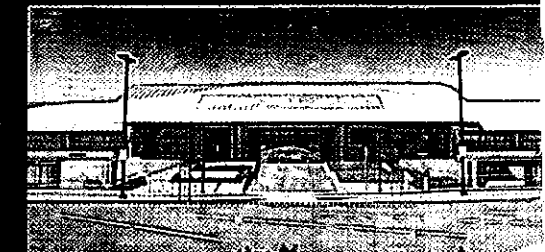
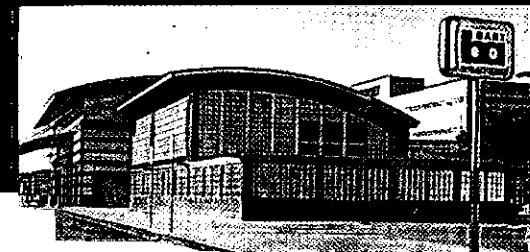


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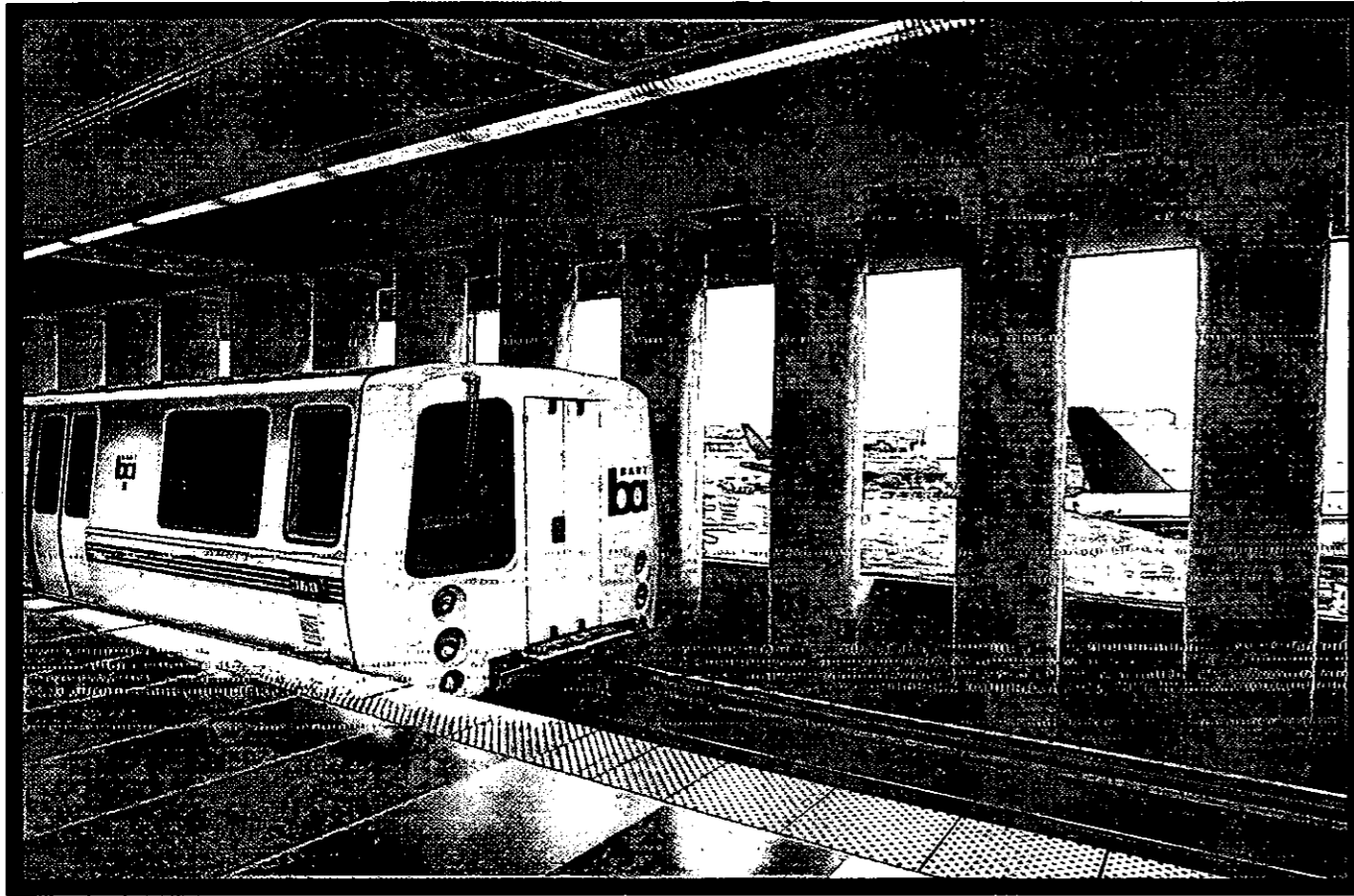
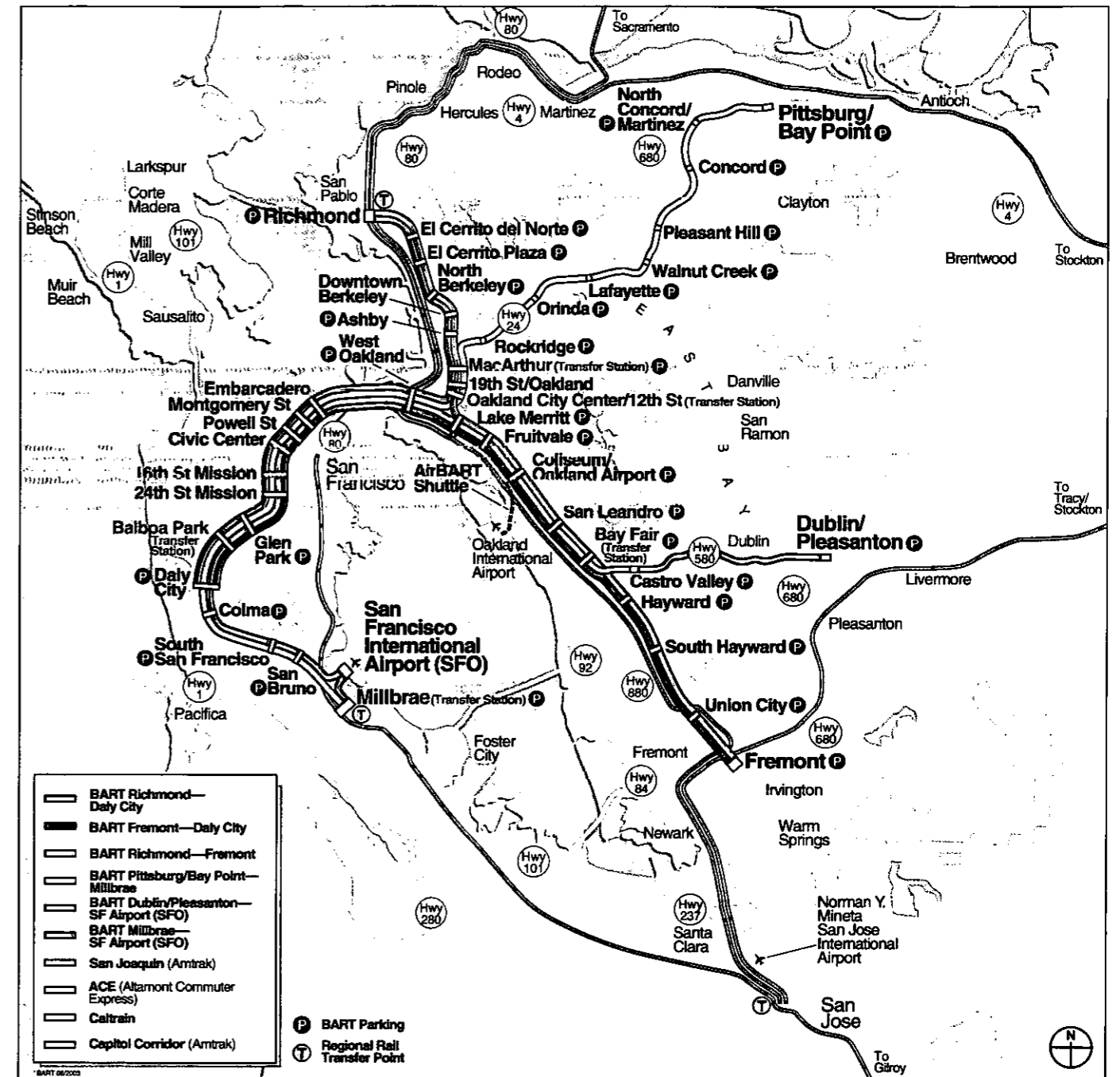


Table of Contents

- 1 From the General Manager
- 2 Adopted Operating Budget
- 3 Overview
- 4 Sources and Uses
- 5 Capital Budget
- 6 BART Organization
- 7 Summary of Budget by Executive Office
- 8 Ridership
- 9 The BART System



BART – Serving Bay Area Mobility

- The \$1.6 billion original investment is valued at \$15 billion today.
- Serves four Bay Area counties with 300,000 daily passenger trips; 91.2 million annually.
- 105-miles of double track; 43 stations and 669 rail cars.
- 700 train dispatches each weekday.

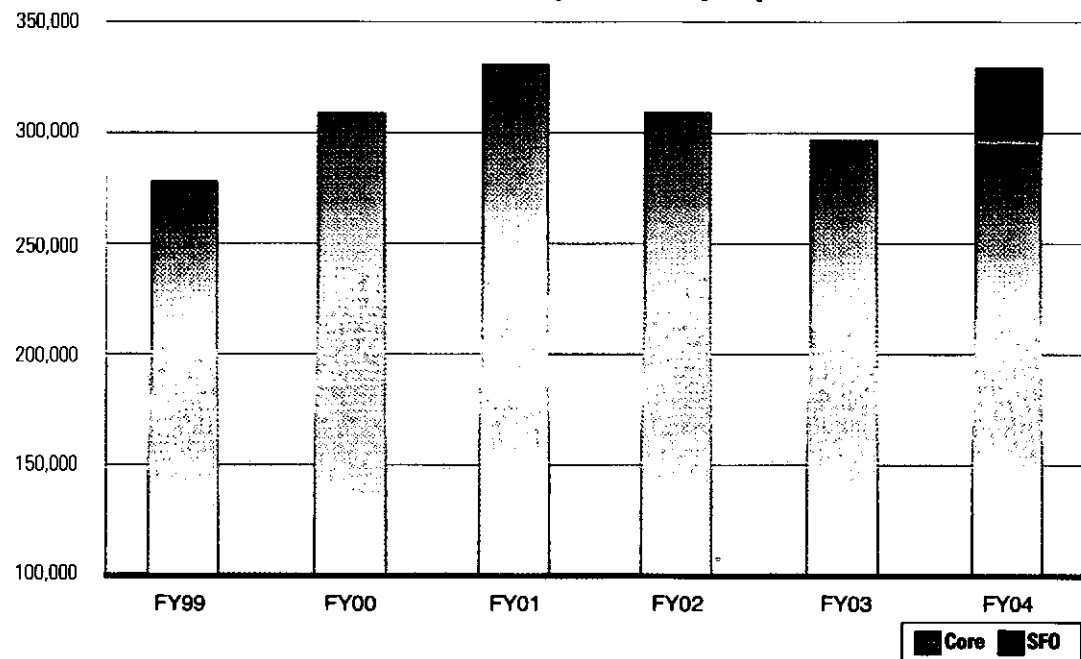
BART SFO Extension Added:

- 9.8 miles
- 4 stations

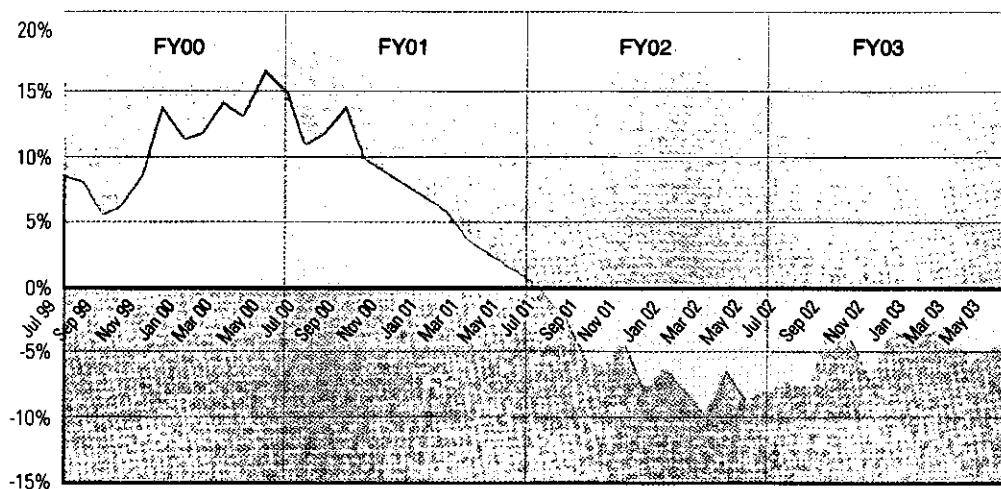
Line Miles

A Line – Fremont to Lake Merritt	24 miles
M Line – Colma to Downtown Oakland	17 miles
R Line – Richmond to MacArthur	11 miles
C Line – Downtown Oakland to Pittsburg/Bay Point	29 miles
L Line – Bay Fair to Dublin/Pleasanton	14 miles
W Line – Colma to Millbrae	8 miles
Y Line – San Bruno and Millbrae to SFO	2 miles

BART Average Weekday Trips



**Average Weekday Trips
Year-to-Year Percent Change**



RIDERSHIP

After strong growth in ridership through FY01, the District experienced two consecutive years of declining ridership in FY02 and FY03. These declines track with the overall recessionary environment in the Bay Area economy, particularly for the technology and tourism segments, during this period. Office vacancies in the San Mateo and San Francisco markets were the highest rates of empty office space in years. In addition, fewer jobs in the Bay Area translated into less freeway congestion which has reduced BART's attractiveness as an alternative to the automobile. The combination of reduced employment and freeway congestion has resulted in fewer riders on the BART system.

While a regional forecast estimates that employment will begin to grow in the fourth quarter of calendar year 2003, the recovery

is expected to be slower in San Francisco, San Mateo and Santa Clara counties than for the rest of the Bay Area. As a result, the FY04 budget projects ridership for the 38 station 'core system' plus Colma station is stabilized at 297,800 average weekday trips with a ridership growth of a nearly flat 0.1%.

The budgeted net increase in total FY04 riders is directly attributable to the opening of the SFO extension. In the first year of revenue service for the four station extension, the number of new one-way weekday trips, is projected to average 32,300. Annually, these stations are expected to contribute approximately 9.56 million new trips to the system.

**FROM THE
GENERAL MANAGER**



The FY04 Budget rises to the fiscal challenges facing BART. The downturn in the Bay Area's economy has had a significant effect on the District's ridership and operating revenues. Over the past two years, average weekday ridership has declined approximately 10 percent and sales tax support has fallen by 13 percent. While there is consensus that the Bay Area economy has stabilized, the outlook on the level of economic recovery remains uncertain. Even if the economy improves, BART's fiscal concerns are not over. The District's Short Range Transit Plan forecasts a growing imbalance in the District's operating budget even with the resumption of historical economic and ridership growth.

In response, the Board of Directors adopted a Financial Stability Policy which is a far-sighted strategy for fiscal management. This policy formed the framework for developing our FY04 Budget based on the following strategic principles:

- "Right-size" the organization by examining and adjusting operating expenses and staffing levels to reflect changes in service demand, technology and productivity;
- Employ a fare policy which aligns fare adjustments with increases in operating costs based on the Consumer Price Index;
- Use fiscal reserves during times of declining revenues to maintain the District's ability to provide safe and reliable service.

The resulting FY04 Budget is balanced though a combination of measures involving operating expenses, revenues and prudent use of reserves. These include:

- A reduction of \$15.2 million in operating expenses. Many of the reductions were possible due to benefits from the District's major capital rehabilitation program, which started in 1995. The program is nearing completion and has yielded productivity and operating costs savings in many maintenance functions. The budget achieves these reductions while maintaining basic service frequency, safety, security and reliability. Maintaining service levels helps prevent a downward cycle of reduced ridership and fare revenues, thereby compounding operating problems. By maintaining service levels, BART remains prepared to assist in the recovery of the Bay Area economy as it happens.

- The District annually sets aside a share of operating revenue to support the rehabilitation of its capital infrastructure. This is an important means of ensuring the safe and reliable operation of our communications, control systems and maintenance equipment. For FY04 the District received additional federal grants funds for rehabilitation projects. These additional grants permit the District to supplant BART funds that would otherwise be used for rehabilitation projects, resulting in a one-time savings of \$13 million.
- The budget includes a fare increase of 10 percent, effective January 2004. Even with this increase, BART fares will still have increased less than the rate of inflation since 1997.
- In keeping with the Financial Stability Policy, the District budgeted \$3 million in operating reserves which was the final measure used to bring the FY04 Budget into balance. The District has remaining operating reserves as a hedge against further economic uncertainty.

This budget highlights a new era at BART. It includes funding for the first full year of operation of the San Francisco Airport (SFO) extension. The opening of the SFO extension represents a major milestone in improving and expanding transit service in the Bay Area. SFO service will provide fast and convenient BART access to San Francisco International Airport and San Mateo County. Extension operating costs are funded by a combination of fare revenue and payments from the San Mateo County Transit District (SamTrans) per an operating agreement with the District. Therefore, the additional operating expenses for the extension are offset by new operating sources of funds.

The operating budget for FY04 is both prudent and balanced. It aligns the operating budget with current levels of ridership, allocates resources efficiently, continues to deliver quality service and takes significant steps to maintain the District's overall financial health.

Tom Margio
Thomas Margio
BART General Manager

**District Adopted Operating Budget
(\$thousands)**

	FY03 Adopted Budget	FY04 Adopted Budget
REVENUES		
Net Rail Revenue	\$ 200,400.0	\$ 237,299.3
Paratransit	425.0	470.7
Net Passenger Revenue	\$ 200,825.0	\$ 237,770.0
Interest Revenue	4,943.9	2,300.0
Other Operating Revenue	15,308.3	17,633.1
TOTAL OPERATING REVENUE	\$ 221,077.2	\$ 257,703.1
EXPENSES		
Net Labor	\$ 257,222.7	\$ 287,857.1
Express Bus Service	2,675.0	2,500.0
ADA Paratransit Services	9,859.8	9,632.1
Purchased Transportation	3,376.2	2,393.4
Traction & Station Power	27,622.2	24,595.9
Other Non-Labor	62,427.3	69,524.3
TOTAL OPERATING EXPENSES	\$ 363,183.2	\$ 396,502.8
OPERATING DEFICIT	\$ (142,106.0)	\$ (138,799.7)
TAX & FINANCIAL ASSISTANCE		
1/2¢ Sales Tax (75%)	177,000.0	171,000.0
Property Tax	18,600.0	20,899.8
STA/TDA Assistance	476.2	260.6
Paratransit Assistance	1,563.7	1,301.0
SamTrans SFO Operations	-	6,488.0
TOTAL TAX & FIN. ASSISTANCE	\$ 197,639.9	\$ 199,949.4
DEBT SERVICE & ALLOCATIONS		
Debt Service Allocations	(59,227.0)	(59,380.4)
Allocations to Capital - Rehabilitation*	(10,000.0)	-
Allocations to Capital - West Bay Parking	-	(2,753.4)
Allocations to Capital - CAPRA Reserve Account	-	(2,025.3)
Allocations from Capital - Portion of Leaseback Revenue	6,000.0	3,009.4
Allocation from Capital - Sale of Millbrae Building	7,693.1	-
TOTAL DEBT SERVICE AND ALLOCATIONS	\$ (55,533.9)	\$ (61,149.7)
FINANCIAL RESULT	\$ 0.0	\$ 0.0
Rail Farebox Ratio	57.7%	62.1%
Farebox Ratio	55.3%	60.0%
Operating Ratio	60.9%	65.0%
Average Weekday Ridership	311,660	330,100
Passenger Miles (000)	1,185,470	1,324,547
Rail Cost/Passenger Mile	29.29¢	28.84¢

Summary of Budget by Executive Office • (\$ in Thousands)

Executive Office	Operating Labor	Operating Non-Labor	Operating Total	Capital/Reimb. Labor	FTE Staff	Operating	Capital/Reimb.
General Manager	\$ 903.2	\$ 221.1	\$ 1,124.3	\$ -	5.0	5.0	-
Office of Administration	\$ 19,048.5	\$ 20,788.4	\$ 39,836.9	\$ 1,053.7	216.0	206.0	10.0
Transit System Development	\$ 107.7	\$ 9.8	\$ 117.5	\$ 7,396.4	59.0	1.0	58.0
General Counsel	\$ 2,481.1	\$ 662.5	\$ 3,143.6	\$ 488.6	23.0	19.0	4.0
Transit System Compliance	\$ 4,006.4	\$ 705.6	\$ 4,712.0	\$ 523.7	41.0	36.0	5.0
West Bay Extensions	\$ -	\$ -	\$ -	\$ 1,473.1	12.0	-	12.0
District Secretary	\$ 907.3	\$ 149.0	\$ 1,056.3	\$ -	7.0	7.0	-
Office of External Affairs	\$ 4,864.7	\$ 3,314.0	\$ 8,178.7	\$ -	54.0	54.0	-
Capitol Corridor	\$ -	\$ -	\$ -	\$ 1,248.6	10.0	-	10.0
Controller-Treasurer	\$ 9,918.5	\$ 9,721.0	\$ 19,639.5	\$ 272.8	128.0	125.0	3.0
Police	\$ 30,845.9	\$ 812.6	\$ 31,658.5	\$ -	296.0	296.0	-
Office of Planning & Budget	\$ 7,750.4	\$ 42,811.8	\$ 50,562.2	\$ 1,111.2	75.0	65.0	10.0
Office of Operations	\$ 212,034.1	\$ 29,449.9	\$ 241,484.0	\$ 17,412.2	2,562.5	2,391.5	171.0

* A \$13.0 million planned capital rehabilitation allocation will be funded by federal grant funds for FY04 and for accounting purposes is not included in the annual operating budget.

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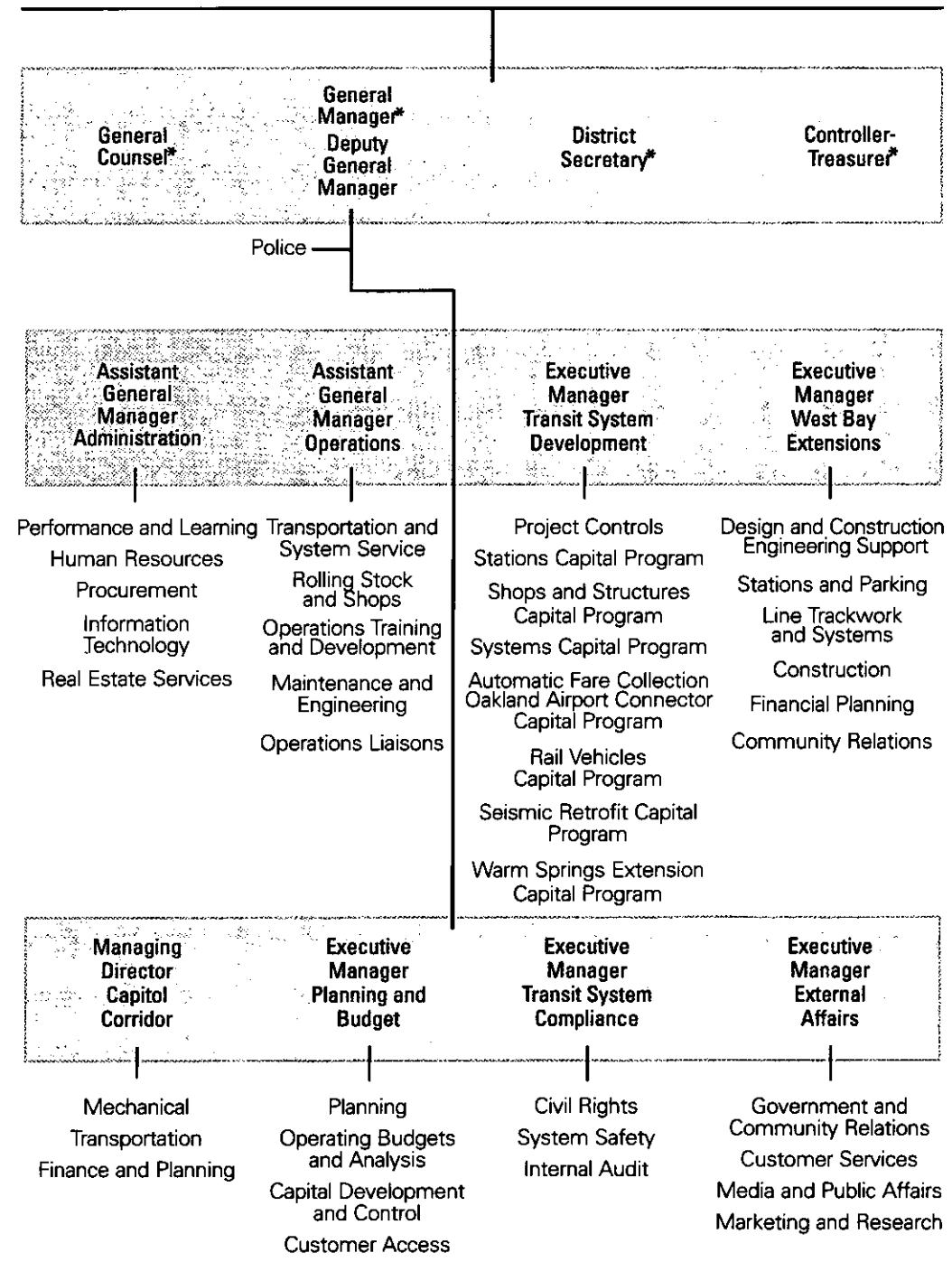
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*Board Appointed

The major new dimension of the FY04 Budget is the inclusion of funding for the first full year of operation of the San Francisco Airport (SFO) Extension. As provided by the operating agreement with the San Mateo County Transit District (SamTrans), operations of the extension are funded by a combination of fares and payments from SamTrans. Operating costs for rail service provided to San Mateo County are calculated per the agreement by formula and are covered regardless of the level of passengers and fare revenue. Therefore, the additional operating expenses for the extension added in the FY04 Budget are offset by new operating sources of funds. Budgeted amounts for the SFO extension are identified separately in the narrative below.

PASSENGER FARE REVENUE

For FY01 through FY03, actual net rail revenue was \$212.8, \$193.2, and \$190.9 million respectively. For FY04, net rail revenue for the core system, plus Colma, is projected at \$204.2 million. The passenger revenue forecast includes a 10% fare increase effective January 1, 2004 which is estimated to yield a revenue increase of \$7.6 million for the core system.

Projected FY04 core system net rail revenue is 4.2 percent less than the actual for FY01 but 6.5% greater than last fiscal year (FY03) and 5.4% greater than FY02. While most of this increase is attributable to a 10% increase in fares, a portion of this increased revenue is consistent with the gradual recovery of the economy of the Bay Area as a whole.

SFO Extension - In the first year of revenue service for the four station SFO Extension, the number of new one-way trips, are projected to average 32,300 for weekdays. The incremental net rail revenue for the SFO Extension is projected at \$33.1 million.

OTHER REVENUES

Other operating revenue is predicted to decline slightly from \$20.3 million to \$19.9 million. Interest and concessions revenues are budgeted \$3.7 million lower than FY03. The District initiated a paid parking program mid-way through FY03 which is included in Other Operating Revenue. Revenue from this source is expected to increase from a budget of \$3.9 million in FY03 to \$7.1 million in FY04. The increase is due to the annualization of parking revenues and the opening of the San Francisco Airport extension.

OPERATING EXPENSE

The FY04 Budget includes non-discretionary increases of \$11.6 million primarily to fund contractual wage increases and higher health insurance rates. These increases were more than offset by \$15.2 million in permanent budget reductions. In general the reductions have been achieved without reducing basic service, safety, security and reliability. The cuts have been made in three ways. First, every department in the organization is focused on increasing efficiency and productivity. Second, departments have reduced costs to align their resources with current ridership levels and service demand. Finally, the remaining cuts were made in functions that, while not generally immediately visible to the customer, do affect BART's overall effectiveness internally and externally. Maintaining basic levels of performance with reduced funding will be an ongoing challenge and will require more from every employee. The non-discretionary expense increase of \$11.6 million and budget reductions of \$15.2 million result in a \$3.6 million net decrease in core system operating expense for FY04.

SFO Extension - Operations of the SFO extension add 283.5 operating employees and \$26.6 million to the labor budget. Non-labor increases for the extension are primarily for electrical power, materials and services which amounts to \$10.3 million. A total of \$36.9 million is budgeted for SFO extension operations in FY04.

Combining core system operating expenses and the budgeted amount for the SFO extension brings the FY04 Budget total to \$396.5 million.

SALES TAX AND PROPERTY TAX

Sales Tax

The recession has greatly affected sales tax revenues in the three District counties. Most recent economic forecasts anticipate that growth in the Bay Area will return in 2004. Sales tax is expected to recover at a moderate 2.4% annual growth rate, about half of the average long-term growth rate.

Property Tax

Property tax receipts are expected to rise by 4.3% over the FY03 year-end estimate, consistent with long-term trends in collections and area home sales.

OTHER FINANCIAL ASSISTANCE

The District is eligible to receive financial assistance from the State Transportation Assistance (STA) and Transportation Development Act (TDA) programs. BART's apportionment for FY04, after covering feeder bus expense per an agreement with the Metropolitan Transportation Commission, is \$0.3 million.

In 2000, voters in Alameda County renewed Measure B, a transportation funding measure, which includes new funds for paratransit assistance. BART's receipts from this source are expected to be \$1.3 million in FY04.

The SamTrans-SFO Operations amount is the payment from SamTrans to cover operating expense on the SFO Extension per the cost formula detailed in the Comprehensive Agreement. The payment and fare revenues cover operating costs for the extension. If ridership and resulting fares are below budget expectations, the payment amount will increase, so that operating expenses are covered.

DEBT SERVICE AND ALLOCATIONS

Debt Service

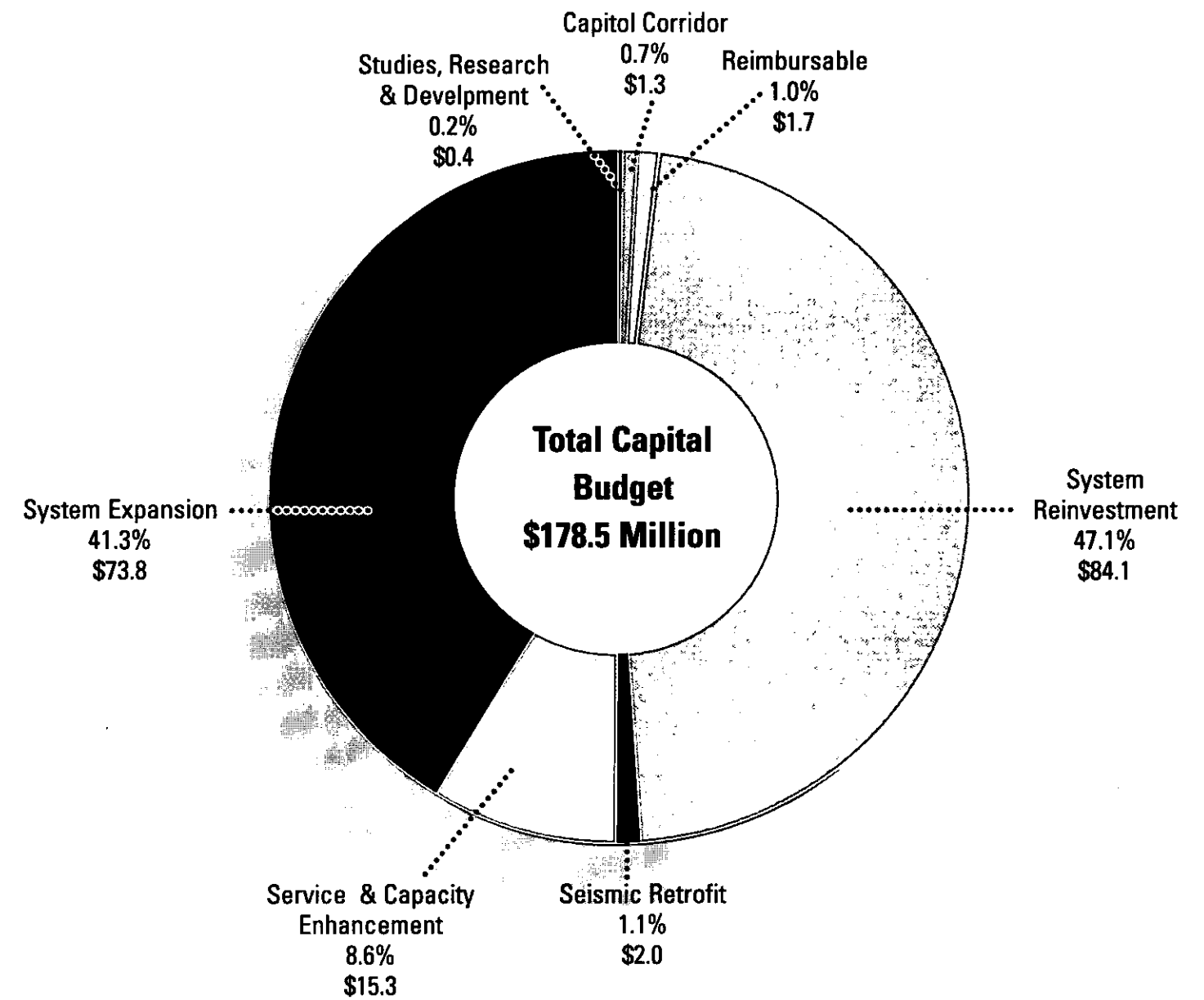
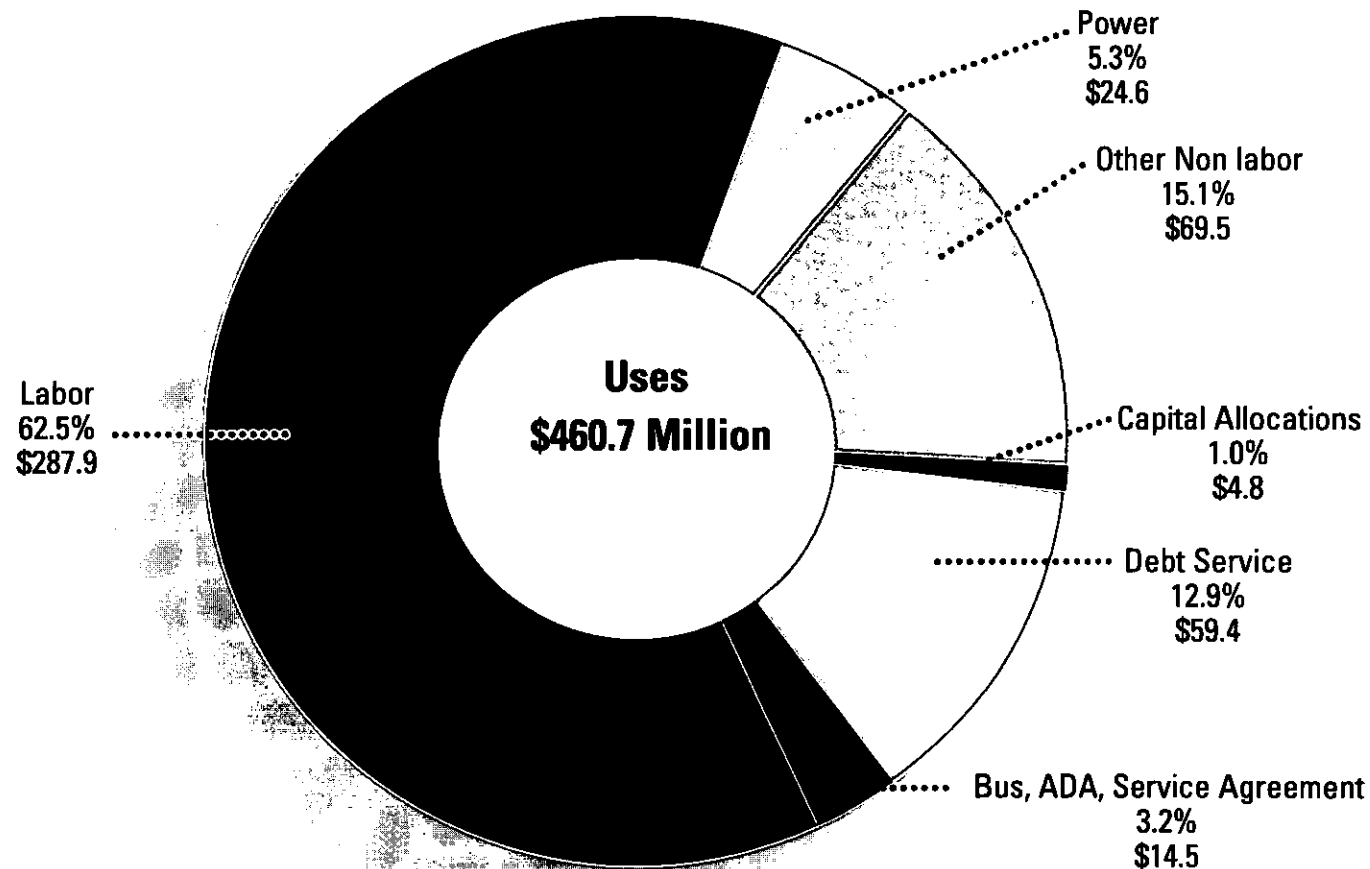
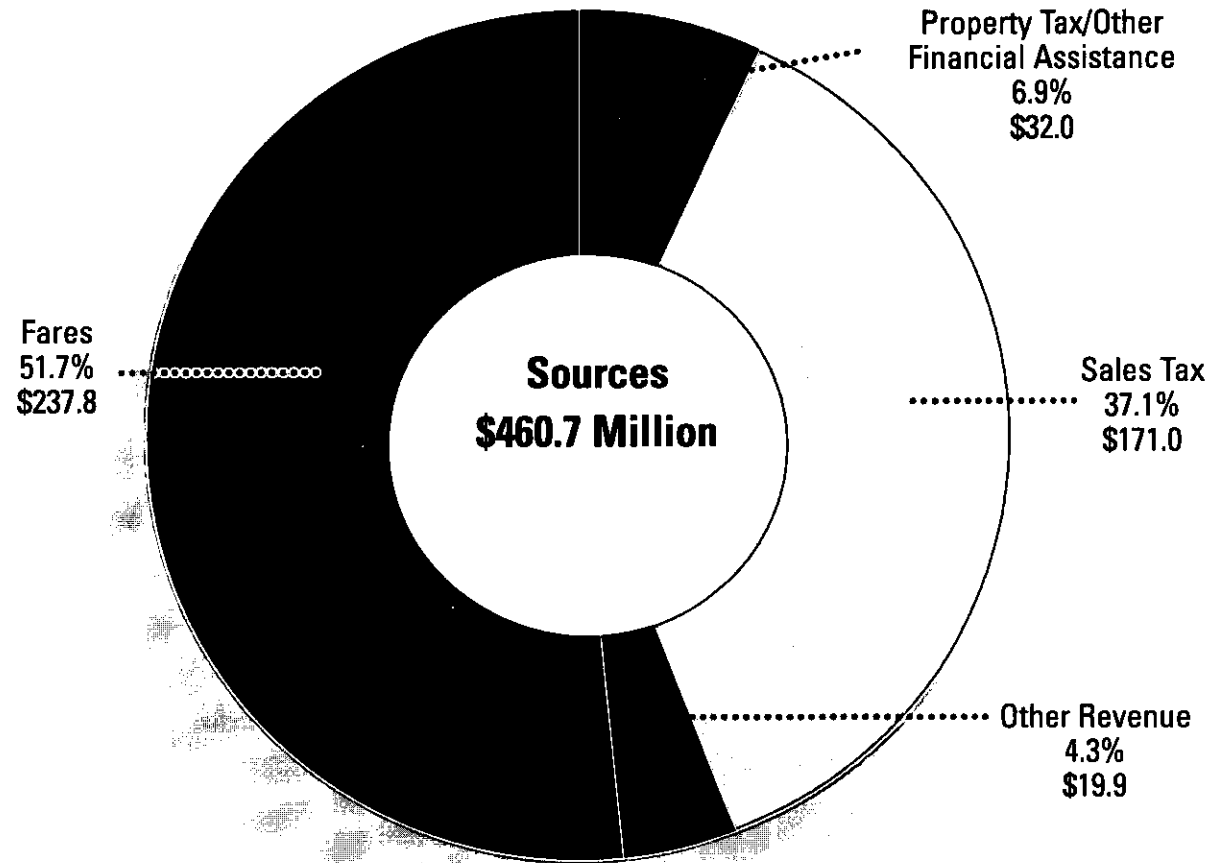
FY04 bond debt service is \$59.4 million, just slightly above the FY03 level. A 2002 bond sale of \$56.7 million funded the final piece of the BART-SFO Extension project. No bond sales are planned for FY04.

Capital/Rehabilitation Allocations

The SRTP/CIP anticipated allocation of \$13.0 million of BART operating funds in FY04 to support a variety of important capital rehabilitation projects, especially for stations, communications systems and maintenance equipment. For FY04, federal grants beyond the amount normally received are available. As a budget balancing measure, the federal funds will be used to fund the projects usually funded through allocations from annual operating sources.

Other Allocations

For FY04, \$3.0 million of capital leaseback revenue proceeds are budgeted as allocations to the operating budget. This allocation is the last piece used to balance the FY04 Operating Budget. If actual revenues exceed expectations or expenses are below budget this amount will remain in reserves and will not be allocated to the operating budget.



CAPITAL BUDGET

In addition to meeting day-to-day expenses through the operating budget, the District prepares a capital budget to address longer-term infrastructure needs. The capital budget funds renovation projects to ensure continuing safety and reliability and finances planned extensions of the BART system. The capital budget is funded through a wide range of federal, state and local grant sources, as well as from internally generated revenue.

The FY04 Capital Budget is funded at \$178.5 million and supports 331 staff positions. Both of these figures are down dramatically compared to the past several years, reflecting the

winding down of several major capital projects. The largest single project in BART's history, the extension to Millbrae and the San Francisco International Airport, is operational. Several major system renovation projects have been completed or are in final wrap-up, including renovation of the original fleet of A- and B-cars, overhaul of station elevators, and upgrades of maintenance facilities. Major renovation projects that remain active in FY04 include automatic fare collection equipment modernization, escalator overhaul, disabled accessibility improvements, and train control and traction power system renovations. Project development also continues in the area of seismic safety, as well as for the Warm Springs extension and Oakland Airport Connector projects.