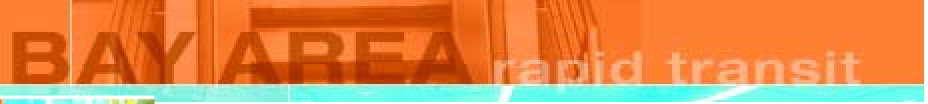


FY06 Preliminary Operating Budget Overview

BART Board of Directors

April 14, 2005

Purpose

- Present overview of FY06 Preliminary Budget
- Discuss long-term context of FY06 Preliminary Budget
- Seek feedback from Board on recommendations
- Discuss next steps for FY06 Budget

Context

- For FY06, four-year trend continues: expenses greatly outpace revenues
  - Initial shortfall $53 M
  - Benefit rates increased 66% (FY01-FY05)
    - Another approximate 70% increase anticipated over next four years (including retiree medical allocation)
- Substantial recent budget progress made
  - $60M in expense reductions over last three years
  - 418 operating and 143 capital positions eliminated, and 284 new positions added for SFO Extension operations
    - Of the total number of employees laid off, only 15 have not returned to District service to date (and have not retired)

Budget Priorities

- Reduce expenses
- Key priorities continue to be met
  - Service frequencies and hours of service unchanged
  - Key goals for safety, reliability, availability and appearance unchanged
  - Customer satisfaction survey results highest in history
  - Board-adopted Financial Stability Policy provides framework for budget decisions

Sources

- **$17.5M** increase from FY05 Adopted Budget
  - Passenger revenue increase from ridership growth and 3.7% fare increase: **+$8.6M**
    - Assumes 2.8% trip growth over FY05 act/est
    - FY05 total ridership grew 2.3% over FY04 in first 6 months, but dropped to 0.8% growth in most recent 3 months
    - Need to monitor recent decline in ridership growth; may revise forecast downward
  - Sales tax: **+$12.5M**
    - Expecting approximately 5.1% annual average growth for FY05 and FY06
  - One-time reserves: **-$3.9M**

Uses

- **$70.9M** increase from FY05 Adopted Budget
  – 3% wage increase: **+$8.5M**
  – Increased net cost of maintaining existing benefits: **+$11.4M**
  (excluding retiree medical allocation)
  – Retiree medical allocation: **+$25.5M**
  – Capital allocation: **+$13.8M**
    – $6.5M local match for $35M to $50M of federal funds
    – $5M station improvements and facility renovation
    – $1M non-revenue vehicle replacements (mainly Police)
    – $1M inventory items

- **$53.4M** Resulting Revised Pro Forma Deficit

Reducing Revised Pro Forma Deficit

	($M)
• **Revised Pro Forma Deficit**	**($53.4)**
• FY06 Preliminary Budget **expense reduction proposals**	
– Remove 3% wage increase assumption	**$8.5**
• Reduced retiree medical allocation	**$0.9**
– Eliminate 115.5 operating positions (approx. half vacant)	**$13.1**
– Reduce Non-Labor	**$0.5**
• Pro Forma assumed no inflation increase for non-labor costs from FY05, amounting to about $2M in reductions already taken	
• **FY06 Preliminary Budget Deficit**	**($30.4)**

- Potential Revenue Enhancement items could further reduce deficit by $3 to $4M
- Given size of remaining deficit, further expense reductions will be necessary
- New labor contracts will affect FY06 budget

Impacts of Proposed Position Reductions

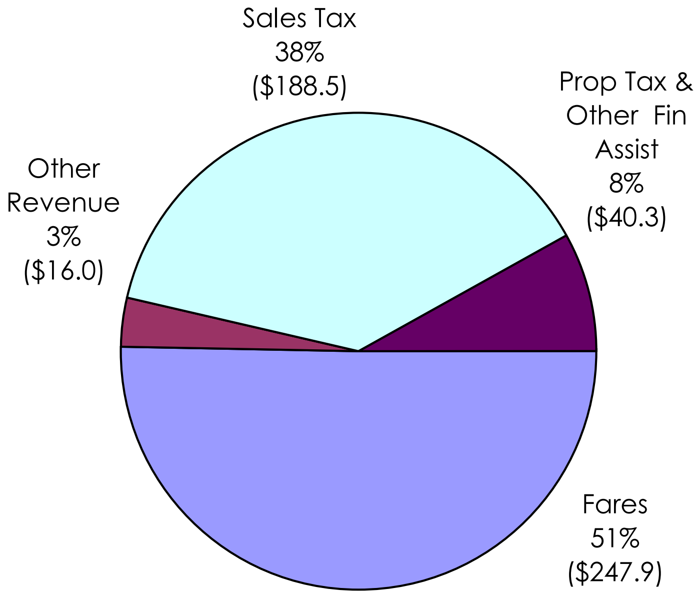
- Operations
  - Service reliability and frequency maintained
    - No downward change to Quarterly Performance Report goals
    - Train lengths adjusted to align more closely with load factor policy
    - Minimal impact to station staffing
- Administration
  - Higher proportional cut for administrative positions
    - Reorganize and consolidate functions
      - Real Estate restructured
      - Human Resources and Performance & Learning merged
      - Operations Liaison and Operations Training reconfigured
    - Managers reduced by over 16% from 121 to 101 positions
      - Managers reduced from 4% to 3% of total workforce
    - Smaller workforce will meet key service priorities, but administrative functions will be negatively impacted

FY06 Preliminary Operating Budget

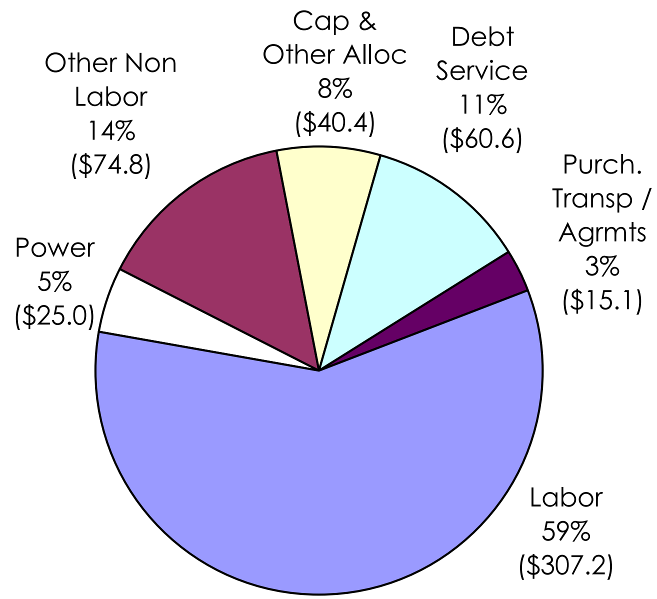
INCOME STATEMENT		Budget FY05 Adopted	Budget FY06 Preliminary
SOURCES	Passenger Revenue	239.3	**247.9**
	Other Operating Revenue	15.1	**16.0**
	Sales Tax Proceeds	176.0	**188.5**
	Other Assistance	40.8	**40.3**
	Leaseback Revenue Allocations	3.9	**-**
	SOURCES TOTAL	**$ 475.2**	**$ 492.7**
USES	Labor	308.8	**307.2**
	Other Operating Expense	103.7	**114.9**
	Debt Service	59.5	**60.6**
	Capital Rehabilitation Allocations	-	**13.8**
	Retiree Medical Allocation	-	**24.6**
	Other Allocations	3.2	**2.0**
	USES TOTAL	**$ 475.2**	**$ 523.1**
NET RESULT		**$ -**	**$ (30.4)**

FY06 Preliminary Operating Budget

Sources: $492.7M



Uses: $523.1M



Next Steps

- ***April 28*** Hold public hearing on FY06 Preliminary Budget and Revenue Enhancements
  - No Board action required
- ***May 12*** Review detailed presentations on Preliminary Operating and Capital Budgets
  - Board considers Revenue Enhancement proposals
- ***June 9*** Board adopts FY06 Budget
  - Incorporate Revenue Enhancement items
  - Include proposed expense reductions
  - Consider adopting unbalanced budget
- After contract negotiations are completed
  - Incorporate changes into Budget
  - Determine additional measures needed to balance