Fiscal Year 2010 Preliminary Operating Budget Pamphlet

March 31, 2009

FY 2010

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SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

MEMORANDUM

TO: Board of Directors **DATE:** March 31, 2009

FROM: General Manager

SUBJECT: **Fiscal Year 2010 Preliminary Operating Budget**

We are starting Fiscal Year 2010 (FY10) in the midst of a global economic crisis. Following years of sustained growth and record ridership levels, the nation's economic turmoil is negatively impacting the District's revenues. Financial assistance to public transit from the state has been eliminated, sales tax revenues are dropping sharply, ridership is softening and we have begun to see a reduction in ridership. While efforts from the federal government to "jumpstart" the country's economic engine with the federal stimulus package are encouraging, the financial challenges facing the district remain daunting. The economic outlook continues to be grim beyond FY10, with deficits projected for each of the next four years totaling $250M. Balancing this year's budget with ongoing actions for revenue increases and expense reductions would also help reduce the deficit in future years and create a sustainable fiscal framework for the future.

The initial projected deficit for FY10 now stands at $54 million ($M). The deficit number has been updated from the pro forma budget projection, primarily due to actual 3rd quarter sales tax results, which dropped -11.5% as compared to sales tax revenues for the same quarter, previous year. This drop represents the biggest decline in sales tax since the third quarter of FY02, and is the second biggest in our history.

The District has also lost $17.4M in state transit assistance (STA) in Fiscal Year 2009 (FY09) and the state is not planning to consider any additional allocations until at least FY14. This loss of revenue, combined with decreases in sales tax and fare revenues has left the District with a structural imbalance of ongoing expenses and revenues.

There is no one strategy or solution that can solve the deficit. We will need to pursue both cost cutting and revenue enhancement options, while minimizing impacts on our customers by maintaining safety, reliability, customer convenience and cleanliness. We must also negotiate fair and responsible contracts with the District's labor unions. Due to the sheer size of the deficit, balancing the budget with one strategy is impractical – we need to work cooperatively and with a shared commitment to ensure the long term financial health of the agency in order to continue to provide the service which contributes to maintaining the Bay Area's mobility and environmental quality.

While the Preliminary Budget proposes $15.5M in expense reductions, service modifications and budget adjustments and $14.5M in revenue enhancements, that if approved would reduce the deficit to $23M, it is still not balanced. Additional difficult decisions will be required to close the remaining gap. There is also a major unknown factor for FY10 – labor contracts expire June 30, 2009 and labor costs represent 73% of the operating budget. Negotiations offer opportunities to address difficult issues of cost control of wage and benefit expense, as well as productivity improvements.

While the operating deficit for FY10 is challenging, no less important is the District's ongoing capital reinvestment needs. Based on studies by the Metropolitan Transportation Commission (MTC), over the next 25 years, the District has approximately $15B in system renovation needs and a system reinvestment funding shortfall of $7.5B. The District's ability to maintain and increase ridership is dependent on having a safe, reliable, and on-time rail service. The $7.5B shortfall does not include near and long term capacity needs on BART. By 2030 ridership estimates put BART's average weekday loads at between 650,000-735,000 riders. Resources must be found to accommodate these passengers, if the region and District are to meet long term goals of reducing traffic congestion, accommodating "smart growth" adjacent to our stations, and reducing the emissions of greenhouse gases that cause global warming.

Operating Sources

Even assuming a 10% fare increase, FY10 operating sources, made up of revenues plus tax and financial assistance, are projected to decrease by 6%, or $38M less when compared to the FY09 Revised Budget. For the major revenue categories, the projections and assumptions are as follows:

- Ridership: -4% decrease from FY09
- Passenger Revenue: +$15M, assumes 10% fare increase on July 1, 2009, including raising the SFO Premium Fare
- Sales Tax Revenue: -$18M, -8% decrease as compared to FY09
- State Transit Assistance: $0, no STA in FY10
- Other Operating Revenues: +$3.9M, +12% as compared to FY09, assumes a modification of the East Bay Parking policy which brings additional East Bay stations into the $1/day parking program

More detailed explanations of the operating source categories and FY10 assumptions are contained within the body of the preliminary budget memo.

Operating Uses

Labor cost, which includes both salaries and benefits, is the primary driver of the District's operating uses, comprising about 73% of the District base operating expense. Some of the major FY10 budget assumptions include:

- 0% wage increase (subject to labor negotiations).
- 100 position reduction, saving approximately $9.1M in FY10. 85 of the positions are currently vacant. (22 of these positions are associated with service changes described below.)
- Return to 20 minute service headways on evenings and Sundays.
- Reducing service frequency (one line vs. two lines) in evenings at the Colma, South San Francisco, and San Bruno stations.

The District's medical benefits for active employees and retirees continue to be a serious financial challenge. And while the drastic reduction in the value of pension funds due to the economic recession will not hit the operating budget this year, it is anticipated that increased contributions will be required in future years to make up for the downturn in pension fund value and must be considered in our long term financial planning.

Capital Programs

While economic conditions are contributing to tremendous strains on BART's operating revenues, the federal governmental response to the problem has created a unique opportunity to inject significant new grant funding into the capital program in FY10. The new American Recovery and Reinvestment Act (ARRA) economic stimulus program will provide a previously unanticipated $70M as a contribution to the funding plan for Oakland Airport Connector project. An additional $65.4M will be used for several critical system renovation projects as well as some system capacity expansion / reliability projects. Fortunately, all of these new federal funds are available without local match.

The new funds for renovation and expansion will play a major role in the FY10 budget due to the strict federal requirements for rapid spend-down of the funds in order to stimulate the economy in the shortest possible period of time. Some of the new $65.4M will be used to start new projects which are "shovel-ready" but which have been on hold until full funding could be secured. These new projects include (1) the Pleasant Hill crossover project for improved system capacity and operations flexibility / reliability; (2) the Balboa Station walkway project to resolve long-standing pedestrian access problems at that station; (3) replacement of vital anodes and anode cables that provide cathodic protection to the steel shell of the Transbay Tube; (4) replacement of auxiliary power supply equipment on 30 C-1 cars; (5) installation of between-car barriers on the fleet; and (6) project development for a future Concord Shop wheel truing machine. The balance of the new funds will be used to continue, expand and accelerate delivery of projects to (7) expand the carrying capacity of an additional 105 BART cars; (8) install hard-0surface floors in an additional 50 cars; (9) replace additional third-rail coverboards which cause service disruptions upon failure; (10) completion of the 480v station switchgear project; and (11) other smaller capitalized maintenance activities.

Recent agreement with MTC regarding near-term funding will allow the New Car Procurement project to advance significantly during FY10. Major work will continue on other system expansion projects including the Warm Springs Extension, eBART to eastern Contra Costa County, and the Oakland Airport Connector project. The Earthquake Safety project will continue to be the largest single project in FY10 in terms of planned expenditures.

The grant-funded train control, traction power and guideway renovation programs will continue their multi-year implementation through the new budget. Unlike the new ARRA stimulus grants, the traditional renovation grants do require 20% matching funds, a portion of which will come from bridge tolls but the majority of which will have to be provided through allocations from the operating budget by BART.

In order to provide this local match and address other critical capital needs, the FY10 Preliminary Budget includes allocation of $24M from operating revenues to capital. These funds will be used for the required local match ($11.7M), as well as for other critical baseline capital needs which have not been eligible for grant funding. Included in this allocation is $2.8M for additional parking control equipment for the proposed expansion of the parking fee program as part of the FY10 budget solutions.

FY10 Priorities

In October 2008, the District adopted an update to its Strategic Plan. The Strategic Plan had three major goal areas, and expressed the importance of:

- creating a **quality customer experience**,
- developing a **mission, value-driven workforce**, and
- working towards a **stable, sustainable system**

The Strategic Plan adopts specific implementing strategies and details programs and projects in each of these goals areas. We are incorporating the plan's emphasis areas in the development of our departmental goals and objectives.

In addition to the Strategic Plan, the 2008 Customer Satisfaction Study once again confirmed the importance customers place on **sustaining reliability and on time performance.** Given the number of "choice" riders on BART, it is critical that our budget priorities reflect the emphasis that riders place on having reliable, on time service, and we make the **capital reinvestments** necessary to maintain our 95% on time performance.

Due to the uncertain economic conditions, an increased emphasis on **financial stability** must be a priority for the District. Solving short term financial challenges by jeopardizing the District's long term fiscal health is not a sustainable practice, and an emphasis must be placed on prudent fiscal management.

Conclusion

Since labor negotiations will likely not be completed by mid-June when the budget is scheduled for adoption, the Board could consider several options regarding the final FY10 budget, including approving an unbalanced budget. Staff recommends that the Board make decisions as early as possible on revenue items so that we can begin implementation steps and maximize revenue in the first year. Additionally, given that expense reductions will be necessary in any case, staff recommends that the Board decide on the expense reductions that are presented in the Preliminary Budget. After contract negotiations are completed, staff will incorporate the changes into the budget and determine what additional measures may be needed.

I look forward to working together to consider the options and make the difficult choices ahead of us as we finalize our FY10 budget.

Dorothy W Dugger

Dorothy W. Dugger

1 Introduction

FY10 Operating Budget
This document describes the District's Preliminary Operating Budget for FY10. The document begins with the summary level District Income Statement and a list of the major budget assumptions. Further detail on the assumptions and details of each major budget area follows in the Operating Sources and Uses sections.

The Board of Directors receives the Preliminary Budget document each year by April 1. During April and May, staff will give a series of presentations at regularly scheduled Board meetings. Board rules require adoption of the upcoming annual budget by June 30 of each year.

FY09 Background
The District's original adopted FY09 budget was revised in October 2008 and again in February 2009. The first revision reflected the State's $8.4M reduction of State Transit Assistance (STA) and the accompanying actions to rebalance BART's budget. The primary purpose of the second revision was to account for the impact of the recession on passenger revenue and sales tax, and the State's elimination of BART's remaining STA funds. The measures taken in the FY09 budget revisions were chosen largely for their ability to quickly solve the immediate FY09 shortfall and thus were short-term in nature. However, in looking at the financial picture for FY10 and beyond it is clear that longer term solutions must be implemented to avoid continued deficits.

FY10 Projected Deficit
Preparation of the FY10 budget began in December 2008. A presentation of the FY10 Pro Forma Budget to the BART Board of Directors in March 2009 showed a $49M deficit and a cumulative deficit over the next four years of approximately $235M. Staff has refined the projections and due to updated actual results and assumptions on sales tax and allocations the FY10 deficit is now projected at $54M (and $250M over the next four years). Staff is developing and analyzing deficit solutions, with a goal of not only solving FY10, but to also to make progress on reducing the longer-term deficit.

To that end, the FY10 Preliminary Budget proposes actions to reduce expenses by $15.5M and increase revenues by $14.5M, reducing the FY10 deficit to $23M. These actions have a combined impact of $85M over the four-year forecast. These strategies (summarized in a table at the end of this section) are discussed in more detail in the pertinent sections of this document.

In comparison between FY09 and FY10, this document uses the February 2009 budget revision. 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.

INCOME STATEMENT
($millions)

	Budget		Change	
	FY09 Revised	FY10 Preliminary	$	%
SOURCES				
Passenger Revenue	$ 321.3	$ 336.6	$ 15.3	5%
Other Operating Revenue	19.9	20.5	0.6	3%
Parking Revenue	11.3	14.6	3.3	30%
REVENUE TOTAL	352.5	371.7	19.2	5%
Sales Tax	191.2	172.9	(18.3)	-10%
Property Tax	30.7	29.5	(1.2)	-4%
STA & TDA Assistance	2.1	-	(2.1)	-100%
Other Assistance	8.1	4.2	(3.8)	-47%
SFO - Operations	1.7	-	(1.7)	-100%
SFO - Financial Assistance	17.5	-	(17.5)	-100%
Rail Car Fund Swap - Grant	22.7	22.7	-	0%
Other Allocations	4.0	3.1	(0.9)	-22%
Allocation From Reserves	12.1	-	(12.1)	-100%
TAX & FINANCIAL ASSISTANCE TOTAL	290.0	232.5	(57.6)	-20%
SOURCES TOTAL	642.5	604.2	(38.3)	-6%
USES				
Net Labor	340.6	341.2	0.6	0%
Retiree Medical	38.7	27.2	(11.4)	-30%
OPEB* Unfunded Liability	1.3	14.3	13.0	n/a
Purchased Transportation	16.9	17.8	0.8	5%
Traction & Station Power	37.5	36.1	(1.5)	-4%
Other Non-Labor	95.8	89.6	(6.2)	-6%
Rail Car Fund Swap - Payment to MTC	22.7	22.7	-	0%
OPERATING EXPENSES TOTAL	553.5	548.8	(4.7)	-1%
Debt Service	61.4	59.3	(2.0)	-3%
Capital Rehabilitation Allocations	4.4	23.8	19.4	443%
MTC Loan Repayment	6.3	9.1	2.9	46%
Allocation to SFO Reserves	17.5	0.4	(17.0)	-98%
Other Allocations	0.9	-	(0.9)	n/a
ALLOCATIONS TOTAL	90.3	92.7	2.4	3%
USES TOTAL	643.9	641.5	(2.4)	0%
OPEB Unfunded Liability	(1.3)	(14.3)	(13.0)	n/a
NET RESULT	$ -	$ (23.0)	$ (23.0)	
KEY PERFORMANCE INDICATORS				
Operating Ratio	66.4%	70.7%		6.4%
Rail Farebox Recovery Ratio	62.6%	68.0%		8.7%
Average Weekday Trips	361,179	346,060	-15,119	-4.2%
Passenger Miles (billions)	1.461	1.403	-0.059	-4.0%
Rail Cost / Passenger Mile	35.1¢	35.2¢	0.1¢	0.4%

*OPEB: Other Post Employment Benefits, including retiree medical, life insurance, survivor benefit, etc.

FY10 Preliminary Budget Major Assumptions
($ provided from deficit reduction proposals in bold)

Sources

- **Ridership:** Core system projected to drop 4.6% from FY09, San Francisco Airport (SFO) Extension down 0.8%. FY10 Total Average Weekday Ridership budgeted at 346,060 vs. 361,179 in FY09.
- **Passenger revenue:** Includes proposal to increase fares by 10% (instead of the planned 6.1% CPI-based increase on 1/1/10) and implement 7/1/09. **Adds $15.9M.**
- **Parking revenue:** Includes proposal to modify East Bay daily parking policy, implemented by mid-year. **Adds $1.4M.**
- **Sales tax:** Dropping rapidly each quarter in FY09 - updated projection down 7.3% from FY08, $3.3M below revised budget. FY10 Budget assumes no near-term improvement in the economy, resulting in additional decline of 8%.
- **Property tax:** Decline of 4% projected for FY10 – lower property assessments.
- **State Transit Assistance (STA):** Completely eliminated by State through FY13.
- **Other Assistance:** Decline primarily due to end of three-year SMP grant.
- **SFO Operations**: Slightly lower operating subsidy need from SFO reserve.
- **SFO Financial Assistance**: No bottom line impact; reflects accounting change after FY09 budget was developed – allocate MTC and SamTrans funds directly to the SFO Reserve instead of recording as revenue and then allocating to reserve.
- **Operating Reserves:** $12.1 set aside for one-time retiree medical "catch-up" payment budgeted for FY09.

Uses

- **Net Labor:** Includes 0% wage increase assumption. Includes proposed position cuts from budget reductions and service adjustments. **Reduces budget $9.2M.**
- **Retiree medical:** Down $11.4M, primarily because FY09 included $14.6M one-time "catch-up" payment to the trust for FY06 and FY07 per the ramp-up funding plan.
- **Other Post Employment Benefit (OPEB)** Unfunded Liability is non-cash recognition of difference between full Annual Required Contribution and FY10 retiree medical payments and does not affect bottom line.
- **Purchased Transportation:** Includes ADA Paratransit ($12.4M), Muni feeder transfer payment ($2.7M), AirBart ($0.2M) and resumption of the $2.5M Feeder Bus payment to local bus operators.
- **Power**: Decreases by $1.5M, primarily due to lower cost purchased power and proposed service adjustments. **Reduces budget $0.6M.**
- **Other Non-labor** decreases $6.2M, primarily due to the conclusion of the Strategic Maintenance Grant and FY09 one-time costs. Includes proposed budget cuts and service adjustments. **Reduces budget $1.3M.**
- **Capital Rehabilitation Allocations** increased to leverage local match for federal grants and provide funding for critical capital projects not typically eligible for grant funding. Also includes funding for equipment to implement new parking policy. **One-time costs of $2.8M.**

Preliminary Budget Recommendations ($M)

10% Fare Increase effective 7/1/09	**$ 15.9**
(Instead of 6.1% CPI-based Increase effective 1/1/10)	
Modify East Bay Parking Policy	
Average of 6 months of revenue for FY10	**$ 1.4**
One-time capital costs	**$ (2.8)**
Operating Expense Reductions	**$ 8.2**
(78 operating positions & non-labor)	
Service Adjustments	
20-minute headways evenings & weekends (15 positions, lower car miles)	**$ 1.9**
One route Peninsula evening service (2 positions, lower car miles)	**$ 0.3**
Service plan - improved efficiency (5 positions)	**$ 0.3**
Special Sales Tax Debt Service Reserve Payment Adjustment	**$ 4.5**
Eliminate Transfer of West Bay Net Parking Revenue to Reserve	**$ 0.3**
TOTAL	**$ 30.1**

2 Operating Sources

This section provides detail on BART's operating sources, which are made up of revenue, tax, and financial assistance, as listed in the Income Statement. The amount of revenue, tax and financial assistance BART takes in depends largely on interrelated factors that are beyond BART’s control such as employment, business activity, population growth, housing, tourism, gas prices, and traffic congestion.

The economic slowdown has deepened to become one of the worst recessions in BART’s history. During FY09, BART revised the operating budget twice to reflect reduced ridership, passenger revenue, sales tax and State assistance. The FY10 Preliminary Budget reflects a continuation of these economic trends.

($millions)	Budget		Change	
	FY09 Revised	**FY10 Preliminary**	**$**	**%**
SOURCES				
Passenger Revenue	$ 321.3	**$ 336.6**	$ 15.3	5%
Other Operating Revenue	19.9	**20.5**	0.6	3%
Parking Revenue	11.3	**14.6**	3.3	30%
REVENUE TOTAL	**352.5**	**371.7**	**19.2**	**5%**
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Allocation From Reserves	12.1	**-**	(12.1)	-100%
TAX & FINANCIAL ASSISTANCE TOTAL	**290.0**	**232.5**	**(57.6)**	**-20%**
SOURCES TOTAL	**642.5**	**604.2**	**(38.3)**	**-6%**

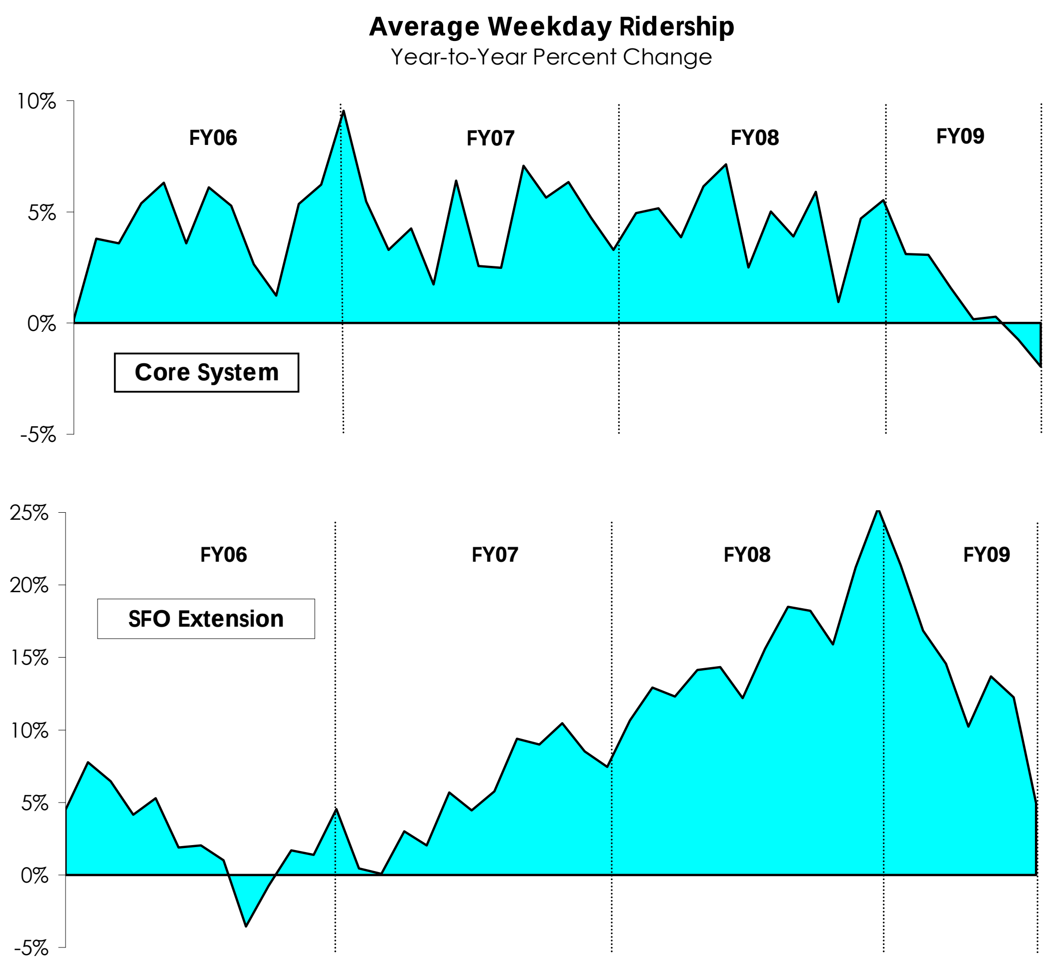
2.1 OPERATING REVENUE

2.1.1 Ridership and Passenger Fare Revenue

Ridership

Core System (37 stations in the three-county BART District including Daly City): Ridership in FY08 grew at a solid pace and at the beginning of FY09 average weekday ridership was growing at 5.5% over the prior year. During FY09, as the economy slowed and gas prices declined, ridership growth trended sharply downward and in January and February actually dropped compared to the prior year. In February 2009, average weekday ridership was 2.0% less than February 2008. The projection for the rest of the fiscal year is for the decline to worsen each month, with the average for FY09 ending 0.7% below FY08.

SFO Extension (five stations in San Mateo County): FY08 SFO Extension ridership showed strong growth with unprecedented double-digit increases over FY07 in eleven months of the year. FY09 started off with a peak of 25.3% growth due in part to strong demand at the SFO Station, but then started to slow like the core system, with 5.0% growth in February. Of concern is the swiftness of the decline. The projection for FY09 is a continued decline, ending the year with an average 10.2% growth over FY08.



The table below shows ridership projected in the FY09 Revised Budget and for the FY10 Preliminary Budget. The FY10 Preliminary Budget for the core system assumes a 4% drop from the FY09 Revised Budget; this estimate is based on BART's experience in the recession of FY02 and FY03, when ridership declined by 6.7% and 3.8%, respectively. The SFO Extension trips are projected to remain at approximately the same level as FY09. The FY10 figures also include an estimated elasticity impact for the proposed fare increase.

Rail Revenue
The FY10 Preliminary Budget includes a proposal to increase the Board-approved productivity-adjusted CPI-based fare increase from 6.1% to 10% and to begin the fare increase on July 1, 2009, six months earlier than previously planned. The proposed 10% increase is estimated to generate $15.9M more core system net revenue in FY10 compared to a 6.1% increase implemented on January 1, 2010. Other combinations of fare and surcharge increases can be considered; however, about $16M is the revenue target we need to reach.

The revenue estimate includes a 10% increase to the current $1.50 SFIA premium fare, which would generate almost $0.5M annually. The SFIA premium fare is charged for trips between the SFIA Station and all other BART stations and is used to fund SFO Extension project costs.

Transit agencies nationwide are increasing fares in response to revenue losses caused by a deepening recession. Recently in the Bay Area, fares for SamTrans and County Connection went up respectively by 16.7% ($1.75 local cash fare) and 14.3% ($2 local cash fare), and Caltrain raised its fares by a range of 2.3% to 11%. Effective July 1, 2009, AC Transit fares will go up by 14.3% ($2 local cash fare) and the Muni Fast Pass price will increase 22.2% to $55, with consideration being given to increasing the Fast Pass to $60 and the cash fare to $2.

An attachment at the end of the memo shows the fare increase options staff considered and the associated analysis. The table also notes that any increase to the Fast Pass per trip payment from Muni to BART (currently $1.02) would need to be renegotiated and included in the upcoming Fast Pass agreement effective January 1, 2010. This affects about 12.3 million BART trips annually. If the per trip Fast Pass payment was increased by 10%, about $0.6M could be generated in additional revenue for FY10, or about $1.2M annually.

ADA Paratransit Revenue
BART receives 31% of the paratransit fare revenue collected from East Bay Paratransit Consortium trips. For FY10, BART's share is expected to be $0.7M. Paratransit fare revenue covers 6% of BART's paratransit operating cost contribution.

Rail Ridership and Revenue

	FY09 Revised	FY10 Preliminary	% Change from FY09
Avg Weekday Trips			
Core	322,636	**307,820**	-4.6%
SFO Extension	38,543	**38,240**	-0.8%
Total	361,179	**346,060**	-4.2%
Annual Trips (millions)			
Core	95.9	**91.5**	-4.6%
SFO Extension	12.0	**11.9**	-0.8%
Total	107.8	**103.3**	-4.2%
Annual Rail Revenue			
Core	$ 280.3	**$ 292.0**	4.2%
SFO Extension	$ 40.4	**$ 43.9**	8.7%
Total	$ 320.7	**$ 336.0**	4.8%

2.1.2 Other Operating Revenue

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

Telecommunications Revenue

Current agreements provide for $4.2M in revenues from 14 fiber optics carriers and $1.7M in revenues from cell sites on BART property. Of the $1.7M cell site revenue, $0.5M is from anticipated new business, mainly the new Wi-Fi Rail agreement. An additional $0.6M is also included for support cost reimbursement by the provider to BART.

Advertising Revenue

FY10 advertising revenues are budgeted at $8.0M, but current economic conditions may result in a lower amount.

Other Revenue

Other revenue includes fines and forfeitures, public telephones, building lease revenue, concessions, and other miscellaneous revenues.

Interest Earnings

Actual investment earnings have declined even more than the FY09 Revised Budget projected. The FY10 Preliminary Budget reflects the financial volatility and uncertainty of the economy.

Other Operating Revenue
($millions)

	Budget FY09 Revised	Budget FY10 Preliminary	Change	%
Telecommunications	$ 6.1	**$ 6.5**	$ 0.4	6%
Advertising	7.0	**8.0**	1.0	14%
Other	4.9	**4.7**	(0.2)	-3%
Interest Earnings	1.8	**1.2**	(0.6)	-33%
TOTAL	**$ 19.9**	**$ 20.5**	**$ 0.6**	**3%**

2.1.3 Parking Revenue

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

- As part of the deficit reduction strategy, staff will be requesting the Board to revise the East Bay parking policy to allow Daily Parking fees at stations that fill at least three days a week, regardless of the status of Reserved Parking permit sales at those stations. Under current policy, to qualify for daily parking fees, a station's parking areas must fill three or more times a week and at least 15% of the station's parking spaces have to be sold for monthly reserved parking. With the policy revision, the FY10 Core Daily Parking ($5.9M) and Core Single Day Reserved Parking ($0.5) programs are expected to be rolled out at the South Hayward, Bay Fair, San Leandro, Richmond, El Cerrito del Norte, Pittsburg/Bay Point, Concord and Pleasant Hill stations during FY10. An expenditure of $2.8M for additional EZ Rider parking validation machines, relocation and modification of some AddFare machines, signs and space numbering is budgeted as an operating-to-capital allocation. The budget also includes a full year of Daily Paid parking at Union City and Castro Valley stations (daily fees to be implemented in April 2009) as these two stations will meet current program criteria this year. After these planned rollouts, only North Concord, Hayward and Coliseum stations will not yet have qualified for the program. EZ Rider cards can now be used to pay for Daily Parking fees.

- The Core Monthly Reserved parking program ($4.7M) is in place at all East Bay stations and the Daly City station. Based on FY09 year-to-date actuals, the FY10 Preliminary Budget has been adjusted downward about 3% from the FY09 Budget.
- The Daily Parking Fee at Daly City Station was increased from $2 to $3 in February 2009, consistent with the West Bay Parking Policy. The Daily ($1.2M) and Monthly Non-Reserved ($0.1M) budgets reflect this increase.
- The West Bay parking program includes Monthly Reserved, Monthly Unreserved, Long Term and Daily (at SFO Extension Stations) parking programs. In February 2009, Daily parking fees were reinstated at South San Francisco, San Bruno and Millbrae Stations, and the fee at Colma Station was raised from $1 to $2 per day. The combination of these programs at the four Extension stations is expected to generate $1.9M.
- The Core (East Bay) Long-Term parking program ($0.4M) was designed to accommodate Bay Area airport passengers who need to park for more than 24 hours.

Parking Revenue ($millions)	Budget FY09 Revised	Budget FY10 Preliminary	Change	%
EBay Daily + Single Day Reserved*	4.0	**$ 6.4**	$ 2.4	60%
Core Monthly Reserved	4.8	**4.7**	(0.1)	-1%
Daly City Daily + Monthly Non-Res.	0.9	**1.3**	0.4	40%
West Bay	1.2	**1.9**	0.7	61%
Core (East Bay) Long Term	0.4	**0.4**	0.0	0%
TOTAL	**$ 11.3**	**$ 14.6**	**$ 3.3**	**30%**

* Includes Coliseum Event Parking

2.2 TAX & FINANCIAL ASSISTANCE

2.2.1 Sales Tax

Sales tax is BART's second largest source of revenue after passenger fares, and represents one-third 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.

- Consumer spending, the basis for sales tax revenue, is on a downward trend. Restaurants, service stations, department stores and auto sales generate approximately 35% of BART's sales tax revenue. Each of these has been severely impacted by this recession.
- Based upon results though the second quarter (down from FY08 actual by 1.6% in the first quarter and 4.3% in the second quarter), the FY09 Budget was revised down from $206.8M (2.0% growth from FY08) to $191.2M (5.6% decline from FY08).
- The recent third quarter FY09 results (down 11.5%) were even worse than anticipated in the revised budget. The drop is the second worst in the history of District sales tax.
- With this third quarter data, FY09 has declined 5.8% from the same period in FY08. Current estimates are for a 12% decline in the fourth quarter, bringing the year-end estimate down to a 7.3% drop from FY08.
- Sales tax revenue in FY10, although difficult to predict, is anticipated to decline another

8.0% from the current year estimate to $172.9M. Recent economic forecasts do not anticipate a recovery will start until later in 2009 or even 2010 and it will take sales tax a while to recover. Sales tax assistance for BART in FY10 will reflect taxable sales through March 2010.

2.2.2 Property Tax

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

- Recent real estate activity largely reflects sales and foreclosures of homes purchased at the top of the real estate market. These homes are now selling at unprecedented discounts, which will translate into lower assessed values.
- Officials for Alameda and Contra Costa counties are projecting declines in the property tax base, due to lowered assessed value of homes sold and current owners seeking reassessment. Their forecasts were taken into account when developing BART's budget.
- FY10 is projected to decline 4% compared to the FY09 Revised Budget – the first such decline ever projected by BART. Through February 2009, BART's property tax revenue is on budget; however, significant downside risks remain for the April and May 2009 payments.

Sales Tax and Property Tax Proceeds
($millions)

		Sales Tax	Year-to-Year Change	Property Tax	Year-to-Year Change
Actual	FY04	170.6	1.9%	21.4	5.5%
	FY05	178.4	4.6%	22.4	4.9%
	FY06	191.7	7.4%	24.3	8.5%
	FY07	198.8	3.7%	27.4	12.7%
	FY08	202.6	1.9%	29.0	5.6%
	FY09 Revised	191.2	-5.6%	30.7	6.1%
	FY09 Estimated	187.9	-7.3%	30.7	6.1%
	FY10 Preliminary *	**$ 172.9**	**-8.0%**	**$ 29.5**	**-4.0%**

* FY10 Preliminary vs. FY09 Estimated

2.2.3 Other Assistance

State Transit Assistance (STA)/Transportation Development Act (TDA)
The initial adopted budget for FY09 included a net of $17.4M in STA and TDA funds. MTC directly allocates the first portion of BART's eligible STA/TDA funds (approximately $11.5M) to local bus operators to fund express and feeder bus service. The Governor's revised State budget cut STA program funding in half, leaving BART with a revised net STA/TDA budget of $2.1M. In order to make the feeder bus and transfer payment whole following this reduction, MTC is requiring BART to pay an additional $2.5M, and this amount has been added to BART's FY09 Revised Budget. The State's FY09 budget package eliminates STA program funding for FY10 through FY13. Therefore, there is no STA revenue budgeted for FY10, and the $2.5M feeder bus payment is again added to the expense budget.

Measure B and Measure J Funding
Approved by Alameda County voters, Measure B provides assistance for paratransit service within Alameda County until 2022. Sales tax-based Measure B was budgeted at $2.1M in FY09. However, sales tax revenues are declining and FY10 is projected at $1.6M. New to BART in FY10 is $0.1M of sales tax revenue from voter-approved Contra Costa County Measure J for paratransit service.

Federal Section 5307 Preventive Maintenance Grant – Strategic Maintenance Program
Since FY07, BART has received federal money through the MTC to fund the Strategic Maintenance Program (SMP) discussed in the Operating Uses section. Receipt of the three year total of $15.4M was scheduled to conclude in FY09. The receipt of the final $1.9M of the funding will instead occur in FY10.

Federal Section 5307 Rail Car Fund Swap
Federal preventive maintenance grant funds from MTC are recorded by BART as Financial Assistance and then transferred to MTC as an Expense to be placed in a sinking fund for future rail care replacement. The net result to the budget's bottom line is zero. This four-year program will continue through FY10.

SFO Extension
The FY07 agreements among BART, MTC, and SamTrans turned the operation of the BART-SFO Extension over to BART, with monetary contributions from SamTrans and the MTC to offset the cost of providing service outside the District. These contributions are placed in a reserve account and are first used to fund any operating deficit on the Extension, then to complete the funding commitment of $145M to the Warm Springs Extension project. The key terms of the agreements as related to the operating budget are as follows:

- BART has full responsibility over Extension operations, including service levels, fares, other operating revenues, and any resulting deficit. If a 10% fare increase is implemented for a full year in FY10, fare revenue would cover slightly more than the calculated operating costs, thus requiring no allocation from the SFO Reserve. There is no net impact on BART's general operating budget.
- The MTC and SamTrans will provide a combined $56M of up-front funding over the next several years in a reserve account to first fund any operating deficit on the Extension, then to complete the funding commitment of $145M to the Warm Springs Extension project. In FY09, expected contributions of $16M from SamTrans were initially budgeted with only $9.5M received. This reduced contribution from SamTrans is due to the decline in State Proposition 1B revenues, the source of funds that SamTrans is providing. This contribution was budgeted as a source of funds (SFO Extension Financial Assistance) with a corresponding budget as a use of funds (see "Allocation to the SFO Extension Reserve" in the Debt Service and Allocations section of this memo). However, to simplify this mechanism, MTC and SamTrans contributions will be deposited directly into the SFO Extension reserve and drawn down only as needed to cover SFO Extension annual net deficits.
- BART also receives ongoing subsidy of 2% of San Mateo County's 25-year Measure A half-cent sales tax (currently equal to $1.2M per year).
- BART retains 100% of ancillary revenue (currently parking, advertising & concessions).

Allocation from West Dublin/Pleasanton Reserve
Prior to the opening of the West Dublin/Pleasanton Station in FY10, debt service payments for the revenue bonds supporting construction of the station will be funded from project budget sources. Prior to the station opening, the FY10 budget will be revised to reflect the associated additional operating revenue and expense.

Allocation from Power Reserves
The allocation from the Power Market Uncertainty Reserve was a one-time event for FY09, funding a portion of the Lodi Power Plant.

Allocation from Operating Reserves
An allocation of $12.1M from operating reserves set aside to help fund a one-time FY09 retiree medical payment balanced the FY09 Revised Budget.

Millbrae Use, Operations, and Maintenance Agreement
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. A new CPI-based payment schedule was authorized by the Board and became effective at the beginning of FY09.

Other Assistance ($millions)	Budget FY09 Revised	Budget FY10 Preliminary	Change	%
STA/TDA	$ 2.1	$ -	$ (2.1)	-100%
Measure B Funding/Measure J	2.1	1.6	(0.5)	-24%
Federal 5307 PM Grant - SMP	5.3	1.9	(3.4)	-63%
Federal 5307 PM Grant - Rail Car Swap	22.7	22.7	0.0	0%
SFO Extension Financial Assistance	17.5	-	(17.5)	-100%
Allocation - From SFO Ext Reserve	1.7	-	(1.7)	-100%
Allocation - From WD Reserve	3.1	3.1	0.0	0%
Allocation - From Power Reserve	0.9	-	(0.9)	-100%
Allocation - From Op Reserve	12.1	-	(12.1)	-100%
Millbrae UOM	0.7	0.7	0.0	3%
TOTAL	**$ 68.1**	**$ 30.1**	**$ (38.1)**	**-56%**

3 Operating Uses

3.1 SERVICE PLAN

As part of the FY10 Preliminary Budget development process, staff examined current service and ridership levels to identify any opportunities to reduce operating costs while minimizing passenger impacts. Two such changes are recommended for implementation in September 2009.

First, there would be a return to 20-minute evening and Sunday base headways. Close examination of ridership during these time periods suggests that the experimental reduction of these headways to 15 minutes has not justified the additional operating costs, as there was little, if any, increase in ridership. The return to the slightly longer headways will not only reduce direct costs, but will allow more opportunities to single track during system maintenance periods; thus increasing reliability and more efficient allocation of existing resources. This service change would provide savings of 15 train operators, and total $1.9M, with more detail of the expense savings provided in subsequent sections.

Second, during the same evening and Sunday time periods, single route service will operate to the SFO Extension stations south of Colma. During these periods, it will restore the direct connection between Millbrae and the San Francisco Airport and require no transfers between extension stations. The change would result in minimal impact for the passengers, as the current headways are very asymmetrical – for example, within the current 15-minute headway, two northbound trains arrive at a station within two minutes, followed by a 13-minute gap until the next northbound train. Total savings from this change are estimated at 2 train operators and total $0.3M.

In addition, over the years a number of service changes have been implemented while attempting to hold train departure times at stations constant. As a result, some headways have become irregular, as illustrated above, and a number of transfers may take longer. The September 2009 changes will allow the service plan to restore uniform headways, improve transfers at 12th Street and MacArthur stations, and increase the reliability of service. The new timetable will reflect slightly adjusted times of departure. During FY10, staff will continue to analyze ridership and adjust train sizing where appropriate to better utilize scarce fleet and maintenance resources.

RAIL SERVICE PLAN

	FY09 Revised Budget	FY10 Preliminary
Peak Trains	62	**60**
Peak Cars	534	**542**
Total Cars	573	**572**
Total Car Hours *(millions)*	2.3	**2.3**
Passengers *(millions)*	107.8	**103.3**
Passenger Miles *(billions)*	1.46	**1.40**

3.2 OPERATING USES

This section provides an overview of Operating Uses, which are comprised of Operating Expenses and Allocations. "Operating Expenses" include wages, benefits, materials, power, other labor and non-labor expenses. "Allocations" are made to cover debt service, maintain reserves, and fund capital needs. FY10 Operating Uses total $641.5M, comprised of $548.8M in expenses and $92.7M in allocations. Included in this total are proposals for budget reductions totaling $15.5M, $10.7M in Operating Expenses and $4.8M in Allocations. Because of these proposed reductions, Total Operating Uses are $2.4M lower than in FY09, with the explanations for the reductions provided in the following sections.

3.2.1 Operating Expenses Summary

For FY10, operating expenses are $548.8M, a decrease of $4.7M from FY09. Excluding the non-cash $13.0M increase in OPEB unfunded liability (see footnote in table below), expenses otherwise would be reduced by $17.7M or 3.2%. One reason for the decrease is that FY09 included a one-time $14.6M retiree medical "catch up payment" per the District's retiree medical funding plan. The FY10 budget assumes no wage increase. Included are proposed reductions and savings from service adjustments of $10.7M in Operating Expenses, consisting of $9.1M in labor and benefits (100 positions) and $1.6M in non-labor expenses. Other non labor uses are lower in FY10 by a total of $6.2M, mainly due to the budget cuts and FY09 one-time expenses not budgeted in FY10. Expenses and allocations will be described further in subsequent sections.

($ millions)	Budget		Change	
OPERATING USES	**FY09 Revised**	**FY10 Preliminary**	**$**	**%**
Labor & Benefits	$ 340.6	**$ 341.2**	$ 0.6	0%
Retiree Medical "Pay-As-You-Go"	12.8	**15.1**	2.3	18%
Retiree Health Benefit Trust Payments*	11.2	**12.1**	0.9	8%
Retiree Medical FY06/FY07 Catch-Up	14.6	**-**	(14.6)	-100%
OPEB Unfunded Liability**	1.3	**14.3**	13.0	964%
Purchased Transportation	16.9	**17.8**	0.8	5%
Traction & Station Power	37.5	**36.1**	(1.5)	-4%
Other Non-Labor	95.8	**89.6**	(6.2)	-6%
Extraordinary Expense - Rail Car Fund Swap	22.7	**22.7**	-	0%
OPERATING EXPENSES TOTAL**	**553.5**	**548.8**	**(4.7)**	**-1%**
Debt Service	61.4	**59.3**	(2.0)	-3%
MTC Loan Repayment	6.3	**9.1**	2.9	46%
Capital Rehabilitation Allocations	4.4	**23.8**	19.4	443%
SFO Reserves Allocation	17.5	**0.4**	(17.0)	-98%
Other Allocations	0.9	**-**	(0.9)	-100%
ALLOCATIONS TOTAL	**90.3**	**92.7**	**2.4**	**3%**
OPERATING USES TOTAL	**$ 643.9**	**$ 641.5**	**$ (2.4)**	**0%**

*Per Ramp-Up funding plan schedule
**OPEB: Other Post Employment Benefits, including retiree medical, life insurance, survivor benefit, etc. The OPEB unfunded liability is a non-cash accounting entry to record the difference between the Annual Required Contribution and the total of the RHBT payments per the Ramp-Up schedule plus the "pay-as-you-go" retiree premium payments.

3.2.2 Operating and Capital Positions

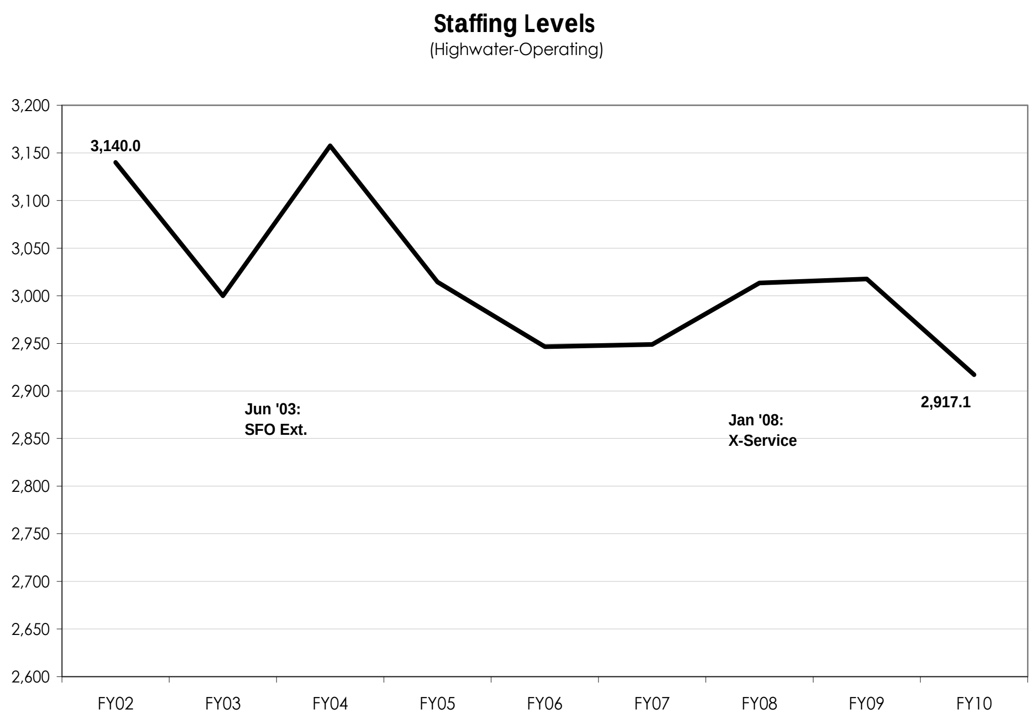
The FY10 Preliminary Budget has a total of 3,287.5 positions, made up of 2,917.1 operating and 370.4 capital and reimbursable positions. This includes a proposed reduction of 100.4 operating positions as part of staff's proposals to reduce the FY10 deficit. Of the proposed reductions in operating positions, 17 result from the proposed return to 20-minute evening and Sunday service and single route SFO Extension service, and 5 due to overall efficiencies achieved from instituting the new service plan. The remaining 78.4 positions are generally vacant positions spread throughout the District, and include 10 positions being converted to capital funding. Overall, the reduction is designed to cut costs, but to have as little impact as possible on services we provide. Train and system cleanliness goals will not be affected. Further position adjustments may be made before the FY10 budget is submitted for adoption, particularly with respect to the capital budget. The preliminary budget has a net increase of 8.4 capital and reimbursable positions, which includes the 10 additional positions converted from operating and 3 new reimbursable positions, while eliminating 4.6 vacant positions. The capital budget review process is currently underway and positions will be finalized prior to budget adoption.

HEADCOUNT SUMMARY

	(Highwater)		
	Operating	Capital/ Reimb	Total
FY09 Revised Budget	3,017.5	362.0	3,379.5
Conversions	(10.0)	10.0	-
FY10 Additions	-	3.0	3.0
FY10 Reductions	(90.4)	(4.6)	(95.0)
Total Adjustments	(100.4)	8.4	(92.0)
FY10 Preliminary Budget	2,917.1	370.4	3,287.5

3.2.3 FY10 Position Reductions

The graph below summarizes staffing levels for the years from FY02 - FY10:



The FY10 projection of 2,917.1 operating positions is notable as the lowest over the last ten years; an 8.7% reduction from the FY02 "High Water" mark. While these reductions speak well of the District's increasingly efficient use of labor resources, they also reflect the stress of continued budget reductions over the years.

FY09 has seen a dramatic slowing of ridership growth, and a decline in sales tax revenues below the budgeted level. Inasmuch as fares and sales taxes provide approximately 85% of BART's operating sources, this decline has had an immediate and urgent impact on the current year's financial outlook. The need to realign expenses more realistically to revenues involved, among other strategies, a selective hiring freeze, implemented October 2008. While the discipline of the hiring freeze has produced the necessary reductions in expenses, further refinement is required over the coming year to convert opportunistic cost-savings to long-term restructuring.

This work remains before the District for several reasons. For a start, the District places great value on minimizing involuntary separations from employment, even in periods of fiscal hardship. In considering position reductions for the FY10 Preliminary Budget, managers and budget staff encouraged creative approaches to the work, but also strongly favored the elimination of vacant positions wherever feasible. This additional constraint complicated the departments' task of reconsidering work approaches. Added to this is the strong interest in maintaining service levels to the greatest extent possible. Last, but not least, the urgency with which the FY09 fiscal crisis descended has left little opportunity for strategic consideration of new staffing approaches, much less the development of a path for achieving it. This is the work staff intends to carry through to FY10.

The FY10 position reductions come from across the agency. Twenty-two train operators are reduced in association with the proposed change in going to 20-minute evening and Sunday base headways, single route evening and Sunday service on the SFO extension, and work plan efficiency. Seven currently vacant Customer Service Officer (CSO) positions are eliminated. These positions provide parking enforcement and we have been operating without the positions for much of the current year without negative impact. The balance of the positions that are proposed to be eliminated are spread throughout the organization and were proposed with a focus on avoiding impact on safety, reliability, customer convenience and cleanliness levels. While these reductions will further stretch existing resources and may slow administrative response time in some areas and reduce our capacity to pursue new initiatives, they do not affect our core service performance goals.

Of the total of 100.4 recommended position reductions, all but 15 are currently vacant. Given historic turnover rates and internal placement opportunities we should be able to avoid layoffs associated with these reductions.

The following chart shows the positions by bargaining unit, including additions and proposed reductions.

STAFFING SUMMARY by BARGAINING UNIT	STAFFING (HIGHWATER)						
	SEIU	ATU	BPOA	BPMA	AFSCME	NREP	TOTAL DISTRICT
FY09 Revised Budget	**1,561.0**	**855.0**	**245.0**	**48.0**	**227.0**	**443.5**	**3,379.5**
%	46.2%	25.3%	7.2%	1.4%	6.7%	13.1%	100.0%
FY10 Additions	**1.0**	**-**	**-**	**-**	**2.0**	**-**	**3.0**
FY10 Reductions	**(35.0)**	**(35.0)**	**(8.0)**	**-**	**(5.0)**	**(12.0)**	**(95.0)**
FY10 Preliminary Budget	**1,527.0**	**820.0**	**237.0**	**48.0**	**224.0**	**431.5**	**3,287.5**
%	46.4%	24.9%	7.2%	1.5%	6.8%	13.1%	100.0%

3.2.4 Labor (Wages and Benefits)

The FY10 Preliminary Budget assumes no wage increase, other than the contractual Cost of Living Allowance that is estimated at $1M. Total FY10 labor and benefit expenses increase by a moderate amount of $2.1M. However, this increase is net of position reductions proposed in the FY10 Preliminary Budget. Without the proposed position reductions savings of $9.1M, the budget increase would have been $11.2M for FY10. The initial increase was mainly due to the increased FY10 cost of employee benefits and because the FY09 Revised Budget included $4.8M in savings from the hiring freeze that are not assumed to carry forward to FY10.

Funded retiree medical expenses decrease by $11.4M, primarily because the $14.6M one-time catch-up payment made in FY09 is not required in FY10. Compared to FY09, the unfunded portion of the OPEB liability increases to $14.3M, a $13.0M increase, which is a non-cash accounting entry to recognize the full Annual Required Contribution (ARC) for BART's retiree medical expenses. In terms of actual cash basis expenses, total labor and benefits decrease by $10.8M or 3%.

The major components of the labor wages and benefits budget are shown in the table below, and are described in further detail in the following sections.

LABOR (WAGES AND BENEFITS) ($ millions)	Budget FY09 Revised	Budget FY10 Preliminary	Change	%
Wages, Overtime & Other Pay	$ 276.7	$ 277.0	$ 0.2	0%
PERS Pension	48.8	46.9	(1.9)	-4%
PERS Medical Insurance	41.4	43.7	2.3	5%
Retiree Medical-"Pay-As-You-Go"	12.8	15.1	2.3	18%
Retiree Medical-Actuarial	11.2	12.1	0.9	8%
Retiree Medical-FY06/FY07 Catch-Up	14.6	-	(14.6)	-
OPEB Unfunded Liability	1.3	14.3	13.0	964%
Worker's Compensation	8.0	7.9	(0.1)	-2%
Other	19.7	20.2	0.5	3%
Capital Labor Credits	(54.1)	(54.5)	(0.3)	1%
TOTAL	**$ 380.6**	**$ 382.7**	**$ 2.1**	**1%**

PERS Pension
The California Public Employee Retirement System (PERS) administers BART's two pension plans: the Safety Plan for sworn police officers and the Miscellaneous Plan for all other employees. The plans are funded by employer and employee contributions, both are paid by BART. The budgeted PERS Pension expense item is the sum of the costs of the two plans.

For FY10, the PERS pension expense is estimated to decrease by $1.9M or 4% compared to FY09, primarily as a result of changes to the required contribution percentages and the proposed reduction in the number of employees. The employer contribution rates will change slightly: the Safety Plan rate will increase from 32.98% to 33.45% of wages, while the Miscellaneous Plan rate will decrease from 9.74% to 9.31%. The employee share is fixed at 9% of wages for the Safety Plan and 7% for the Miscellaneous Plan. Recent investment losses do not affect PERS pension rates until FY12; however at that time they are expected to increase substantially, as much as 50-100% depending on the final investment returns for FY09.

PERS PENSION
($millions)

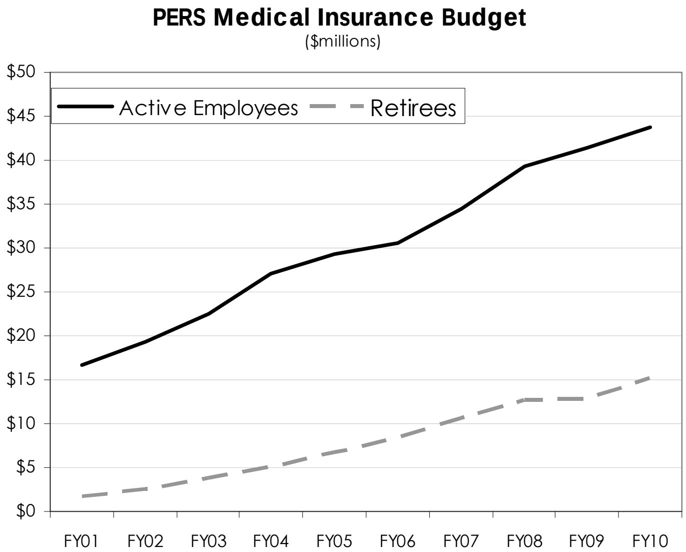
	Budget			
	FY09 Revised	FY10 Preliminary	Change	%
Employee	$ 18.8	**$ 18.5**	$ (0.3)	-2%
Employer	30.0	**28.5**	(1.5)	-5%
TOTAL	**$ 48.8**	**$ 46.9**	**$ (1.9)**	**-4%**

PERS Active Employee Medical Insurance
In FY09, medical insurance premiums for active employees increased less than had been anticipated because PERS used reserve funds to offset a portion of the premium increases. As a result, for the first half of FY10, the estimated composite increase in the rate is 5.5%. The budget for the second half of FY10 assumes a premium increase of 10% effective January 1, 2010, which is more consistent with the long-term industry trends. For FY10, the overall estimated rate increase is 7.8% compared to the actual FY09 rate. The total budget increase for active medical insurance is less, only 5%, primarily because of the proposed position reductions.

For calendar year 2009, annual premiums range from $10,872 ($906 monthly) to $23,400 ($1,950 monthly) for family coverage; and from $5,790 ($482.50 monthly) to $9,000 ($750 monthly) for single coverage. Since FY07, employee contributions increase by 3% each January, bringing the employee monthly contribution to $84.41 effective January 1, 2010. The District will pay $48.7M for health insurance in FY10, an increase of $2.3M from FY09. The employees' contributions will total $3.3M in FY10, which is about 7% of the total cost.

PERS Retiree Medical Insurance

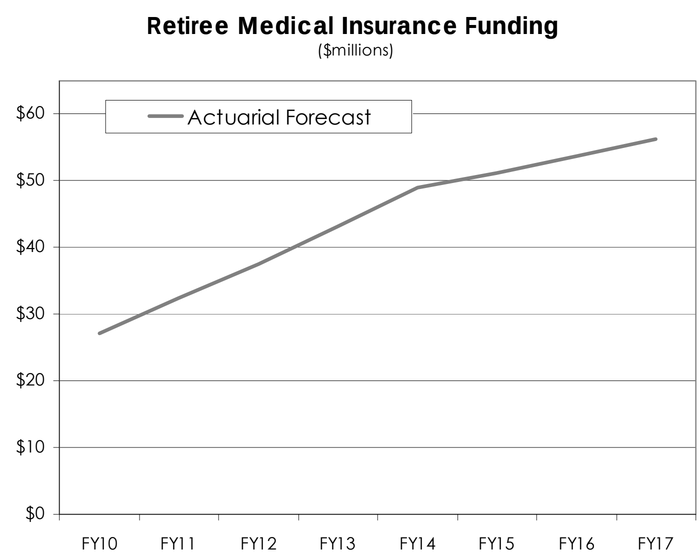
The chart to the right shows the rapid increase in both active medical and retiree medical insurance premiums. Active employees, costs increased 162% since FY01, and for current retirees, "pay-as-you-go" premium costs (described below) are up 740% due to a rapid increase of retirees from 600 in FY01 to 1,400 in FY09 and double-digit rate increases.



The FY10 Preliminary Budget includes three components of retiree medical expenses: pay-as-you-go, the scheduled retiree trust contribution per the District's "ramp-up" funding plan, and the OPEB unfunded liability, which is the difference between the total of the pay-as-you-go and the ramp-up payment and the full ARC. The following are the components of FY10 retiree medical:

Pay-as-you-go: Pays for the cost of medical insurance for current BART retirees in FY10. It is budgeted at $15.1M, up 18% from FY09, in consideration of the growing number of retirees as well as premium rate increases.

The ARC and Scheduled Ramp-up Contribution: The actuarially determined annual required contribution to BART's long-term retiree medical liability for FY10 is $40.3M. The scheduled ramp-up contribution is budgeted at $12.1M for FY10. BART's plan to fully fund post-employment benefits based on accrued liability rather than annual cash cost calls for gradually increasing the annual percentage ("ramping-up") until contributing the full ARC in FY14. The lower amounts funded during the ramp-up years will be made up by paying higher amounts in future years. The FY10 funded contribution is made for both capital and operating positions and has been calculated at a rate of 5.02% of the wage base.



The funding needed for retiree medical from FY10 through FY17 is shown in the chart to the right. For FY10, the $27.2M is the sum of the $15.1M pay-as-you-go payment and the $12.1M actuarial contribution. Annual payments rise to over $50.0M by FY14, when the full ARC will be paid. This requires BART to set aside more funding each year, which is estimated to be 5-10% of the operating sources. In years when revenues are flat or declining, this funding presents a challenge.

OPEB Unfunded Liability (Difference Between the ARC and Ramp-Up plus Pay-As-You-Go funding): According to Governmental Accounting Standards Board (GASB) regulations, state and local governmental agencies such as BART are required to recognize medical and other post employment benefits (OPEB) expenses on an accrual basis. This means that the agency is required to recognize the actuarially calculated ARC for retiree medical costs as an expense and the unfunded portion of the ARC as a liability. For FY10, the OPEB expense is $41.5M (including $1.2M for non-retiree medical post employment benefits), out of which the unfunded liability is $14.3M. Because this liability is not an actual cash outlay, it is shown on the income statement below total uses of funds and does not affect annual net results.

Workers Compensation
BART is self-insured for workers' compensation insurance, and each year an actuarial study is conducted to establish the level of reserves that BART must maintain. Each year, BART estimates how much workers' compensation funding will be needed to cover annual claims and to increase reserves to cover future payments. Recent claims have been fairly stable, so the FY10 Preliminary Budget assumes the same rate as FY09. Based on a zero percent wage increase, the estimated expense for FY10 is $7.9M compared to $8.0M in FY09. The slight decrease is mainly due to reduced staffing levels. An updated actuarial study will be released in late May 2009.

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 FY10 Preliminary Budget forecasts an increase of $0.5M, or 3%, for Other Labor & Benefits.

Capital Labor Credits
Capital and reimbursable credits reflect labor charges that are reimbursed by either a capital project or a third party. FY10 Preliminary Budget capital credits are $54.5M, approximately the same amount for FY09.

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 offsets the costs of approximately 48 operating positions. The CAP budget for FY10 is $6.0M and is included within the capital and reimbursable credit line item on the labor summary table.

COST ALLOCATION PLAN ($millions)

Budget	Cost Allocation Plan	Equivalent Reimbursable Staff
FY09 Revised	$ 6.0	48
FY10 Preliminary	**$ 6.0**	**48**

3.2.5 Purchased Transportation

BART pays for certain transportation services that other operators provide, as described below.

PURCHASED TRANSPORTATION ($millions)	Budget FY09 Revised	Budget FY10 Preliminary	Change	%
Paratransit	$ 11.5	$ 12.4	$ 0.9	7%
Muni Purchased Transportation	2.9	2.7	(0.2)	-7%
Feeder Bus Agreement	2.5	2.5	-	0%
AirBART Shuttle Service	(0.0)	0.2	0.2	
TOTAL	$ 16.9	$ 17.8	$ 0.8	5%

Paratransit

For the past several years, the BART's paratransit ridership in urban areas has been relatively flat while it has grown in suburban areas along with overall population. However, during the current economic recession, paratransit ridership has started to fluctuate in unpredictable ways. Some ADA services have had sharp ridership declines while others have experienced sudden increases. The paratransit budget has been increased to ensure that BART can provide all ADA-mandated paratransit trips as well as provide for increases in multi-year paratransit contracts with service providers. The Preliminary Budget currently estimates paratransit expenses of $12.4M in FY10.

Muni Purchased Transportation

The FY10 Muni Purchased Transportation payment is based on the percentage change in BART sales tax receipts over the prior two fiscal years (FY08 and FY09). The exact value of the payment will not be determined until June 2009, when BART's sales tax assistance for the fourth quarter of FY09 is received. Sales tax receipts have been declining over the past several years and an 8% decrease is projected in FY10, resulting in an estimated payment of $2.7M.

Feeder Bus Service

In past fiscal years, the Metropolitan Transportation Commission has transferred between $11M and $12M of BART-eligible State Transit Assistance (STA) funds to local bus operators that provide feeder service to BART. If BART-eligible STA funding is insufficient to meet the required payment in a given fiscal year, BART contributes up to $2.5M from its general fund to the operators. For several fiscal years beginning in FY06, BART did not have to make the $2.5M payment because STA funding was sufficient. In FY09, however, STA funding dropped significantly, triggering the requirement for BART to pay $2.5M from BART's general fund. The FY10 Preliminary Budget also includes this $2.5M payment, which is projected to be a cost for the foreseeable future.

AirBART Shuttle Service
BART and the Port of Oakland jointly operate a bus service known as AirBART between the BART Coliseum Station and the Oakland International Airport, equally sharing revenues and expenses. In previous years, this bus service has generated a small amount of revenue to BART. However, for FY10, an expense of $0.2M is anticipated due to new bus amortization costs and reduced fare revenue.

3.2.6 Traction & Station Power
For FY10, the electrical power budget to operate BART's trains and stations is projected at $36.1M, a decrease of $1.5M from FY09. BART's power supply is provided primarily through market purchases made by the Northern California Power Agency. FY10's market supply will come from a combination of forward contracts (longer-term) and day-ahead (short-term) supply arrangements. A forward agreement that lasts through FY10 will provide about 97% of the market supply, giving BART price certainty. The small remaining amount of power will be procured through a combination of day-ahead market purchases, federal power contracts and PG & E supply.

The most significant contribution to the decrease in the power budget is from lower costs for purchased power. Approximately $0.9M of the reduction is due to the lower price per megawatt hour for electricity, and another $1.0M is from lower level energy consumption due to FY10 planned service changes, which will reduce car miles. The decrease is partially offset by projected increases of $0.4M for PG&E transmission services and delivery costs.

In addition, proposed service adjustments and the associated lower car miles provide $0.6M in estimated savings that are included in the budgeted amount for FY10.

TRACTION & STATION POWER ($millions)	Budget FY09 Revised	Budget FY10 Preliminary	Change	%
NCPA, Western, PG &E Power Supply	$ 27.9	$ 26.0	$ (1.9)	-7%
Transmission Services	3.8	4.0	$ 0.2	5%
Distribution Services	5.0	5.2	$ 0.2	4%
Regulatory Pass-Through Costs	0.2	0.2	$ 0.0	3%
NCPA Member Expenses	0.6	0.7	$ 0.0	2%
TOTAL	$ 37.5	$ 36.1	$ (1.5)	-4%

3.2.7 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:
Primarily maintenance-related inventory withdrawals and purchases such as, maintenance parts for rail cars: compressors, bearings, aluminum wheel assemblies, encoders, circuit boards, fuses, seat cushions, windows and battery assemblies. This category of expenses also includes assorted parts for infrastructure maintenance, elevators and escalators, automated fare equipment and, ticket stock.

Professional & Technical Fees:

Audit and legal services, benefit and insurance administration fees, printing, computer hardware and software service contracts, environmental fees, specialized consulting and professional services contracts.

Maintenance, Repair & Other Contracts:

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

Insurance:

Included are premiums and self-insured losses for public liability and damage to BART 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.

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.

OTHER NON-LABOR
($millions)

	Budget			
	FY09 Revised	FY10 Preliminary	Change	%
Material Usage	$ 29.5	**$ 27.5**	$ (2.0)	-7%
Professional and Technical Fees	23.3	**20.2**	(3.1)	-13%
Maint., Repair & Other Contracts	12.3	**12.3**	0.0	0%
Insurance	6.9	**6.8**	(0.1)	-1%
Building Space Rental	12.0	**12.0**	0.0	0%
Equipment Rental	0.4	**0.3**	(0.1)	-31%
Misc. Other Non-Labor	11.4	**10.5**	(0.9)	-8%
TOTAL	**$ 95.8**	**$ 89.6**	**$ (6.2)**	**-6%**

This category is $6.2M lower than the FY09 budget, mainly from completing the Strategic Maintenance Program (SMP) grant, one-time FY09 budget initiatives that were not continued in FY10 and making selective budget reductions and technical adjustments in other areas.

Strategic Maintenance Program (SMP) FY09 marks the end of the three-year SMP grant for Rolling Stock and Shops. Funding of $4.5M was available in FY09. Although grant funding for this project is ending, the FY09 grant was not all expended and $2.1M will roll forward to FY10.

BART will continue its effort to adopt Lean Maintenance Practices and Reliability Centered Maintenance. These engineering efforts have begun to pay off through increased productivity and enhanced component reliability. The FY10 focus will be on lean implementation at primary shops and the development of vehicle level systems overhaul processes. Additionally, new vendor standards designed to improve on-time delivery and quality will be developed and implemented.

Budget Reductions Across-the-board measures taken during the FY09 budget revision process cut over $3.8M or 5% from non-labor spending. These expense reductions will carry forward to FY10. In addition, the FY10 budget eliminates the prior budget practice of automatically inflating the non- labor budget for inflationary costs. If the FY10 budget had been escalated for inflation, the non-labor increase would have been $1.7M. Together, these cost-cutting measures decrease the FY10 budget base by $5.5M. Because significant reductions to non-labor expenses are already in place, the FY10 budget assumes that only a modest further reduction of $0.5M is feasible.

Changes in the service plan result in 2.8M few car miles per year and resulting savings in maintenance materials of $0.7M, less one-time FY10 costs of $0.3M for changing schedules and brochures.

Pro-forma adjustments account for the remaining non labor changes for FY10 primarily from removing one-time FY09 expenses such as Board member election costs, FY09 one-time budget initiatives and technical adjustments to expenses such as rent.

3.3 ALLOCATIONS

3.3.1 Debt Service

BART has sold a series of 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, 2005 and 2006.

BART has also sold revenue bonds that are included in the debt service amount.
Debt service payments for the revenue bonds supporting construction of the West Dublin/Pleasanton Station will be covered by passenger fares and other revenue generated at that station. The FY10 payment of $3.1M will be funded from project budget sources and booked as Financial Assistance until the station's opening during the second half of FY10.

Additionally, the $1.50 SFO Premium Fare supports debt service expense for the 2002 revenue bonds, the proceeds of which covered capital construction costs for the SFO Extension. Part of the District's annual debt service payment is $4.5M that funds a reserve associated with a recent bond refunding issue, called the Special Sales Tax Reserve Fund. Funding of the reserve was suspended for the second half of FY09 as part of the FY09 Budget Revision, and the District proposes to suspend the FY10 full annual amount of $4.5M as part of the recommendations to reduce the projected FY10 deficit.

3.3.2 Allocation to Capital Rehabilitation

In FY09, the District planned to allocate $27.9M to capital rehabilitation. With the economic downturn and reduced revenues, this has been revised to $4.4M allocated from the Operating Budget and an additional $4.6M from the Earthquake Safety Program, to reimburse expenses related to that project originally covered by the Operating Budget. In FY10, $23.8M is budgeted for the following annual recurring activities:

- $11.7M to match and leverage approximately $65M of federal funds and bridge tolls in the FY10 grant program. This includes traction power and train control rehabilitation, rail replacement and trackway rehabilitation and the annual ADA/accessibility funding.
- $5.6M for stations and facilities renovation for work such as station signage, station and shop reroofing, paving, relamping and other similar projects not competitive to receive grant funds.
- $1.2M for non-revenue vehicle replacement, including police cars and maintenance vehicles, not fundable from grant sources.
- $1.1M for capitalized maintenance requirements.
- $1.1M for inventory buildup, to maintain fleet service reliability. These funds are also not available from capital grant sources.
- $0.4M for capital tools and equipment, primarily for maintenance departments; grant funds are not available for these items.
- The allocation also includes $2.8M for parking control equipment for the expansion of the parking fee program proposed as part of the FY10 budget solution.

3.3.3 Other Allocations

MTC Loan Repayment

In 2006, BART and MTC entered into an agreement for BART to repay a $60M loan in 1999 for the SFO Extension project. Under the terms of the agreement, BART repays MTC over nine years, which includes a $9.1M payment in FY10.

Allocation to SFO Reserves

As discussed in more detail in the Financial Assistance section, the FY09 adopted budget planned that $16M of up-front funding provided by MTC and SamTrans and $1.5M of ongoing funding would be booked as Financial Assistance and then allocated to the SFO Extension reserve account. However, it is now planned that funds will be deposited directly into the SFO Extension reserve and will be transferred to the operating budget as needed to cover the SFO Extension annual deficits.

Other Allocations
A one-time allocation of $0.9M was made in FY09 for the District's share of costs in the NCPA Lodi Power Plant project using reserve funds brought in as Financial Assistance. The West Bay Long Term Parking allocation was begun in FY08, and allocated the net revenue from this program to a reserve established to maintain funding for possible future SFO extension cost increases that exceeded the agreement's 3% annual increase to operating cost. Because of the ridership growth on the extension, the need for such a reserve has lessened. The allocation was eliminated as part of the FY09 Budget Revision, and permanent elimination of the allocation (estimated at $280,000 for both FY09 and FY10) is proposed as part of the FY10 budget solutions.

Allocations
($millions)

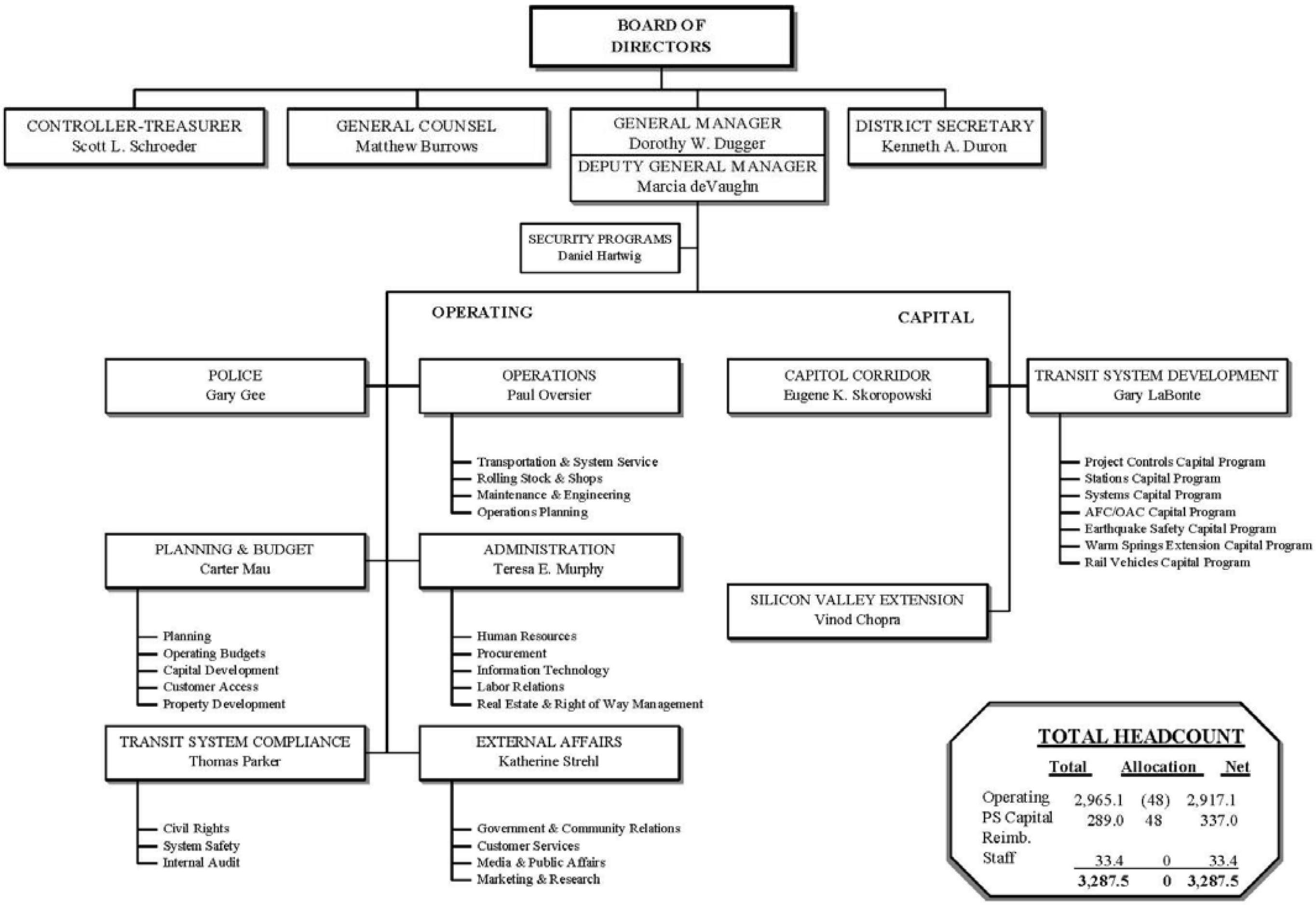
	Budget			
	FY09 Revised	FY10 Preliminary	Change	%
Debt Service	$ 61.4	**$ 59.3**	$ (2.0)	-3%
MTC Loan Repayment	6.3	**9.1**	2.9	46%
Capital Rehabilitation	4.4	**23.8**	19.4	443%
Allocation to SFO Reserves	17.5	**0.4**	(17.0)	-98%
Other Allocations	0.9	**-**	(0.9)	-100%
TOTAL	**$ 90.3**	**$ 92.7**	**$ 2.4**	**3%**

4 Attachments

FY10 Budget Board Review Schedule
(Staff presentation unless otherwise noted)

CY 2009	Held at	Purpose
1/22	Administration Committee	FY09 and FY10 Budget Outlook
3/12	Administration Committee	FY10 Pro Forma Operating Budget and Long-Term Outlook
3/31	N/A	Mail FY10 Preliminary Budget Memo
4/9	Administration Committee	FY10 Preliminary Budget Overview Receive FY10 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 FY10 Preliminary Budget
	Board of Directors	Actions: Consider motion to release a Budget Pamphlet Consider motion to set date for public hearings on FY10 Annual Budget
4/23	Administration Committee	FY10 Preliminary Budget Operating Sources, Operating Uses and FY10 Service Plan
5/14	Administration Committee	Actions: Submit FY10 Preliminary Budget to full Board
5/28	Administration Committee	FY10 Capital Budget FY10 Proposition 4 Limit: Calculation of annual spending limitation Public Hearing on FY10 Annual Budget (including proposed fare and fee increases)
6/11	Administration Committee	Actions: Consider resolution to adopt annual Proposition 4 Limit Consider resolution to adopt the FY10 Annual Budget
	Board of Directors	Actions: Consider resolution to adopt the annual Proposition 4 Limit Consider resolution to adopt the FY10 Annual Budget

SAN FRANCISCO BAY AREA RAPID TRANSIT
FY10 Preliminary Budget
ORGANIZATION CHART



OPERATING EXPENSE BUDGET: FY09 vs. FY10 COMPARISON

Department / **Executive Office**		**FY09 Revised Budget**		**FY10 Preliminary Budget**
General Manager	**$**	**1,745,563**	**$**	**1,743,982**
Legal	**$**	**6,425,963**	**$**	**5,880,932**
Finance	**$**	**24,658,082**	**$**	**24,374,091**
District Secretary	**$**	**1,955,800**	**$**	**1,322,252**
Administration		369,491		367,949
Human Resources		7,105,448		6,752,635
Procurement		12,086,290		11,632,263
Information Technology		9,751,629		9,563,603
Labor Relations		2,174,267		1,245,201
Real Estate and Right of Way Management		14,151,971		13,977,683
Administration	**$**	**45,639,096**	**$**	**43,539,334**
Administration		407,680		391,719
Marketing and Research		4,950,928		4,951,681
Media & Public Affairs		946,842		909,351
Government & Community Relations		1,896,070		1,783,240
Customer Services		2,674,680		2,555,415
External Affairs	**$**	**10,876,200**	**$**	**10,591,406**
Police	**$**	**47,937,042**	**$**	**45,715,385**
Administration		627,517		634,965
Maintenance & Engineering		88,910,948		93,335,393
Rolling Stock & Shops		104,604,758		97,944,874
Operations Training & Development		7,444,215		-
Transportation & System Service		120,308,437		119,607,094
Operations Planning		1,786,617		1,865,180
Operations	**$**	**323,682,492**	**$**	**313,387,506**
Transit System Development	**$**	**442,395**	**$**	**448,850**
Administration		518,582		538,470
Customer Access		19,258,888		19,604,946
Property Development		755,904		728,564
Operating Budgets & Analysis (Includes Power)		41,962,906		40,550,613
Planning		1,594,235		1,372,621
Capital Development & Control		2,235,261		2,073,936
Planning and Budget	**$**	**66,325,776**	**$**	**64,869,150**
Administration		436,950		378,529
Internal Audit		1,664,846		1,517,299
System Safety		2,596,952		2,576,278
Civil Rights		1,420,539		1,437,644
Transit System Compliance	**$**	**6,119,287**	**$**	**5,909,750**
Capitol Corridor[1]	**$**	**-**	**$**	**-**
Silicon Valley Extension	**$**	**-**	**$**	**-**
Subtotal	**$**	**535,807,696**	**$**	**517,782,638**
MTC Rail Car Fund Swap	**$**	**22,681,000**	**$**	**22,681,000**
OPEB Unfunded Liability	**$**	**1,343,904**	**$**	**14,299,985**
Cost Allocation Plan	**$**	**(5,975,629)**	**$**	**(5,975,629)**
Other Budget Adjustments	**$**	**(340,332)**	**$**	**-**
TOTAL	**$**	**553,516,639**	**$**	**548,787,994**

[1] As governed and reimbursed by the Joint Powers Board and supervised by the Executive Director of the Joint Powers Board.

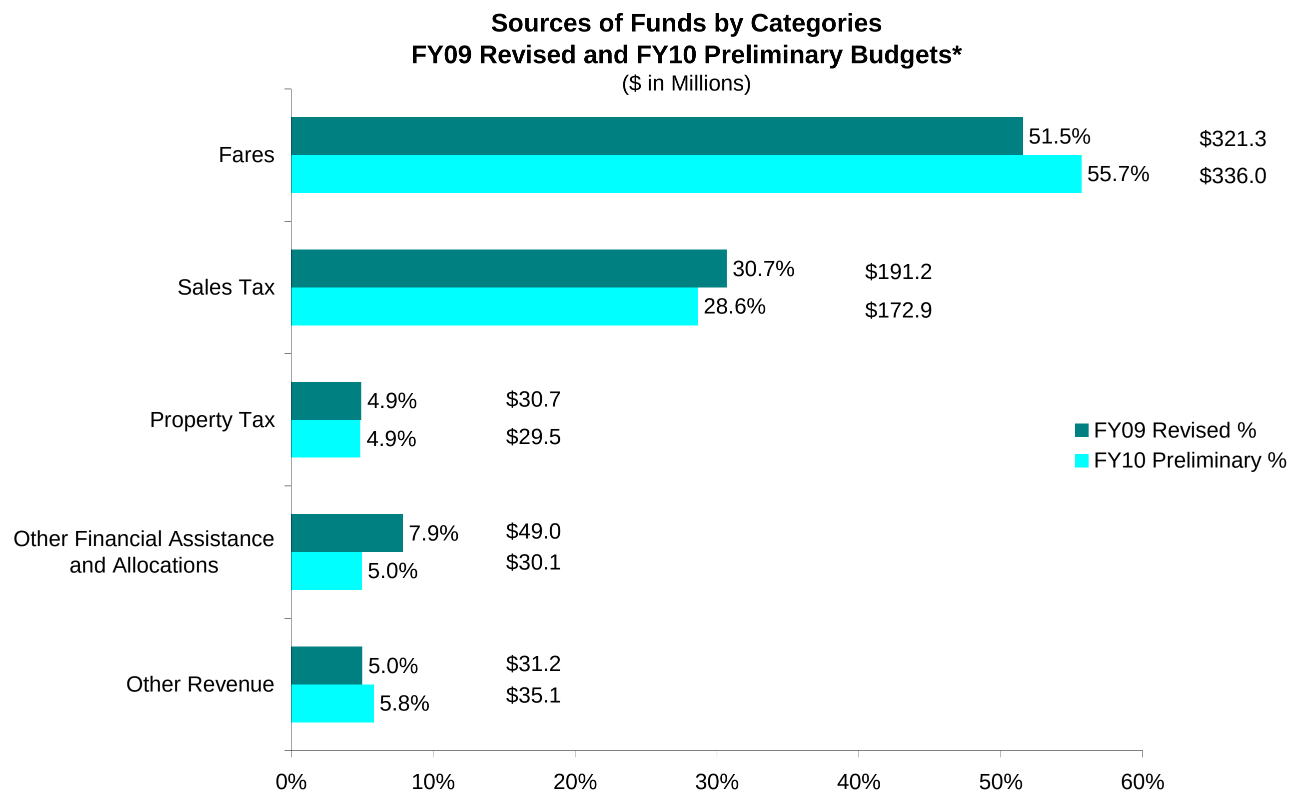
FY10 PRELIMINARY BUDGET

Staffing Comparison

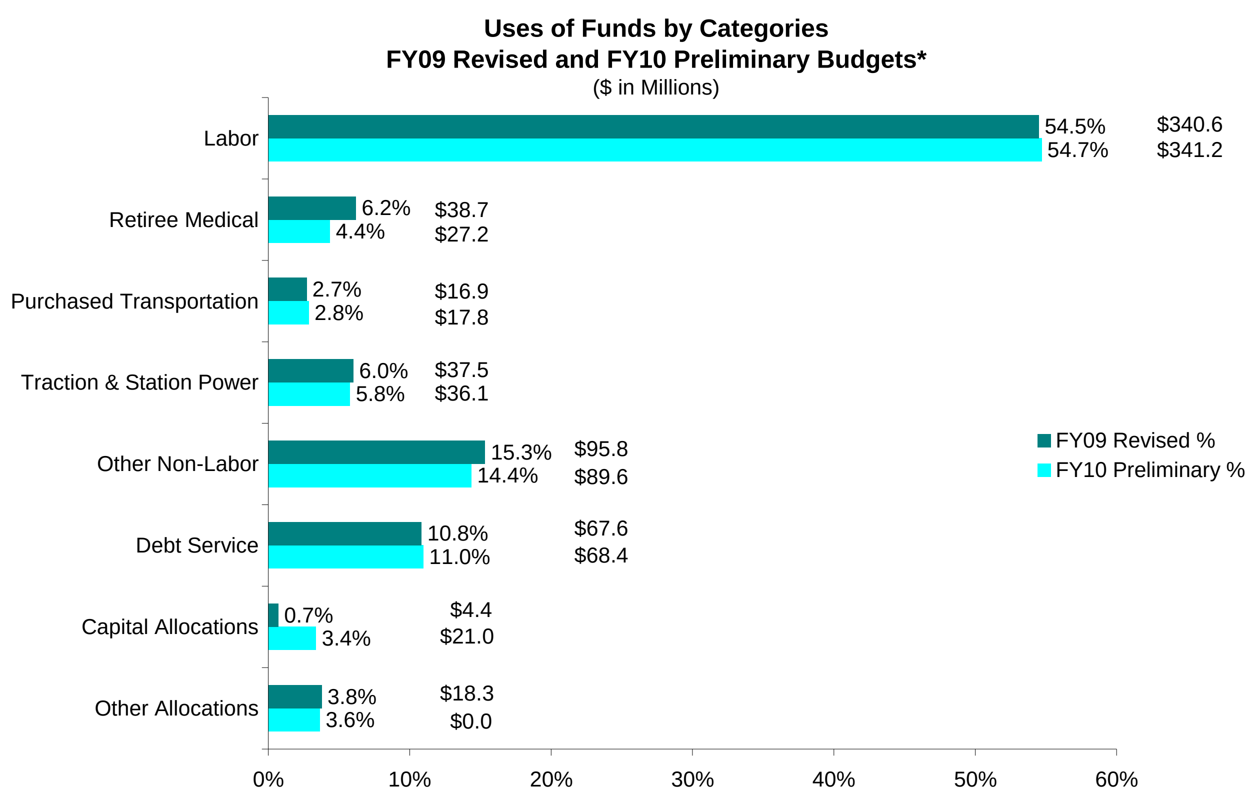
High Water

EXECUTIVE OFFICE	FY09 REVISED BUDGET Operating	FY09 REVISED BUDGET Capital/ Reimb.	FY09 REVISED BUDGET Total	FY10 PRELIMINARY BUDGET Operating	FY10 PRELIMINARY BUDGET Capital/ Reimb.	FY10 PRELIMINARY BUDGET Total
General Manager	6.0	0.0	6.0	6.0	0.0	6.0
Legal	18.0	4.0	22.0	17.0	4.0	21.0
Finance	111.0	2.0	113.0	108.0	2.0	110.0
District Secretary	6.0	0.0	6.0	6.0	0.0	6.0
Administration	186.0	14.0	200.0	174.0	17.0	191.0
External Affairs	52.5	2.0	54.5	50.1	1.4	51.5
Police	294.0	0.0	294.0	286.0	0.0	286.0
Operations	2,311.0	191.0	2,502.0	2,242.0	194.0	2,436.0
Transit System Development	1.0	57.0	58.0	1.0	57.0	58.0
Planning and Budget	47.0	8.0	55.0	44.0	8.0	52.0
Transit System Compliance	33.0	7.0	40.0	31.0	7.0	38.0
Capitol Corridor *	0.0	16.0	16.0	0.0	19.0	19.0
Silicon Valley Extension	0.0	13.0	13.0	0.0	13.0	13.0
Sub-total	3,065.5	314.0	3,379.5	2,965.1	322.4	3,287.5
Cost Allocation Plan	(48.0)	48.0		(48.0)	48.0	
TOTAL	3,017.5	362.0	3,379.5	2,917.1	370.4	3,287.5

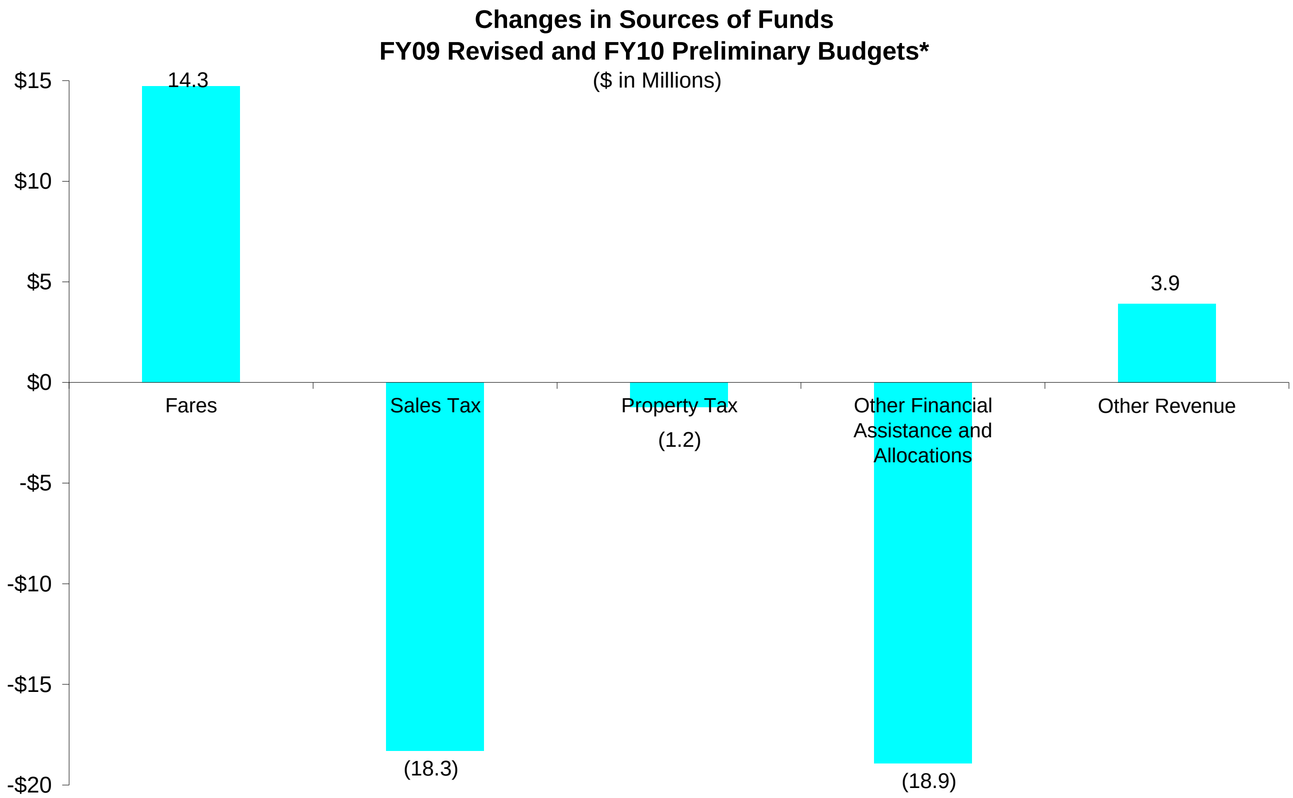
* As governed and reimbursed by the Joint Powers Board and supervised by the Executive Director of the Joint Powers Board.



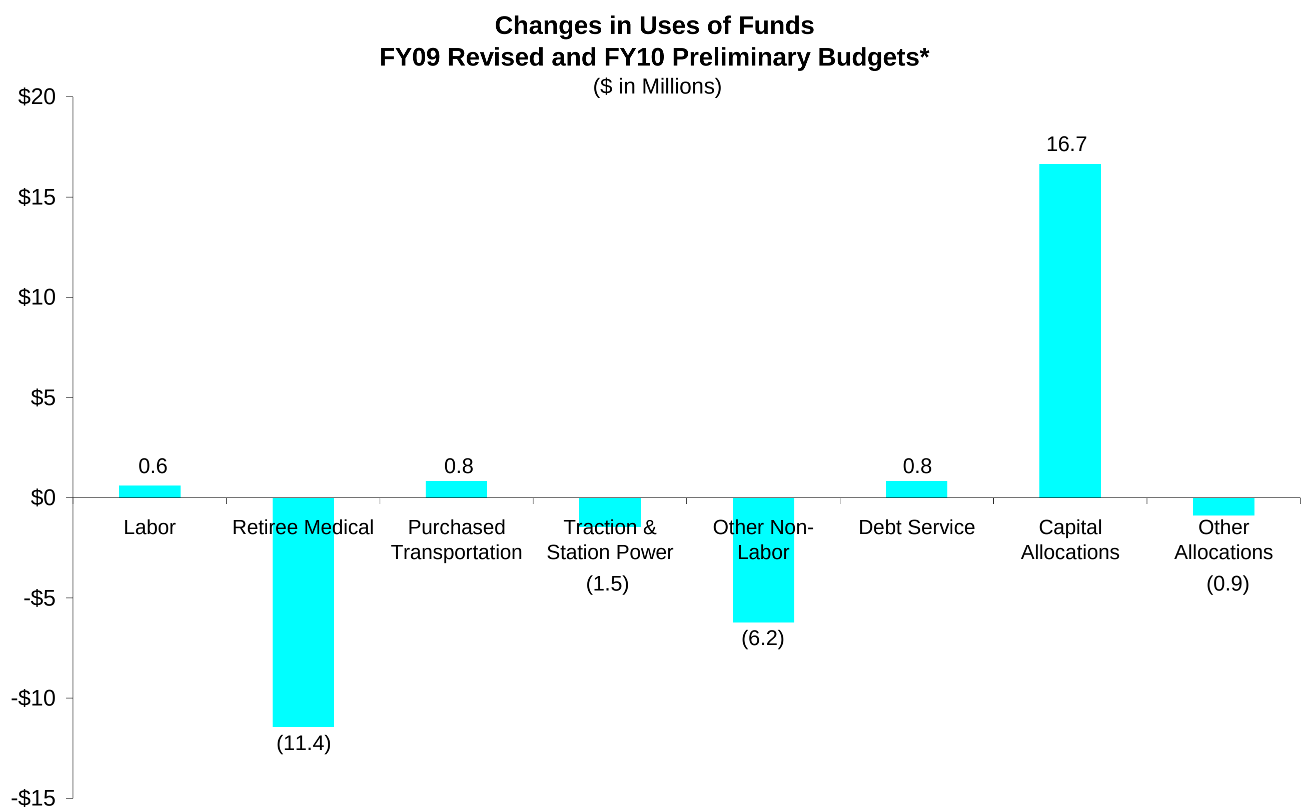
*SFO Operations Subsidy and Financial Assistance are not shown



*OPEB Unfunded Liability and SFO Reserves Allocation are not shown



*SFO Operations Subsidy and Financial Assistance are not shown



*OPEB Unfunded Liability and SFO Reserves Allocation are not shown

FY10 Preliminary Budget Fare Options Analyzed
3/31/2009

OPTIONS EVALUATED: Effective 7/1/09, 12 months of FY10	Fares Systemwide Min	Fares Systemwide Max	Revenue Impact to FY10 Deficit Reduction[1] ($M)	Avg Weekday Systemwide Ridership[2]	Notes
Avg Percentage Fare Increases					All trips treated the same because fares increase on average by same %
PRELIM BUDGET PROPOSAL: A. +10%	$1.65	$8.65	**$15.9**	346,060	
B. +15%	$1.70	$8.95	**$24.2**	342,487	
Minimum Fare Increases					% increase needed to raise min fare to $1.75 or $2 is applied to all fares to retain distance-based structure; these large % increases could result in riders paying a disproportianate share of total budget shortfall.
C. $1.75 min fare, or +18% fare increase	$1.75	$9.20	**$30.0**	340,451	
D. $2 min fare, or +34% fare increase	$2.00	$10.25	**$58.0**	329,590	
Surcharges					Shorter trips disproportionately increased:
E. $0.05	$1.55	$8.05	**$4.0**	348,189	**E. $0.05: +3.3% for lowest fare, +0.6% for** highest fare; F. $0.10: +6.7% for lowest
F. $0.10	$1.60	$8.10	**$8.0**	348,189	fare, +1.3% for highest fare; G. Transbay: +3.8% for lowest fare, +1.3% for highest fare
G. $0.10 Increase to Transbay Surcharge	$1.50	$8.10	**$4.7**	348,189	(TB increase would have nexus to increasing cost of parallel modes, Bay Bridge toll for autos & Transbay bus service)
H. $2 increase to SFIA Premium Fare	$1.50	$10.00	**$7.0**	348,189	**H. SFIA Premium Fare:** +133% for lowest fare, +25% for highest fare.

[1] Revenue generated is in addition to $6.9M in revenue from planned 6.1% CPI-based fare increase effective 1/1/10.

[2] 6.1% productivity-adjusted CPI-based fare increase is assumed to result in no ridership loss because it is valued below inflation; ridership declines for options A, B, C, and D are calculated by subtracting out CPI-based percentage increase and then applying an elasticity factor of -0.22. Options E, F, and G are assumed to result in minimal or no ridership loss. Ridership losses associated with Option H would require further study.