FY23-32 Operating Financial Outlook

NOVEMBER 2022

Executive Summary

BART is the backbone of the Bay Area's transit network. BART operates five lines of heavy rail service connecting 50 stations in five counties, two international airports, and more than 20 local transit services. This network provides an equitable and accessible mobility option for everyone, including people with low incomes and those who do not have cars. By providing an alternative to driving, also BART reduces Vehicle-Miles-Traveled ("VMT") and emissions: trains run on more than 95% renewable power and carried a full 25% of statewide transit passenger miles in 2019. BART powers the economy and relieves congestion by connecting people to workplaces and providing critical transportation system capacity.

BART ridership dropped off sharply in 2020 and is far from fully recovered. At the start of the COVID-19 pandemic, BART ridership dropped to just 6% of pre-pandemic levels. The system has seen a slow but steady return of riders, reaching 40% of pre-pandemic passenger levels in October 2022. As our region recovers, hybrid remote work has become standard for office-based work, and BART is unlikely to see pre-pandemic levels of work travel for the foreseeable future.

Historically, BART has relied on riders to pay most of the cost of operating service. In 2019, passenger fares and parking fees generated $520M and covered 66% of system operating expense. In 2022, these same sources generated just $147M and covered 21% of the system operating expense.

Today, one-time federal assistance keeps trains running and invests in riders. BART has been able to sustain operations since 2020 due to a total of $1.6B in federal assistance. Federal funds have been used to restore service to pre-pandemic service levels beginning in 2021, and to fund initiatives like enhanced cleaning and progressive policing.

BART is managing present uncertainty by planning for a range of ridership futures. The planning scenarios presented in this document consider a range of potential ridership recoveries between 60 and 80% of pre-COVID expectations by 2027. In our Base Case scenario, BART would fully expend federal funds by approximately August 2025; thereafter, BART would face operating deficits between $150M and $200M per year, totaling to $1.3B by FY32. In our Downside scenario, federal funds would be expended as soon as October 2024; thereafter, BART would face operating deficits between $250M and $300M per year, totaling to $2.3B by FY32.

Service cuts will not close the gap. Like all rail systems, BART has high fixed costs to maintain our infrastructure, and comparatively lower variable costs driven by changes in service. This cost structure, combined with the importance of ridership recovery for revenue, means that service cuts likely would not improve our fiscal position. This issue is explored in more depth in the accompanying *FY23 Reimagined Short Range Transit Plan*.

To address these long-term shortfalls, a new funding model will be needed. BART is working toward fiscal stability across multiple fronts, including investing to maximize ridership recovery, managing expense. At the same time, we are working with regional partners on options for both temporary funding to sustain operations in the near term, as well as options for a permanent new revenue source.

Contents

1 Introduction

1.1 Purpose of Document

This document presents an overview of BART's 10-year operating financial outlook, current as of November 2022. It includes:

- A summary of BART service and ridership patterns
- 10-year operating service & financial outlook
- Key fiscal stability strategies

1.2 Relationship to the Reimagined Short Range Transit Plan

Traditionally, BART's 10-year operating financial outlook is provided to the Board every two years through an update of the Short-Range Transit Plan ("SRTP"). However, in response to the impacts of the COVID-19 pandemic, the Metropolitan Transportation Commission ("MTC") has restructured the SRTP guidelines for FY 2022-23. The *FY23 Reimagined Short Range Transit Plan* ("Reimagined SRTP"), which narrows the planning horizon to five years and asks operators to consider how service plans might be adapted under three MTC-specified revenue scenarios, is provided under separate cover for Board consideration and adoption. The Board must adopt a Reimagined SRTP by the end of 2022 to meet an MTC Commission requirement.

As a companion to the Reimagined SRTP, this document presents a more traditional overview of BART's 10-year operating financial outlook that this consistent with BART's own planning scenarios. These scenarios are similar to those evaluated during the FY23-24 budget process, but they are updated to be current as of November 2022.

2 BART Service and Ridership

2.1 Overview of the BART System

2.1.1 Service

BART operates five lines of heavy rail service over a radial network with stations in Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara counties (see **Figure 2-1**). BART service extends as far as Millbrae, Richmond, Antioch, Dublin/Pleasanton, and North San Jose. Heavy rail service spans 131 route-miles of track serving 50 stations across the five counties, including the ten-mile extension ("BART to Antioch") served by Diesel Multiple Units to Pittsburgh Center and Antioch stations. In addition, BART operates a 3-mile-long automated guideway system ("BART to OAK") that provides connecting service between Coliseum and Oakland International Airport stations. Finally, BART partners with the East Bay Paratransit Consortium to deliver demand-responsive ADA service during all revenue-service hours.

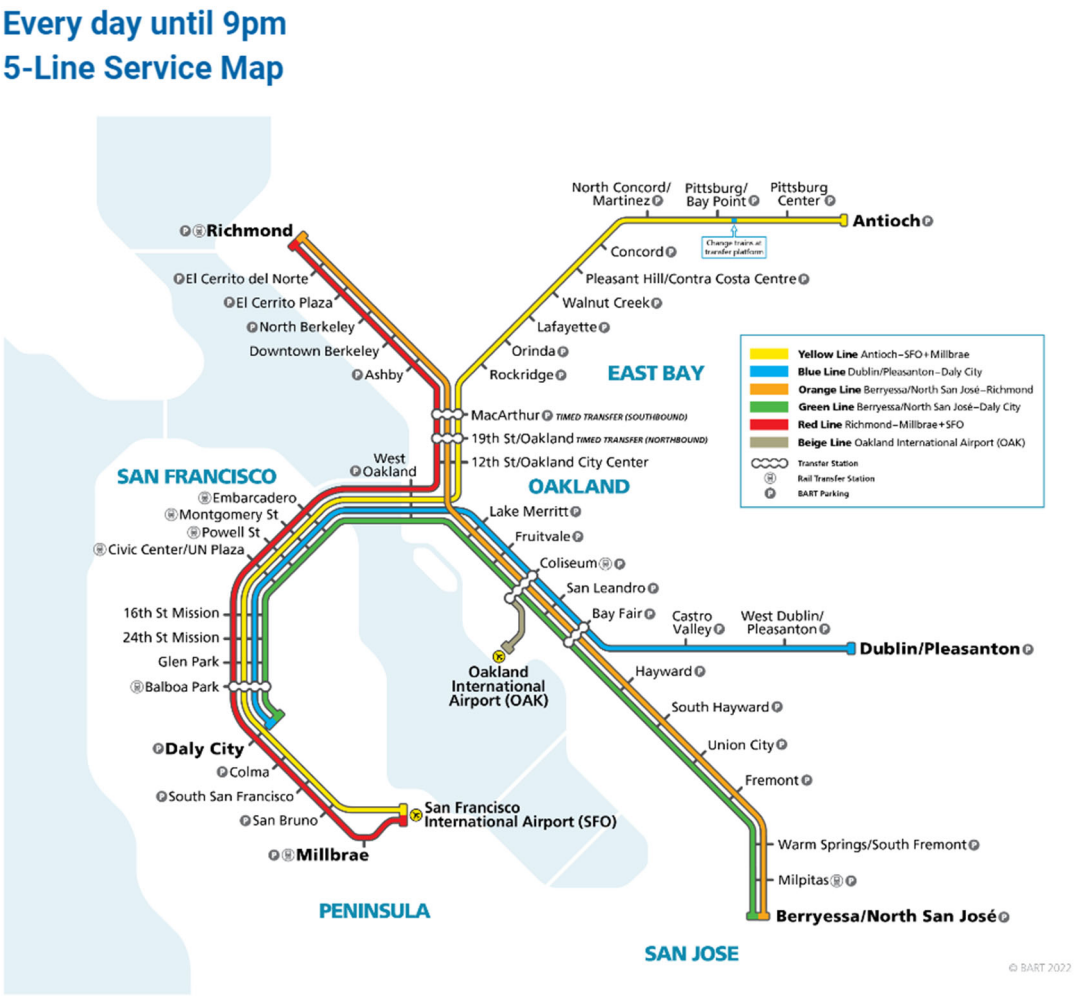


Figure 2-1 FY23 BART System Map

In response to reduced ridership (see **Section 2.1.2.2** for detailed description of ridership trends during the pandemic), BART incrementally reduced rail service over the first year of the pandemic:

- March 2020: system close at 9:00 pm every day; system start at 8:00 am on Saturdays
- April 2020: increased weekday headways from 15 minutes to 30 minutes; all 10-car transbay trains, all 8-car East Bay trains (to facilitate passenger spacing)
- June 2020: began service to Milpitas and Berryessa stations
- September 2020: increased weekend headways to 30 minutes (from 20 minutes on Saturdays and 24 minutes on Sundays)
- March 2021: reduced Saturday service from 5-line to 3-line

Service after the March 2021 change represented the lowest level of service provided during the pandemic. With ridership on the rise and emergency federal funding awarded to BART to continue running service, BART began to increase service over the second year of the pandemic:

- June 2021: added peak trains (slotted in between 30-minute headways) on weekdays and Saturdays
- August 2021: extended system close from 9:00 pm to midnight on weekdays; extended system hours on Saturdays from 8:00 am – 9:00 pm to 6:00 am – midnight; reduced daytime weekday headways from 30-minutes to 15-minutes; increased Saturday service from 3-line to 5-line
- February 2022: increased daytime Sunday service from 3-line to 5-line; extended service from 9:00 pm to midnight on Sundays

In September 2022, BART made smaller changes to the service schedule to improve schedule legibility, train spacing at interlined stations, and improved timing to connecting transit, though the general service description is unchanged since the February 2022 service increase. The FY23 service plan summary, detailing service hours, headways, and routes is presented in **Table 2-1**.

Table 2-1 FY23 BART Service Plan

Day of Week	Hours of Service	Headways (min)	Routes in Service				
			■	■	■	■	■
Weekdays	5:00 AM – 9:00 PM	15	■	■	■	■	■
	9:00 PM – 12:00 AM	30	■	■	■		
Saturday	6:00 AM – 9:00 PM	15	■				
		30		■	■	■	■
	9:00 PM – 12:00 AM	30	■	■	■		
Sunday	8:00 AM – 9:00 PM	30	■	■	■	■	■
	9:00 PM – 12:00 AM	30	■	■	■		

2.1.2 Ridership

2.1.2.1 Pre-Pandemic

In the years leading up to the COVID-19 pandemic, BART carried an average of 410,000 riders every weekday, providing access to many of the region's most important destinations for work, school, and recreation and serving the diverse needs of people from different parts of the region. In doing so, BART plays a crucial role in supporting the economy and reinforcing the Bay Area's identity as one region. Furthermore, in a time of growing environmental concern and increasing traffic congestion, BART provides an environmentally friendly and competitive alternative to the automobile.

On weekdays, BART was the regionwide workhorse for commuting (see **Figure 2-2**): over 80% of weekday trips were for work and school commutes, and approximately two-thirds of weekday trips started or ended at one of the downtown San Francisco stations. Half of all weekday trips travelled through the Transbay Tube, indicating the competitiveness of crossing the Bay on BART compared to driving.

On weekends, BART's role shifts from moving people to work to getting people to their personal/social/leisure destinations, which comprised over 50% of all weekend trips.

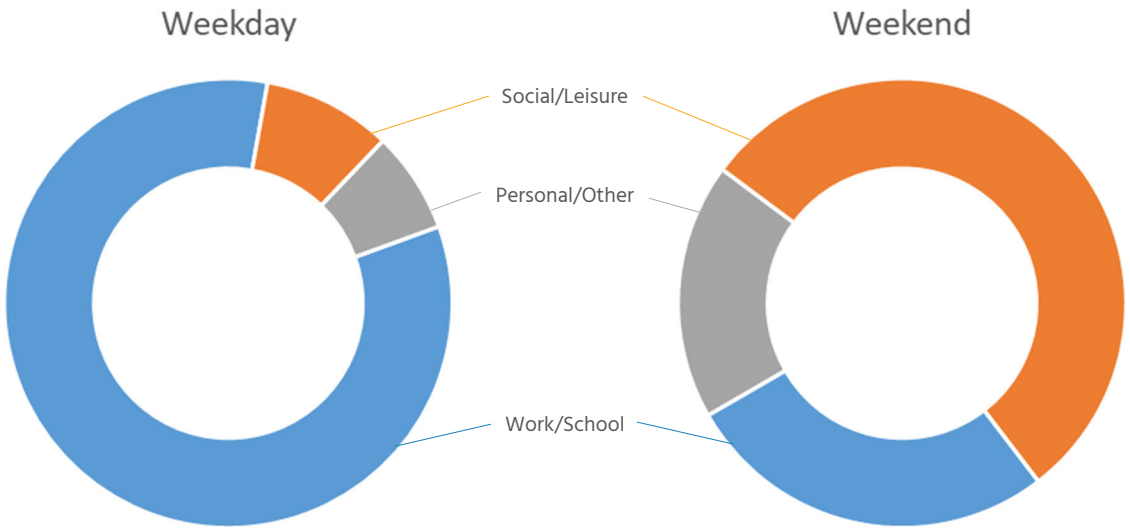


Figure 2-2 Pre-Pandemic Trip Purpose

2.1.2.2 COVID Impacts

Following the March 16, 2020, Shelter in Place Order, BART ridership declined rapidly. BART's daily weekday ridership fell from a pre-pandemic average of 410,000 trips to approximately 25,000 in April 2020. **Figure 2-3** displays the impact and recovery from the COVID-19 pandemic. From the start of the shelter-in-place mandates until the end of 2020, BART ridership remained at approximately 10% of pre-pandemic levels. Initial vaccine distribution began during calendar year 2021 and lasted roughly until the end of October 2021. During this period, ridership gradually recovered in tandem with increased vaccination rates and economic reopening across the Bay Area. From November 2021 to the present, ridership grew steadily and then dropped rapidly during late December 2021 and early January 2022 when COVID-19 cases surged to the highest levels of the pandemic in the Bay Area due in large part to the more contagious Omicron variant. Since then, ridership has continued to slowly recover.

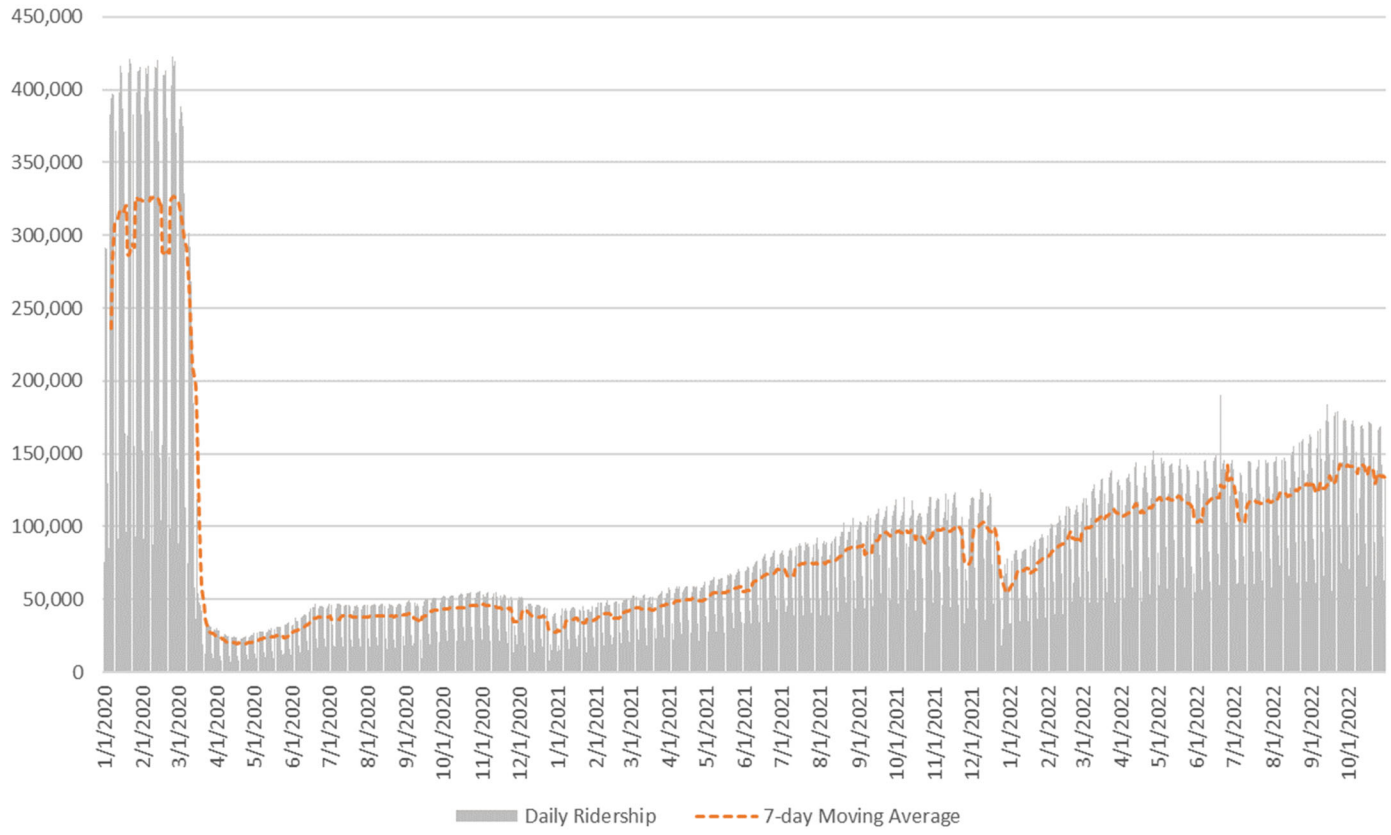


Figure 2-3 BART Ridership throughout the Pandemic

2.1.2.3 Current Conditions

In recent months, BART ridership has had steady, consistent ridership growth, increasing from weekday averages of 134,000 in July 2022 to 160,000 in October 2022. The recovery has been uneven: trips exiting at Downtown San Francisco stations have recovered slower than other geographies, and AM/PM peak time periods have also lagged other time periods. These types of trips were the busiest pre-pandemic, a clear indication that downtown office commute segment has been significantly impacted by employer remote work policies.

There are indications that other trip types are recovering at higher levels than commute trips: in October 2022, Saturdays and Sundays hovered at approximately 60% recovery, whereas weekdays were at 37%. Large special events, such as the Warriors Championship Parade (June 2022) and Fleet Week (October 2022), were observed to have outsized effects on ridership compared to similar pre-pandemic events.

3 Operating Service Plan and Financial Plan

3.1 Ridership Outlook

Prior to the COVID-19 pandemic, riders contributed the majority of the funding for BART operations. In FY19, fare revenue and parking fees provided $520M in revenue, or 66% of operating expense. With ridership falling to just a fraction of pre-pandemic levels, passenger fares and parking fees fell to a low of $69M (9% of operating expense) in FY21. Based upon the ridership trends discussed in the following sections, this budget assumes these sources will recover to $236M (27% of operating expense) in FY23 and $298M (34% of operating expense) in FY24.

One-time federal emergency assistance of $1.6 billion (B) provided through the Coronavirus Aid, Relief, and Economic Security Act ("CARES") ($377M), Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA") ($378M), and the American Rescue Plan ("ARP") ($853M) allowed BART to sustain operations and provide service to essential workers during the early stages of the pandemic, and to improve train frequency for most riders and fully restore service hours. However, it is not known when and to what degree ridership will return in the years ahead; BART continues to face an uncertain fiscal future.

Figure 3-1 presents a long-range overview of historical ridership along with three preliminary ridership recovery scenarios: the Downside, which assumes a very slow recovery, the Base Case, which is the basis of the SRTP fare revenue, and the Upside, which assumes stronger ridership recovery. The three scenarios assume recovery to long-term plateaus of 60%, 70%, and 80% of pre-pandemic projections, respectively.

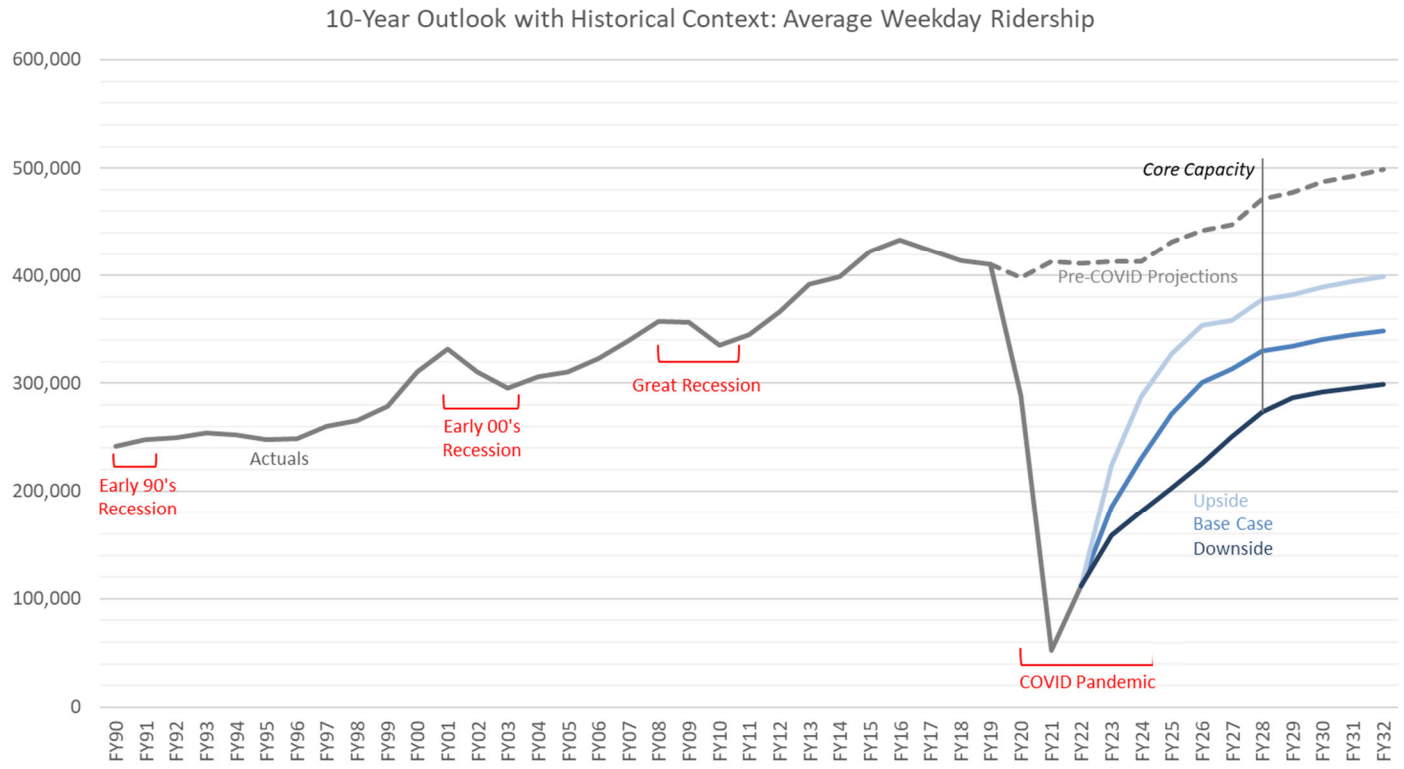


Figure 3-1 Multi-Year Ridership Outlook

These scenarios bracket plausible outcomes to inform broad financial strategies over the next 10 years. They include the assumptions outlined in **Table 3-1**.

Table 3-1 Ridership Scenario Assumptions

Scenario	% of Pre-Pandemic Forecasts	Average Commute Days per Week	Recovery of Work Trips	Recovery of Non-Work Trips	Mode Shift Away from Transit
Downside	60%	2.8	55%	75%	Strong
Base Case	70%	3.2	64%	85%	Medium
Upside	80%	3.6	73%	95%	Mild

Combining the short-term (i.e., two-year) forecasts from the FY23 Budget process with the above long-term assumptions results in the full SRTP ridership forecast for the 10-year period, presented in **Figure 3-2**. Note that the % recovery is applied to pre-pandemic forecasts, with annual increases driven primarily by regionwide population and job growth. Thus, the % recovery stabilizes at 70% starting in FY27, whereas annual ridership incrementally increases.

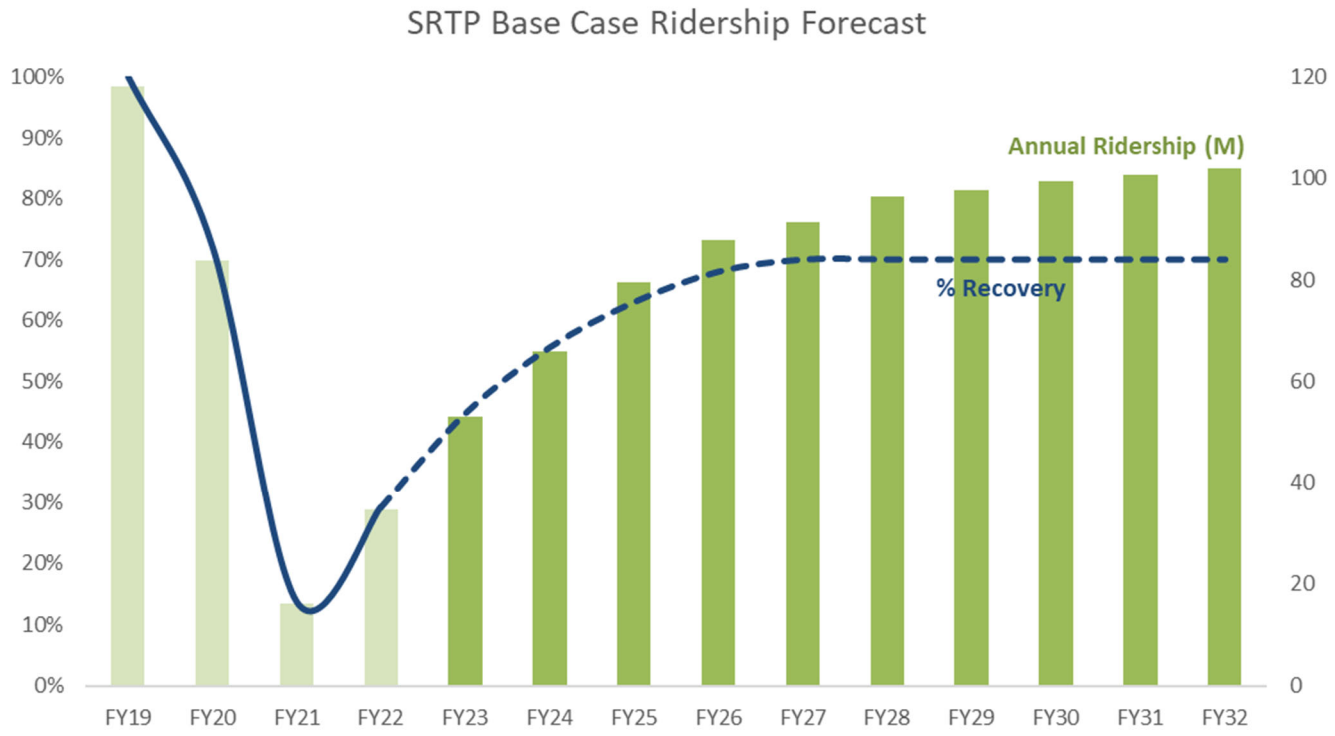


Figure 3-2 SRTP Ridership Recovery Forecast

BART acknowledges that the 10-year ridership forecast is highly uncertain and there are factors that are difficult to predict.

Table 3-2 describes a range of factors that BART thinks will drive or hinder ridership recovery in the years ahead.

Table 3-2 Ridership Recovery Factors

Factors in Recovery	Opportunities	Risks
Public Health	Widespread vaccination and prior infection; Loosening of COVID restrictions; Less severe variants	COVID variants and surges; Outsized impact of non-COVID illnesses
Post-Pandemic Market Size and Share	Diversity/Resilience of Bay Area economy; Transbay speed/reliability advantage	Widespread adoption of hybrid remote work; Employers shifting away from central business districts; Continued transit reluctance
Impact of Pre-Pandemic Trends	Regional growth; regional integration	Rise of ride hailing apps; declining airport ridership; regional homelessness crisis
Long-term market size / regional growth patterns	New growth centers? New markets to serve?	Slower downtown employment growth? Slower regional growth?

3.2 Operating Service Assumptions

This chapter describes the operating service assumptions that drive the fiscal outlook for the period FY23 through FY32. Given uncertainty in ridership, revenue, and staffing levels, actual service delivered may differ from these assumptions.

The current service plan, as discussed in **Section 2.1.1**, is consistent with the FY23-FY24 Adopted Budget Report and has returned to and exceeded pre-pandemic levels of service.

For this 10-year outlook, service from FY24 through FY27 is assumed to be similar to FY23 levels of service. BART expects to make minor service changes in response to ridership demand or for operational streamlining. For example, peak commute trains may be introduced if demand warrants it.

Major service increases, such as increased train frequencies during the evenings and weekends, may also be implemented pending both staffing capacity as well as ridership demand.

In FY28, partial implementation of Communications Based Train Control ("CBTC") will enable an increase in Transbay service capacity from the current limit of 24 trains per hour to 28 trains per hour. Partial implementation would cover the system core, bounded by Daly City, Downtown Berkeley, Rockridge, and Bay Fair stations.

Full implementation of CBTC is expected in FY30, when the entire heavy rail system would have increased capacity and Transbay service would increase from 28 to 30 trains per hour. **Table 3-3** presents key metrics for the forecasted service levels over the next 10 years.

Table 3-3 Service Plan Summary

	FY23-27 Present Service	FY28-29 Partial CBTC	FY30+ Full CBTC
Peak Vehicles	636	945	955
Fleet Vehicles	847	1134	1146
Base Trains	59	64	64
Peak Trains	59	91	92
Transbay Trains in Peak Hour/Direction	20	28	30
Annual Car Miles (millions)	90.8	121.0	122.6
Annual Car Hours (Millions)	2.9	3.8	3.8

Note that Phase 2 of the BART Silicon Valley ("BSV") extension, previously estimated for an FY30 opening, has a revised opening date in FY34. The FY34 revenue service date was recommended by FTA in July 2021, and an updated revenue service date is under development by VTA in coordination with the FTA. The FY34 opening date falls outside of the 10-year scope of this SRTP; as such, the service statistics in **Table 3-3** do not include Phase 2 of BSV.

3.3 Operating Financial Plan

The operating financial plan, presented in **Table 3-4**, includes projected revenues, financial assistance, expenses, and allocations from operating funds to other BART programs. The major sources of each category are detailed in the subsequent sections.

Table 3-4 Operating Financial Plan

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Sources ($M)										
Passenger Fare Revenue	215	285	350	395	420	451	466	484	499	515
Parking Revenue	13	14	16	18	18	18	18	18	18	18
Other Operating Revenue	19	23	24	25	27	29	30	31	32	34
Total Operating Revenue	**248**	**321**	**391**	**438**	**465**	**498**	**514**	**534**	**550**	**568**
Sales Tax	312	311	319	329	339	349	360	371	383	395
Property Tax	58	61	64	66	67	69	71	73	74	76
State Transit Assistance	23	13	28	32	33	36	37	41	42	45
VTA Financial Assistance	33	31	32	31	32	35	36	37	38	39
Low Carbon Fuel Standard	17	16	19	22	22	22	22	24	26	26
Low Carbon Transit Operations Program	10	10	10	10	10	10	10	10	10	10
Other Financial Assistance	9	10	10	10	10	11	11	11	11	11
Total Financial Assistance	**462**	**453**	**483**	**500**	**513**	**533**	**547**	**568**	**584**	**603**
TOTAL REGULAR SOURCES	**710**	**774**	**874**	**938**	**978**	**1,031**	**1,061**	**1,101**	**1,134**	**1,171**
Uses ($M)										
Labor Expense	647	677	709	716	728	796	817	838	861	878
Non-Labor Expense	175	177	183	187	193	210	216	219	226	228
Station and Traction Power	53	54	56	57	58	88	90	95	97	100
Total Operating Expense	**874**	**909**	**948**	**960**	**980**	**1,094**	**1,123**	**1,152**	**1,184**	**1,206**
Debt Service	60	60	60	60	60	60	40	40	40	40
Baseline Capital Allocations	35	35	36	37	37	38	39	40	41	41
Priority Capital Allocations	33	64	51	54	57	43	43	43	43	43
Other Allocations	30	28	18	18	19	19	19	19	19	19
Total Debt Service & Allocations	**157**	**187**	**166**	**170**	**174**	**160**	**140**	**141**	**142**	**143**
TOTAL USES	**1,032**	**1,096**	**1,113**	**1,130**	**1,153**	**1,254**	**1,263**	**1,293**	**1,326**	**1,349**
OPERATING RESULT	**(322)**	**(322)**	**(239)**	**(192)**	**(175)**	**(223)**	**(202)**	**(192)**	**(192)**	**(178)**
Emergency Federal Assistance	322	322	239	21	0	0	0	0	0	0
FINAL OPERATING RESULT	**0**	**0**	**0**	**(171)**	**(175)**	**(223)**	**(202)**	**(192)**	**(192)**	**(178)**

3.3.1 Operating Sources: Revenue

3.3.1.1 Passenger Fare Revenue

Rail passenger revenue is projected based on the ridership forecast described in **Section 3.1**. Annual fare revenue starts with forecasted average weekday ridership, converted to gross fare revenue using a forecasted average fare, scaled to annual gross fare revenue using an annualization factor, then discounted to take into account BART's various fare discount offers.

The average fare forecast reflects BART's incremental fare increase policy, which implements fare increases every two years using the CPI-based fare formula that accounts for changes in inflation, both nationally and locally, over the two-years preceding the fare increase. This blended inflation figure is then reduced by 0.5% to account for increases in BART labor and operating efficiencies. This policy has been approved by the BART Board through FY26 and is expected to be renewed.

BART complies with the ADA requirement to provide paratransit service comparable and complementary to the BART system. In their areas of joint service, BART and AC Transit fund and administer the EBPC, which provides service through contractors. BART directly collects fare revenue from EBPC trips. Fare revenue projections are a function of ridership and is expected to rise as ridership returns.

3.3.1.2 Parking Revenue

Paid parking has traditionally been BART's largest source of non-fare revenue. BART generates revenue from daily fee and reserved parking at its 36 stations with parking facilities.

The FY23 and FY24 parking revenue budgets are $13.1M and $14.3M, respectively and is forecast in future years to commensurately grow with the ridership forecast. Parking revenue generated at the Milpitas and Berryessa stations is collected by the Santa Clara Valley Transportation Authority ("VTA") and is not budgeted by BART.

3.3.1.3 Other Operating Revenue

Other sources of operating revenue include advertising, fiber optics and telecommunications programs, ground leases, and fines. Categories not tied to ridership or contracts are forecast to keep pace with inflation.

3.3.2 Operating Sources: Financial Assistance

3.3.2.1 Sales Tax

BART's largest source of financial assistance (apart from one-time emergency federal aid) has historically been the dedicated 75% share of a one-half cent sales tax levied in the three BART District counties (San Francisco, Alameda, and Contra Costa).

As of the end of FY22, sales tax revenue had recovered and exceeded pre-pandemic levels with a FY22 year-end result of $311M. Sales volumes rebounded strongly from a brief drop in 2020, and prices have risen significantly with inflation and supply chain issues. Due to the higher-than-expected FY22 year-end result and FY23 actual sales tax receipts to-date, the sales tax revenue projection for this outlook has been revised upward from FY23 adopted budget level from $299M to $312M.

FY23-24 sales tax revenue is forecast to be relatively flat due in part to the recessionary impacts with high rates of inflation and the Fed's increases in interest rates since March 2022. Supply shortages in key sales tax generating sectors like fuel and auto sales contributed to increases in FY21 and FY22. Those supply shortages are expected to abate over the course of FY23 and FY24, slowing sales tax growth. For FY25 and beyond, sales tax revenue is forecast to escalate at long-term historical sales tax growth rates.

3.3.2.2 Property Tax

BART receives a pre-Proposition 13 property tax assessment in the three BART counties. Since the tax is based on assessed property values, the revenue it generates has increased in proportion to rising property values. Throughout the pandemic, property tax has largely continued on its pre-pandemic trend, with a robust residential real estate market. This trend may slow down with higher interest rates. Additionally, with high vacancy rates in the downtown San Francisco office market, it is possible that commercial property may be reassessed at lower values, putting property tax growth at risk.

The property tax forecast assumes pre-pandemic levels of growth through FY25, reflecting the robust residential real estate sector. Beyond FY25, the growth rate slows to reflect uncertainty in commercial real estate.

3.3.2.3 State Transit Assistance

BART receives funding through appropriations of State Transit Assistance ("STA"), which is derived from actual receipts of the sales tax on diesel fuel. Statewide collections can fluctuate based on diesel prices and consumption. In addition, appropriations to transit operators can vary based on calculations of qualifying revenues for the local operator and the region.

A hold harmless provision for the STA funding formula was passed in the state legislature and recently extended through FY23 to mitigate the impacts of pandemic-related drops in local matching fund sources on transit operators' STA receipts. Since it is uncertain if the hold harmless provision would be extended beyond FY23, the forecast for STA financial assistance drops off substantially starting in FY24 (approximately $10M less than expectations) and returning back to trendline by FY32 as ridership re-approaches pre-pandemic levels.

Over the two-year period FY23-24, MTC intends to retain $15M annually from BART's STA allotment as an offset for American Rescue Plan funding provided in 2021. The retained funds will be used, along with other regional funds, to support implementation of the Blue-Ribbon Task Force objectives.

3.3.2.4 Other Assistance

VTA Financial Assistance reflects the estimated net difference between fare revenue collected for all trips entering or exiting at VTA stations and the calculated operating expense. Per the terms of the 2001 Comprehensive Agreement governing operations of BART service into Santa Clara County, VTA will reimburse BART for the net expense for operating service on this extension. Projected SVBX fare revenue is based on the application of BART's distance-based fare formula to ridership forecasts provided by VTA. BART and VTA will reconcile financial results annually using actual ridership and related fare revenue and estimated operating and maintenance costs to determine the net financial result.

The Low Carbon Fuel Standard Program ("LCFS") is a state program administered by the California Air Resources Board. The purpose of the program is to move state energy production toward less carbon-intensive fuel sources. Under newly updated regulations, electric railroad operators such as BART are permitted to sell credits to producers of higher-carbon-intensity fuels for the purpose of meeting their program compliance obligations. Revenues collected from the LCFS credits depend on the LCFS credit market and the timing of BART's sales. Based on four years of market history, BART expects annual revenue of $6.5 million per year, though actual revenues in future years are unpredictable and will depend on market conditions at the time.

BART receives funding from the Low Carbon Transit Operations Program ("LCTOP"), one of several programs of the Transit, Affordable Housing, and Sustainable Communities Program (SB 862) established in 2014 by the California legislature. Programs in SB 862 are funded by revenue from the state's Cap-and-Trade Program through the auction of carbon credits. The LCTOP provides transit agencies with operating and capital assistance for programs to reduce greenhouse gas emissions and improve mobility and prioritizes serving disadvantaged communities. SB 32 extended the Cap-and-Trade Program to 2030.

BART also receives smaller amounts of annual operating funding from several local sources including Alameda, Contra Costa, and San Mateo counties, the cities of Berkeley and Oakland, and other agencies such as Caltrain and SamTrans.

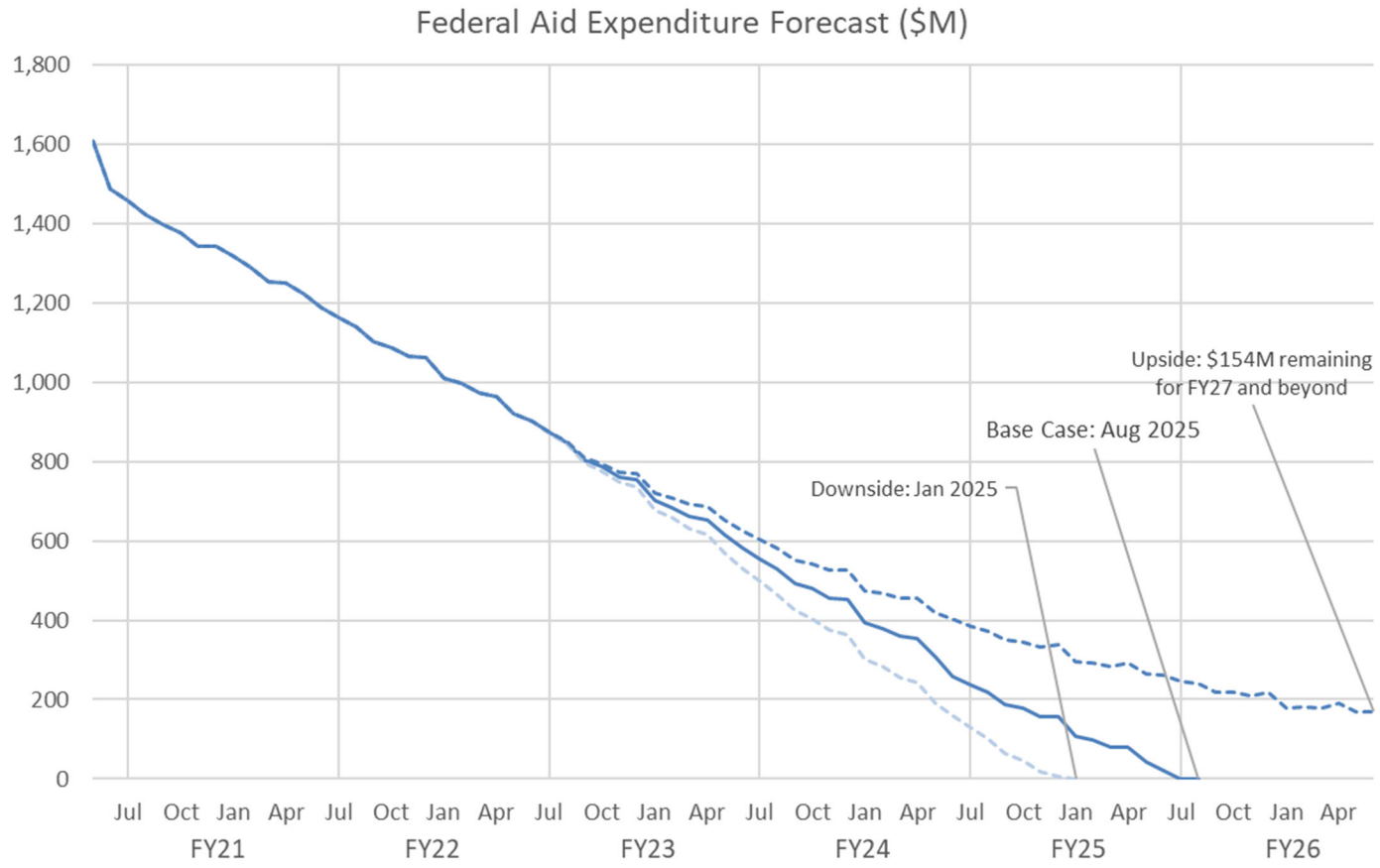
3.3.3 Operating Sources: One-Time Emergency Federal Aid

Since the start of the COVID-19 pandemic, US transit agencies have received emergency funding through three acts of Congress. The Coronavirus Aid, Relief, and Economic Security ("CARES") Act, signed into law in March 2020, provided $25B to transit operators nationwide. The Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"), signed in December 2020, provided an additional $14B in transit funding. The American Rescue Plan Act ("ARP"), signed March 11, 2021, includes $30.5B in federal funding to support the nation's public transportation systems.

In total, BART will receive $1,608M from these emergency funding bills: $377.1M from the CARES Act in 2020, $378.1M from CRRSAA in 2021, an initial allocation of $582.3M from ARP in the second half of 2021, and finally an additional tranche of $270.8M awarded to BART in March 2022.

Through the end of FY22, BART has expended $705M of emergency federal aid (44% of the total available) to close the annual budget gaps since the start of the pandemic. BART continues to close forecasted budget gaps until the funds are exhausted, which is estimated to be in August 2025 for the Base Case, presented in **Figure 3-3**.

Figure 3-3 Federal Aid Expenditure Forecast



3.3.4 Operating Uses: Expenses

Operating expense projections use the FY23 adopted budget as the base. Projections for future years reflect the terms of current labor contracts, anticipated changes to benefit costs, inflation, and agreements with other agencies and service providers. The forecast reflects the operating expense of planned service changes (see **Section 3.2**).

3.3.4.1 Net Labor and Benefits

Labor costs, including both wages and benefits, are the primary driver for BART's operating uses, comprising 63% of BART's operating expense in FY23. Labor costs reflect the wage increases and benefits included in the labor agreements, updated June 2022, and are summarized in **Table 3-5**.

Table 3-5 Contractual Wage Increase by Bargaining Unit

Bargaining Unit	FY23	FY24	FY25	FY26
BPMA/BPOA	2.0%	2.0%	3.5%	3.0%
AFSCME/ATU/SEIU/Non-Rep	3.5%	3.0%	4.0%	

An annual average wage increase of 2% is assumed for the years not covered by the labor contracts. Major benefit categories include active employee medical insurance and pension, while smaller categories include post-employment benefits for retiree medical and life insurance.

Active employee medical insurance

The cost of healthcare insurance for active employees is consistent with CalPERS actuarial forecasts through FY27, with a 2% escalation rate applied thereafter. For FY23, the projected cost is $88.7M.

Pension

The California Public Employee Retirement System ("CalPERS") administers and determines funding rates for BART pension plans for Miscellaneous (which covers all but sworn police officers) and Safety (which covers sworn police officers) employees. CalPERS actuarial reports are used for the five-year forecast through FY27, with a 2% escalation rate applied thereafter. The budgeted pension contribution for FY23 is $47.8M.

Retiree Medical

BART's annual retiree medical cost is the amount of the Actuarial Determined Contribution ("ADC") which covers insurance premiums for current retirees and builds funds into a retiree medical reserve to cover payments for the long-term liability of current employees. The FY23 ADC is $45M.

3.3.4.2 Traction and Station Power

In FY23, BART's electric power cost is just under 5% of the total annual operating budget. BART uses approximately 400,000 megawatt-hours per year to power its fleet of 100% electric rail cars, as well as its stations, shops and wayside facilities, making it among the largest electricity end users in Northern California.

2021 saw the commencement of commercial operations for BART's two new renewable power purchase agreements, Slate Solar (50.5 MW), and Sky River Wind (30 MW). Together, these projects are expected to serve approximately 50% of the District's annual electricity requirements beginning in 2022.

The power cost forecast takes into account these long-term power purchase agreements for electric supply as well as transmission and distribution costs.

3.3.4.3 Other Non-Labor Expenses

Non-labor expenses include materials usage; rental and maintenance contracts; insurance; utilities other than traction and station power, including diesel fuel for BART to Antioch DMU operations; professional and technical services; and other miscellaneous expenses, including fees paid to MTC and financial institutions to administer the Clipper regional transit smart card program. Most other non-labor categories are assumed to increase at the rate of inflation

BART's paratransit program has been operating under full federal compliance since 1997. Expenses, which rapidly escalated during the program's early days, have been relatively stable in recent years. The SRTP forecasts expenses of $16.7 million for FY23 and a subsequent annual expense growth of 2%.

BART service to the Oakland International Airport opened in November 2014 and will be operated and maintained for 20 years by a private contractor, Doppelmayr Cable Car. Contractor performance measures and inflation factors apply to the calculation of annual operations and maintenance ("O&M") costs. The FY23 budgeted O&M cost is $7.0 million, growing based upon the escalation factors built into the contract.

3.3.5 Operating Uses: Debt Service and Allocations

Since 1976, BART has been allocating operating funds to capital projects and is one of the few transit operators to do so. These annual allocations are used for many critical capital projects that do not qualify for grant funding or for which other funding sources may not be available. BART has substantially increased annual allocations when funding sources, primarily ridership and fare revenue, have grown more than budgeted. Conversely, BART has reduced allocations when facing reduced operating revenues associated with recessions and lower ridership. This approach allows for the increases in operating sources to be redirected to one-time or short-term capital needs and for scaling back when financial resources require, instead of reducing service.

In recent years, BART has taken an even larger role in self-funding critical capital needs to reduce its reliance on unpredictable federal and state funding. Allocations include debt service, allocations to support the capital program, and other allocations as required by agreements with other agencies or accounting rules.

3.3.5.1 Bond Debt Service

BART issues bonds, backed by BART's dedicated sales tax revenues, to fund capital costs for system improvement and renovation. The debt service budget in FY23 is $59.9M and in FY24 is $60.1M for outstanding Series 2015A, 2016A, 2017A, 2017B, 2019A and 2019B revenue bonds with an outstanding balance of $657.5M as of June 2022.

3.3.5.2 Allocations

The annual baseline allocation serves as the required local match for federal grants or to fund ongoing capital projects for which grants are not typically available, such as stations and facilities renovation, inventory buildup, non-revenue vehicle replacement, tools, other capitalized maintenance, and funds to support technology needs. For FY23, BART has budgeted $46.5M of allocations for this purpose and forecasts a 2% annual increase in need for future years.

BART has also made a commitment to provide operating funds for Priority Capital Projects, a group of capital projects that are needed for system reliability and for system capacity increases to meet future ridership demand. These include new rail cars, the Hayward Maintenance Complex, and the Train Control Modernization Program. With the re-authorization of the Series 3, 2022-2026, Productivity-Adjusted Inflation-Based Fare Increase Program in 2019, BART planned to allocate $200M to Priority Capital Projects across the program timeline. Contributions to the capital program are expected to continue beyond the $200M as needs arise. BART has budgeted $33.0M of Priority Capital Allocations in FY23 and $64.0M in FY24. The allocation schedule is predicated on project cash flow needs in the near-term and assumes flat allocations in the long-term.

Per Board policy, 50% of LCFS revenues are set aside for Sustainability capital projects. This policy was suspended during the pandemic in FY21-22 but is restored in FY23 moving forward.

Other allocations include the BART-to-OAK Capital Asset Replacement Program ("CARP"), budgeted at $1.1M for FY23; and accounting entries to offset amounts booked as other revenue or financial assistance for development at the Pleasant Hill/Contra Costa Centre and MacArthur stations, budgeted at $0.6M for FY23.

Finally, per Board policy, BART allocates approximately $10 million annually with the intention of paying down the outstanding CalPERS unfunded liability on an accelerated timeline. This strategy will reduce the overall liability by paying down a larger portion of principal and interest than the current plan.

4 Fiscal Stability Strategies and BART's Future

This document describes the most serious fiscal challenges in BART's history. In the Base Case scenario (in which ridership recovers to 70% of pre-pandemic levels by 2027), BART would fully expend federal funds by approximately August 2025; thereafter, the District would face operating deficits between $170M and $220M per year, totaling to $1.3B by FY32. In the Downside scenario (in which ridership recovers to 60% of pre-pandemic levels by 2027), federal funds would be expended as soon as January 2025; thereafter, BART would face operating deficits between $250M and $300M per year, totaling to $2.3B by FY32.

The companion document to this *FY23-32 Operating Financial Outlook* is the *FY23 Reimagined Short Range Transit Plan*, which analyzes the scenario of reducing service levels in order to meet different levels of revenue constraints. The analysis shows that cutting service to meet a lower expense target results in reduced fare revenue, which in turn lowers the expense target again. Continuing this strategy requires further reducing service, which again reduces fare revenue. This vicious cycle is commonly known as the transit "death spiral."

Because service reductions do not offer a realistic path to address the District's fiscal challenge, BART is instead working toward fiscal stability across multiple fronts:

- Managing expense: FY22 operating expense was $796M, just 4% above FY19 levels despite having added the Silicon Valley extension and seen significant inflation in the interim. BART will continue to work to extend the fiscal runway through the FY24-25 budget process, which begins in January 2023.
- Investments in ridership recovery: Key investments in ridership recovery have included restoration of pre-pandemic service levels, enhanced cleaning, and progressive policing. BART has also taken a leadership role in the implementation of Blue Ribbon Transit Recovery Action Plan alongside MTC and regional transit agency partners.

While managing expenses and investing in ridership recovery are both critical, BART will need to secure one or more new sources of revenue to continue to deliver the service the Bay Area needs after federal funds are exhausted. Ultimately, we must work toward a funding model with more public investment so that we are less reliant on passenger fares. BART will continue to work with regional partners on options for long-term local or regional funding. Because permanent new sources of funding may be years away, BART will also be pursuing opportunities for one-time or temporary state funding for operations.