

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

MEMORANDUM

TO: Board of Directors

DATE: March 5, 2024

FROM: General Manager

SUBJECT: FY24 Second Quarter Financial Report (QFR)

New Report Structure

This memo summarizes BART's Fiscal Year 2024 (FY24) second quarter (October – December 2023) financial performance. In the past, BART staff have submitted two separate financial reports to the Board each quarter—an operating budget-focused report (known as the Quarterly Financial Report) and a separate report of the District's retiree benefit obligations, grants receivable, cash and investments, long-term debt obligations, and operating reserves (known as the Controller-Treasurer Report). These two reports have now been combined into a single document with the goal of improving financial reporting.

This cover memo summarizes the District's budget to actuals performance, which are shown in tabular format in Attachment 1. Attachment 2 shows the District's allocations, drawdowns, and use of emergency funding, while Attachment 3 is a summary of ridership trends during the period.

Executive Summary

The District's net operating result was balanced through the second quarter (Q2) of FY24 due to the continued use of emergency assistance funds allocated through the American Rescue Plan Act (ARPA). These funds enabled the District to cover a \$162.6 million (M) operating deficit (the difference between operating revenues and expenses incurred) over the six month period of July 1 to December 31, 2023.

Ridership totaled 24.9M exits through Q2 FY24, 1.6% below budget but 10% higher than the same period last year. Average weekday ridership during this period was 162,590 exits, 1.8% below budget, and 11% higher than a year ago. Second quarter FY24 ridership was slightly lower than the previous quarter. On a month-to-month basis, average weekday ridership decreased: October (171,300), November (165,800) and December (144,000). This month-over-month decrease in weekday ridership from October to December is consistent with expected seasonal trends.

Operating Revenue

Operating Revenue was \$1.2M (0.9%) below budget through the first two quarters of FY24. **Net Passenger Revenue** was nearly on budget, at just \$200,000 (0.2%) below budget expectations. **Parking Revenue** was \$0.5M (6.1%) favorable. **Other Operating Revenue** was \$1.4M (13.3%) below budget in part due to lower-than-expected advertising and lease revenues.

Investment Revenue was \$15.6M favorable to budget through the first two quarters of FY24 due to advantageous market conditions. Note that investment revenue is budgeted conservatively as market conditions are difficult to forecast and can also be negative.

Financial Assistance

Sales Tax revenue was \$0.8M (0.5%) favorable and **Property Tax** was \$3.0M (9.7%) favorable through Q2 FY24. **VTA Financial Assistance** was \$0.4M (2.2%) unfavorable to budget (less funds received from VTA) due to new projected costs attributed to the extension, which were updated after the FY24 budget was adopted.

Other Assistance through Q2 FY24 was \$7.9M (55.0%) favorable. This is mostly due to an earlier-than-expected Low Carbon Transit Operations Program (LCTOP) payment, which was budgeted to arrive in four equal quarterly payments of \$2.6M. Instead, BART received \$9.5M in Q2 2024, which will be \$0.7M (7.0%) unfavorable versus budget when considered across the entirety of FY24. Local financial assistance was \$0.7M favorable versus budget through Q2 FY24.

Operating Uses

Total Operating Expense was \$16.1M (3.5%) higher than budget through the second quarter of FY24.

Total gross **Wages, Fringe Benefits & Other Labor** was \$13.4M (3.2%) below budget. However, Net Operating Wages, Fringe Benefits & Other Labor finished the second quarter \$19.6M (6.1%) unfavorable to budget, driven primarily by unfavorable Capital Labor Reimbursements of \$33.0M (34.2%).

Total gross **Overtime** was \$40.1M through Q2, slightly over budget by \$0.3M; however this was \$7.7M lower than FY23 Q2 results. When Capital Reimbursements Overtime is accounted for, net operating overtime variance is \$4.7M (16.8%) unfavorable to budget.

On a net basis, the District exceeded its operating labor budget through the second quarter by \$24.3M (6.9%); this variance was almost entirely due to lower than budgeted capital labor reimbursements.

Much of variance is budget neutral, as it is the result of overestimates of expected capital labor contained in the FY24 Adopted Budget (due to technical issues implementing capital position vacancy assumptions and in adjusting the split of regular and overtime capital reimbursements). The amount of capital hours assumed in the budget was too high, so neither the gross wages nor the capital reimbursements were generated; as the two offset each other, there is no negative operating budget variance.

Approximately \$41M of the negative Capital Labor Reimbursements variance across Regular Wages and Overtime can be attributed to BART staff budgeted as capital-funded actually charging to the operating budget. This is the result of staff being redirected in recent years from capital to operating work, as needed work in the system shifted to maintenance and service delivery. Each hour budgeted as capital that is charged to the operating budget generates a negative capital reimbursement variance.

BART staff have been working to identify, size, and resolve issues related to capital labor reimbursements over the past two fiscal years, and will correct capital labor reimbursement assumptions in the upcoming FY25 & FY26 Preliminary Budget Memo to account for the actual distribution of work across funding sources.

Non-labor expense was below budget through the second quarter by \$8.2M (7.4%). Electric Power was \$1.7M unfavorable (5.8%) due to unexpectedly high December market electricity and transmission costs. **Other Non-Labor** was \$9.7M (13.8%) favorable to budget, with most of the favorable variance in Professional Fees, Miscellaneous Expenses, Other Utilities, Repairs & Maintenance and Material Usage.

Professional Fees were \$4.4M favorable, mostly due to timing of invoicing vendors and invoice payments. Miscellaneous Expenses were \$1.8M favorable, again, mostly due to timing of the California's Dept. of Industrial Relations invoice payment related to taxes and other fees owed for BART's self-insured (self-funded) Workers' Compensation program. Other Utilities were \$1.4M favorable due to timing of invoice payments and other utility expenses booked to Material and Repair accounts. Repairs & Maintenance was \$1.2M favorable due to delayed station cleaning contracts, timing of invoice payments and harvesting parts from decommissioned rail cars. Material Usage was \$1.0M favorable, due to the sooner than anticipated removal of legacy cars from revenue service; these savings were offset by a \$3.9M write-off of obsolete legacy "C" cars and associated inventory.

Debt Service and Allocations is \$6.0M (15.9%) favorable, mostly due to the reversal of a \$5.4M FY21 allocation for replacement of equipment on the BART-to-Antioch extension back into the operating budget.

Emergency Assistance

The District needed \$162.2M in ARPA funding to cover the difference between operating revenues and expenses through the second quarter. This amount is \$9.7M (5.6%) less than budget and was driven by \$14.4M of favorable total revenues and \$5.4M of favorable financial assistance, offsetting the \$10.1M unfavorable total uses. Through December, of the \$1.6 billion (B) of federal emergency assistance allocated to the District since 2020, \$1.2B (73.6%) has been expended and \$425M (26.5%) remains for future use.

FY24 Year-End Projection

Looking ahead, staff currently project to end FY24 requiring \$27.4M less Emergency Assistance than budgeted, with some notable variances. Total sources are expected to end the year \$50.4 (6.9%) above budget. As noted in the FY24 Q1 QFR, approximately \$31M is driven by two substantive changes in the State Transit Assistance (STA) forecast: 1) the State's extension of the hold harmless agreement, previously forecast to expire at the end of calendar year 2023, and 2) MTC's timing of STA payments to BART, which shifted \$16M from FY23 to FY24. Investment revenue is conservatively projected to end FY24 \$17M above budget. Finally, parking revenue is projected to end FY24 \$1.6M above budget, due to higher-than-budgeted parking utilization as well as the extension of special parking agreements.

On the expense side, labor costs are expected to end the fiscal year \$49.5 (5.2%) above budget due to lower-than-expected capital reimbursements. Operating overtime is projected to end the year \$10.1M (19.0%) above budget, with gross Overtime ending closer to budget.

At this time, staff do not expect further downward revisions to the capital reimbursements projection and will correct the issue in the FY25 & FY26 Preliminary Budget.

Non-Labor costs are projected to end the fiscal year \$0.8M (0.3%) below budget. Most of the savings are projected to come from Other Non-Labor, which is forecasted to end the year \$2.4M (1.7%) below budget most due to favorable Material Usage. Traction power costs, while currently projected to end the year on budget, are an area of concern due to uncertainty around electricity prices and pending California Public Utilities (CPUC) decisions around transmission and distribution rates, which are passed on to BART.

While Debt Service is projected to finish the fiscal year on budget, Allocations are projected to finish the fiscal year \$21.3M underbudget due primarily to \$17.0M in downward revisions to needed Priority Capital funds.

Overall Uses in FY24 are projected to be \$27.4M (2.5%) above budget, driven primarily by the underperformance in capital reimbursements discussed above. Combined with the projected \$50.4M favorable variance in Sources, staff project that the District will need \$23.0M (6.5%) less federal emergency assistance to balance the budget by year-end. This variance will be used to offset deficits in future fiscal years.

If you have any questions about this report, please contact Christopher Simi, Budget Director, at csimi@bart.gov.

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cc: Board Appointed Officers
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