

**FY07 OPERATING BUDGET**

**Fiscal Year 2007**  
Preliminary  
Operating Budget

**San Francisco Bay Area  
Rapid Transit District**

**March 31, 2006**



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# SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

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## MEMORANDUM

**TO:** Board of Directors

**DATE:** March 31, 2006

**FROM:** General Manager

**SUBJECT:** Fiscal Year 2007 Preliminary Operating Budget

The upcoming fiscal year presents a set of challenges and resources that, while different from the last five years of budget cuts, still requires careful assessment. In response, we have developed a Preliminary Budget for Fiscal Year 2007 (FY07) that addresses the District's sources and uses, with a deficit of \$4.7 million (M) still to be addressed.

In January 2006, a FY07 Pro Forma Budget was presented that had a projected \$10M deficit. We have endeavored to balance that projected deficit against needs that have become more pressing because of the cumulative impact of the cost saving measures of recent years. We have managed to include some judicious additions of about \$2M to the Preliminary Budget to address a number of critical areas such as system security, labor relations and employee training. We have also updated and increased our revenue forecasts, which has partially offset the projected deficit.

For FY07, the District must continue to provide safe and reliable service that meets our customers' needs and maintain our financial health. During FY06, ridership increased and in response we provided additional resources in several service-related areas. We resized trains and added 17 staff positions to improve car and station cleanliness. For FY07, we will need to continue to monitor both our customers' service needs and the District's available revenue to meet those needs.

The rest of this memo sets out some key issues for the sources and uses of the FY07 Preliminary Budget. In addition, as we move forward to an adopted FY07 Budget, major decisions as highlighted in the table to the right must be made to ensure that we can continue to provide the quality service that our customers expect.

### **Priority Decision Points FY07 Budget**

**BAP Savings**—how much savings will be realized?

**SFO Extension**—what will be the service plan and resulting operating reimbursement from SamTrans?

**Power Supply**—how much will it cost to buy the remaining balance of BART's power supply?

#### **Ridership and Sales**

**Tax**—will the rest of FY06 continue to grow as expected?

## **FY07 Preliminary Budget Sources and Uses**

The following are key issues for the FY07 Preliminary Budget's sources and uses, which are listed in the District's Income Statement on page 6.

### **Sources**

**Revenue Growth:** Growth is projected to continue, but at a slower pace than seen in 2005 and early 2006, partly because of the economic impact of the housing market slowdown and energy cost increases. The District's revenue forecasts reflect this, with strong projections for FY06 growth that slow to a moderate pace in FY07. Overall, although our budget is based on continued growth, there are certainly enough warning signs in the economy to require caution in our outlook for the year ahead.

**SamTrans SFO-Operations:** Issues that continue to be of concern are service levels on the SFO Extension and the resulting SamTrans payment, and airport rent. The Preliminary Budget assumes the current level of service to the SFO Extension, and that SamTrans pays the \$2.5M airport rent. SamTrans' March 10, 2006 letter states that FY07 operating funding would have to be no more than \$5M and zero for FY08, a position with which we do not agree. We are in discussions with SamTrans regarding these and other issues.

### **STA (State Transportation Assistance) & TDA (Transportation Development Act)**

**Assistance:** A key part of FY06 and FY07 revenue growth is the recent increase in STA funding from zero in FY05 to \$11.7M. However, the actual amount of funding received could change because STA is subject to MTC's (Metropolitan Transportation Commission) regional funding plans as well as being under the direct control of the governor and also impacted by state budget issues.

### **Uses**

**Traction & Station Power:** The District's very favorable federal power contract that enabled BART to buy power well below market rate ends in June 2006, and FY07 will be our first year using power purchased on the open market. We have done everything possible to minimize the cost increase by obtaining state legislation to allow the District access to municipal power and developing a purchasing strategy designed to minimize risk and cost. The bulk of our energy supply for next year has already been secured through forward (advance) market purchases. However, about 25% of our power supply must still be purchased. A portion of the remaining need will be provided through additional forward purchases scheduled for later this spring. Because of variability in the District's power use, not all the supply can be arranged in advance. Daily market purchases and sales will be needed to match supply with planned load. This exposes the District to short-term markets at a time when energy costs can be high.

**Business Advancement Plan (BAP) Savings and Allocation:** The FY07 Pro Forma Budget assumed \$5.1M in savings from BAP Phase I implementation. As of this date,

BAP savings for the FY07 Preliminary Budget have not yet been determined. Details are currently being developed and will be presented to the Board during the budget process. In addition to the operating savings, the Preliminary Budget has an allocation of \$11M in required funding for BAP Phase II. The remaining \$6.5M of the total \$17.2M Phase II BAP program is funded from available capital funds — \$5M from A/B Car Rehabilitation and \$1.5M from a Board directed set-aside.

**Capital Rehabilitation Allocations:** The Pro Forma budget included an additional \$6.7M allocation to provide matching funds for federal grants, which leverages four times that amount in capital grants. Fortunately, MTC recently allocated an extra \$3M of bridge toll revenue to be used for matching funds, reducing the District's allocation need to \$3.7M. These grants provide funding for critical capital rehabilitation projects.

Other important issues to consider as we develop the budget include:

- **Capital Reinvestment Needs:** As the recent 30-year capital presentations to the Board show, significant capital reinvestment needs are currently unfunded. We will be working with the Board to develop a funding strategy to meet these critical needs.
- **Access Project Funding:** The Preliminary Budget includes a \$0.6M allocation for station access projects, per the policy the Board approved at its February 9, 2006 meeting.
- **The State of California Infrastructure Bond:** If the Legislature approves a bond measure for the November ballot, it could be an opportunity to pursue funding for BART reinvestment needs in the future.
- **Operating Reserves:** Building and maintaining operating reserves is a key to weathering the economy's ups and downs and an important part of the Board-adopted Financial Stability Policy. The FY06 adopted budget included contributing \$1.2M to replenish leaseback reserves and to date that looks achievable. We have not included additional build-up of operating reserves in the FY07 Preliminary Budget.

### **Summary/Priority Decision Points**

As we move from consideration of the Preliminary Budget to Board adoption of the FY07 Budget, the following issues, as noted on the first page of this memo, will need to be addressed:

- Determination of BAP savings to be realized.
- Resolution of SFO Extension service plan and resulting operating reimbursement from SamTrans.
- Purchase of the balance of District power supply needs.
- Final estimates for ridership and sales tax revenue.

In closing, there are always competing needs for limited resources when developing an annual budget. We have been able to incorporate a number of things into the budget for next year, including the additional cleaning positions and increasing train lengths,

as well as new measures related to security, labor relations, a regional diversity study and employee training. On the other hand, there were other initiatives that we considered but have not been able to include in the Preliminary Budget. These included developing a new Strategic Plan, improving off-peak service headways and funding operating reserves. The budgetary recommendations we have put together are designed to best serve the customer, maintain the District's financial stability, and address funding needs.

We welcome your feedback on our choices during the upcoming budget process.



Thomas E. Margro

CC: Board Appointed Officers  
Executive Staff

# 1

## Introduction

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This document describes the District's preliminary look at the upcoming fiscal year 2007 operating budget. Detail is provided on Operating Sources and Uses, including the assumptions used in determining certain budget figures. Please note that the numbers throughout this document are generally rounded to the nearest \$0.1 million and some tables might not add due to rounding.

The Board receives the Preliminary Budget document each year by April 1. During April and May, staff will give a series of presentations to the Board as part of the FY07 Budget process. Board rules require adoption of the upcoming annual budget by June 30<sup>th</sup> of each year.

# INCOME STATEMENT

(\$millions)

	Budget		Change	
	FY06 Revised	FY07 Preliminary	\$	%
<b>SOURCES</b>				
Passenger Revenue	251.4	273.0	21.6	9%
Other Operating Revenue	15.8	16.8	1.0	6%
Parking Revenue	5.3	7.5	2.2	42%
<b>REVENUE TOTAL</b>	<b>\$ 272.5</b>	<b>\$ 297.3</b>	<b>\$ 24.8</b>	<b>9%</b>
Sales Tax	188.5	202.7	14.2	8%
Property Tax	23.1	25.7	2.6	11%
SamTrans SFO - Operations	11.8	11.6	(0.2)	-2%
STA & TDA Assistance	3.0	8.7	5.7	194%
Other Assistance	1.5	1.6	0.1	8%
Federal 5307 Preventive Maint. Grant	-	5.0	5.0	-
<b>TAX &amp; FINANCIAL ASSISTANCE TOTAL</b>	<b>\$ 227.9</b>	<b>\$ 255.3</b>	<b>\$ 27.4</b>	<b>12%</b>
<b>SOURCES TOTAL</b>	<b>\$ 500.4</b>	<b>\$ 552.6</b>	<b>\$ 52.2</b>	<b>10%</b>
<b>USES</b>				
Labor	314.8	325.6	10.8	3%
Purchased Transportation	12.4	13.1	0.7	6%
Traction & Station Power	22.3	40.0	17.6	79%
Other Non-Labor	75.1	87.6	12.5	17%
Business Advancement Plan Savings	-	-	-	-
<b>OPERATING EXPENSES TOTAL</b>	<b>\$ 424.6</b>	<b>\$ 466.2</b>	<b>\$ 41.7</b>	<b>10%</b>
Debt Service	59.7	60.3	0.6	1%
Capital Rehabilitation Allocations	14.8	19.0	4.2	28%
Business Advancement Plan Allocation	-	11.0	11.0	-
Operating Reserve Allocation	1.2	-	(1.2)	-100%
Access Fund Allocation	-	0.6	0.6	-
Other Allocations	0.1	0.1	0.0	-
<b>ALLOCATIONS TOTAL</b>	<b>\$ 75.9</b>	<b>\$ 91.1</b>	<b>\$ 15.2</b>	<b>20%</b>
<b>USES TOTAL</b>	<b>\$ 500.4</b>	<b>\$ 557.3</b>	<b>\$ 56.9</b>	<b>11%</b>
<b>NET RESULT</b>	<b>\$ 0.0</b>	<b>\$ (4.7)</b>	<b>\$ (4.7)</b>	
<b>KEY PERFORMANCE INDICATORS</b>				
Operating Ratio	64.2%	63.8%		-0.7%
Rail Farebox Recovery Ratio	60.8%	60.1%		-1.2%
Farebox Recovery Ratio	59.2%	58.6%		-1.1%
Average Weekday Trips	317,415	332,073	14,658	4.6%
Passenger Miles (billions)	1.29	1.35	0.06	5.0%
Rail Cost / Passenger Mile	32.0¢	33.5¢	1.5¢	4.7%



## FY07 Preliminary Budget Major Assumptions

### Sources

- **Total annual ridership growth** is projected at 3% (for both core system and SFO) over FY06 estimates.
- **Rail passenger revenue** is based on a full year of the January 1, 2006 fare increase (vs. 6 months in FY06), plus ridership growth.
- **Parking** revenue reflects a full year of the new Daily Paid Parking Program. All parking programs are budgeted to generate \$2.2M more than the FY06 budget.
- **Sales tax revenue** is estimated to slow down from estimated FY06 growth of 8% to 5% for FY07, based on projections for slowing regional economic growth in FY07.
- **Property tax revenue** is projected to grow 6% over the FY06 estimate, reflecting increased property reassessments and the discontinuation of a 3% state diversion.
- **State Transit Authority (STA) assistance** is based on MTC's February 2006 forecast.
- **The BART-SamTrans Comprehensive Agreement** operating payment is based on the current extension service plan. The \$11.6M net payment combines the SFO extension operating payment of \$11.2M, SamTrans share of ancillary revenue (\$0.2M) and the Millbrae operating agreement of \$0.6M.
- **Federal 5307 Preventive Maintenance grant funding** is budgeted at \$5M annually for FY07, FY08 and FY09, funding the start-up expenses for the Strategic Maintenance Program (SMP) in the Rolling Stock and Shops department.

### Uses

- **Service plan** assumes a full year of train lengthening, phased in during FY06.
- **Net labor increase** of \$10.8M or 3% over the FY06 budget includes: contractual 2% wage increase, 12% increase in active medical and a 5% increase in pension costs. The 17 car cleaning and system service positions added during FY06 are also included, plus three new operating positions for FY07. Four operating reimbursable positions are funded by \$0.6M of the SMP 5307 grant.
- **Purchased Transportation** includes the Express Bus program, which will be funded by the increased STA funds, saving BART \$2.5M each year in FY06 and FY07.
- **Power** is budgeted to increase of \$17.6M or 79% over FY06, caused by the June 2006 end of the District's beneficial Federal power contract. The replacement municipal contracts, although the most economical available, are still a substantial increase.
- **Other Non-labor** increases \$12.5M, primarily due to \$3.3M from continuing phase-in of the Lakeside building lease, \$4.4M funded by the SMP grant, \$2.2M for pay-as-you go retiree medical expenses, \$1.2M for 2% inflation to base budgets, \$0.6M for director elections, \$0.9M for increased car maintenance due to train lengthening, and \$1.3M for new budget initiatives, less FY06 one-time expenses and adjustments.
- **Business Advancement Plan (BAP)** is budgeted for an \$11M allocation to complete funding for Phase II.
- **Capital Rehabilitation Allocations** include the base SRTP allocation of \$15.2M plus \$3.8M to provide additional matching funds for federal grants, which leverage four times that amount in grants.
- **Access Fund allocation** of \$0.625M is included in the Preliminary Budget.

## 2

## Operating Sources

This section provides detail on the District's operating sources, which are made up of Revenue and Tax & Financial Assistance, as listed in the Income Statement on page 6.

The amount of passenger revenue and tax and financial assistance BART takes in depends largely on interrelated factors beyond BART's control, such as employment levels, business activity, population growth, housing, tourism, gas prices, and freeway congestion. The economic downturn that began in 2000 hit the Bay Area and BART particularly hard.

After five difficult years, the Bay Area's economy has only just started to improve. During 2005, the East Bay gained a significant number of jobs, with employment recovering to a level slightly higher than early 2001, which was the previous peak in employment. In San Francisco, however, job growth has lagged and currently there are 86,000 fewer jobs in the city than early 2001. Looking to the future, the strength of the recovery is uncertain, mainly because of energy costs, the region's high cost-of-living, infrastructure problems, and concerns related to California's budget and business climate. One notable bright point is BART sales tax assistance, which is very promising with an average growth of 8.6% for the past three quarters.

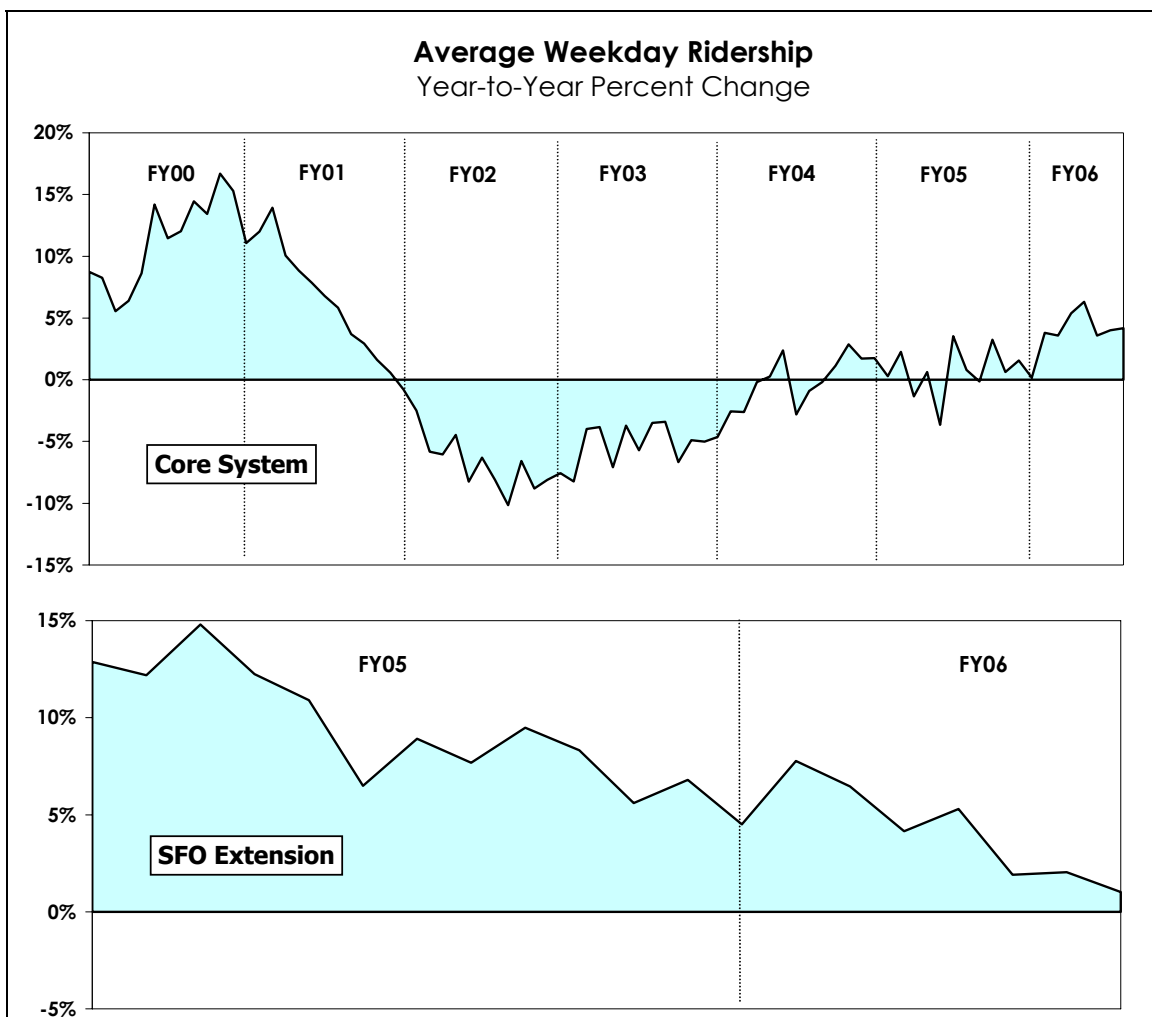
(\$millions)	Budget		Change	
	FY06	FY07	\$	%
	Revised	Preliminary		
<b>SOURCES</b>				
<b>Passenger Revenue</b>	251.4	<b>273.0</b>	21.6	9%
<b>Other Operating Revenue</b>	15.8	<b>16.8</b>	1.0	6%
<b>Parking Revenue</b>	5.3	<b>7.5</b>	2.2	42%
<b>REVENUE TOTAL</b>	<b>\$ 272.5</b>	<b>\$ 297.3</b>	<b>\$ 24.8</b>	<b>9%</b>
<b>Sales Tax</b>	188.5	<b>202.7</b>	14.2	8%
<b>Property Tax</b>	23.1	<b>25.7</b>	2.6	11%
<b>SamTrans SFO - Operations</b>	11.8	<b>11.6</b>	(0.2)	-2%
<b>STA &amp; TDA Assistance</b>	3.0	<b>8.7</b>	5.7	194%
<b>Other Assistance</b>	1.5	<b>1.6</b>	0.1	8%
<b>Federal 5307 Preventive Maint. Grant</b>	-	<b>5.0</b>	5.0	-
<b>TAX &amp; FINANCIAL ASSISTANCE TOTAL</b>	<b>\$ 227.9</b>	<b>\$ 255.3</b>	<b>\$ 27.4</b>	<b>12%</b>
<b>SOURCES TOTAL</b>	<b>\$ 500.4</b>	<b>\$ 552.6</b>	<b>\$ 52.2</b>	<b>10%</b>

## 2.1 REVENUE

### 2.1.1 Ridership and Passenger Fare Revenue

During FY06, average weekday ridership at core system stations, defined as those in the three-county BART district plus Daly City, has grown on average 4.2% compared to the same period in 2005. The monthly growth has been uneven, and in fact, started at only 0.2% for the first month of FY06. Since then, each month has increased on the core system, as seen in the core system chart below.

The five-station San Mateo County SFO Extension has also grown 4.2% in FY06; however, since early FY06, that rate of growth has been trending downward, as also shown below [less than two full years of comparative data are available, as the extension opened in June 2003].



The table below shows the FY06 Revised Budget and the FY07 Preliminary Budget. Also shown is an actual/estimate for FY06, projected using actual ridership through February 2006. Core system growth in FY06 has exceeded expectations and total annual trips are currently projected to end the year over budget by 2.5%. The FY07 Preliminary Budget starts with the FY06 actual/estimate as the base and the resulting real growth rate is projected at 3.0%.

Although the SFO Extension is still growing, ridership has fallen short of the FY06 Revised Budget. Total annual trips are expected to end the year 1.3% under budget. As a result, the FY07 Preliminary Budget starts with the lower FY06 actual/estimate and then projects 3.0% growth.

<b>Rail Ridership</b>				
	<b>FY06</b>		<b>FY07</b>	<b>% Change from FY06 Act/Est</b>
	<b>Revised</b>	<b>Actual/Est</b>	<b>Preliminary</b>	
<b>Total Annual (millions)</b>				
<b>Core</b>	85.7	87.8	<b>90.4</b>	3.0%
<b>SFO Extension</b>	9.0	8.9	<b>9.2</b>	3.0%
<b>Total</b>	94.7	96.7	<b>99.6</b>	3.0%
<b>Average Weekday</b>				
<b>Core</b>	287,496	293,263	<b>302,056</b>	3.0%
<b>SFO Extension</b>	29,919	29,155	<b>30,017</b>	3.0%
<b>Total</b>	317,415	322,418	<b>332,073</b>	3.0%

### Rail Revenue

FY07 net rail passenger revenue is projected to grow by \$21.6M over the FY06 Revised Budget. This figure reflects a combination of passenger growth and a full year of the January 2006 fare increase, which consisted of a 3.7% increase and a 10-cent capital surcharge for most trips, in effect for one-half of FY06. The 10-cent capital surcharge, estimated to generate approximately \$9.0M, will help fund a portion of the FY07 allocation to capital.

### ADA Paratransit Revenue

BART receives 31% of paratransit revenue from East Bay Paratransit Consortium trips. For FY07, BART's share is expected to be \$0.6M. Paratransit revenue covers 6% of the paratransit operating cost BART pays.

<b>Passenger Fare Revenue (\$millions)</b>	<b>Budget</b>			
	<b>FY06 Revised</b>	<b>FY07 Preliminary</b>	<b>Change</b>	<b>%</b>
<b>Net Rail Passenger Revenue:</b>				
<b>Core</b>	\$ 223.4	<b>\$ 243.6</b>	\$ 20.1	9%
<b>SFO Extension</b>	27.3	<b>28.8</b>	1.5	5%
<b>Subtotal, Rail Fare Revenue</b>	250.8	<b>272.4</b>	21.6	9%
<b>ADA Paratransit Revenues</b>	0.6	<b>0.6</b>	(0.0)	-
<b>TOTAL</b>	<b>\$ 251.4</b>	<b>\$ 273.0</b>	<b>\$ 21.6</b>	<b>9%</b>

## 2.2.1 Other Operating Revenue

The District also generates operating revenue from non-passenger revenue sources, which are used to help offset the District's operating costs. The sources are detailed below.

### Telecommunications Revenue

Agreements include just under \$3.6M in revenues from nine fiber optics carriers and \$0.7M in revenues from cell sites on BART property. An additional \$1.1M is also included for anticipated new business (this represents a decrease from FY06, because of a revision in assumptions).

### Advertising Revenue

- Revenues are based on a five-year contract with CBS Outdoor (formerly Viacom), which expires in September 2008, to sell and post advertising in the BART system.
- The CBS Outdoor revenue forecast is based on revenue guarantees stipulated in the BART/CBS Agreement. The forecast does not include any bonus revenues, which are uncertain due to the relatively volatile market for transit advertising.
- The Board-approved tunnel advertising program is anticipated to generate \$0.1M in FY07.
- Ticket advertising is expected to generate \$0.1M in FY07.
- For all advertising programs, an additional \$0.1M in management fee revenue is anticipated to offset an equal amount of startup and administration costs.
- Several additional advertising options are currently being pursued; however, these are not expected to generate net revenues until FY08.

### Other Revenue

Other revenue includes police fines and forfeitures, public telephones, rental buildings, concessions, other miscellaneous revenues, and special event parking at Coliseum station.

### Interest Earnings

In FY04, the District's investment policy was amended to allow investment in money market mutual funds, which have yielded increased investment earnings for the District as interest rates have risen. This trend is forecast to continue for the FY07 Preliminary Budget.

Other Operating Revenue (\$millions)	Budget		Change	%
	FY06 Revised	FY07 Preliminary		
Telecommunications	\$ 5.8	\$ 5.3	\$ (0.4)	-8%
Advertising	3.7	3.2	(0.5)	-14%
Other	3.7	3.7	0.0	1%
Interest Earnings	2.6	4.5	1.9	73%
<b>TOTAL</b>	<b>\$ 15.8</b>	<b>\$ 16.8</b>	<b>\$ 1.0</b>	<b>6%</b>

### 2.1.3 Parking Revenue

BART has over 46,000 parking spaces at 32 of its 43 stations, and parking fees began to be charged in FY03 at certain stations. Since then, the paid parking program has expanded, and current parking programs are described below.

- The Core Monthly Reserved parking program is in place at all East Bay and Daly City stations. FY06 year-to-date actual figures and the FY07 Preliminary Budget reflect that the program is more popular than the FY06 Revised Budget anticipated.
- The Daly City parking program includes both Daily (\$0.7M) and Monthly Non-Reserved (\$0.1) elements. Daly City Daily parking was already in place before Daily parking was implemented at the East Bay (Core) stations.
- The West Bay parking program includes monthly reserved, daily, and monthly non-reserved (at SFO Extension stations). Currently, parking fees are waived at all SFO extension stations with the exception of Colma station. Net revenues from the West Bay program are shared with SamTrans per the Comprehensive Agreement.
- The Core Long-Term East Bay parking program was designed to accommodate passengers using the airports who need to park for more than 24 hours.
- Rollout of the new Core Daily Parking (\$1.3M) and Single Day Reserved (\$0.3) parking programs at stations that have capacity began later in the fiscal year than was planned in the FY06 Revised Budget. The FY07 Preliminary Budget is based on a full year of the operation of these programs at the following stations:
  - Already implemented in FY06: Lake Merritt, West Oakland, MacArthur and Rockridge stations.
  - Further FY06 rollout: Orinda and Lafayette (April 2006), Walnut Creek and Dublin/Pleasanton (May 2006), and North Berkeley and Ashby (June 2006).

Parking Revenue (\$millions)	Budget		Change	%
	FY06 Revised	FY07 Preliminary		
Core Monthly Reserved	2.4	\$ 3.0	\$ 0.6	24%
Daly City Daily + Monthly Non-Res.	0.8	0.8	0.0	-
West Bay	0.3	0.3	0.0	-
Core Long Term East Bay	0.2	0.3	0.1	25%
Core Daily + Single Day Reserved	1.6	3.2	1.6	98%
<b>TOTAL</b>	<b>\$ 5.3</b>	<b>\$ 7.5</b>	<b>\$ 2.2</b>	<b>42%</b>

## 2.2 TAX & FINANCIAL ASSISTANCE

### 2.2.1 Sales Tax Proceeds

Sales tax revenue is the second largest source of revenue for the District, after passenger fares, and represents 38% of total sources. The proceeds are derived from a dedicated 75% share of a one-half cent sales tax levied in San Francisco, Alameda and Contra Costa counties.

- Actual sales tax receipts for the third quarter of FY06 indicate that collections continue to be erratic and unpredictable. While year-to-date receipts for FY06 have increased 8.6% from the same period in the prior year, quarterly increases in FY06 compared to FY05 have ranged from a low of 3.7% to a high of 16.3%.
- Since growth continues to be unpredictable, and the strength of the economy is unknown, FY07 growth is budgeted at 7.5% over the FY06 Revised Budget, or 4.8% over the FY06 year-end estimate.

<b>Sales Tax Proceeds</b> (Millions)			
		<b>Sales Tax</b>	<b>Year-to-Year Change</b>
Actual	FY01	\$ 191.6	12.6%
	FY02	172.8	-9.8%
	FY03	167.4	-3.1%
	FY04	170.6	1.9%
	FY05	178.4	4.6%
	FY06 Revised		188.5
<b>FY07 Preliminary</b>		<b>\$ 202.7</b>	<b>7.5%</b>

### 2.2.2 Property Tax Proceeds

Property tax revenues come from a permanent, dedicated assessment in the three BART counties.

- Although the local housing market has begun to slow down, the District still anticipates strong growth in property tax revenues next fiscal year as recently sold homes are reassessed at higher values.
- In FY05 and FY06, the State redirected 3% of BART's property tax to an Education Realignment Augmentation Fund (ERAF). This is reflected in the lower property tax growth rate realized in FY05.
- The overall growth for the FY07 Preliminary Budget includes the return of the ERAF share to the District, thus increasing the rate by that 3%.

<b>Property Tax Proceeds</b> (Millions)			
		<b>Property Tax</b>	<b>Year-to-Year Change</b>
Actual	FY01	\$ 17.0	7.2%
	FY02	18.7	10.0%
	FY03	20.3	8.2%
	FY04	21.4	5.5%
	FY05	22.4	4.9%
	FY06 Revised		23.1
<b>FY07 Preliminary</b>		<b>\$ 25.7</b>	<b>11.3%</b>

### 2.2.3 SamTrans SFO Operations

The operation of rail service and of the five stations south of Daly City Station into San Mateo County is governed by a comprehensive agreement between BART and SamTrans. The Colma Station opened in 1997 and four other stations, including the San Francisco International Airport (SFIA) and Millbrae stations, opened in 2003.

#### BART-SamTrans Comprehensive Agreement

- The operation of the SFO Extension is revenue neutral to the operating budget for the other 38 BART stations. However, SamTrans has not been paying BART the annual \$2.5M rent charged by SFO for the SFIA station, and both parties agreed in May 2004 to mediate the issue if no relief could be found. So far, no resolution has been reached.
- Per the BART-SamTrans Comprehensive Agreement, SamTrans is contractually obligated to pay operating costs not covered by fare revenues. SamTrans has put BART on notice that it is seeking to reduce its FY07 subsidy to \$5M, which is an issue for the FY07 Preliminary Budget.
- Current service includes running trains from Dublin/Pleasanton to SFIA then Millbrae ("reverse L" pattern), with peak period service on the Richmond line to Colma. However, service levels are currently under review with SamTrans. Depending on the outcome, service levels and the associated FY07 budgeted payment from SamTrans may change.

#### Caltrain-Millbrae Station Joint Use

- As part of operating service to the joint BART/Caltrain station at Millbrae, Caltrain is required to pay for the use, operating, and maintenance costs at the station applicable to Caltrain service and passengers.

#### Ancillary Revenues

- Net revenues generated by ancillary programs on the SFO Extension, including parking, advertising, and concessions, are split equally with SamTrans, per the terms of the Comprehensive Agreement.

SamTrans-SFO Operations (\$millions)	Budget			
	FY06	FY07	Change	%
	Revised	Preliminary		
BART-SamTrans Comprehensive Agmt	\$ 11.5	\$ 11.2	\$ (0.3)	-2%
Caltrain-Millbrae Station Joint Use	0.5	0.6	0.1	20%
Ancillary Revenues	(0.1)	(0.2)	(0.1)	44%
<b>TOTAL</b>	<b>\$ 11.8</b>	<b>\$ 11.6</b>	<b>\$ (0.2)</b>	<b>-2%</b>



## 2.2.4 Other Assistance

### State Transportation Assistance (STA)/Transportation Development Act (TDA)

- The District does not claim STA and TDA funds for which it is eligible until the local bus operator expense associated with express and feeder bus service has been funded.
- Based upon the Governor's FY07 proposed budget, which includes Proposition 42 funds, the Metropolitan Transportation Commission (MTC) currently estimates there will be \$11.7M of STA funds available to BART in FY06 and FY07 after covering the feeder bus expense. The District has budgeted \$3.0M in FY06 and the remaining \$8.7M in FY07.

### Measure B Funding

- Alameda County voters renewed this sales tax-based funding source until 2022.
- Measure B provides funds, estimated at just under \$1.5M in FY06, growing to just over \$1.6M in FY07, for paratransit service within Alameda County.

### Federal 5307 Preventive Maintenance Grant

Through the MTC, BART is scheduled to receive a \$5M FTA 5307 Flexible Funds Grant to fund the new Strategic Maintenance Program discussed in the Operating Uses section.

Other Assistance (\$millions)	Budget		Change	%
	FY06 Revised	FY07 Preliminary		
State Transportation Assistance	\$ 3.0	\$ 8.7	\$ 5.7	194%
Measure B Funding	1.5	1.6	0.2	10%
Federal 5307 Preventative Maintenance Grant	-	5.0	5.0	
<b>TOTAL</b>	<b>\$ 4.4</b>	<b>\$ 15.3</b>	<b>\$ 10.9</b>	<b>246%</b>

# 3

## Operating Uses

### 3.1 SERVICE PLAN

The FY07 Preliminary Budget rail service is based upon current service levels, which reflect several increases implemented throughout FY06 in response to greater than budgeted ridership growth. The FY06 car requirement for peak period was budgeted at 490. Since then, train lengths have been increased on four separate occasions – in September, October, December and February – in response to passenger demand and BART's focus on providing a comfortable service in order to attract and retain customers. The peak car requirement now stands at 513, which will be continued for FY07. The number of peak period trains is currently projected to remain constant at 60.

	RAIL SERVICE PLAN	
	Budget	
	FY06 Revised	FY07 Preliminary
Peak Trains	60	60
Peak Cars	490	513
Total Cars	536	559
Total Car Hours (millions)	2.1	2.1
Passengers (millions)	97.0	99.9
Passenger Miles (billions)	1.3	1.4

### 3.2 OPERATING USES

This section provides an overview of Operating Uses, which include Operating Expenses and Allocations. "Operating Expenses" include wages, benefits, materials, power and other labor and non-labor expenses. "Allocations" are made to cover debt service, reserves, and capital.

Major issues in operating uses for FY07 are budget increases made during FY06 to increase service and cleaning, the huge increase in power costs, potential savings from the Business Advancement Plan (BAP), and allocations for federal grant matching funds and to fund Phase II of the BAP.

#### 3.2.1 Operating Use Summary

The following table summarizes expenses and allocations for FY07. Operating expenses are projected to increase \$41.7M over the revised FY06 budget, due to increased costs in electrical traction power, labor and benefits and non-labor expenses. Five million dollars of the expense increase is funded by a federal preventive maintenance grant for the Strategic Maintenance Program in Rolling Stock & Shops. Total allocations are projected to increase by \$15.2M, primarily due to \$11.0M for Phase II of the BAP and \$3.8M in capital allocations for additional federal matching grant requirements.

<b>OPERATING USES SUMMARY</b>				
(\$millions)				
	<b>Budget</b>		<b>Change</b>	<b>%</b>
	<b>FY06 Revised</b>	<b>FY07 Preliminary</b>		
<b>Labor</b>	314.8	<b>325.6</b>	10.8	3%
<b>Purchased Transportation</b>	12.4	<b>13.1</b>	0.7	6%
<b>Traction &amp; Station Power</b>	22.3	<b>40.0</b>	17.6	79%
<b>Other Non-Labor</b>	75.1	<b>87.6</b>	12.5	17%
<b>BAP Savings</b>	-	-	-	-
<b>OPERATING EXPENSES Total</b>	<b>\$ 424.6</b>	<b>466.2</b>	<b>\$ 41.7</b>	<b>10%</b>
<b>Debt Service</b>	59.7	<b>60.3</b>	0.6	1%
<b>Capital Allocations</b>	14.8	<b>19.0</b>	4.2	28%
<b>BAP Allocations</b>	-	<b>11.0</b>	11.0	-
<b>Operating Reserve Allocations</b>	1.2	-	(1.2)	-100%
<b>Access Fund Allocation</b>	-	<b>0.6</b>	0.6	-
<b>Other Allocations</b>	0.1	<b>0.1</b>	0.0	-
<b>ALLOCATIONS Total</b>	<b>\$ 75.9</b>	<b>91.1</b>	<b>\$ 15.2</b>	<b>20%</b>
<b>OPERATING USES Total</b>	<b>\$ 500.4</b>	<b>557.3</b>	<b>\$ 56.9</b>	<b>11%</b>

### 3.2.2 Operating and Capital Positions

Seven car cleaning and ten system service worker positions were added during FY06 after the budget was adopted to adjust to growing ridership and the need to improve station and car cleanliness.

<b>HEADCOUNT SUMMARY</b>			
	<b>Headcount</b>		
	<b>Operating</b>	<b>Capital/ Reimb</b>	<b>Total</b>
<b>FY06 Revised Budget</b>	<b>2,946.5</b>	<b>305.0</b>	<b>3,251.5</b>
<b>Cleaning Positions Added During FY06</b>	17.0	-	17.0
<b>FY07 Additions</b>	3.0	6.0	9.0
<b>FY07 Preliminary Budget</b>	<b>2,966.5</b>	<b>311.0</b>	<b>3,277.5</b>

Three proposed additional operating positions are included in the FY07 Preliminary Budget. These include a senior management position to oversee rail operations security programs, a survey engineer and permit review staff position. The FY07 Preliminary Budget also includes four new operating reimbursable positions that are funded by the Strategic Maintenance Program federal grant, and a net addition of two capital positions. The two new capital positions in the Right of Way Management division are being created in support of the earthquake safety, Oakland Airport Connector, Warm Springs, and eBART projects.

### 3.2.3 Labor (Wages and Benefits)

The contractual wage increase for FY07 is 2%, but the overall wage and benefit increase is 3%, due to higher percentage increases in benefits and the addition of 20 operating positions.

LABOR DOLLARS (\$millions)	Budget				
	FY06	FY07	Change	%	
	Revised	Preliminary			
<b>Wages, Overtime &amp; Other Pay</b>	\$ 253.2	\$ 260.2	\$ 7.0	3%	
<b>PERS Pension</b>	41.3	43.4	2.0	5%	
<b>PERS Medical Insurance</b>	30.5	34.3	3.8	12%	
<b>Worker's Compensation</b>	8.5	8.5	0.0	0%	
<b>Other</b>	21.2	19.4	(1.8)	-8%	
<b>Capital Labor Credits</b>	(40.0)	(40.1)	(0.1)	0%	
<b>TOTAL</b>	<b>\$ 314.8</b>	<b>\$ 325.6</b>	<b>\$ 10.8</b>	<b>3%</b>	

#### PERS Pension

The District's pension plan, which the California Public Employee Retirement System (PERS) administers, is funded by employer and employee contributions, both of which are paid by the District. PERS investment returns, "market smoothing" actuarial methodology, a rate stabilization policy adopted recently by the PERS Board of Directors, and other PERS assumptions and actuarial methods affect pension rates paid by employers. Other factors include wage increases, demographics, and number of retirees. In FY05 and FY06 BART's contribution increased tremendously (up \$18.6M in FY05 and \$14.3M in FY06) due to the immediate resumption of the employee share payment and the phase-in of the employer rate after the end of "superfunding" status of the Miscellaneous Plan in FY04. For FY07 the District's cost will increase less dramatically, because the phase-in was completed in FY06 and the District paid the full "normal rate". For FY07 the Miscellaneous Plan employer contribution is set at 9.3% of wages, and the Safety Plan at 29.9%. The employee share payment is fixed at 7% of wages for the Miscellaneous Plan, and at 9% for Safety.

PERS PENSION (\$millions)	Budget				
	FY06	FY07	Change	%	
	Revised	Preliminary			
<b>Employee</b>	\$ 16.9	\$ 17.3	\$ 0.5	3%	
<b>Employer</b>	24.5	26.0	1.6	6%	
<b>TOTAL</b>	<b>\$ 41.3</b>	<b>\$ 43.4</b>	<b>\$ 2.0</b>	<b>5%</b>	

### PERS Active Employee Health Insurance

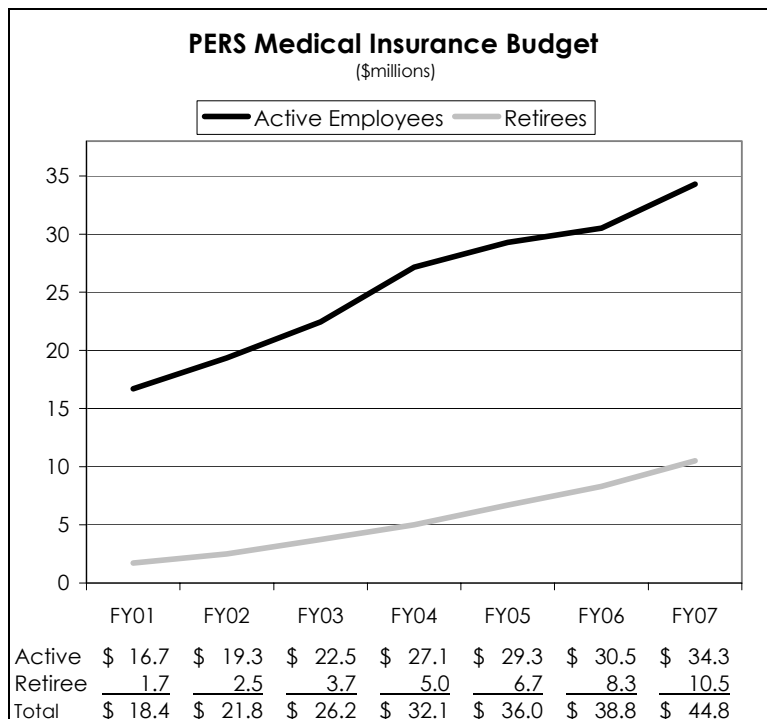
Like all employers, the District has experienced large rate increases for its medical plans. Over the past five years rate increases have averaged 15%. Rates increase each January, so the composite rate increase for the first half of FY07 of 12.8% is known, and the January 1, 2007 increase is estimated at 11%. The employee contribution was increased from \$25 to \$75 January 1, 2006, with a 3% increase to \$77.25 on January 1, 2007, which has partially mitigated the increase in the budget for FY06 and FY07, with budgeted position cuts also a factor in FY06. However, even with the increased employee contribution the budget for FY07 increases by \$3.8M.

### PERS Retiree Health Insurance

Retiree medical cost continues to grow, affected by both medical rate increases and an increased number of retirees. The FY07 Preliminary Budget of \$10.5M is \$2.2M, 26.3% higher than the FY06 Revised Budget. The number of retirees is projected to increase by 150 to about 1,350 participants in FY07, almost double the number of retirees five years ago.

Through FY07 the District will continue to pay for this benefit on a pay-as-you go basis. Since retiree medical cost would exponentially increase if this method continued, the pay-as-you go rate would eventually exceed the District's ability to fund. In addition, Governmental Accounting Standards Board standards will require all public agencies to recognize the unfunded liability. Because of these factors, the District has developed a funding plan that was incorporated into the recent labor agreements, and beginning in FY08, will fund this benefit in a manner similar to the pension plan fund.

The following chart shows the rapid increase in active employee and retiree medical costs since FY01. Active employee insurance costs doubled over the period and retiree medical pay-as-you-go premium costs have increased by over 600%.



### **Workers' Compensation**

BART is self-insured for workers' compensation insurance, and each year an actuarial study is done to establish the level of reserves the District must maintain. The District estimates annual funding for workers' compensation to cover both annual claims and to increase reserves to cover future payments. Experience has been good, so the FY07 rate is slightly lower than FY06. An updated actuarial report will be received in May, and if there are significant changes the budget may need to be adjusted prior to adoption.

### **Other Labor & Benefits**

The FY07 Preliminary Budget forecasts a slight decrease of \$1.8M or 8.4% for Other Labor & Benefits. Other Benefits include dental, vision, life insurance, buy-back programs for sick leave and holiday, Medicare, other employee benefits as well as miscellaneous labor related budget adjustments. The FY06 Revised Budget included a one-time \$1.5M increase for funding labor and benefit costs associated with retaining employees affected by the FY06 reduction in force.

### **Capital Labor Credits**

Capital and reimbursable credits reflect labor charges that are reimbursed by either a capital project or a third party. FY07 Preliminary Budget capital credits are \$0.1M higher than FY06.

### **Cost Allocation Plan**

The FTA-approved plan allows BART to offset the operating cost of administering capital programs, such as payroll, legal services and contract management. In addition, the cost allocation plan (CAP) covers allocations for overhead costs (e.g., office space, utilities, and supplies). The CAP permits these costs to be captured and charged back to capital projects and to the original funding sources, and thus supports approximately 48 operating positions.

The generation of indirect cost allocation plan credits to the operating budget is projected to experience a decrease due to a number of factors, including an increase in external capital funds that limit the recovery of expenses using indirect allocation methods. The CAP budget for FY07 is \$5.6M compared to \$6.2M in FY06.

### **3.2.4 Purchased Transportation**

BART pays for certain transportation services other operators provide. Purchased transportation expenses consist of paratransit and feeder bus service.

Purchased transportation expenses include the District's share of local ADA paratransit (mainly East Bay Paratransit Consortium and Muni Paratransit), Muni transfer payments for feeder service, express bus service by East Bay bus operators that brings passengers to and from BART and the AirBART shuttle service that connects the Coliseum Station to the Oakland International Airport.

### **Paratransit**

Paratransit ridership has been relatively flat for several years and is expected to continue to grow slowly. However, the paratransit budget has been increased in anticipation that costs will increase at East Bay Paratransit following a re-procurement of services for the

period starting January 2007. Fuel, insurance, and wages have all generally increased since the last contract was executed. The amount budgeted for BART's share of Muni Paratransit's expenses has been increased slightly to cover higher service provider rates based on a new contract and the potential loss of revenue from a change in San Francisco's taxi medallion program.

### Muni Purchased Transportation

The FY07 Muni Purchased Transportation payment is based on the percentage change in District sales tax receipts over the last two fiscal years (FY05 and FY06), which comes to an estimated increase of \$0.2M. The exact value of the payment will not be determined until June 2006, when BART's sales tax assistance for the fourth quarter of FY06 is received. The FY07 Preliminary Budget currently estimates the payment at \$2.8M.

### Express Bus

Before FY06, per a regional funding agreement with MTC, BART typically provided \$2.5M annually from its operating budget to local bus operators to offset net operating costs associated with their providing passenger access in corridors that BART's express bus services used to serve. Because of the increased availability of STA funds in FY06 and FY07, sufficient assistance is projected to be available to cover both the local operator and BART's share of this expense. Therefore, beginning in FY06 and continuing into FY07 BART will not have to make this payment to local bus operators.

### AirBART Shuttle Service

This bus service from BART to the Oakland Airport generates a small amount of net revenue to the District after payment to the operator of the service.

PURCHASED TRANSPORTATION (\$millions)		Budget			
		FY06 Revised	FY07 Preliminary	Change	%
Paratransit	\$ 10.0	\$ 10.5	\$ 0.5	5%	
Muni Purchased Transportation	2.6	2.8	0.2	9%	
Express Bus	-	-	-	-	
AirBART	(0.2)	(0.2)	-	-	
<b>TOTAL</b>	<b>\$ 12.4</b>	<b>\$ 13.1</b>	<b>0.7</b>	<b>6%</b>	

### 3.2.5 Traction & Station Power

FY07 is the first year that most of the District's power supply will be provided through market purchases rather than from the Federal Bonneville Power Administration. The Federal Western Area Power Administration will continue to supply a small amount of power under an existing contract.

Anticipating the end of the Bonneville supply, the District obtained expanded statutory authority from the state legislature so that it could purchase power from municipal utilities as well as federal power marketing agencies. Pursuant to this new authority, the District has entered into a long-term agreement with a municipal utility, the Northern California Power Agency (NCPA), to serve as the District's supplier to procure market-priced power.

The transition to a market-based supply will substantially increase the cost of the District's electrical power. However, the cost will still be below the rates for service provided by Pacific Gas and Electric (PG&E).

NCPA has entered into forward (advance) power supply contracts to cover approximately 75 % of the District's power supply needs for FY07. NCPA will serve the District's remaining needs through a combination of additional standard forward purchases, a potential custom "shaped" forward product purchase that approximates the District's load shape and finally through day-ahead (spot market) purchases and sales to complete the match of power supply with planned load on an hour-to-hour basis. FY07 power supply costs are budgeted based on set prices for supply under contracts, and forecasted market prices for remaining purchases.

BART's power supply is delivered through transmission and distribution agreements with PG&E. For FY07, the cost of this service has been increased by 3% to account for inflation. PG&E also serves as the District's backup power supply source. The amount budgeted for supplemental PG&E power continues to decrease as the District improves its power scheduling procedures, thus reducing the need for backup service from PG&E. The amount budgeted for regulatory pass-through costs increases due to a one-time credit in FY06, which does not continue into FY07.

In FY07, the District will significantly expand its use of NCPA services under the new power supply arrangement. NCPA will make power purchases for BART, provide market settlement services and perform market forecasting and power scheduling services. NCPA will also assist the District in identifying opportunities to partner with municipal utilities to own power generation facilities and to acquire renewable energy supplies.

<b>TRACTION &amp; STATION POWER</b>				
<b>(\$millions)</b>				
	<b>Budget</b>		<b>Change</b>	<b>%</b>
	<b>FY06 Revised</b>	<b>FY07 Preliminary</b>		
<b>Power Suppliers:</b>				
<b>BPA (FY06), NCPA (FY07)</b>	\$ 14.3	\$ 30.9	\$ 16.4	116%
<b>Western</b>	0.3	0.3	-	-
<b>PG&amp;E Supplemental</b>	0.3	0.3	-	-11%
<b>Transmission Services</b>	3.0	3.1	0.1	3%
<b>Distribution Services</b>	3.9	3.9	0.1	2%
<b>Regulatory Pass-Through Costs</b>	(0.3)	0.3	0.6	196%
<b>NCPA &amp; Legal Support Expenses</b>	0.8	1.2	0.4	44%
<b>TOTAL</b>	<b>\$ 22.3</b>	<b>\$ 40.0</b>	<b>\$ 17.6</b>	<b>79%</b>



### 3.2.6 Other Non-Labor

The following list separates Other Non-Labor into the major account groups, along with a description of the types of expenses in each:

**Material Usage:**

Mostly maintenance-related inventory withdrawals and purchases.

**Non-Labor Insurance:**

Premiums and self-insured losses for public liability and damage to District property, and risk-related services. It does not include active employee health insurance, workers' compensation, Medicare, unemployment and other types of insurance that are part of the labor budget. It does include the pay-as-you-go retiree medical premium costs for current retirees.

**Professional & Technical Services:**

Benefit & insurance administration fees, audit and legal services, printing, computer hardware & software service contracts, access-related fees, environmental fees, specialized consulting and professional services contracts.

**Maintenance, Repair & Other Contracts:**

Graffiti removal, traction motor rewinds, painting, equipment overhaul, elevator pit cleaning.

**Building Space Rental:**

Administrative building leases and other lease expenses.

**Equipment Rental:**

Rental of equipment and vehicles.

**Miscellaneous Other Non-Labor:**

Utilities, trash collection, natural gas, telephones, and miscellaneous supplies.

The following table summarizes the Other Non-Labor expense category:

Other Non-Labor (\$millions)	Budget		Change	
	FY06 Revised	FY07 Preliminary	\$	%
Material Usage	\$ 21.3	\$ 22.6	\$ 1.3	6%
Insurance	14.8	17.2	2.4	16%
Professional and Technical Fees	15.8	19.3	3.5	22%
Maint., Repair & Other Contracts	6.5	7.6	1.1	17%
Building Space Rental	7.8	11.2	3.4	44%
Equipment Rental	1.1	1.1	-	0%
Misc. Other Non-Labor	7.8	8.7	0.9	12%
<b>TOTAL</b>	<b>\$ 75.1</b>	<b>\$ 87.6</b>	<b>\$ 12.5</b>	<b>17%</b>

The expenses in this category increased by \$12.5M in the FY07 Preliminary Budget, with \$10M of the increase due to three major changes: \$4.4M of the total is funded by the federal grant for the Strategic Maintenance Program, \$2.2M is the increased cost of pay-as-you-go retiree medical insurance, and \$3.4M is from the continued phase-in of the Lakeside building lease, which increases as discounted rent for various floors ends.

The other major adjustment of \$1.2M is due to a 2% increase to basic non-labor budget items for inflation. Most of the items in Other Non-Labor labor were increased for inflation

except for contractually obligated items such as rental leases and specific expense items like retiree medical insurance, which were individually adjusted. In FY06, non-labor items were not inflated, so departments had to absorb any cost increases in their non-labor budgets, but that could not be done two years in a row.

The following table summarizes the major non-labor increases other than the basic 2% inflationary increase:

<b>Category</b>	<b>Change (\$Millions)</b>	
<b>Material Usage</b>	+0.4	Additional cost of fuel for non-revenue vehicles
	+0.5	Strategic Maintenance Program
<b>Insurance</b>	+2.2	Retiree medical “pay-as-you-go” premiums
	+0.1	Domestic partner medical insurance policy premiums
<b>Professional &amp; Technical Services</b>	+3.9	Strategic Maintenance Program
	+0.2	Sales tax commission fees
	+0.3	Electrician Training Program
	+0.4	Labor contract administration tools
	+0.1	Future Cities Program & Civil Rights Disparity Study
<b>Building Space Rental</b>	+3.4	Lakeside building lease increase for FY07 over FY06; gradual phase out of free rent
<b>Miscellaneous Other Non-Labor</b>	+0.9	Car mile increase in maintenance costs
	+0.6	Director elections

Offsetting these increases was a total decrease of \$1.7M in various FY06 one-time expenses and adjustments.

### **3.3 ALLOCATIONS**

#### **3.3.1 Debt Service**

BART has periodically sold bonds backed by the District's dedicated sales tax revenues. The revenues from these bonds fund the capital costs associated with improving and renovating the system. Sales tax revenues cover debt service expense for bonds sold in 1990, 1998, 2001 and 2005. Additionally, the \$1.50 SFO Premium Fare backs debt service expense for the 2002 bond sale, the proceeds of which covered capital construction costs for the BART-SFO Extension. During FY07, the District plans to issue bonds to support construction of the West Dublin/Pleasanton Station. However, debt service payments for those bonds will commence sometime after FY07 and will be structured so that the payments will be covered by passenger fares generated at that station.

#### **3.3.2 Allocation to Capital Rehabilitation**

In FY07, the District plans to allocate \$19M to capital rehabilitation. This includes an increase of \$3.8M in the required local match to available federal grants category. The

allocation will be used to fund the following projects:

- \$10.5M to match and leverage approximately \$62M of federal funds and bridge tolls in the FY07 grant program. This includes traction power and train control rehabilitation, rail replacement and trackway rehabilitation and the annual ADA/accessibility funding.
- \$5M for stations and facilities renovation for work such as station signage, station and shop re-roofing, re-lamping and other similar projects that are not competitive to receive grant funds.
- \$1M for non-revenue vehicle replacement, including police vehicles and maintenance vehicles, not fundable from external grant funds.
- \$1M for capitalized maintenance requirements.
- \$1M for inventory buildup, planned primarily for Auxiliary Power Supply units. These funds are also not available from capital grant sources.
- \$0.3M for capital tools and equipment, primarily for maintenance departments. Like the prior three categories, grant funds do not fund these items.

### **3.3.3 Allocation to BAP**

The Business Advancement Plan (BAP) Phase II requires a total of \$17.5M to complete funding for the project. The FY07 Preliminary Budget includes an allocation of \$11M to capital for BAP Phase II. An additional \$5M is earmarked for transfer to the BAP project from the recently completed A/B Car Rehab Program. Another \$0.2M remains available from the budget set up for public information activities associated with the Earthquake Safety bond issue ballot measure. The final \$1.3M is available in a capital reserve created by the Board in the FY98 year-end close. See section 3.4.1 for a description of the BAP Phase II project.

### **3.3.4 Other Allocations**

#### **Operating Reserve**

The FY06 Revised Budget included a \$1.2M allocation to replenish the District's leaseback reserve funds, which were used to balance the FY05 operating budget and to fund several large unbudgeted expenses. The FY07 Preliminary Budget, which is currently unbalanced, is not able to allocate any funds to the operating reserve.

#### **Parking Capital Repayment**

Net parking revenue generated by the West Bay Parking program is split equally with SamTrans. BART's share of \$0.1M is allocated to repay the District's capital program for BART's 50% share of the costs of the original parking capital equipment needed to collect parking charges.

#### **Access Improvements**

In February 2006, the Board adopted a policy to allocate \$0.6M during the annual budget process for station access improvements. The funds may be used for access improvements system wide. Staff will work with Board members and various interest groups to establish a project candidate list. In prioritizing the list, factors for consideration include:

- Ability to leverage additional funding
- Generation of additional ridership
- Community support
- Cost effectiveness
- Improvements at stations that generate daily parking fees

The Board may opt not to fund the allocation in any given year based on fiscal considerations.

The following table summarizes allocations budgeted for FY06 and FY07:

ALLOCATIONS (\$millions)	Budget		Change	%
	FY06	FY07		
	Adopted	Preliminary		
Debt Service	\$ 59.7	\$ 60.3	\$ 0.6	1%
Capital Rehabilitation	14.8	19.0	4.2	28%
BAP Phase II	-	11.0	11.0	-
Operating Reserve	1.2	-	(1.2)	-100%
Parking Capital Repayment	0.1	0.1	-	-
Access Improvements	-	0.6	0.6	-
<b>TOTAL</b>	<b>\$ 75.9</b>	<b>\$ 91.1</b>	<b>\$ 15.2</b>	<b>20%</b>

### 3.4 INVESTING IN THE FUTURE

#### 3.4.1 Business Advancement Plan

BART has made a commitment to replace its aging business systems which have inherent business process inefficiencies that are manually intensive, time consuming and prone to data-entry errors with contemporary business systems that represent industry best practices, integrated business processes/applications, modern technology and future expandability. The program to completely replace and transform BART's core business systems and business processes with an integrated suite of contemporary enterprise applications is called the Business Advancement Plan (BAP). Once implemented, BAP will create a fully integrated business system that will streamline workflow, increase efficiency and accuracy, and reduce labor-intensive manual processes. All these combined contemporary business processes will result in substantial cost savings to the District. Both the SRTP and long-term solution to the retiree medical unfunded liability that was negotiated as part of the 2005 labor contracts rely on these savings being realized.

The BAP program has been divided into Phase I and Phase II. Phase I encompasses the transformation of General Ledger, Payroll/Timekeeping and Human Resources business areas. Phase II includes Maintenance and Materials Management (including procurement, inventory, track asset management and other related areas); and Finance. Phase I is near completion. In FY 2007 Phase II will be initiated. For a summary of the funding for Phase II, please see section 3.3.3, Allocation to BAP.

### **Maintenance and Materials**

In Phase II a fully integrated Materials and Maintenance business system will be developed to meet BART's business requirements for Maintenance, Materials Management, Contract Procurement and Purchasing Procurement. The Materials Management solution will monitor, track, analyze and forecast inventory with the goal of optimizing inventory levels and streamlining equipment maintenance. The Procurement management solution will create a system to efficiently manage the contracts and procurement processes. The Purchasing management solution will develop a system capable of managing the workflow process required to procure goods and services in support of BART. This business system will fully automate the procurement-to-payment cycle, that is, from the initial requisition to vendor payment and vendor performance management.

### **Financial Business Areas**

Phase II also includes designing an integrated solution for the areas of Financial Management, Budgeting, Grants, Revenue Accounting and Fixed Asset Management. The Financial solution will centralize BART's financial and operations data to enable the District to make better real time management decisions. It will also address governmental fund accounting and budgetary control requirements.

### **3.4.2 Strategic Maintenance Program**

In February 2006, staff from Rolling Stock and Shops briefed the Board on the Strategic Maintenance Program (SMP) that will be implemented in FY07. A \$5M federal grant funds operating costs, which consist of four reimbursable positions and \$4.4M in non-labor.

The vision of the SMP is "To implement a continuously improving reliability-based maintenance process, which brings world-class maintenance practices to BART and its customers." SMP represents a fundamental change in BART's maintenance philosophy. Instead of running the District's systems to failure, a reliability based maintenance system will be developed that has scheduled repairs and upgrades aimed at minimizing in-service failures. Fundamental to this program is a continuous re-evaluation and re-engineering of vehicle systems and components to ensure continuous reliability improvement. The SMP program is expected to improve fleet management, create higher service reliability, create maintenance efficiency, and foster a better work environment.

# 4

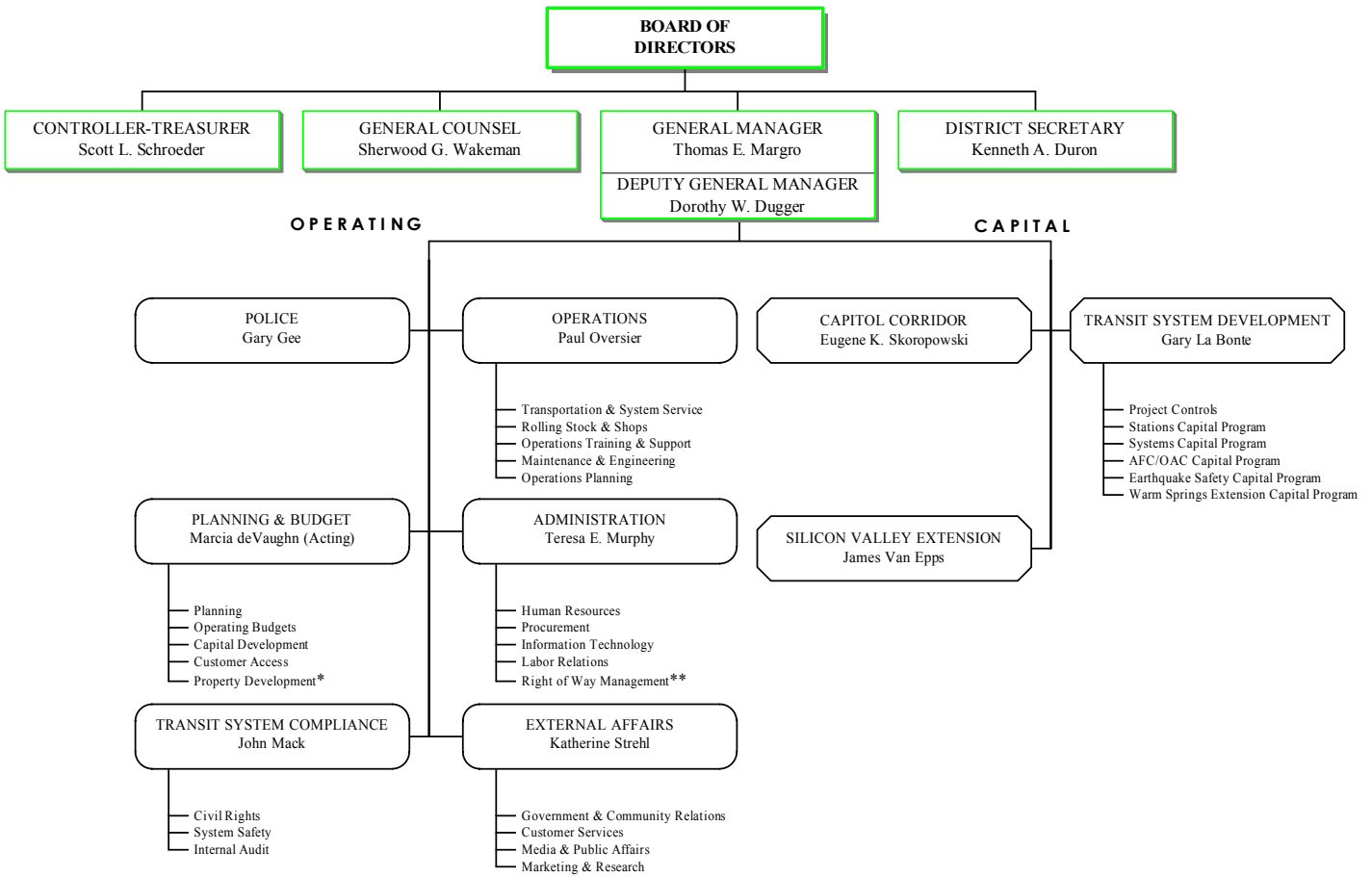
 Attachments

## FY07 Budget Board Review Schedule

(Staff presentation unless otherwise noted)

2006	Held at	Purpose
1/12	Administration Committee	FY07 Pro Forma Operating Budget Review
4/13	Administration Committee	FY07 Preliminary Budget Overview Receive FY07 Preliminary Budget Resource Manual: Budget summaries, organization charts, goals and objectives  Actions: Consider motion to release a Budget Pamphlet  Consider motion to set date for public hearings on FY07 Preliminary Budget
	Board of Directors	Actions: Consider motion to release a Budget Pamphlet Consider motion to set date for public hearings on FY07 Annual Budget
5/11	Administration Committee	FY07 Preliminary Budget Operating Sources FY07 Preliminary Budget Operating Uses FY07 Proposition 4 Limit: Calculation of annual spending limitation  Actions: Submit FY07 Preliminary Budget to full Board
6/08	Administration Committee	Public Hearing on FY07 Annual Budget Take public comment on Proposition 4 Limit Actions: Consider resolution to adopt annual Proposition 4 Limit Consider resolution to adopt the FY07 Annual Budget
	Board of Directors	Actions: Consider resolution to adopt the annual Proposition 4 Limit Consider resolution to adopt the FY07 Annual Budget

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT  
FY07 PRELIMINARY BUDGET  
ORGANIZATION CHART**



**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT  
FY07 PRELIMINARY BUDGET**

<b>OPERATING EXPENSE BUDGET: FY06 vs. FY07 COMPARISON</b>		
<b>Department / Executive Office</b>	<b>FY06 Adopted Budget</b>	<b>FY07 Preliminary Budget</b>
<b>General Manager</b>	\$ 1,463,397	\$ 1,536,706
<b>Legal</b>	\$ 4,619,474	\$ 4,358,210
<b>Finance</b>	\$ 21,059,159	\$ 21,696,264
<b>District Secretary</b>	\$ 1,143,618	\$ 1,755,634
Administration	318,023	325,395
Right of Way Management	9,236,783	12,940,007
Human Resources	15,189,527	17,453,659
Procurement	10,479,092	10,912,460
Information Technology	8,404,147	8,649,583
Labor Relations	1,135,017	1,378,368
<b>Administration</b>	<b>\$ 44,762,589</b>	<b>\$ 51,659,472</b>
Administration	350,829	358,754
Marketing and Research	4,267,765	4,170,215
Media & Public Affairs	818,712	840,590
Government & Community Relations	1,661,096	1,711,226
Customer Services	2,365,400	2,404,819
<b>External Affairs</b>	<b>\$ 9,463,802</b>	<b>\$ 9,485,604</b>
<b>Police</b>	<b>\$ 38,577,291</b>	<b>\$ 39,003,618</b>
Administration	549,108	556,142
Maintenance & Engineering	78,275,345	79,872,291
Rolling Stock & Shops	75,906,949	84,197,043
Operations Training & Development	5,876,342	6,034,461
Transportation & System Service	98,170,578	102,100,899
Operations Planning	1,871,176	1,484,116
<b>Operations</b>	<b>\$ 260,649,498</b>	<b>\$ 274,244,952</b>
<b>Transit System Development</b>	<b>\$ 421,048</b>	<b>\$ 422,988</b>
Administration	468,194	481,927
Property Development	669,681	649,924
Customer Access	14,120,207	14,639,877
Operating Budgets & Analysis (Includes Power)	25,321,610	43,481,405
Planning	1,320,712	1,368,456
Capital Development & Control	1,733,279	1,806,168
<b>Planning and Budget</b>	<b>\$ 43,633,683</b>	<b>\$ 62,427,757</b>
Administration	408,449	418,607
Internal Audit	1,343,586	1,525,991
System Safety	2,200,569	2,238,106
Civil Rights	1,043,591	1,072,201
<b>Transit System Compliance</b>	<b>\$ 4,996,195</b>	<b>\$ 5,254,905</b>
<b>Capitol Corridor<sup>1</sup></b>	<b>\$ -</b>	<b>\$ -</b>
<b>Silicon Valley Extension</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Subtotal</b>	<b>\$ 430,789,754</b>	<b>\$ 471,846,110</b>
<b>Cost Allocation Plan</b>	<b>\$ (6,220,757)</b>	<b>\$ (5,613,193)</b>
<b>TOTAL</b>	<b>\$ 424,568,997</b>	<b>\$ 466,232,917</b>

<sup>1</sup>As governed and reimbursed by the Joint Powers Board and supervised by the Executive Director of the Joint Powers Board.



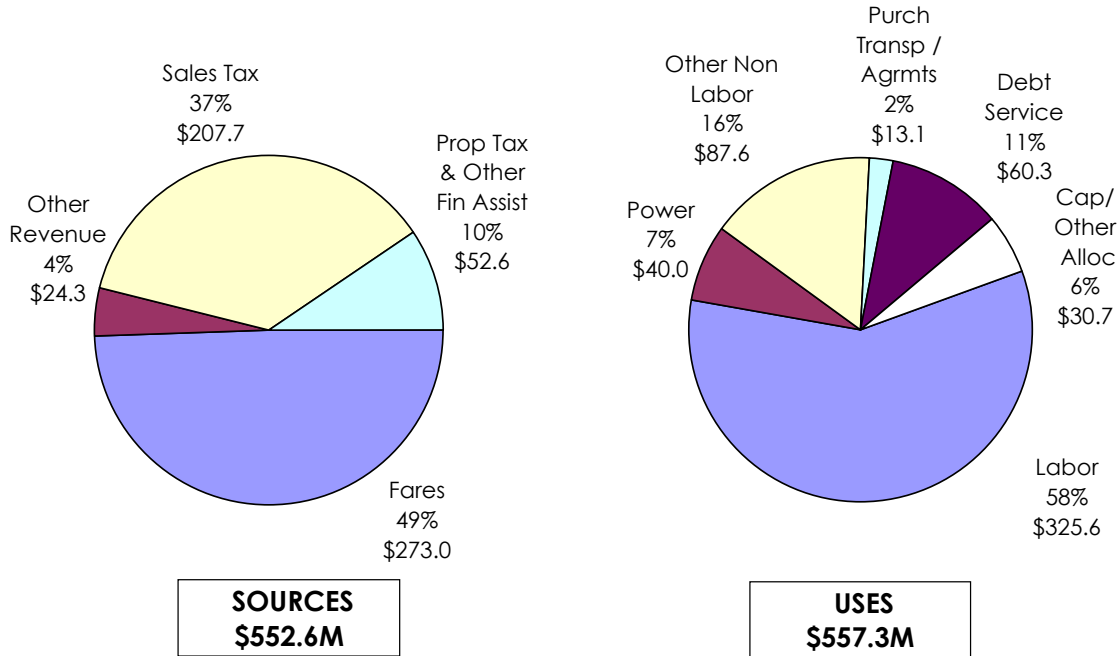
**FY07 PRELIMINARY BUDGET**  
**Staffing Comparison**  
**High Water**

	<b>Budget</b>					
	<b>FY06 Revised</b>			<b>FY07 Preliminary</b>		
	<b>Operating</b>	<b>Capital/ Reimb.</b>	<b>Total</b>	<b>Operating</b>	<b>Capital/ Reimb.</b>	<b>Total</b>
<b>OFFICE</b>						
<b>General Manager</b>	5.0		5.0	6.0		6.0
<b>Legal</b>	18.0	4.0	22.0	18.0	4.0	22.0
<b>Finance</b>	120.0	3.0	123.0	120.0	3.0	123.0
<b>District Secretary</b>	6.0		6.0	6.0	0.0	6.0
<b>Administration</b>	184.0	6.0	190.0	186.0	6.0	192.0
<b>External Affairs</b>	51.5	1.0	52.5	51.5	1.0	52.5
<b>Police</b>	296.0	0.0	296.0	296.0	0.0	296.0
<b>Operations</b>	2,237.0	154.0	2,391.0	2,254.0	158.0	2,412.0
<b>Transit System Development</b>	1.0	51.0	52.0	1.0	53.0	54.0
<b>Planning and Budget</b>	46.0	7.0	53.0	46.0	7.0	53.0
<b>Transit System Compliance</b>	30.0	4.0	34.0	30.0	3.0	33.0
<b>Capitol Corridor*</b>	0.0	15.0	15.0	0.0	15.0	15.0
<b>Silicon Valley Extension</b>	0.0	12.0	12.0	0.0	13.0	13.0
<b>Subtotal</b>	<b>2,994.5</b>	<b>257.0</b>	<b>3,251.5</b>	<b>3,014.5</b>	<b>263.0</b>	<b>3,277.5</b>
<b>Cost Allocation Plan</b>	<b>(48.0)</b>	<b>48.0</b>	<b>0.0</b>	<b>(48.0)</b>	<b>48.0</b>	<b>0.0</b>
<b>TOTAL</b>	<b>2,946.5</b>	<b>305.0</b>	<b>3,251.5</b>	<b>2,966.5</b>	<b>311.0</b>	<b>3,277.5</b>

\*As governed and reimbursed by the Joint Powers Board and supervised by the Executive Director of the Joint Powers Board.

## Preliminary Operating Budget Sources and Uses of Funds

### FY07



### FY06

