SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

MEMORANDUM

TO: Board of Directors **DATE:** February 5, 2021

FROM: General Manager

SUBJECT: **FY21 Second Quarter Financial Report**

The FY21 Second Quarter Financial Report (October – December 2020) is attached. A new format for this report was introduced in the prior quarter; upon feedback from Directors, a year-end projection has been added to the report. As in the previous report, variance analysis is conducted based on Year to Date (YTD) actuals rather than for each individual quarter; this approach highlights annual trends and smooths out quarterly variances that can result from revenues or expenses booked outside the quarter in which they are calendarized. Narrative information is in a memo format, which provides greater detail. A one-page summary on ridership and Clipper uptake is shown on the last page.

In summary, the net operating result for the first half of the fiscal year remains balanced due to continued drawdowns from the District's Coronavirus Aid, Relief, and Economic Security (CARES) Act allocation. Fare revenue continues to trend substantially under budget expectations, remaining at about half of budgeted levels. Operating expenses finished the quarter under budget due primarily to strict expenditure controls, a hiring freeze, and the shifting of operating budget-funded staff into work funded through other sources. The net result for the second quarter was balanced.

Ridership, which totaled 3.8 million (M) exits for the second quarter of FY21, was 37% under budget and 87% lower than in the same period of FY20 due to the ongoing impacts of the COVID-19 pandemic. Year-to-date, trips are 50% below budget expectations. Weekday trips, at 50,436 exits per day, were 41% below budget and 87% below FY20. Before the FY21 budget was adopted in June 2020, the budget expectations were substantially revised downward due to the pandemic and associated shelter-at-home orders. Despite this action, first and second quarter ridership under-performed even these lower expectations.

Operating Revenue

Operating Revenue was $29.7M (40.7%) below budget through the second quarter of FY21.

Net passenger revenue was $28.6M (49.9%) unfavorable YTD due to lower ridership. **Parking revenue** was $0.9M (21.7%) unfavorable, in part due to refunds issued for monthly reserve parking permits. **Other Operating Revenue** was $0.3M (2.3%) unfavorable as a result of several factors, including advertising revenue, which came in $1.7M below budget based upon the newly revised advertising agreement approved by the Board in August 2020, and timing of payments related to BART's new Digital Railway program.

Financial Assistance and Allocations

Sales tax revenue was $11.1M (9.3%) favorable through the second quarter. This positive result was driven in part to an estimated $6M of sales tax revenues attributed to FY20 remitted by the state in FY21, as well as a larger than expected advance payment in December. Preliminary state data through January 2021 indicates that sales tax revenue continues to be above budget, but significant uncertainty remains on the performance of taxable sales activity for the remainder of FY21.

Property tax revenue was $1.9M (7.3%) favorable, with receipts through the end of calendar year 2020. **State Transit Assistance** was $1.5M favorable due to timing of payments from the state and is expected to be slightly above budget by FY21 year-end. **VTA Financial Assistance** and **SFO Extension Financial Assistance** were

a combined $5.8M (14.5%) favorable; by formula, revenue from these sources increases in response to below-budget fare revenue.

Other Assistance was $6.3M (37.1%) unfavorable due to below-budget FEMA assistance ($3.3M unfavorable) and Low Carbon Fuel Standard (LCFS) credit sales ($5.2M unfavorable). FEMA Assistance for FY21 will be substantially below budget by year end, as BART is spending less than budgeted on FEMA-reimbursable items and FEMA has issued revised, narrower criteria for eligible expenses. LCFS revenue was unfavorable due to timing of LCFS credit sales, however, reduced rail service levels in FY21 will likely result in below-budget LCFS credit generation and revenue by year end.

Federal CARES Act Assistance[1], which is drawn down according to FTA formula, was $191.5M. When combined with the $185.5M of CARES drawn down in FY20, BART's entire $377M CARES allocation has been drawn down. The FY21 budget planned for any CARES funding not needed to balance each month to be allocated to the **Operating Reserve for Economic Uncertainty** for use later in FY21.

Operating Uses

Total Operating Expense was $55.7M (13.2%) below budget in the first two quarters of FY21.

Wages, Benefits & Other Labor were under budget, at $28.4M (7.2%) favorable, driven by a continued hiring freeze, which held an average of 235 operating and capital positions per month vacant, as well as $11.7M in under spending in the COVID-19 labor budget. This compares to a 4.8% below budget spend in this area through the first quarter. **Total overtime** was $6.0M (34.2%) unfavorable to budget, though this variance was offset by $9.5M of capital funded overtime; the net result to the operating budget was $3.5M under budget through the second quarter. **Capital Labor Reimbursements** totaled $96.0M through the same period, $4.5M (4.9%) favorable to budget, as BART continued to redirect positions from the operating budget to accelerate critical capital reinvestment projects. This practice is known as "load shedding" and is possible primarily due to lower service levels, particularly the reduced revenue service hours. **Other Reimbursements** were $1.7M favorable.

Non-Labor expenses were under budget through December. **Electric Power** was $1.0M (4.2%) favorable due to lower electric loads and transmission & distribution costs resulting from service reductions implemented by the District. **Other Non-Labor** was $25.9M (37.2%) favorable to budget, with the majority of the variance in the categories of Professional Fees, Miscellaneous Expenses, and Material Usage. Professional Fees were $14.3M (58.5%) better than budget due COVID-19 expenses running $10.2M favorable, while the remaining $4.1M in underspending is attributed to efforts to reduce spending across the District and timing of payments. Miscellaneous Expenses was $8.1M (55.8%) lower than budget, primarily due to reduced bank card and Clipper fees, which are driven by ridership levels. Material Usage was $2.9M (18.8%) below budget due to timing of material purchases and reduced service levels. These trends are expected to continue until ridership increases substantially.

Debt Service and Allocations are under budget through the second quarter due to less funds allocated to the Reserve for Economic Uncertainty. More CARES funds were drawn down per federal formula and allocated to the reserve in FY20 than the FY21 budget anticipated when adopted last June. Though booked in the previous fiscal year, the funds (with a $112.4M CARES balance as of December 31) are still available in the Reserve for BART operating use.

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[1] Coronavirus Aid, Relief, and Economic Security (CARES) Act Note:
BART has drawn down its full allocation of $377M of CARES Act revenues as of the end of the second quarter of FY21. Of this amount, $120M was used to balance FY20, leaving the remaining $257M for use in FY21 (the FY21 budget was set at $251M). Through the first two half of FY21, $144M was used, leaving $112.4M for the second half of FY21. This assistance is anticipated to be fully exhausted before the end of the third quarter of FY21.

Year-End Forecast

As you are aware, the outlook for FY21 and future fiscal years remains extremely challenging. The current year-end forecast for FY21 shows a $55M operating shortfall, driven by two major factors. First, operating revenue continues to underperform budgeted levels as ridership has stagnated around 13% of pre-COVID levels; this has been mostly offset by operating expense reductions. Second, the FY21 budget included a $40M reverse allocation of FY20 funds originally intended for the new rail car program. These funds, which are displayed as a negative expenditure, were calendarized in Q4, creating a net ($23.4M) budgeted year-end result in the Capital and Other Allocations line. As of Q2 end, staff no longer plan to make this reverse allocation of funds into the operating budget. The recent passage of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) and the subsequent Tranche 1 allocation of $103.7M to BART will close this gap for FY21.

While FY21 has been very difficult year all around, I am very proud of the excellent work by our BART team to reduce expenses, advocate for and secure federal emergency funding, remain focused on addressing projected deficits in upcoming fiscal years, all while delivering safe, reliable service.

If you have any questions about this report, please contact Pamela Herhold, Assistant General Manager, Performance and Budget, at (510) 464-6168.

for
Robert M. Powers

cc: Board Appointed Officers
Deputy General Manager
Executive Staff