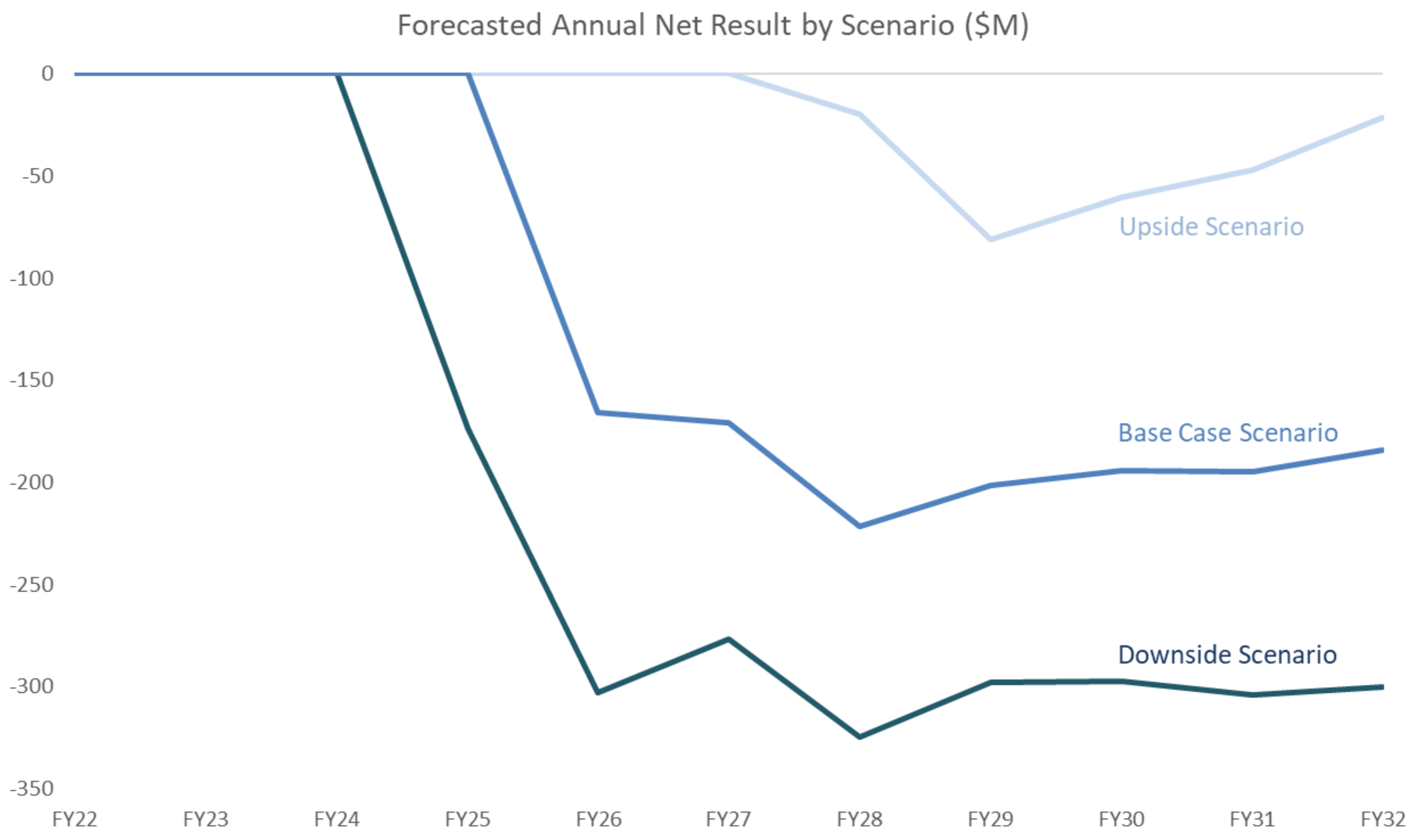


- Sales tax projections assume:
  - Slow growth in FY23-24 (~2% per year), reflecting economic uncertainty
  - Return to long-run sales tax growth trend (3% per year) after 2025
- Sales tax is volatile, subject to economic cycles

Base Case sources and Uses Assumptions

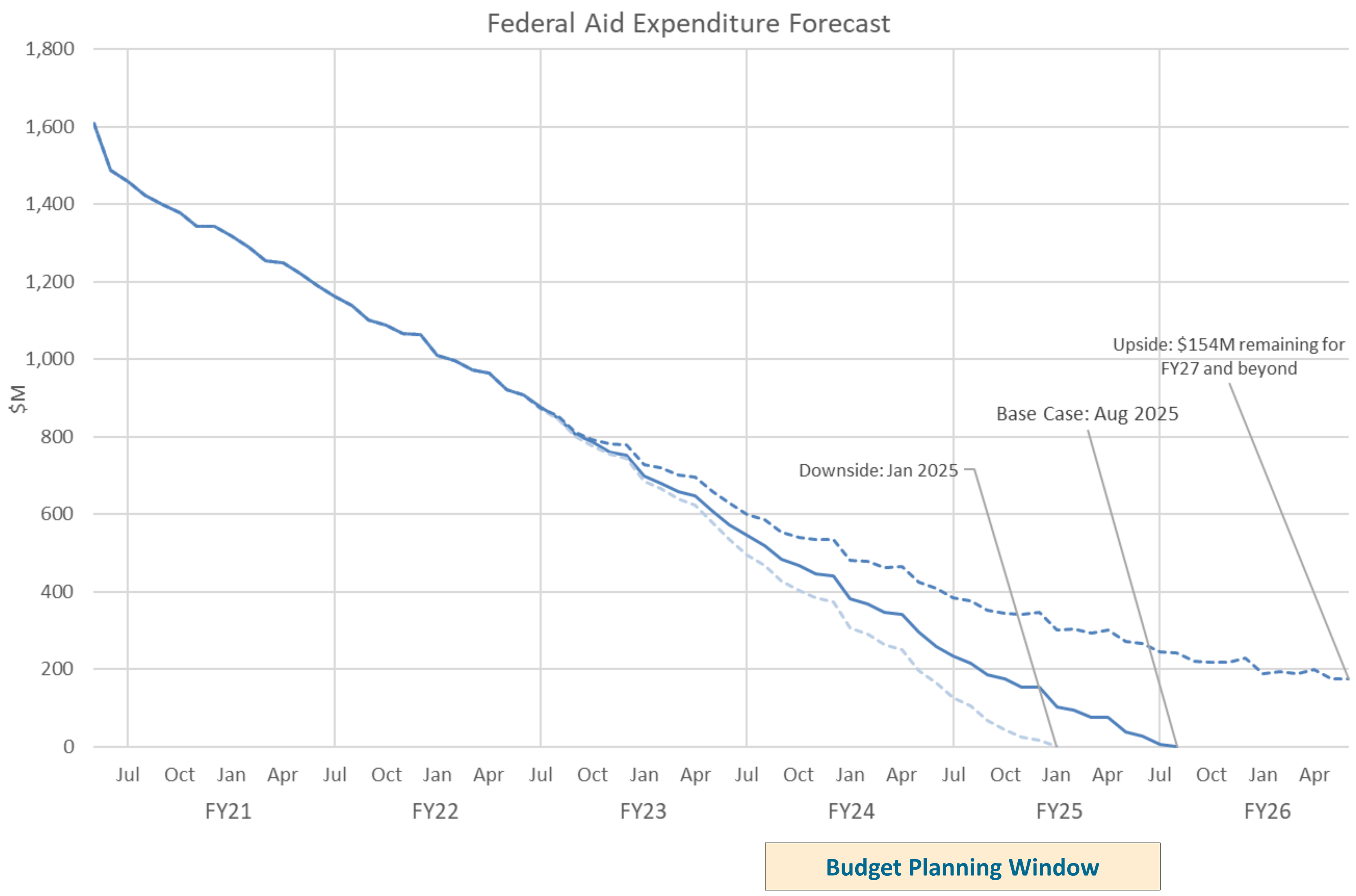
Issue	Assumption
Service	• Assumes current service levels through FY27; Peak service increases to 28 TPH in through the Transbay Tube in FY28 and 30 TPH in FY30. • BSV Phase II: A FY34 revenue service start date was recommended by FTA in July 2021. An updated revenue service date is under development by VTA in coordination with the FTA.
Ridership	• Base case recovery (70% of pre-pandemic expectations by 2027)
Operating sources	• Fare increases per inflation-based fare increase policy • Sales tax: 3% long term growth rate • Property tax: 2.5% long term growth rate • STA: reduction due to ‘hold harmless’ expiration
Operating Expense	• Includes current labor contracts, assumes 2% wage growth thereafter • Growth in benefit expenses per actuarial forecasts • Includes cost of planned service changes
Allocations	• Continued allocations to Baseline Capital, Priority Capital, and Sustainability Projects

Operating Budget Outlook



- Excludes potential new revenue
- All scenarios include:
  - Service schedule as of 2/22
  - Core Capacity
  - Committed capital allocations
- Upside: 10-year cumulative deficit $230M (2%)
- Base case: 10-year cumulative deficit $1.3B (10%)
- Downside: 10-year cumulative deficit $2.3B (21%)

Projected Federal Assistance Expenditure Timeline



Federal assistance 50% expended through September; ~$783M remains

Runway estimate

- Base case: Aug 2025
- Downside: January 2025
- Upside: Beyond FY27

Note: FY25 budget process begins in 15 months

Operating Budget outlook (Base Case)

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Operating Revenues	166	248	321	391	438	465	498	514	534	550	568
Financial Assistance	506	449	459	491	505	518	534	548	565	581	597
Total Regular Revenues	**672**	**697**	**781**	**882**	**943**	**982**	**1,032**	**1,062**	**1,099**	**1,131**	**1,165**
Operating Expense	798	874	909	948	960	980	1,094	1,123	1,152	1,184	1,206
Debt Service & Allocations	161	157	187	166	170	174	160	140	141	142	143
Total Uses	**959**	**1,032**	**1,096**	**1,113**	**1,130**	**1,153**	**1,254**	**1,263**	**1,293**	**1,326**	**1,349**
Operating Result	**(287)**	**(335)**	**(316)**	**(232)**	**(187)**	**(171)**	**(222)**	**(201)**	**(194)**	**(195)**	**(184)**
Total Federal Assistance	287	335	316	232	21	0	0	0	0	0	0
Potential Funding Measure					166	171	222	201	194	195	184
Total Net Result	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Key Assumptions

- Service schedule as of September 2022; Core Capacity service changes in FY28 and FY30
- Allocations schedule reflects estimated near-term needs of Priority Capital projects and other commitments to capital program
- Potential new revenue shown beginning in FY26 (see slide 26)

Operating Financial Outlook Overview

Summary of Projected Operating Sources and Uses, FY23 – 32 ($ billions)

	Downside	Base Case	Upside
Uses *	12.0	12.0	12.0
Regular revenues	8.8	9.8	10.9
Operating result before federal assistance	*-3.2 (26%)*	*-2.2 (19%)*	*-1.1 (9%)*
Federal assistance	0.9	0.9	0.9
Operating result after federal assistance	*-2.3 (19%)*	*-1.3 (11%)*	*-0.2 (2%)*

*'Uses' includes operating expense and committed operating-to-capital allocations

Fiscal Stability Strategies

Maximize Ridership Recovery

- ➢ Deliver top customer experience (frequent, reliable, safe, clean)
- ✓ Maintain industry-leading reliability and restore frequent service
- ➢ Maximize connections, optimize regional network
- ➢ Adapt to changing commute and growth patterns

Constraints

- Economic & social trends outside of our control

Manage Expense

- ➢ Maximize efficiencies across the district
- ✓ Right size labor force, overtime in all departments
- ➢ Invest in State of Good Repair to maintain system performance and maximize cost-effectiveness

Constraints

- Need to restore service to capture ridership demand recovery
- Cutting service does not lead to commensurate savings

Secure New Revenue

- ➢ Maximize non-fare operating revenue (advertising, telecom, parking, TOD)
- ➢ Explore opportunities for ongoing federal, state, or regional operating subsidy
- ➢ Develop new capital sources to relieve pressure on operating program

Constraints

- More limited funding opportunities and many needs after pandemic recedes

New revenue will be required to sustain BART service after ARP funding is exhausted

MTC's 'Reimagined' SRTP:

Could BART cut service to reach fiscal stability?

MTC Reimagined SRTP Overview

	Traditional BART SRTP	MTC's Re-imagined SRTP
Priority	District planning needs, reflective of BART service & financial outlook	Basis for regional funding advocacy; prioritizing regional consistency.
Planning Horizon	10 years	5 years
Scenarios	1	3
Revenue	BART's most-likely scenario	3 revenue scenarios defined by MTC
Expenditures	Planned service/expense (even if this results in a deficit)	Expense/service limited to revenues – no deficits

MTC defined 3 revenue scenarios

Scenario Planning Concepts: FY24 – FY28

“Robust Recovery” Revenue Scenario

- Revenue returns to 100% of pre-pandemic levels
- Not feasible without a new revenue source

“Some Progress” Revenue Scenario

- Total revenue 15% below pre-pandemic levels

“Fewer Riders” Revenue Scenario

- Farebox revenue remains stagnant

Two scenarios have low revenue compared to cost of current service

Scenario Planning Concepts: FY24 – FY28

Shortfall with current service level

“Robust Recovery” Revenue Scenario ← ~ Balanced

- Revenue returns to 100% of pre-pandemic levels
- Not feasible without a new revenue source

“Some Progress” Revenue Scenario ← -$125M/year

- Total revenue 15% below pre-pandemic levels

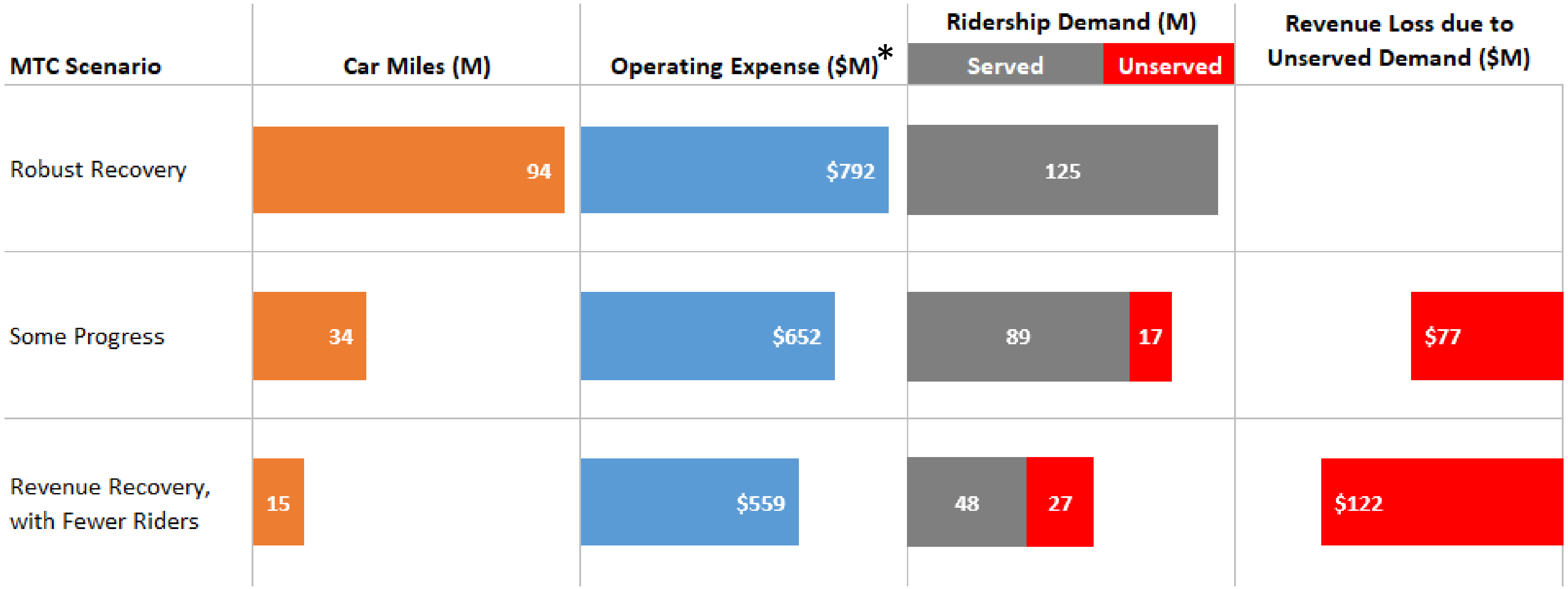
“Fewer Riders” Revenue Scenario ← -$233M/year

- Farebox revenue remains stagnant

Methodology

- Baselined on BART's adopted budget
- Adjusted to NTD-defined operating expense & revenue
- Alternate service scenarios developed by BART Operations Planning
- Service cost estimates developed using BART O&M cost model, modified with off-model input from Operations and Energy groups
- Ridership and fare revenue impacts of capacity limits estimated by Financial Planning using service capacity model

Cost savings are not proportional to service cuts

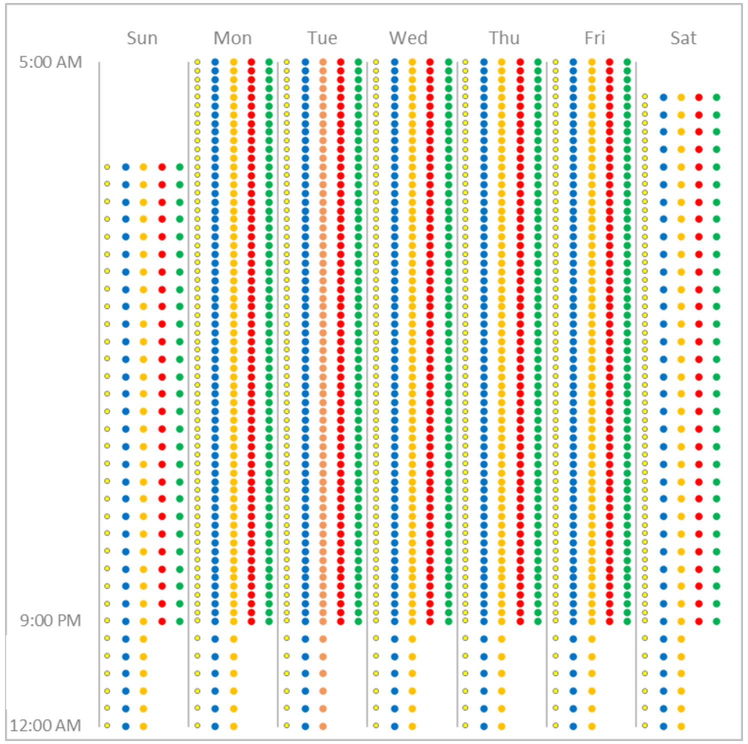


- "Some Progress" & "Fewer Riders" scenarios need 65%-85% service cuts achieve 21%-42% savings
- With minimal service, these scenarios fail to accommodate assumed ridership, leading to additional revenue losses and the need for further cuts

* For this exercise, operating expense and revenue expended on operations are as defined for NTD reporting purpose, which excludes several categories of expense in BART's operating program. Totals are not directly comparable to the adopted budget or to the figures in Slide 11 of this presentation.

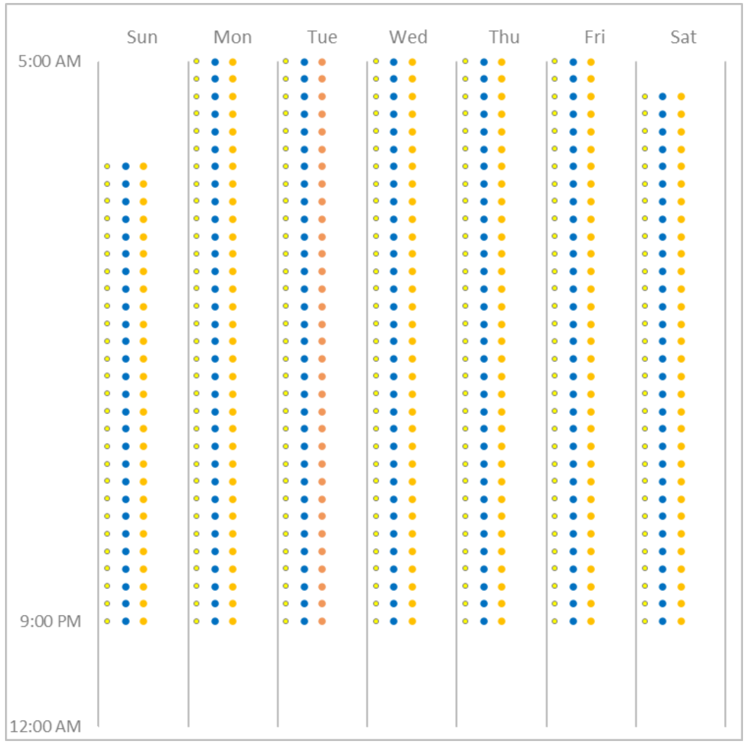
‘Some Progress’ / ‘Fewer Riders’ scenarios allow for minimal service

Robust Recovery



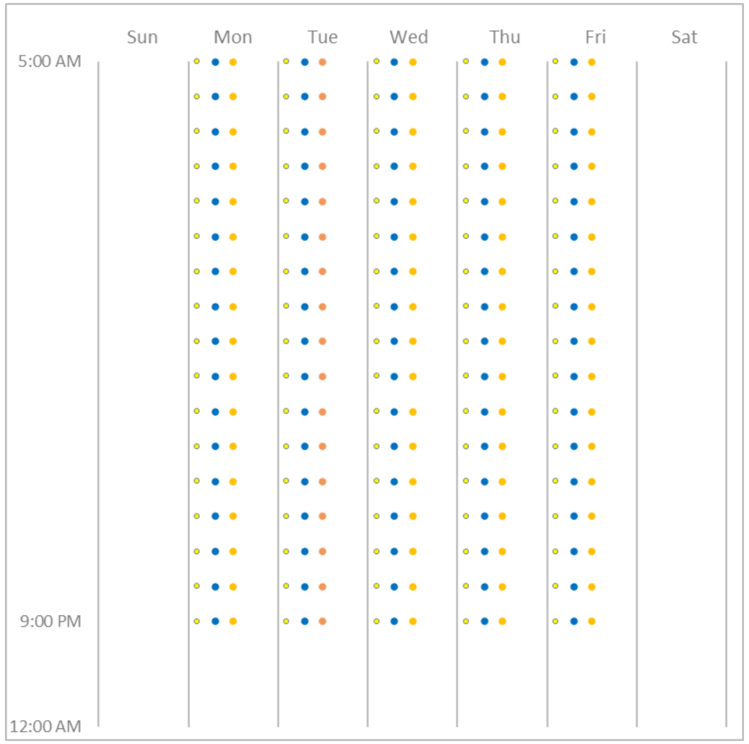
- Current service levels

Some Progress



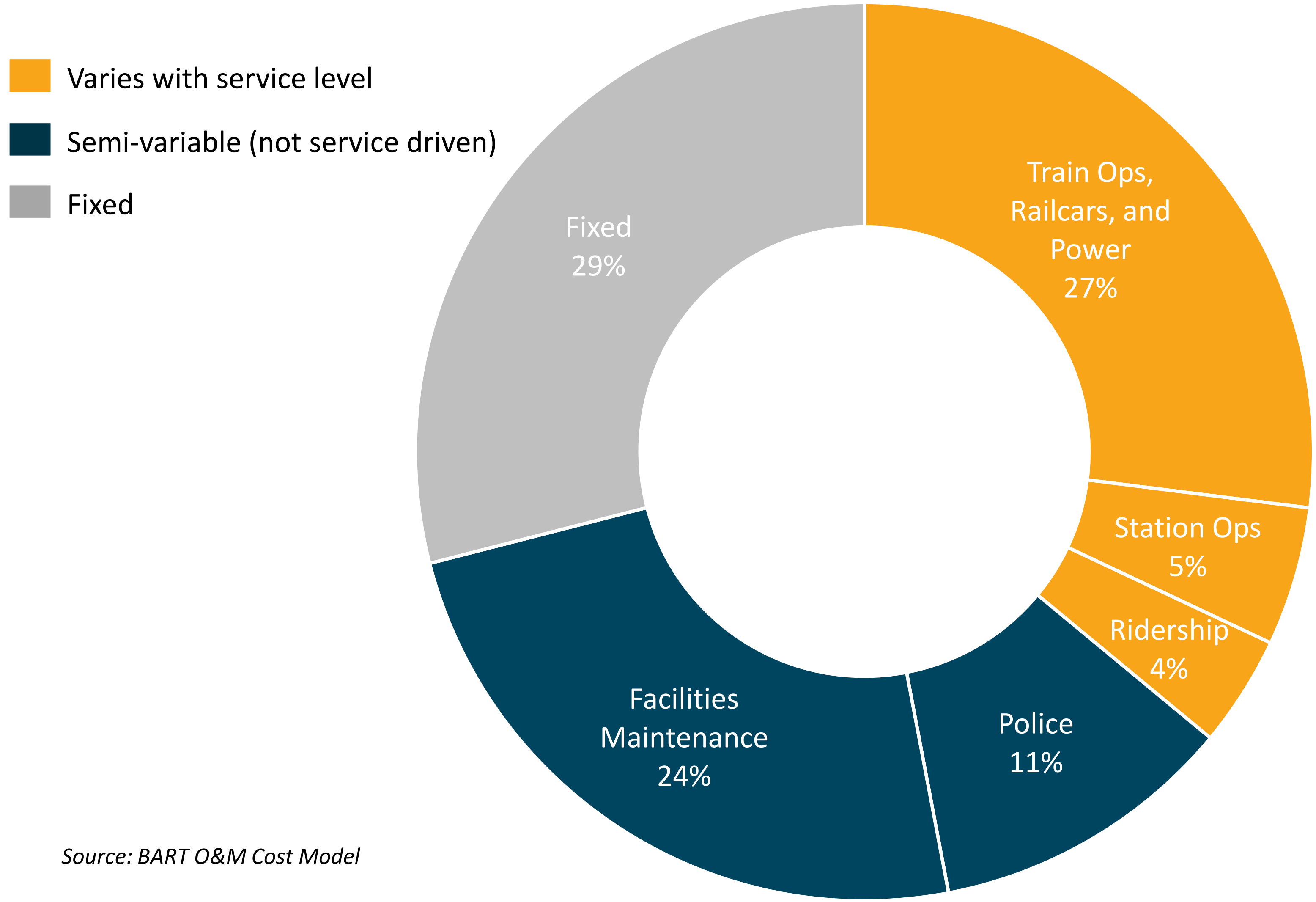
- 9 PM close
- 3-Route Service, 30 min headways
- Train hours ~65% lower
- Operating expense ~21% lower

Fewer Riders



- 9 PM close
- 3-Route Service, 60 min headways
- 9 station closures
- No weekend service
- Train hours ~85% lower
- Operating expense ~42% lower

Rail has high fixed costs and low marginal costs

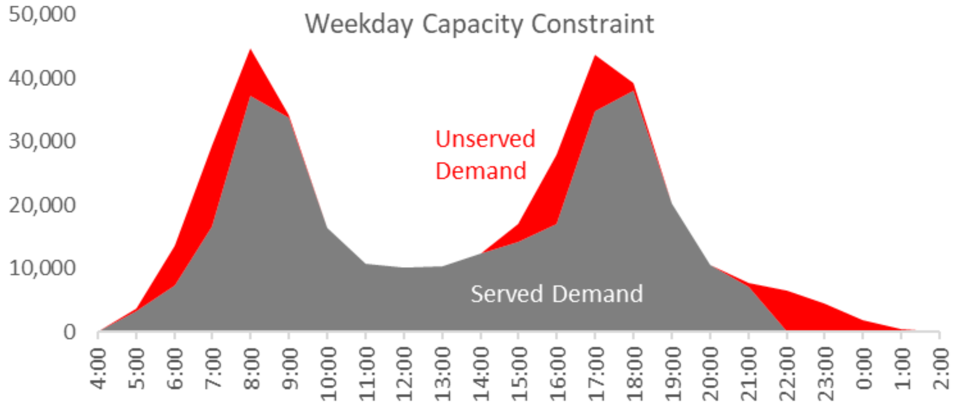


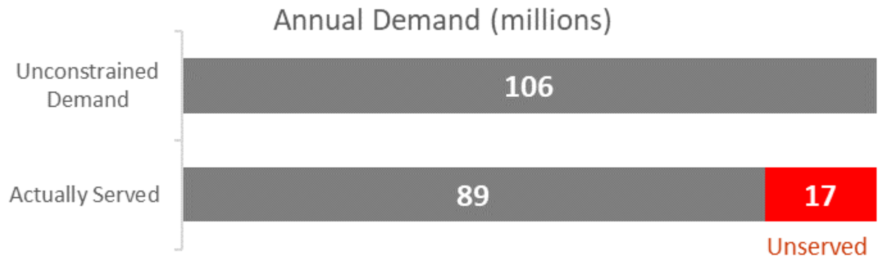
Source: BART O&M Cost Model

- Less than 36% of BART's operating expenses scale proportionally with service
- Less service limits ridership revenue without proportional savings

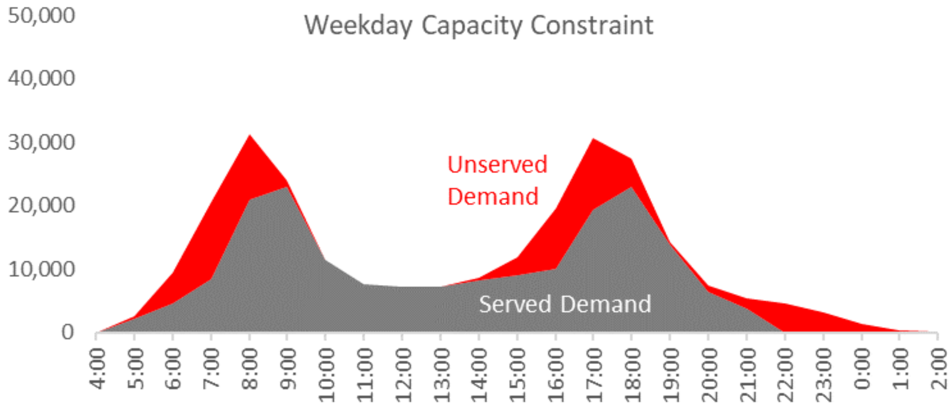
Some Progress/Fewer Riders scenarios fail to accommodate demand

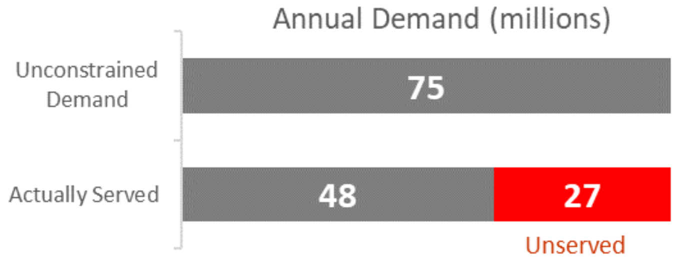
Some Progress

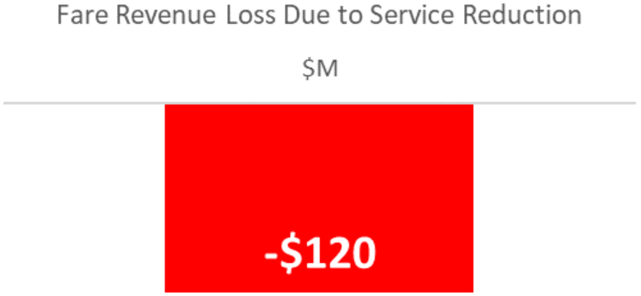




Fewer Riders







Summary: Could BART cut service to reach fiscal stability? No.

- Rail has high fixed costs / low marginal cost – service reductions do not save a proportional expense
- Cutting to balance ‘Some Progress’ and ‘Fewer Riders’ Revenue scenarios result in minimal service levels that would not meet the region’s needs
- Minimal service would result in a ‘death spiral,’ with further loss of ridership & fare revenue
- Sustaining BART service after federal funding will require a new revenue model

Next Steps

BART remains essential

- Equitable and accessible mobility
  - Essential workers, those without cars relied on BART through the worst of the pandemic
  - Fares average $0.28/mile (vs $0.62/mile for driving)
- Reduces VMT and emissions
  - Carried >25% of *statewide* transit passenger miles in 2019
  - Runs >95% renewable power (100% in 2022)
- Powers economy, relieves congestion, provides critical capacity
  - >70% of BART trips are for work
  - > half the capacity in the critical Transbay corridor
- Backbone of the *regional* transit network
  - 1/5 BART trips involve a transfer to another agency
  - Almost 90% of inter-agency transfers include BART

Operating Revenue Opportunities & Advocacy

Two-part strategy

Near-term/gap funding:

- Work to advance a request for multi-year state operating funding
- Work with MTC and regional operator coalition to advance a proposal
    - Potential funding sources include unallocated cap-and-trade, general fund, others
- Federal funding opportunities appear limited

Long term revenue model:

- Staff are working to advance revenue measure options including:
    - Supporting MTC efforts to develop a regional measure
        - Potential timeline (polling dependent): authorizing legislation 2024; potential for a measure on 2026 ballot
    - BART has authority to propose a revenue measure in 3-county BART District
    - Staff assessing options for BART’s 5-county service area
- Any revenue measure is likely to require authorizing legislation
- Any measure will require substantial public engagement

Priority Actions

- Work to further extend the operating runway through the 2024-2025 budget process
- Continue to improve service quality & customer experience increase ridership
- Continue to advance regional Transit Transformation Action Plan initiatives with regional partners
- Advance revenue opportunities through partnership & advocacy:
  - Near term: state-focused strategy
  - Longer-term: regional measure strategy