San Francisco Bay Area Rapid Transit District

Board Workshop 2023

BART

Workshop Agenda

- Introductory Remarks
- Regional Context and Financial Outlook
- *Break*
- Financial Stability: Short- and Long-term Strategy
- *Break*
- Working Lunch: Customer Satisfaction Survey
- *Break*
- Improving Customer Experience
- *Break*
- Summary Wrap Up

Regional Context and Financial Outlook

Board Workshop

February 23, 2023

Presentation Overview

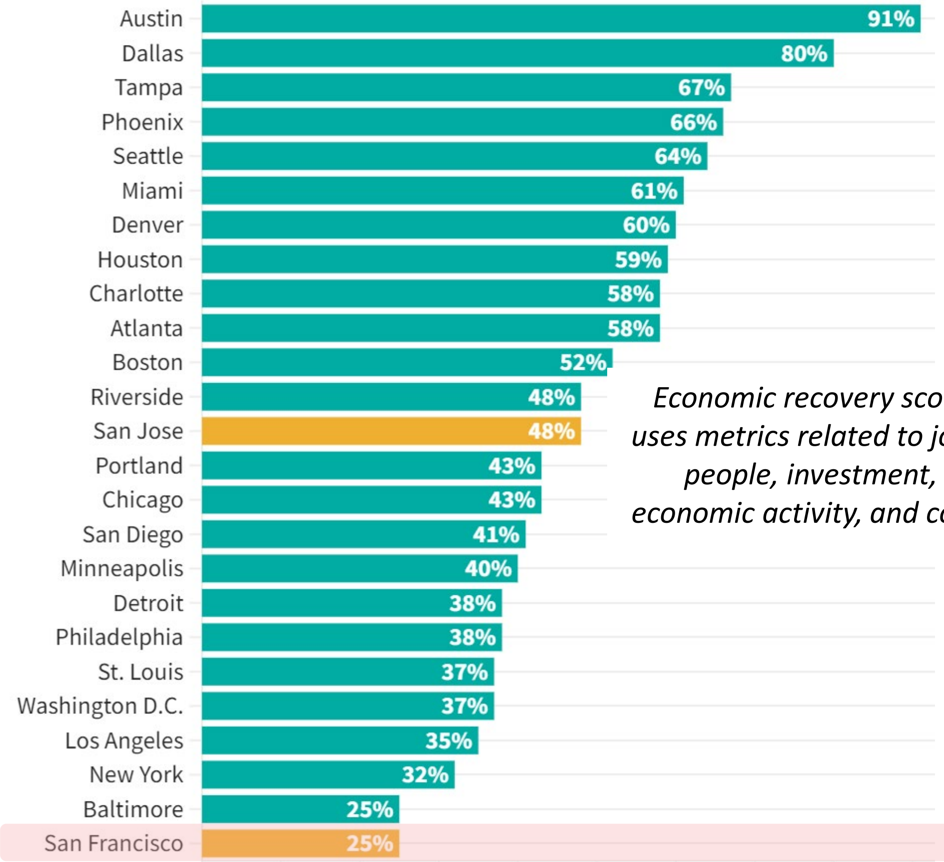
- Regional Context and Trends
  - Economic Trends and Recovery
  - Employment Trends
  - Remote Work Trends
  - Travel and Ridership Trends
  - Climate Policy
- Financial Outlook
  - Ridership Trends and Projections
  - Operating Revenue and Expense Projections
  - Fiscal Runway and Next Steps

Regional Context and Trends

Economic Trends & Recovery

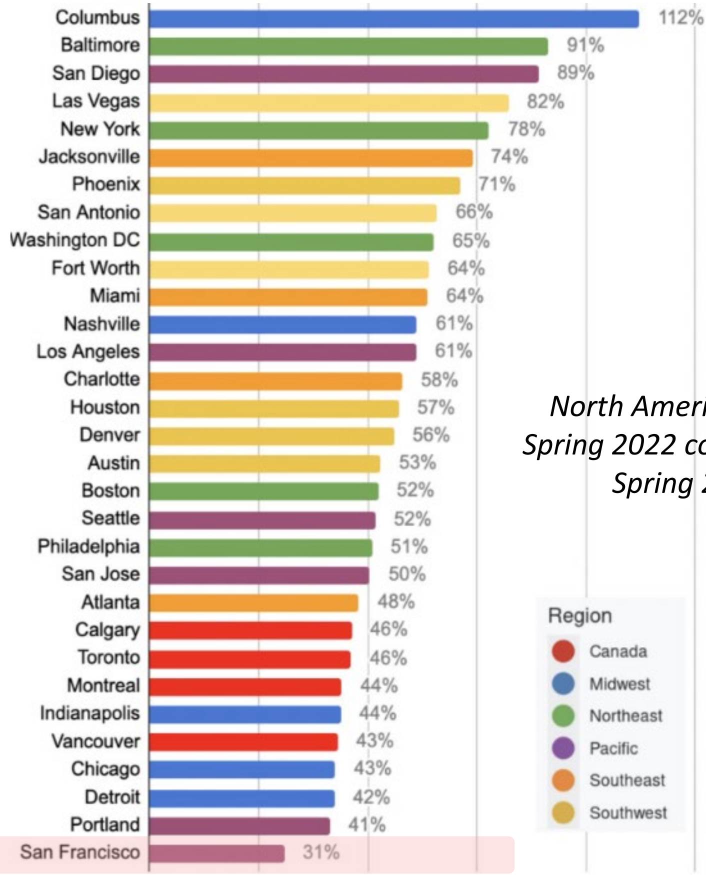
- Downtown San Francisco activity lagging post-COVID

Economic Recovery Score (out of 100%)



Economic recovery score uses metrics related to jobs, people, investment, economic activity, and costs

Compare Downtown Mobile Phone Activity



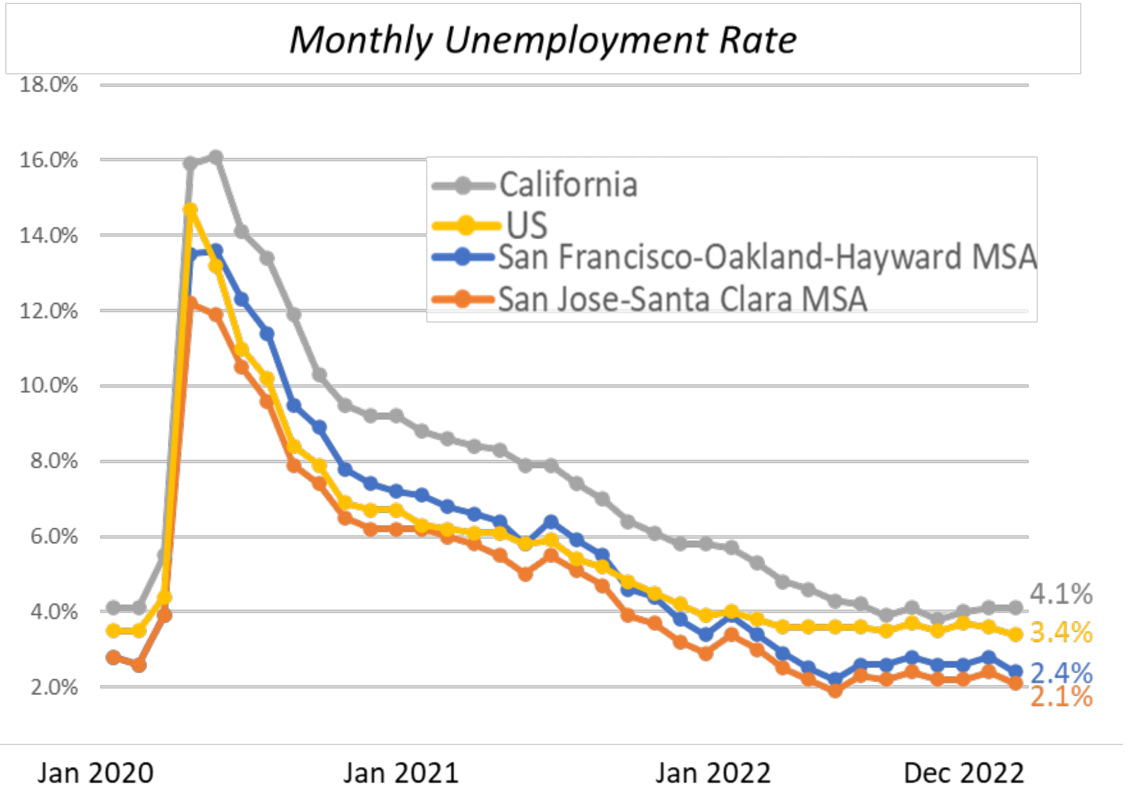
North American cities Spring 2022 compared to Spring 2019

Source: Bay Area Council Economic Institute (January 2022)

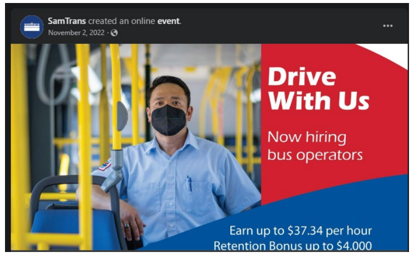
Source: UC Berkeley/University of Toronto –Downtown Recovery Study

Employment Trends

- National indicators of a labor shortage
  - 2.8 M fewer workers than pre-pandemic
  - Two times more job openings than unemployed workers
- Regional unemployment rates lower than state and nation
- Hiring challenges felt across region



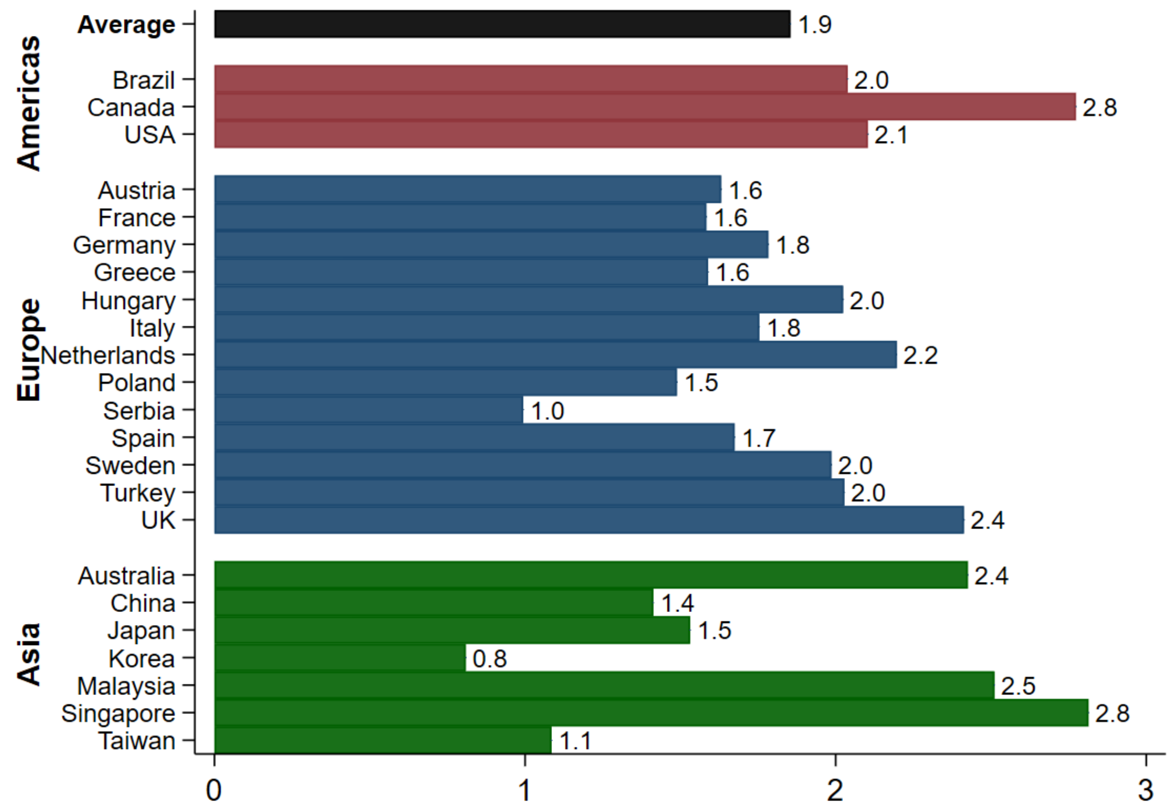
Source: Bureau of Labor Statistics



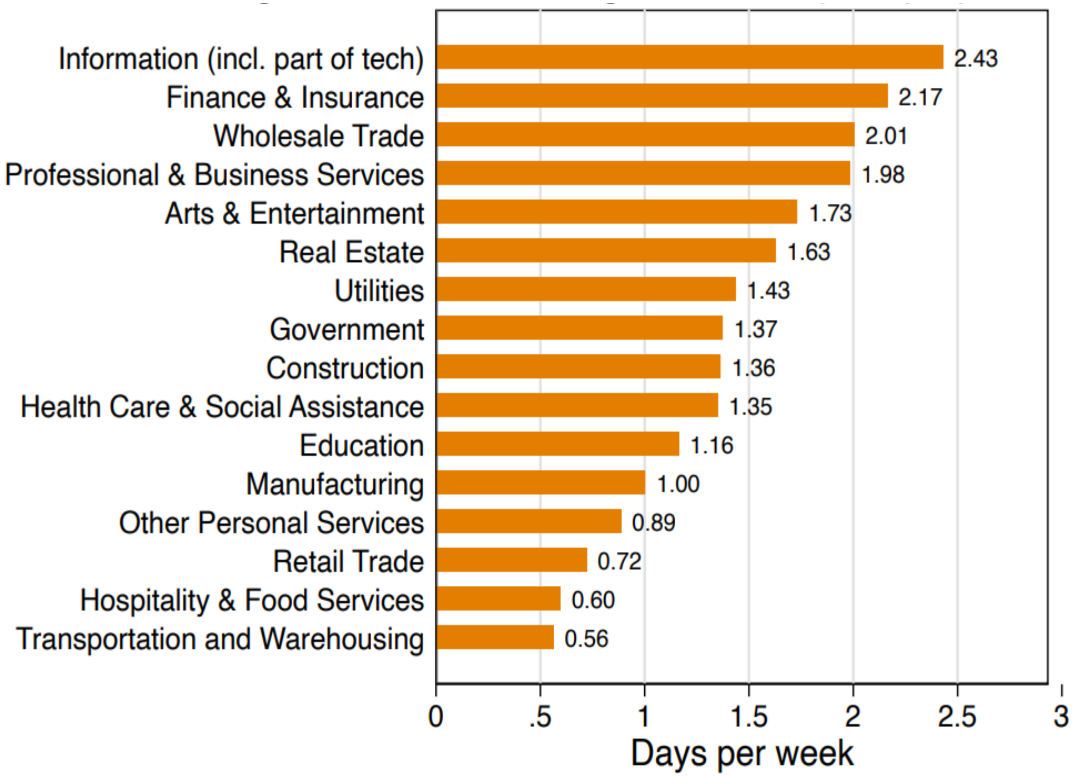
Remote Work Trend

- Global average is around two days per week
- Higher in US for information, finance, professional and business services

Number of Days Working from Home for University Graduates Globally



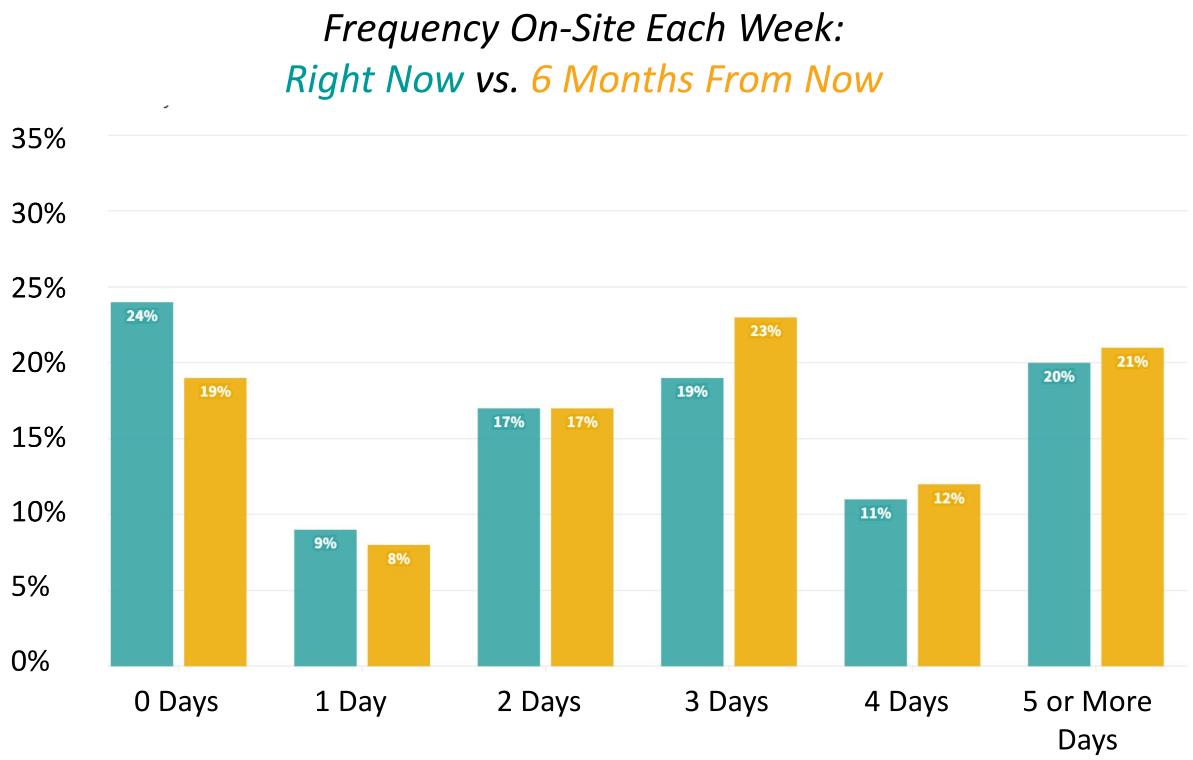
Number of Days Working from Home by Sector (US only)

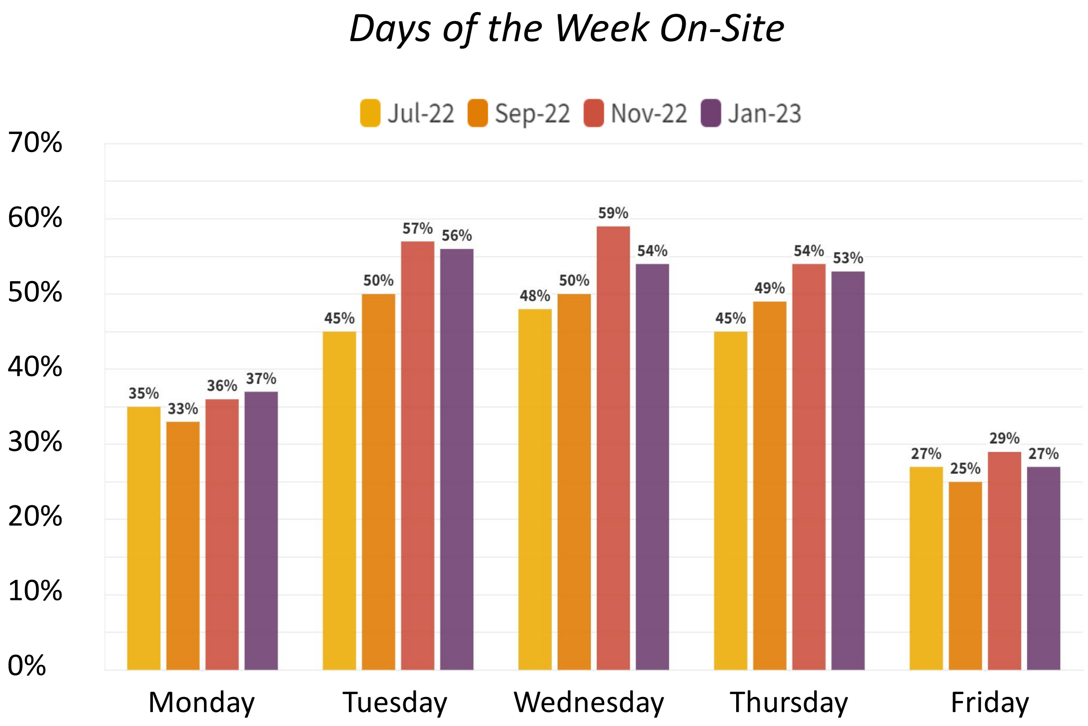


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, Work from Home Research: Survey of Work Arrangements, 2021-2022 Data

Bay Area On-Site Work Trends

- Average two to three days per week
- Tuesday, Wednesday, and Thursday most common



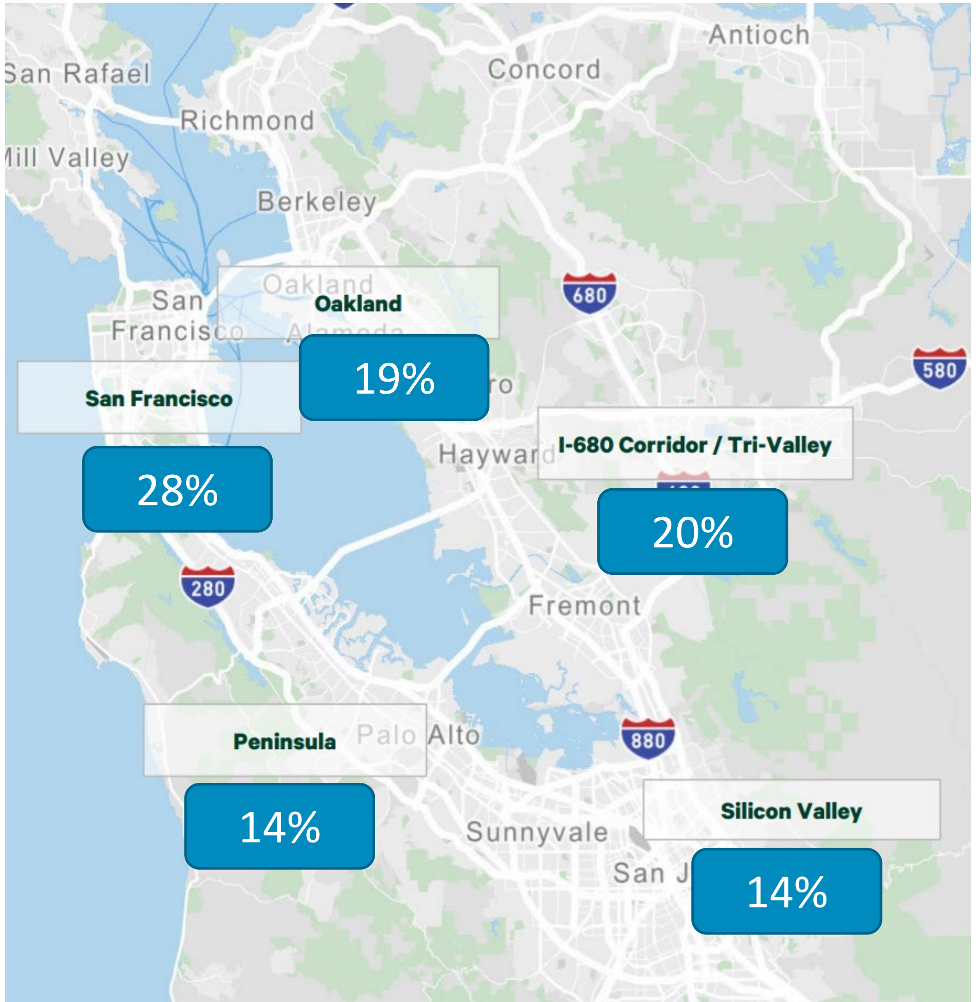


Source: January 2023 Bay Area Council (BAC) Employer Network Poll Results

Office Market Trends

- High office vacancy rates in San Francisco and regionally
- Survey of Bay Area employers* indicates :
  - 32% have reduced office space
  - 21% plan to reduce total office space
  - 11% plan to increase total office space

Bay Area Office Vacancy Rates



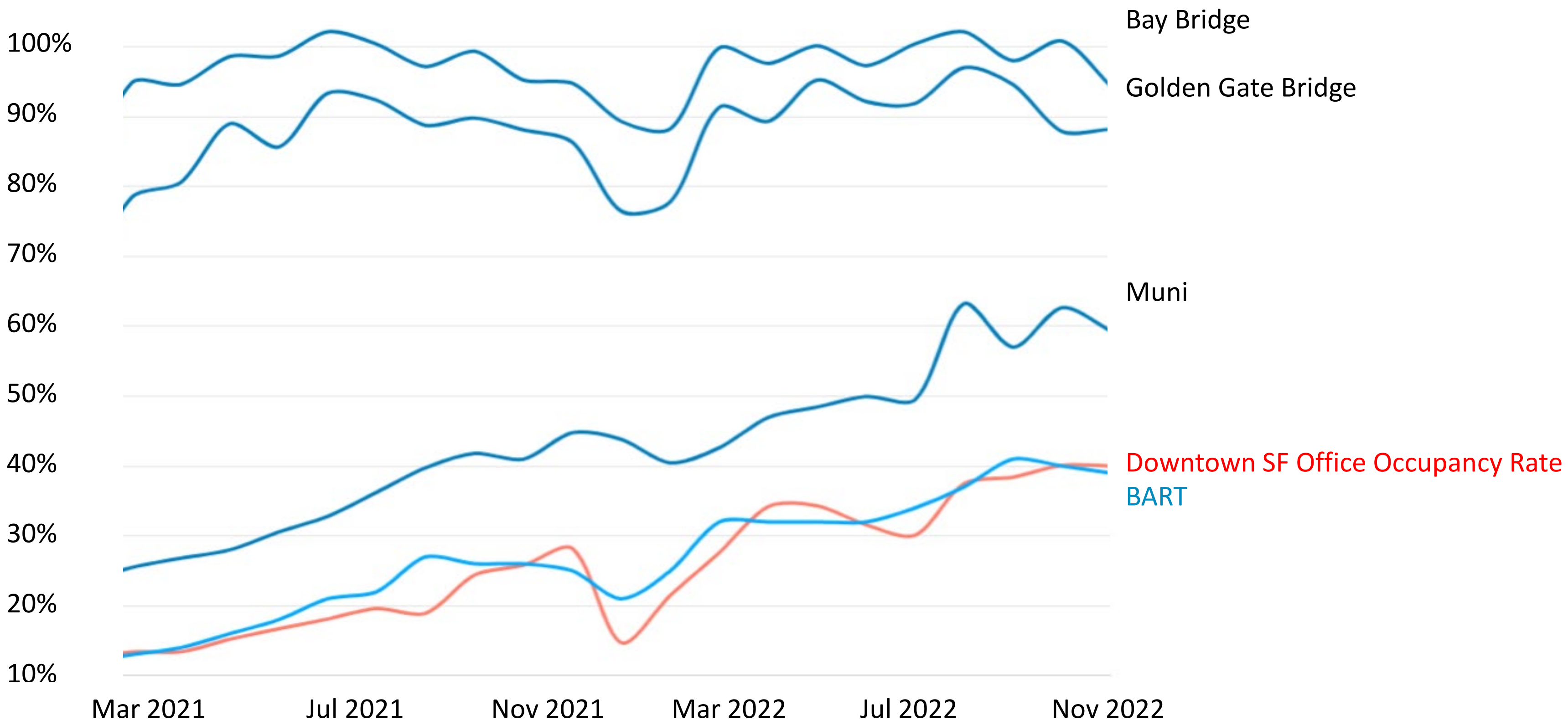
Source: CBRE Bay Area Office Snapshot (Quarter 4 2022)

** Source: January 2023 BAC Employer Network Poll Results, Bay Area Council Economic Institute*

Travel Trends

- BART ridership aligns more closely with downtown San Francisco office occupancy than other modes

Traffic Volumes by Mode Compared to Equivalent Month in 2019

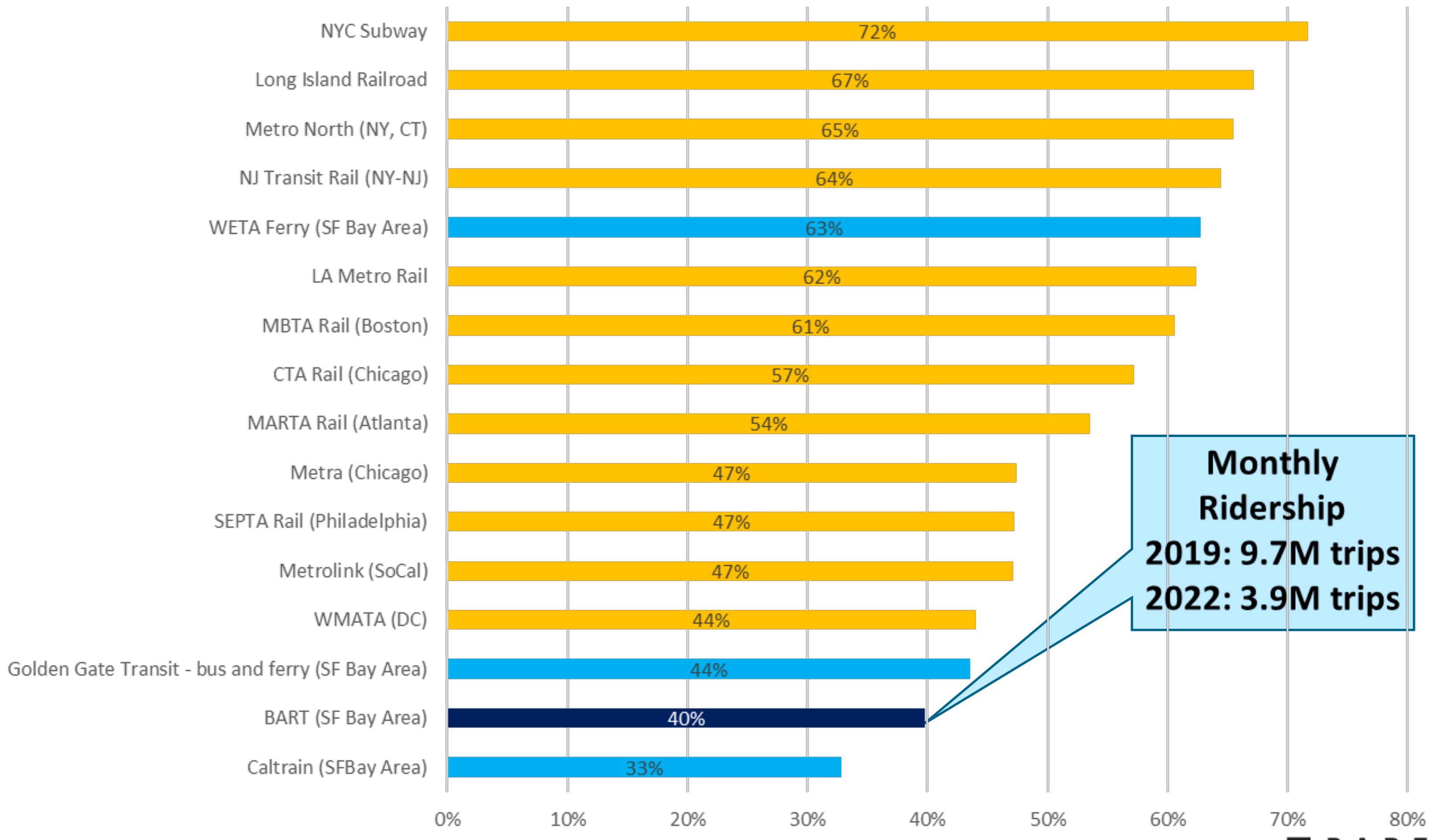


Source: San Francisco Chamber of Commerce:- Downtown Economic Indicators Data Dashboard

Transit Ridership Recovery

- Transit ridership has not recovered to pre-pandemic levels
- BART recovering slower than peer agencies

Ridership Recovery for BART and Peer Services

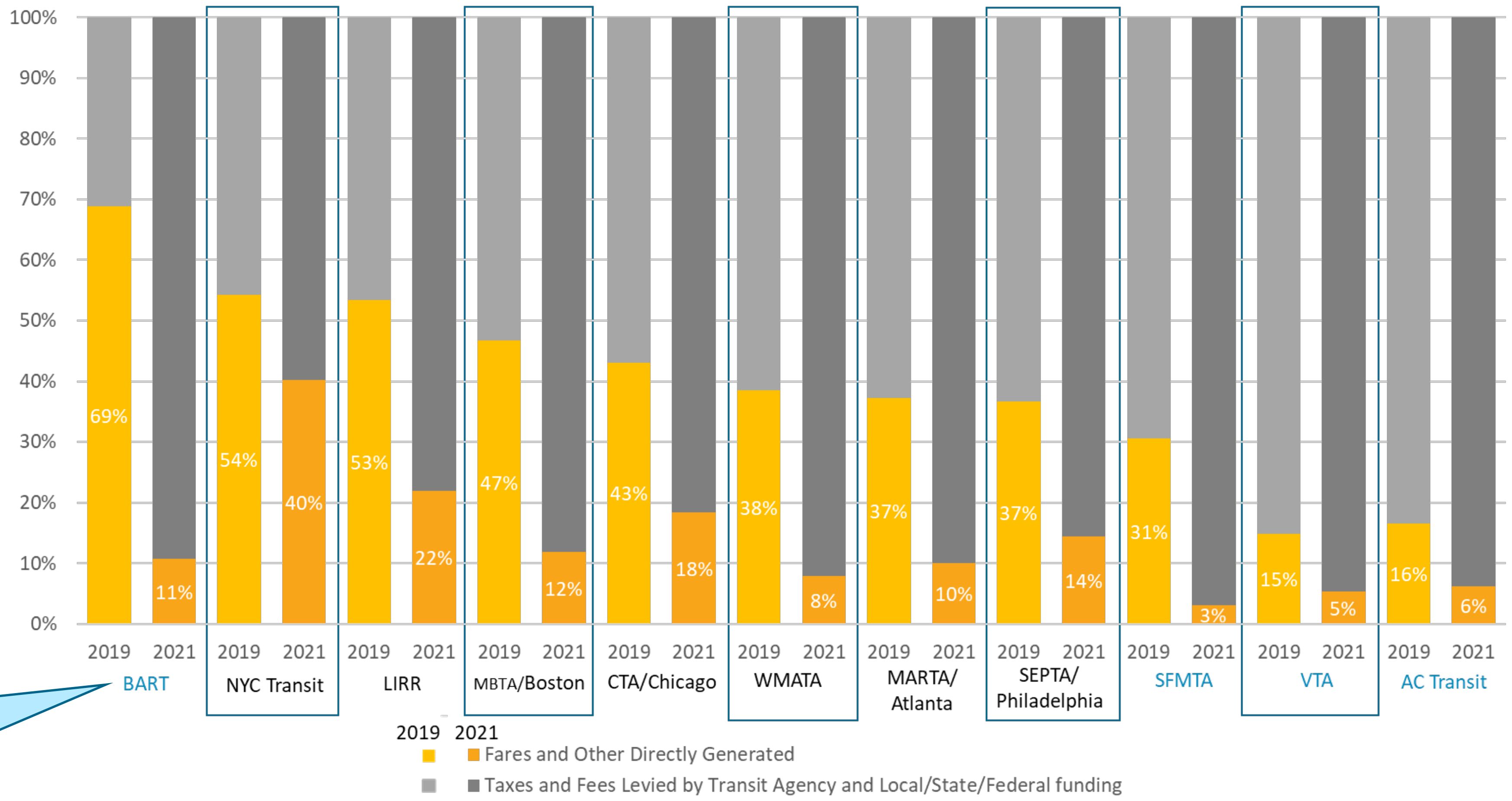


Source: National Transit Database, November 2022 compared to November 2019

Farebox Recovery

- 2019 to 2021 farebox revenue comparison
  - Decreased for all transit agencies
  - BART had largest drop among peer agencies

Breakdown of Operating Expenses by Agency: Fares Versus Other Funding Sources



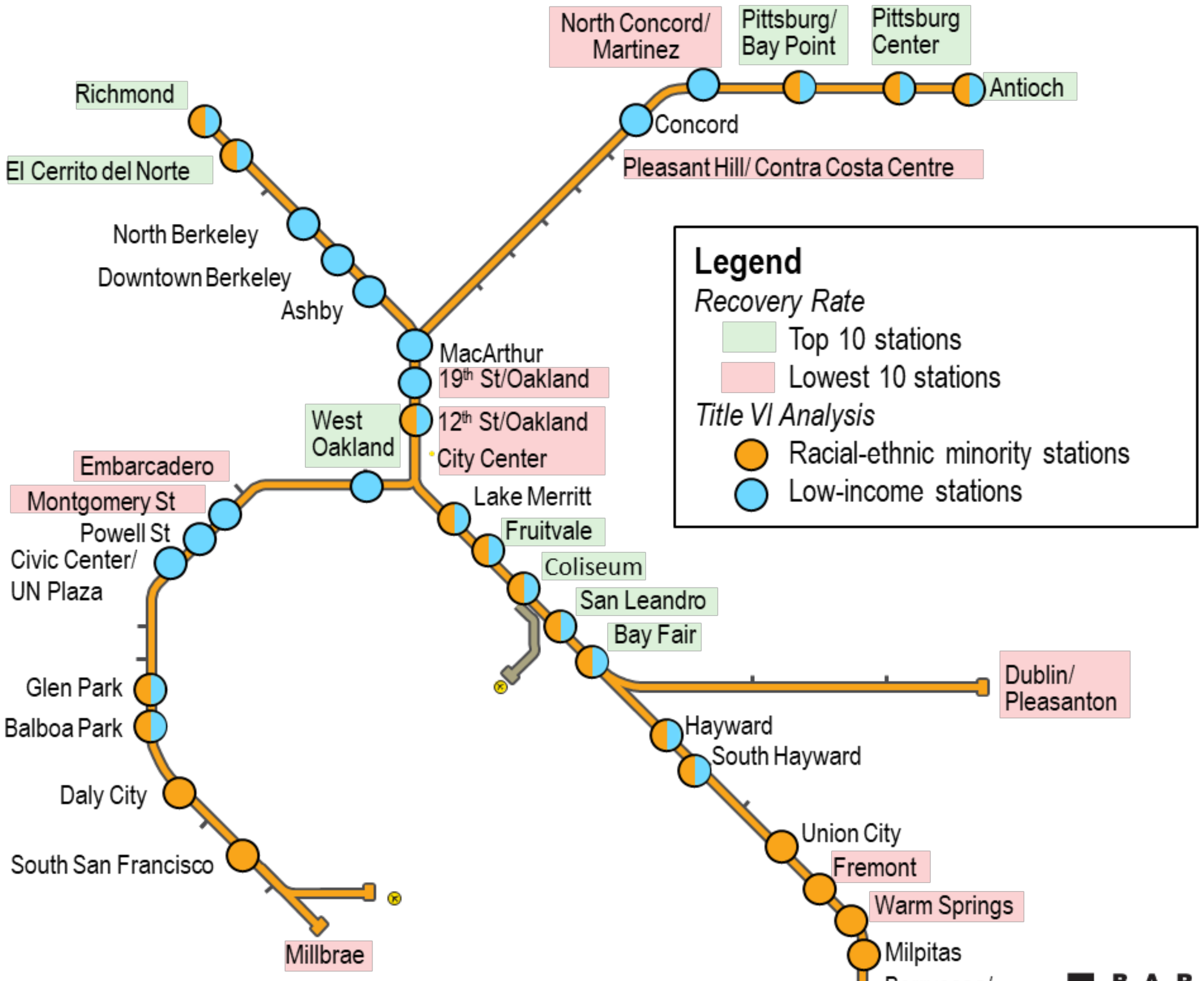
Farebox
2019: $482 M
2021: $91 M

Source: National Transit Database

BART Ridership Recovery Trends

- Stations serving people of color and low-income riders tend to have higher recovery rates
- Stations serving commute markets have the highest ridership numbers but the lowest recovery rates
- Ridership profile
  - 31% live in households with income under $50,000
  - 44% do not have a vehicle
  - 67% identify as non-white
  - 49% are ages 25 to 44
  - 7% have a disability

Station Ridership Rate of Recovery and BART Title VI Analysis

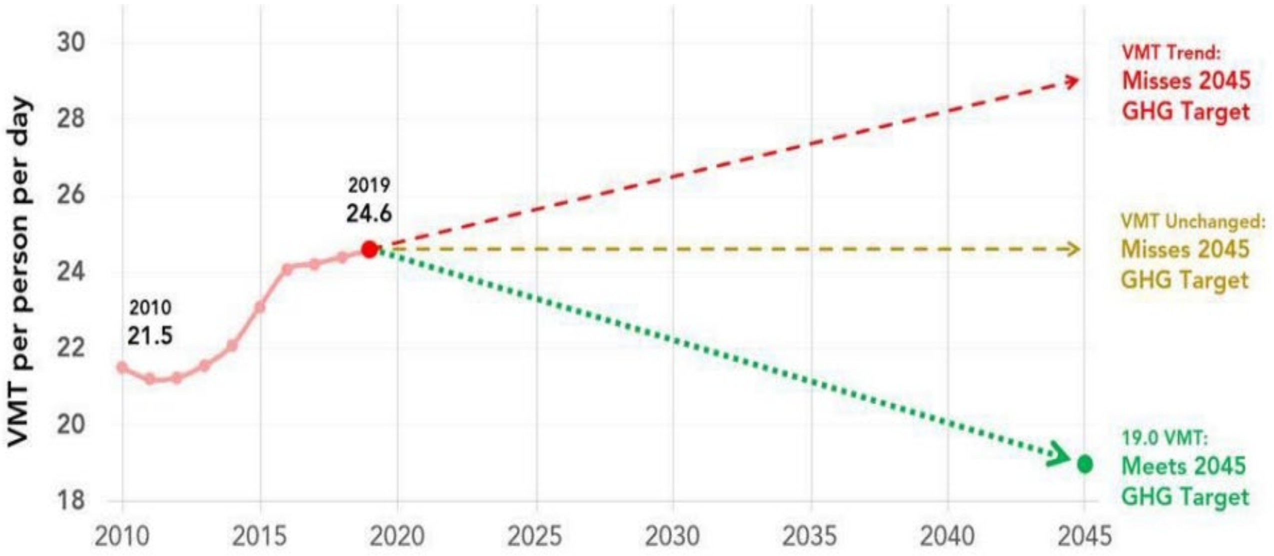


Sources: BART average monthly ridership from December 2022 and December 2019, BART Title VI 2022 Triennial Update

Climate Policy

- State looking to reducing vehicle miles traveled (VMT) to lower greenhouse gas (GHG) emissions
  - Air Resources Board GHG target for 2045[1]
    - Zero emission vehicles not sufficient
    - Public transit must be a viable alternative
  - State Transportation Agency[2]
    - Investment framework prioritizes VMT reducing projects
- Pre-pandemic, BART was pivotal to State/Region's VMT reduction:
  - Half of regional transit passenger miles
  - A quarter of statewide transit passenger miles

Potential Trajectories of Vehicle Miles Traveled



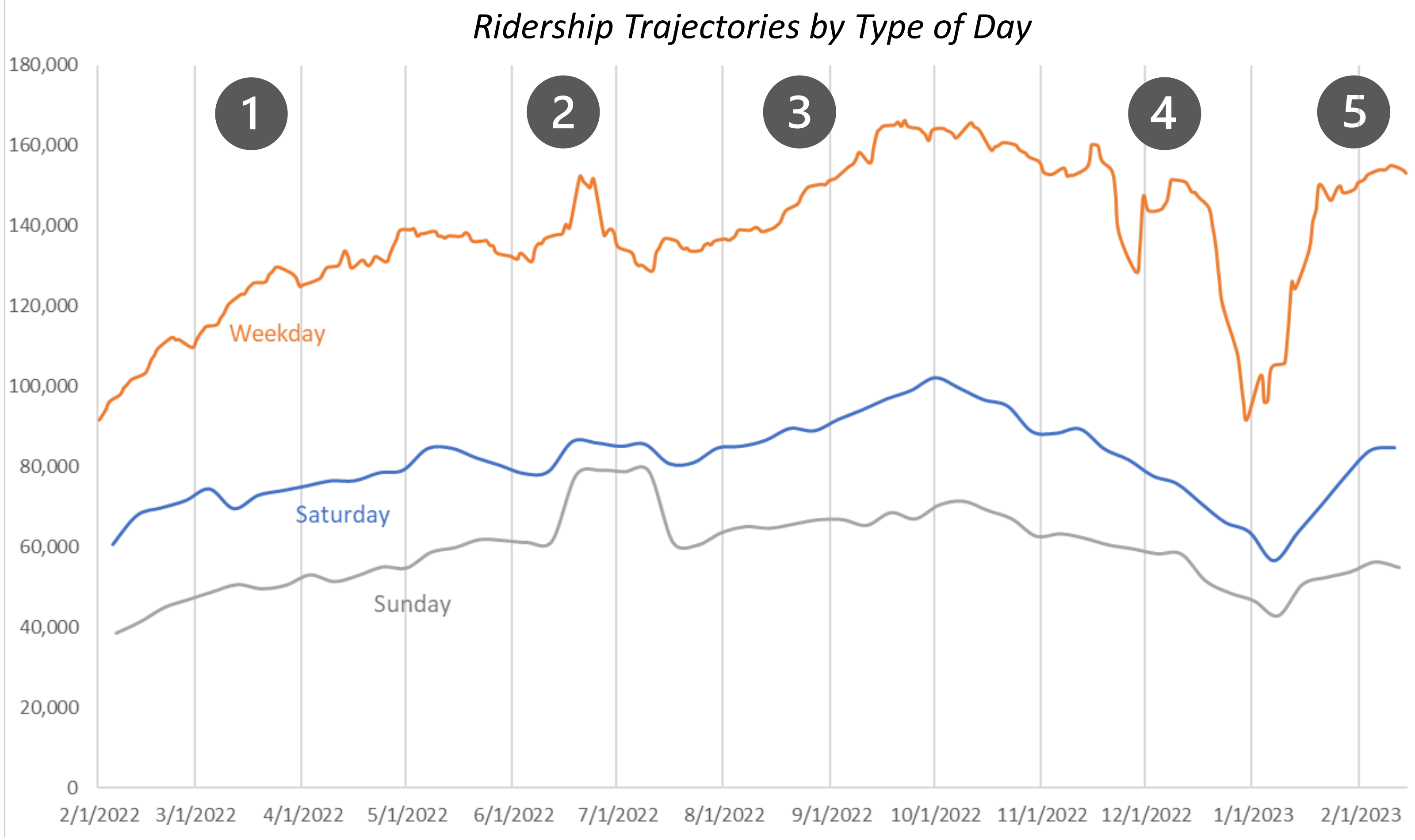
Source: 2022 Draft Scoping Plan, Air Resources Board

(1) *2022 Scoping Plan*
(2) *Climate Action Plan for Transportation Infrastructure*

Financial Outlook

Current Ridership

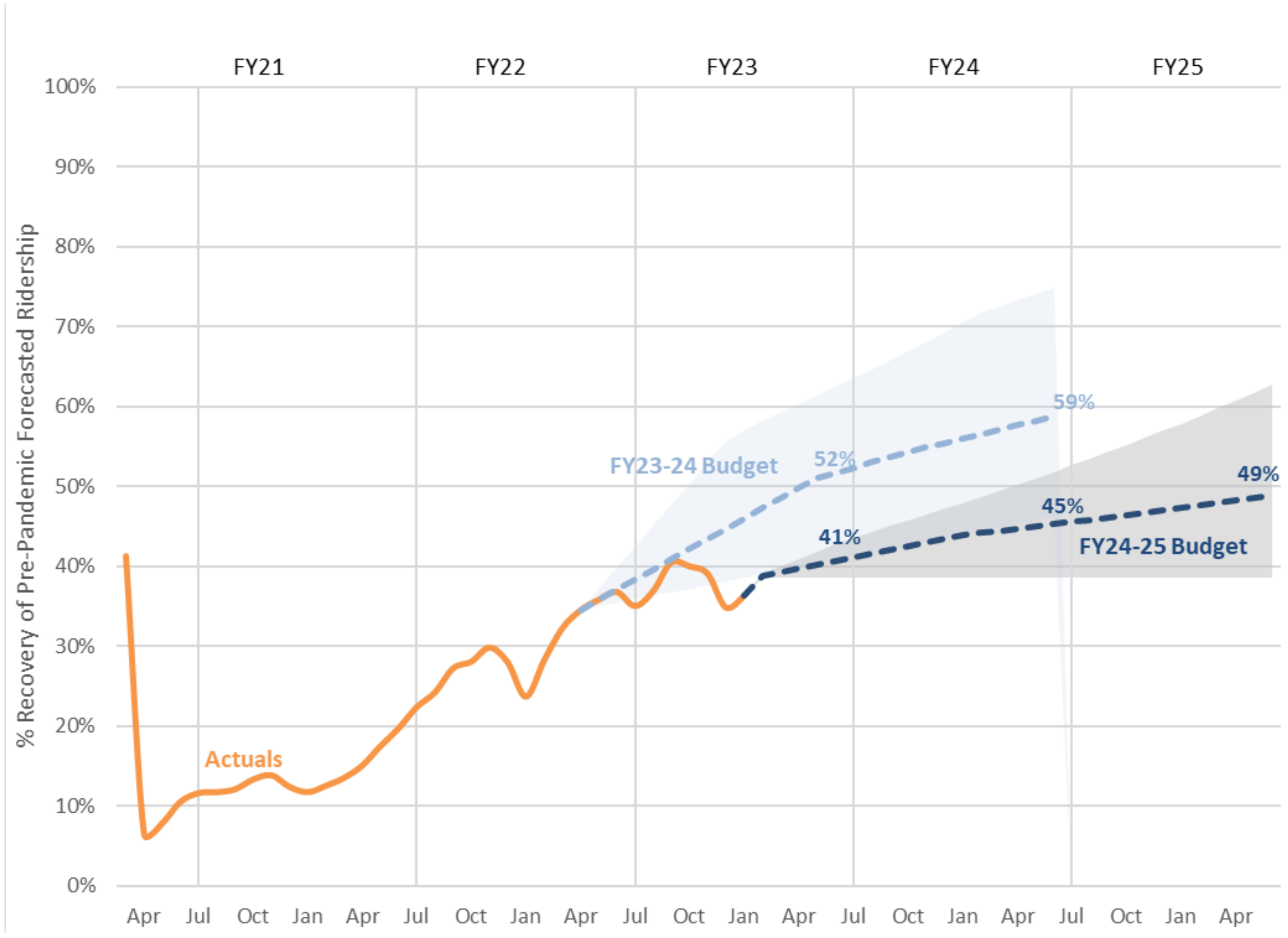
1. Large growth after COVID surge (spring)
2. Little growth through the summer
3. Large growth in the fall
4. Steady decline through the new year
5. Post-holiday rebound



Near-term Ridership Outlook

- FY23 year-to-date trending below budget
- Most companies are operating under "new normal"[1]
- Forecast assumptions
  - Small increase in commute market due to further return-to-office
  - Slow recovery in transit mode share for all trip markets
- Forecast results
  - Downgraded ridership forecast for FY24-25 budget

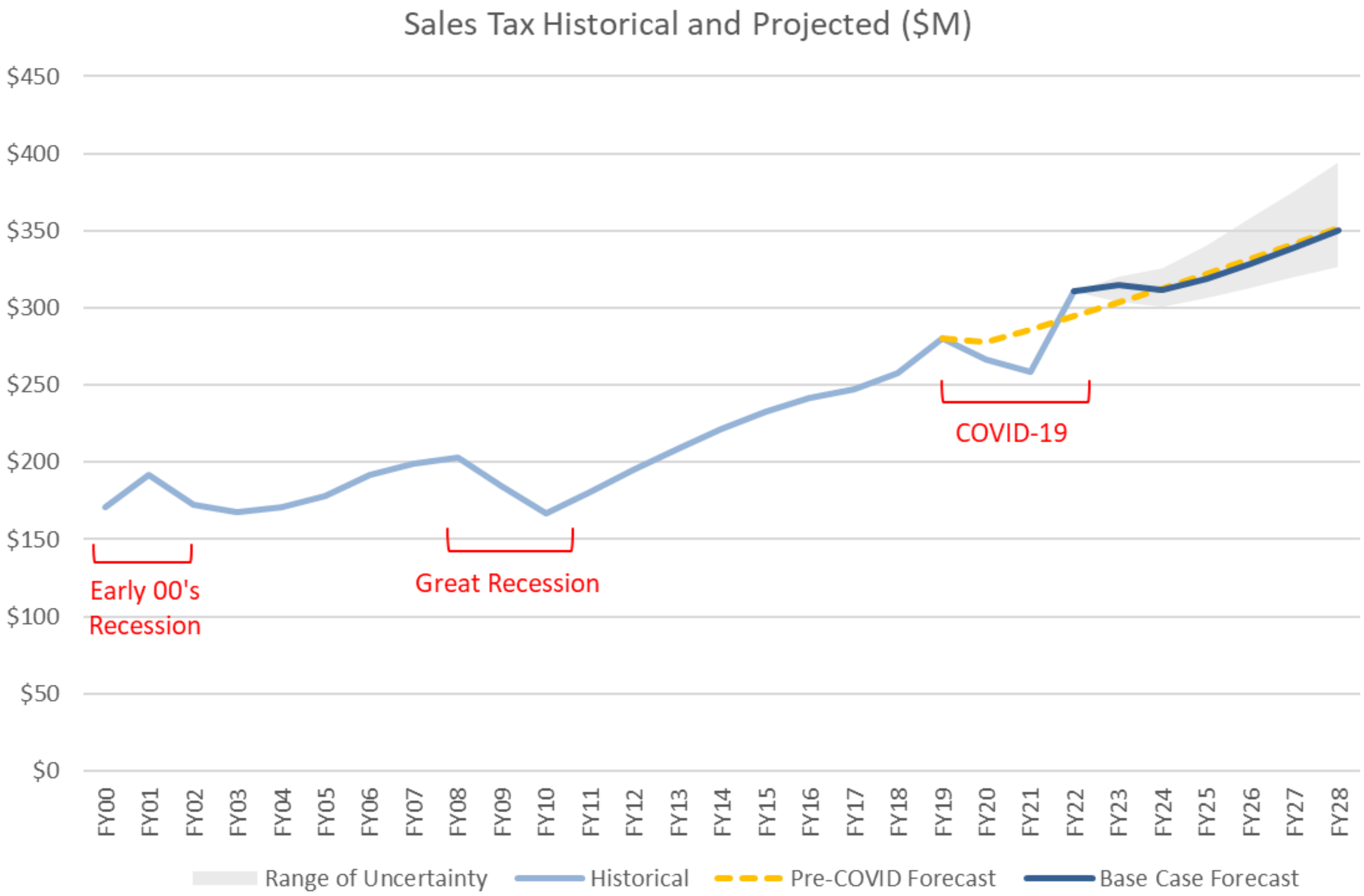
BART Ridership Recovery Projections



(1) *Bay Area Council Survey*

Sales Tax

- Sales tax is now BART's single largest sustained operating revenue source
- Projections assume:
  - Strong recent growth
  - Future slowdown during FY24 FY25 budget period
  - 3% annual growth after 2025
- Sales tax is subject to economic cycles



Operating Sources

Source	Near-term assumptions	Medium/Long-term assumptions
Fares	Reduced expectations for ridership recovery; Fare increase (January 2024)	High uncertainty
Sales Tax	Slowdown	3% annual growth after 2025
Property Tax	Stable, consistent with county government forecasts where available	2% annual growth (below historic due to reassessment of commercial real estate)
State Transit Assistance	Lower in FY24 due to expiration of "hold harmless" provision	Recovery proportional to fare revenue recovery
State Low Carbon Fuel Standard	Weak due to low market prices	High uncertainty

Operating Expenses

- Expense outlook is stable
  - Assumed vacancy rate decreases steadily
    - 10% (FY23); 7.5% (FY24); 5% (FY25 and thereafter)
  - Wages
    - Negotiated labor agreements for increases through FY25
    - 2% annual escalation thereafter
  - Fringe benefits
    - Increase with staffing assumptions
    - Third-party projections of retirement and other costs
  - Non-labor costs
    - 2% annual escalation beginning in FY25
  - Debt service and allocations
    - 2% escalation and other increases in accordance with capital program commitments
- Tradeoff: balancing service quality while reducing costs

Operating Uses: Actual and Projected

- More service than pre-pandemic
  - Berryessa extension
- Controlled costs
  - Same number of train operators
  - Limited operating budget-funded overtime

BART Operating Expense: Pre-pandemic Projections vs. Actual/Projected ($M)

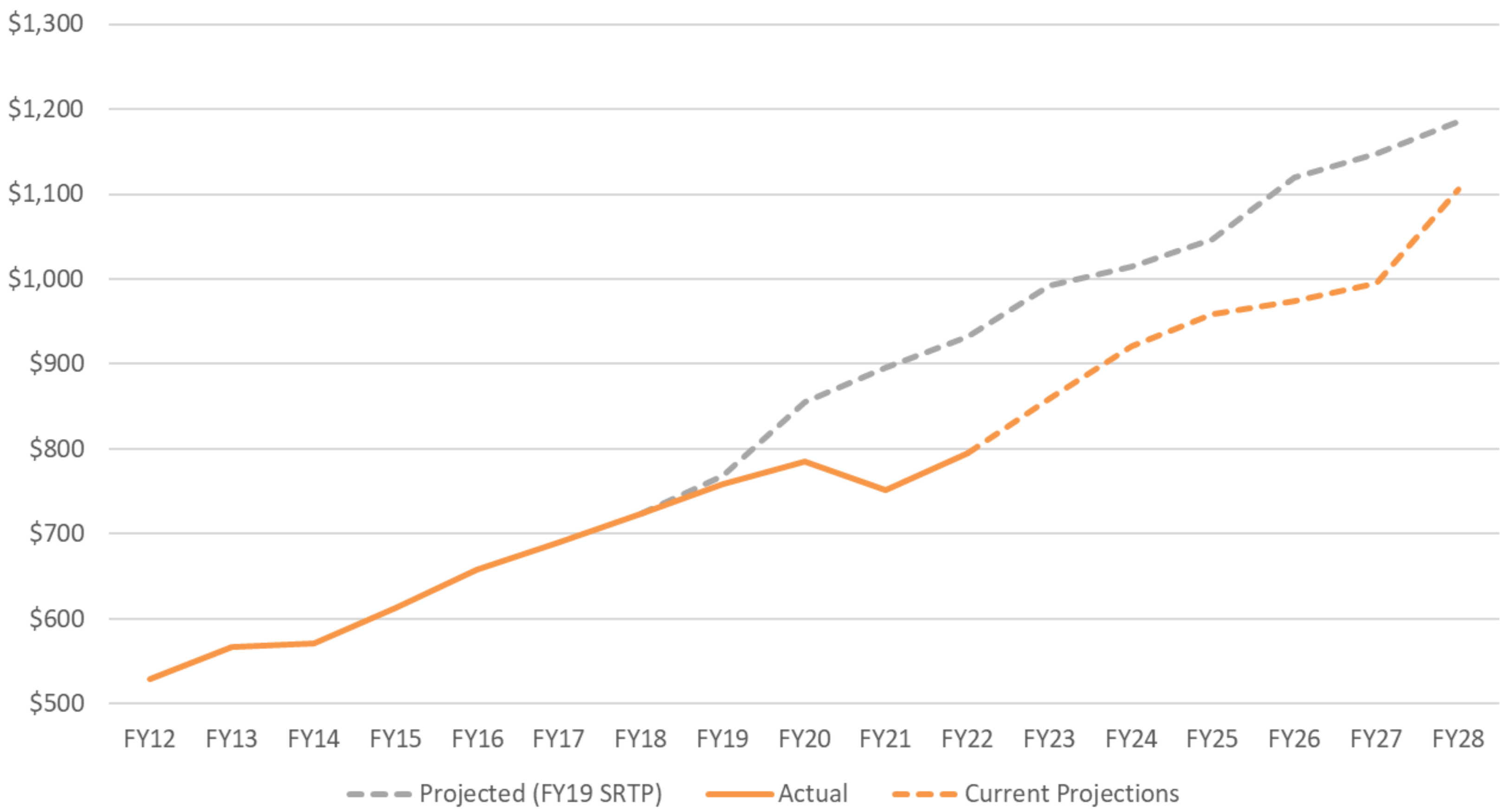
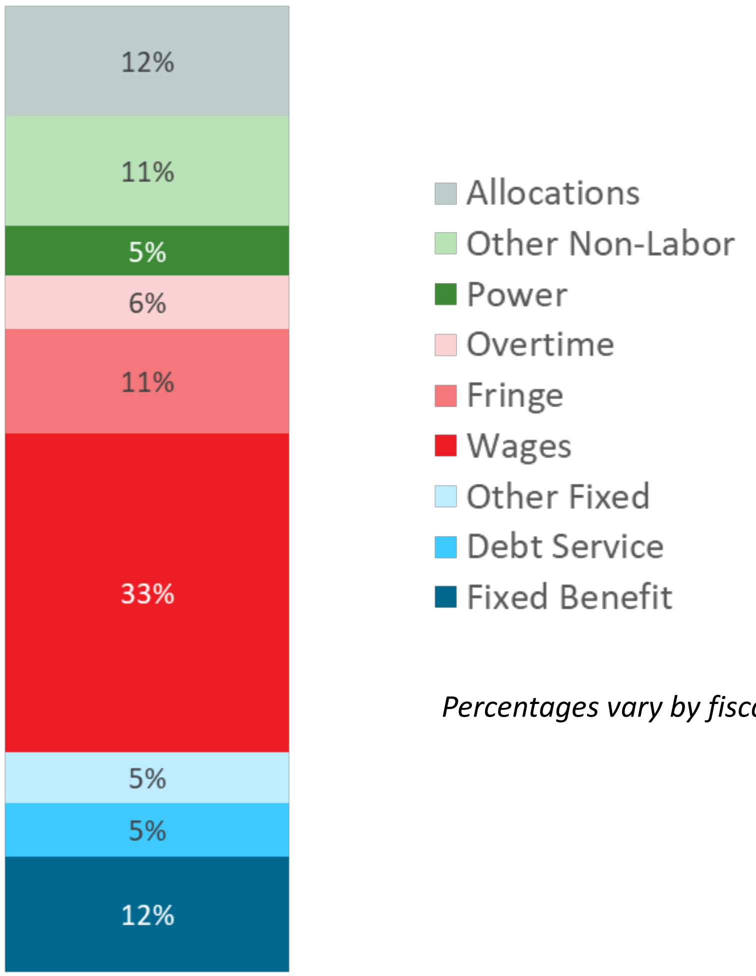


Chart shows operating expense only (excludes allocations and debt service)

Expense Detail

- Allocations
  - Capital commitments, Board policies
- Fixed costs
  - Must be paid regardless of service
    - Retirement liabilities, debt service, contractual obligations, etc.
- Non-labor costs
  - Primarily determined by service levels
    - Traction power, supplies, inventory, tools, fuel, etc.
- Wages and fringe benefits
  - Primarily determined by head count and collective bargaining agreements

FY24 Pro Forma Budget Breakdown



Percentages vary by fiscal year

Operating Outlook

- Key assumptions
  - Current service schedule
    - Additional service increases would increase deficit
  - Core Capacity service changes in FY28
  - Allocations schedule
    - Near-term needs of priority capital projects
    - Other capital program commitments

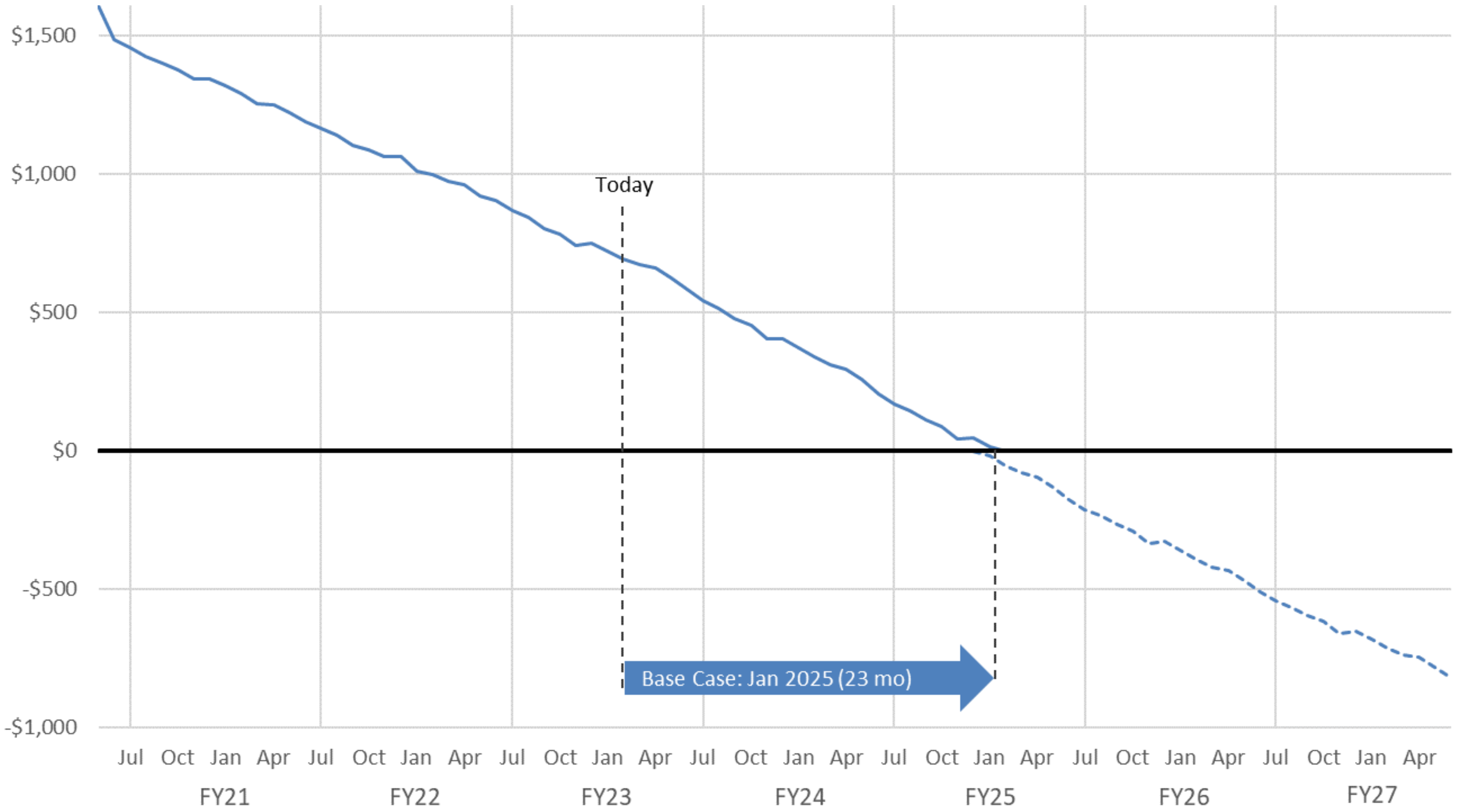
Operating Outlook Base Case ($M)

	FY23	FY24	FY25	FY26	FY27	FY28
Operating Revenues	222	270	301	320	352	397
Financial Assistance	469	460	472	487	502	521
Total Regular Revenues	**691**	**730**	**772**	**807**	**854**	**918**
Operating Expense	860	921	959	975	995	1,105
Debt Service & Allocations	152	184	162	166	170	156
Total Uses	**1,012**	**1,106**	**1,121**	**1,141**	**1,165**	**1,261**
Operating Result	**(321)**	**(376)**	**(349)**	**(334)**	**(311)**	**(343)**
Total Federal Assistance	321	376	206	0	0	0
Total Net Result	**0**	**0**	**(143)**	**(334)**	**(311)**	**(343)**

Projected Federal Assistance Expenditures

- $914M (57%) out of $1.6B used through February 2022
- $25M to $30M average monthly utilization rate over previous six months

Federal Aid Expenditure and Deficit Forecast ($M)



Conclusions

- Ridership outlook
  - Revised downward based on:
    - Recent actuals
    - Survey results
  - Result: Fare revenue substantially lower
- Updated forecast projects:
  - Federal funding expected to be fully spent by January 2025
  - Total deficit of $140M for FY25
  - Thereafter, operating deficits exceed $300M per year

Next Steps

- FY24 and FY25 preliminary budget
  - Staff will propose measures to minimize FY25 deficit
  - To be released on March 31
- Measures evaluated will include:
  - Limiting new expenses
  - Implementing strategic expense reductions while maintaining service quality
  - Reviewing capital allocation timing and amounts
  - Exploring options for additional revenues and financial assistance
- Short- and long-term funding strategy after the workshop break

Discussion

Morning Break

- **Agenda Topics**
  - Look Ahead
  - Regional Context and Financial Outlook
  - **Financial Stability: Near- and Long-term Strategy**
  - Working Lunch: Customer Satisfaction Survey
  - Improving Customer Experience
  - Workshop Wrap Up

Time to Next Presentation

10:00

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