The People Who Keep It On Track

San Francisco Bay Area Rapid Transit

Annual Report Fiscal Year 1998

BART is still one of — if not the — largest locally funded public works project in the history of the United States.

– Thomas E. Margro, General Manager

Mr. Margro's Message

This past year for BART was momentous in many ways. We marked our 25th year of service to the people of the San Francisco Bay Area with a clear vision for the next quarter century in the system's evolution. While the systems service was interrupted by a six-day strike in September 1997, public confidence in BART returned quickly. Today, we are setting ridership records as more and more people come to depend on the system. We made important progress in the much anticipated San Francisco International Airport extension. Several new stations were brought on line in recent years, and their operations were successfully integrated into our overall system during the year. We saw the completion of a model housing development affiliated with a BART station, the first of several joint development/partnerships at other BART stations. Our 10-year system-wide renovation program was on track to refurbish stations, trains and other parts of our complex infrastructure — all with the goal of continuing to provide quality, reliable mass transit service for a good value to a region that is increasingly dependent on alternative transportation modes to the automobile. We clearly could not have accomplished our goals without the hard work and dedication of BART employees who bring a multitude of disciplines to the complex business of making the system work day in and day out.

25th Anniversary

No one would disagree that the BART system was a pioneer of the modern mass transportation era. It was, of course, the first rail rapid transit system built in the United States in almost 60 years, and heralded as the new "space age" system that would lead the way to the 21st century. In fact, many other transit systems have emulated BART, including the metropolitan Atlanta and Washington, D.C., transit systems. In recognition for our system's innovations, the American Society of Mechanical Engineers named BART a National Historic Mechanical Engineering Landmark during the year.

It's hard to believe that when BART opened its first leg of the 71.5-mile system in September 1972 the eight two-car trains that were operating carried about 100,000 people that first week. Since then the system has carried 1.4-billion riders more than 17 billion passenger miles. The system has since grown to 95 miles and 39 stations. We are a far cry from the opening day ridership of 12,000. Today, system ridership is averaging 286,000 riders a day.

From the beginning, BART leaders knew the system had to expand to evolve as the Bay Area's major "trunk line" transportation provider. After the Embarcadero Station opened in 1976, it was almost 20 years before another station would be added — first the North Concord/Martinez Station in 1995, followed by Colma and Pittsburg/Bay Point in 1996, and Dublin/Pleasanton and Castro Valley in 1997. Those openings, and subsequent operations, have gone smoothly, and they are testimony to the resilience of our system and the vision of our entire institutional family —board members, management, unionized employees, public officials, and the general public. Now we are working on the San Francisco International Airport extension with additional stations in South San Francisco, San Bruno the Airport and Millbrae, which will link BART riders for the first time with CalTrain service to the peninsula and the San Jose area.

Clearly, the BART system, begun relatively modestly more than 25 years ago, is growing to meet the mass transportation needs of our region today and tomorrow.

Our Employees: Serving All Our Customers

The work stoppage our system experienced in September of 1997 was unfortunate, but the BART board of directors and the leadership of our bargaining units resolved their differences in an expeditious manner. The result was a new four-year agreement that assures the public of labor stability. In the meantime, we continue to work with the union leadership to bring about an improved working relationship for a common goal.

During the year, our employees continued to go beyond the call of duty to demonstrate extraordinary civic-mindedness. In November of 1997, BART employees led a community food drive in conjunction with food banks in Alameda, Contra Costa, San Francisco and San Mateo counties to benefit tens of thousands of people throughout the Bay Area. When our region was hit hard with rainstorms, some BART employees volunteered during their lunch hours to fill sandbags that were used to thwart flooding streets in Oakland. And speaking of employees, we were filled with pride again this year when our maintenance team won first place for the second year in a row in the American Public Transit Association's national rodeo competition. The team's success underscores our view that BART's maintenance program is second to none in the industry.

Our motto is to help everyone who asks for it. "No" is not an acceptable answer. We cannot always provide the solution, but we can help you find one.

– Barbara Petty,
Transit Information Center

We consider every print request important so we take pride in making sure the District's needs are met. No job is too small.

– Roger Johnson,
BART Copy Center

Information is power. Customers deserve to know what is happening at all times as they ride the system. As soon as we know, they'll know.

– Doris Smith & Alex Serrano, *Transportation (Operations)*

Things can get busy and I like to take care of all requests, that's my job, but some problems need time to solve.

– Ellie Door, *Communications*

Thank you for your commitment to operating one of the finest public rail-transportation agencies in the USA. I salute your success and look forward to continuing our progress.

BART to San Francisco Airport

The long awaited BART extension to the San Francisco International Airport saw some important milestones during the fiscal year report period. On November 3, 1997, with site preparation and utility relocation already underway, ground was officially broken at the airport, and then at the Millbrae Station site the following May. Construction work was begun on the main line and Millbrae Station this past summer.

The BART/SFO Extension is a partnership among BART, SamTrans, the Federal Transit Administration, San Francisco International Airport, the California Transportation Commission and the Metropolitan Transportation Commission. The 8.7-mile project consists of about 7.5 miles of new mainline track extending south from Colma to Millbrae with an additional 1.2 miles of track running east-west serving the airport. Most of the new line will be built underground with subway stations planned in South San Francisco and San Bruno. The airport station will be elevated and linked to the departure level of SFO's new International Terminal. BART's new mainline station in Millbrae will be built so that it will permit easy cross-platform transfers with CalTrain. The new line is scheduled to be completed by the end of December 2001. The project is being built with local, state and federal funds, including a $750 million grant from the Federal Transit Administration.

System-Wide Renovation Program

We are now three years into our 10-year comprehensive system-wide renovation program. By the end of the fiscal year, we had reached a level of beginning more than 63 percent of the $1.1 billion program. More than $500 million in contracts has been awarded for a wide range of renovation projects with more work in the pipeline. We replaced 19 heavy-duty street-to-concourse escalators at the most heavily used San Francisco stations (Embarcadero, Montgomery, Powell, Civic Center, 24th Street, and 16th Street). Renovation of the remaining 120 escalators in the original 34 station BART system should be completed by the end of the year 2000. Elevators at 11 of the system's 20 "key stations" have been partially or fully remodeled. Pictograms and tactile signs in Braille and raised letters have been installed at all 20 key stations to comply with requirements of the Americans with Disabilities Act. We also added fare gates at some of our busiest stations to ease congestion. Those stations included the 12th Street/City Centre in Oakland which had seen a marked increase in traffic due to the twin-tower Federal Building and the recent opening of the UC Administration Offices; also Embarcadero, Montgomery, Pleasant Hill and El Cerrito Del Norte stations. Work has been completed at eight BART stations to give them renewed sparkle, and renovation is under way at eight more stations. Eventually, all 34 original BART stations will be restored. Another phase of the renovation program is the development and eventual installation of a new "Advanced Automatic Train Control" system. When completed, the new train control system will allow for closer spacing between trains and thus increase overall passenger capacity during peak periods, particularly through the transbay tube.

The cornerstone of our renovation program is the complete restoration of the original fleet of 439 BART cars. Each has chalked up more than one million miles — some even more than two million miles — in the quarter century since BART began operations. We have already replaced the seats, carpeting and lighting to 100 of the original fleet of cars in advance of full renovation. The first of these newly outfitted vehicles rolled back into service in the fall of 1997. Meanwhile, six to eight fully renovated cars are expected to be returned to service every month through the year 2002. Renovating the core system and introducing the latest electronic and mechanical technology will make BART more reliable and better able to serve the growing population of the Bay Area.

BART is providing $200 million for the renovation work, while the Metropolitan Transportation Commission has agreed to contribute $450 million in federal, state and regional funds for the first phases of the overall program. We will need to identify additional funding sources to complete the program.

Station Development Program

In our continuing efforts to be a responsible partner with the local communities that we serve, BART was engaged in development projects at four stations during the past fiscal year. The first housing development at a BART station was completed in spring of 1998 at the Castro Valley Station. The development was a joint project between BART, BRIDGE Housing Corp. and Alameda County. The project includes 96 units of affordable housing and the renovation of the historic Strobridge House into three senior apartments, and a

I'm one of many mechanics who make sure the vehicles go back into service as soon as possible.
– James Lee,
Automotive Mechanic

Most people don't see the inner workings at BART.
– Bob Burroughs,
Machinist

BART police facility. The development saw 100 percent occupancy before it was completed.

The successful completion of the Castro Valley Station development is a precursor of other joint developments to come. We are part of a task force of public and private-sector partners that is studying potential development at and around the El Cerrito Del Norte Station. The task force was established by the El Cerrito Redevelopment Agency, which is supporting the planning effort along with BART and AC Transit.

For several years, BART has been a partner in helping develop the Fruitvale BART Transit Village Project in Oakland, in partnership with the Spanish Speaking Unity Council. The Federal Transit Administration helped initiate the project four years ago with a $470,000 grant and committed a significantly larger grant to build a child-care facility for Head Start and private day care at the future transit village. The child-care facility is expected to be completed in late 1999 and will consists of a 165,000 square-foot development, which also includes La Clinica de la Raza medical facility, an Oakland library branch, a senior center, community resource center, pedestrian plaza and an intermodal transit station. When the full transit village project is completed by about 2005, it will also offer housing, offices, retail stores and restaurants.

BART is also evaluating proposals to develop a West Dublin/Pleasanton Station with private sector funding. The development would also include a hotel and convention center and other potential commercial sites using BART air rights. This is another example of the great potential of how a public-private partnership could provide private dollars to enhance the services offered by a public agency like BART.

Customer Service

Safe and reliable train service to our customers is our highest priority. Throughout the year, we enhanced our customer service in many ways. We improved access to BART for bicyclists by eliminating bicycle permits and allowing bicyclists to board the rear of every car on the train except the first car during hours of the morning and evening commutes.

We also added 82 all day parking spaces at the Dublin/Pleasanton Station parking lot to encourage use of BART trains rather than private vehicles on our increasingly congested roads.

Public Safety

To make our system as safe as possible, we made significant security improvements. We installed 225 9-1-1 Emergency Call Boxes at 29 BART Station parking lots and Park & Ride lots. The 9-1-1 Emergency Call Boxes are mounted on light poles in the parking lots and are bright yellow for easy spotting. When the handset on the call box is lifted, an emergency call is automatically placed at BART Police Dispatch, indicating the station and location of the phone. BART police and other emergency services are dispatched in response to each call. Other security improvements include the use of brilliant, high-pressure sodium lights that offer three times the brightness of old lights in BART parking lots. In addition, BART police this past year decentralized operations, establishing zoned police facilities on each line. This brings them closer to riders in various communities BART serves.

A major success story has been the efforts of the BART Police TAG Team, a special force of undercover officers created to eradicate graffiti on BART trains and stations. The TAG Team made numerous arrests, and we've received thousands of dollars in restitution from those convicted of graffiti and other acts of vandalism. Graffiti and vandalism costs the system more than $1 6 million annually.

Budget

I am pleased to report that the year ended with a $10 million budget savings which has been reinvested in the systems's capital improvement program. This is one of the most significant budget savings ever achieved by the District in its 25 year operating history.

Our balanced budget for the new fiscal year reflects the needs and expectations of our customers and employees for safe, efficient rapid rail service that links both sides of the San Francisco Bay. The budget also launches us into our second quarter-century of service to the people of the Bay Area and allows us to enhance the quality of our service. We are now well poised to expand service in the coming millennium.

One sign of the great confidence in BART as an institute, as well as the BART system, was shown by investors who bought approximately $350 million in revenue bonds issued by BART in March 1998. This issuance of bonds saved BART more than $16 million in interest over the next 22 years. Proceeds of the bond sale will go toward funding a portion of the our system's renovation program.

Overall, last year was one of significant progress in preparing the system to meet the challenges of the millennium. While new technology will play a major role in the years to come, its the people at BART who keep it all on track, day in and day out. We look forward to continue meeting the mass transportation needs of the region with high quality, reliable service.

T. E. Margro

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Report of Independent Accountants

September 25, 1998

To the Board of Directors of San Francisco
Bay Area Rapid Transit District:

We have audited the accompanying balance sheets and the related statements of revenues and expenses, changes in fund equity, and cash flows of the San Francisco Bay Area Rapid Transit District (the District) as of June 30, 1998 and 1997 and for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Francisco Bay Area Rapid Transit District as of June 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 25, 1998, on our consideration of the District's internal control structure and on its compliance with laws and regulations.

PricewaterhouseCoopers LLP

Balance Sheets

June 30, 1998 and 1997

Dollars in thousands	1998	(Restated) 1997
Assets		
Current assets:		
Cash and cash equivalents	$ 95,553	$ 88,404
Investments	2,350	3,882
Total cash, cash equivalents and investments (including restricted cash and investments of $5,349 in 1998 and $4,963 in 1997)	97,903	92,286
Deposits held by trustee - restricted	34,122	78,620
Capital grants and contributions receivable - restricted	97,584	84,931
Other receivables	11,819	11,695
Materials and supplies	24,371	20,852
Total current assets	265,799	288,384
Restricted and designated cash and investments:		
Investments for capital purposes	262,350	149,535
Board designated investments	17,152	17,200
Facilities, property and equipment, net	3,243,653	3,090,057
Other receivables	36,276	39,431
Total assets	$ 3,825,230	$ 3,584,607
Liabilities and Fund Equity		
Current liabilities:		
Current portion of long-term debt	$ 53,620	$ 137,030
Payroll and other liabilities	90,195	79,241
Current portion of self-insurance liabilities	8,720	7,486
Unearned passenger revenue	3,768	3,890
Current portion of capital lease liability	3,154	3,154
Total current liabilities	159,457	230,801
Contracts payable - restricted assets	46,021	30,598
Self-insurance liabilities	21,952	16,763
Long-term debt, net (including deferred charges on early bond retirement of $7,146 in 1998)	516,528	386,151
Long-term portion of capital lease liability	36,276	39,431
Total liabilities	780,234	703,744
Commitments and contingencies (Note 12).		
Fund equity:		
Contributed capital	2,048,132	1,920,048
Retained earnings	996,864	960,815
Total fund equity	3,044,996	2,880,863
Total liabilities and fund equity	$ 3,825,230	$ 3,584,607

The accompanying notes are an integral part of these financial statements

Statements of Revenues and Expenses

for the years ended June 30, 1998 and 1997

Dollars in thousands	1998	(Restated) 1997
Operating revenues:		
Fares	$ 163,098	$ 149,465
Other (including investment income and net change in fair value of investments)	15,261	13,526
Total operating revenues	178,359	162,991
Operating expenses:		
Transportation	86,696	86,517
Maintenance	122,537	108,366
Police services	22,418	19,470
Construction and engineering	12,771	11,178
General and administrative	81,759	72,122
Depreciation and amortization	60,549	56,654
Total operating expenses	386,730	354,307
Less capitalized costs	(29,969)	(29,916)
Net operating expenses	356,761	324,391
Operating loss	(178,402)	(161,400)
Nonoperating income (expense):		
Transactions and use tax (sales tax)	144,675	134,984
Property tax	59,934	58,576
State financial assistance	1,075	265
Local financial assistance	588	1,244
Other investment income	9,396	5,607
Interest expense	(27,190)	(31,356)
Other expense, net	(754)	(683)
Total nonoperating income, net	187,724	168,637
Net income	$ 9,322	$ 7,237

The accompanying notes are an integral part of these financial statements

Statements of Changes in Fund Equity

for the years ended June 30, 1998 and 1997

Dollars in thousands	Contributed Capital	Retained Earnings	Total Fund Equity
Balances, June 30, 1996 (restated)	$ 1,789,506	$ 928,972	$ 2,718,478
Net income (restated)	—	7,237	7,237
Other additions (deductions):			
Contributed capital	155,148	—	155,148
Depreciation of assets acquired with contributed capital	(24,606)	24,606	—
Balances, June 30, 1997 (restated)	1,920,048	960,815	2,880,863
Net income	—	9,322	9,322
Other additions (deductions):			
Contributed capital	154,811	—	154,811
Depreciation of assets acquired with contributed capital	(26,727)	26,727	—
Balances, June 30, 1998	$ 2,048,132	$ 996,864	$ 3,044,996

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

for the years ended June 30, 1998 and 1997

Dollars in thousands	1998	(Restated) 1997
Cash flows from operating activities:		
Operating loss	$ (178,402)	$ (161,400)
Less investment income included in operating revenue	(9,956)	(9,267)
Operating loss excluding investment income	(188,358)	(170,667)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization of deferred charges	61,388	56,654
Net effect of changes in:		
Receivables	(12,777)	23,522
Materials and supplies	(3,519)	(373)
Payroll and other liabilities	10,954	(939)
Self-insurance liabilities	6,423	1,675
Unearned passenger revenue	(122)	1,096
Net cash used in operating activities	(126,011)	(89,032)
Cash flows from noncapital financing activities:		
Transactions and use tax received	117,129	105,055
Property tax received	13,358	12,769
Financial assistance received	1,663	1,509
Net cash provided by noncapital financing activities	132,150	119,333
Cash flows from capital and related financing activities:		
Transactions and use tax received	27,546	29,929
Property tax received	46,576	45,806
Interest paid on debt	(25,380)	(29,661)
Capital grants received	154,811	155,149
Principal paid on long-term debt	(299,912)	(53,765)
Proceeds from issuance of sales tax revenue bonds	348,510	—
Issuance costs for sales tax revenue bonds	(4,824)	—
Expenditures for facilities, property and equipment	(200,077)	(218,953)
Other, net	125	24
Net cash provided by (used in) capital and related financing activities	47,375	(71,471)
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	700,980	759,285
Purchase of investments	(766,332)	(730,859)
Interest on investments	18,977	19,228
Net cash provided by (used in) investing activities	(46,365)	47,654
Net increase in cash and cash equivalents	7,149	6,484
Cash and cash equivalents, beginning of year	88,404	81,920
Cash and cash equivalents, end of year	$ 95,553	$ 88,404
Noncash investing capital and financing activity:		
Insubstance defeasance of debt	$ 155,115	—
Defferred charges on early bonds retirement	$ 7,767	—

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements (Dollars in thousands)

1. Significant Accounting Policies

Description of Reporting Entity

The San Francisco Bay Area Rapid Transit District (the District) is a public agency created by the legislature of the State of California in 1957 and regulated by the San Francisco Bay Area Rapid Transit District Act, as amended, and subject to transit district law as codified in the California Public Utilities Code. The disbursement of funds received by the District is controlled by statutes and by provisions of various grant contracts entered into with federal, state and local agencies.

The District has defined its financial reporting entity in accordance with Government Accounting Standards No. 14, which states that the financial reporting entity should consist of (a) the primary government, (b) the organizations for which the primary government is financially accountable, and (c) the other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on this definition, the financial statements of the District (the primary government) include those of the Transit Financing Authority (the Authority), a component unit.

Basis of Accounting and Presentation

The accrual basis of accounting is used by the District. Under this method, revenues are recognized when earned and expenses are recognized when they are incurred.

The financial statements of the District are presented as an enterprise fund and are accounted for in separate funds, principally the Operating Fund, Construction Fund and Debt Service Fund. Such funds are combined for financial reporting purposes in order to present the financial position and results of operations of the District as a whole.

Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Deposits held by trustee and investments restricted for Board designated purposes are treated as investments.

Investments

Investments are stated at fair value. As a matter of policy, the District holds investments until their maturity.

Deposits Held by Trustee

Deposits held by trustee, consisting of cash and investments, are held by trustee banks in accordance with the District's various bond and note indentures and for general debt service requirements.

Restricted and Designated Cash and Investments

Certain cash and investments are classified as restricted and designated assets on the balance sheets because their use is limited, either by certain bond covenants or by the Board of Directors' designations. The use of these funds is restricted for use in construction or for debt service payments.

Materials and Supplies

Materials and supplies consist primarily of replacement parts for the system and rail vehicles. Materials and supplies are stated at cost, which approximates market, using the average-cost method. Materials and supplies are expensed as consumed.

Facilities, Property and Equipment

Facilities, property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense on assets acquired with capital grant funds is transferred to contributed capital after being charged to operations.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs which do not extend the useful life of the applicable assets are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

The District capitalizes certain interest income and expense related to tax-free borrowings. The net effect of such interest capitalization was to increase (decrease) expenditures for facilities, property and equipment by $1,355 and ($3,319) during the years ended June 30, 1998 and 1997, respectively, for the difference between interest income and interest expense from applicable borrowings.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned.

Unearned Passenger Revenue

Unearned passenger revenue is an estimate of passenger tickets purchased which have not yet been used.

Contributed Capital

The District receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Capital grants are recognized as donated capital to the extent that costs under the grant have been incurred and recorded as assets. Capital grant funds earned, less amortization equal to accumulated depreciation of the related assets, are included in contributed capital.

Transactions and Use Tax (Sales Tax) Revenue

State of California legislation authorizes the District to impose a ½% transaction and use tax within District boundaries which is collected and administered by the State Board of Equalization. Of amounts available for distribution, 75% is paid directly to the District's trustee for the purpose of paying bond interest, principal and expenses. Monies not required for these purposes are transmitted to the District. The remaining 25% is allocated by the Metropolitan Transportation Commission (MTC) to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustee) as revenue.

Property Taxes, Collection and Maximum Rates

The State of California Constitution Article XIII A. provides that the general purpose maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A. and may be adjusted by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts, such as the District.

The District receives property tax revenues to meet the debt service requirements of its General Obligation Bonds. The District also receives an allocation of property tax revenues for transit operations. San Francisco, Alameda and Contra Costa Counties assess properties and bill for, collect, and distribute property taxes. Property taxes are recorded as revenue and receivables, net of estimated uncollectibles, in the fiscal year of levy.

Financial Assistance Grants

Financial assistance grants are accrued as other revenue in the period to which the grant applies.

Collective Bargaining

Approximately 87% of the District's employees are subject to collective bargaining. The current labor contracts expire on June 30, 2001.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Investments

The District maintains a cash and investment pool that includes cash and investments available for general use and restricted for Board-designated purposes.

Deposits

The carrying amount of the District's deposits with banks and cash on hand was $6,866 and $4,243 at June 30, 1998 and 1997, respectively. The corresponding bank balance was $10,067 and $7,510 at June 30, 1998 and 1997, respectively. Of the bank balance, $300 and $236 for 1998 and 1997, respectively, was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name, and $9,768 (1997, $7,274) is required by Section 53652 of the California Government Code to be collateralized 110% by the pledging financial institutions. Such collateral is not required to be in the District's name.

Investments

Investments balance at June 30, 1997 and investment income for the year ended June 30, 1997 have been restated to conform with the Governmental Accounting Standards Board No. 31 (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires investments to be recorded at fair value with the difference between cost and fair value recorded as an unrealized gain or loss The effect of the restatement was a $1,135 decrease in investment income and net change in fair value of investments and a $664 increase in investments and retained earnings.

State of California statutes and District policy authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, repurchase and reverse repurchase agreements, and the State Treasurer's investment pool. The District did not enter into any reverse repurchase agreements during fiscal years ended June 30, 1998 or 1997.

Notes to Financial Statements (Dollars in thousands) – *continued*

The District's investments are categorized below to give an indication of the credit risk assumed by the District at June 30, 1998. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Following GASB 31, the District's investment pools are reported at fair value. The net increase in the fair value of investments during 1998 was $375.

Investments	1998 Category 1	1998 Category 2	1998 Fair Value	1997 (restated) Category 1	1997 (restated) Category 2	1997 (restated) Fair Value
Money market	—	$ 998	$ 998	—	$ 59,494	$ 59,494
U.S. Treasury bills	—	15,314	15,314	—	19,126	19,126
U.S. Treasury funds	—	17,810	17,810	—	—	—
Federal agency obligations	$ 324,863	—	325,901	$ 203,967	—	204,631
Repurchase agreements	26,061	—	26,061	31,265	—	31,265
Total	$ 350,924	$ 34,122	386,084	$ 235,232	$ 78,620	314,516
Cash on hand			960			1,041
Time and demand deposits			(1,423)			(3,302)
Investment in California local agency investment fund			15,000			15,000
Total			$ 400,621			$ 327,255
Reported as:						
Cash and cash equivalents			$ 95,553			$ 88,404
Investments - current			2,350			3,882
Payroll and other liabilities (representing cash overdraft)			(10,906)			(10,386)
Deposits held by trustee - restricted - current and long-term			34,122			78,620
Investments restricted for capital purposes			262,350			149,535
Investments restricted for Board designated purposes			17,152			17,200
Total			$ 400,621			$ 327,255

The Board of Directors of the District have designated the following amounts, consisting of investments, as a reserve of fund equity for the following purposes:

	1998	1997
Basic system completion	$ 659	$ 767
System improvement	1,493	1,703
Self-insurance	9,000	9,000
Operating	6,000	5,730
Total	$17,152	$17,200

3. Facilities, Property and Equipment

Facilities, property and equipment at June 30, 1998 and 1997 are summarized as follows:

	Lives (Years)	1998	1997
Land		$ 242,186	$ 242,079
Improvements	80	1,813,305	1,770,779
System-wide operation and control	20	280,075	253,647
Revenue transit vehicles	30	559,691	559,641
Service and miscellaneous equipment	3-20	41,386	40,566
Capitalized construction and start-up costs	30	98,337	98,178
Repairable property items	30	23,371	15,992
Capital leases	30	53,366	53,366
		3,111,717	3,034,248
Less accumulated depreciation and amortization		(884,522)	(826,139)
		2,227,195	2,208,109
Construction-in-progress		1,016,458	881,948
Total		$ 3,243,653	$ 3,090,057

Depreciation expense on capital leases for the year ended June 30, 1998 was $3,276

The District is currently involved in construction of Phase 1 of an extension project that will add 35 miles of track and 10 new stations to the system at a total cost of approximately $2,936,000. The District anticipates completing Phase 1 by the year 2002. The District anticipates funding for Phase 1 will come from the federal government ($878,000), State of California ($633,000), San Mateo County ($473,000), Alameda and Contra Costa Counties ($321,000), bridge tolls ($144,000), San Francisco International Airport ($200,000), and the District ($111,000), with the remaining source of funding yet to be identified.

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $1,024,224 at June 30, 1998.

Notes to Financial Statements (Dollars in thousands) – *continued*

4. Risk Management

The District is fully self-insured for workers' compensation claims and partially self-insured for public liability and property damage. The self-insured maximum for public liability and property damage claims is $10,000 for any one occurrence. Claims in excess of self-insurance retentions are covered up to an additional $140,000 by insurance policies.

The self-insurance programs are administered by independent claims adjustment firms. The liability is based, in part, upon the independent adjustment firms' estimate of reserves necessary for the settlement of outstanding claims and related administrative costs, and includes claims that have been incurred but not yet reported. Such reserves are actuarially determined and subject to periodic adjustment as conditions warrant.

The estimated liability for insurance claims at June 30, 1998 is believed to be sufficient to cover any costs arising out of claims filed or to be filed for accidents which occurred through that date.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not yet reported.

At June 30, 1998, the amount of these liabilities was $30,672. This liability is the District's best estimate based on available information. Changes in the reported liability since the beginning of the respective fiscal year are as follows:

	1998	1997
Liability at beginning of year	$ 24,249	$ 22,574
Current year claims and changes in estimates	12,003	10,223
Payment of claims	(5,580)	(8,548)
Liability at end of year	$ 30,672	$ 24,249

5. Joint Exercise of Powers Agreement

Transit Financing Authority

The Joint Exercise of Powers Agreement (the Agreement), dated August 1, 1991, between the District and MTC provided for the creation of the Transit Financing Authority (the Authority), a public instrumentality of the State of California. The term of the Agreement is for ten years, unless extended or earlier terminated. The Authority was formed for the purpose of providing financing and contracting for public transit improvements, including the refinancing of prior indebtedness and acquiring, selling and financing public capital improvements, working capital, liability and other insurance needs, and for the specific purpose of assisting in financing the District's East-Bay extensions.

The governing board of the Authority consists of two members each from the District and MTC. Neither the District nor MTC is responsible for any debt, liabilities and obligations of the Authority.

At the end of the term or upon the earlier termination of the Agreement, all assets of the Authority shall be distributed to the two participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

The District has not contributed any assets to the Authority since inception and has only a residual equity interest as mentioned above. Because the District is not an investee in the Authority, the equity method is not considered appropriate.

The Authority has undertaken a commercial paper program to finance certain of the District's system improvements in connection with the multiphase extension program. Under the program, in October 1992, the Authority issued its Commercial Paper Notes, Series A, and Commercial Paper Notes, Series B, in the aggregate amount of $100,000. During March and April 1994, the Authority redeemed and retired all commercial paper notes issued under the program.

At June 30, 1998, the Authority has no assets, liabilities and retained earnings. The District is continuing to fund expenses to maintain the commercial paper program for future financing needs.

Capitol Corridor Joint Powers Authority

The Joint Exercise of Powers Agreement (the Agreement) dated December 31, 1996, between the District and five other transportation authorities in surrounding counties (Agencies) provided for the creation of the Capitol Corridor Joint Powers Authority (the Authority), a public instrumentality of the State of California. The term of the Agreement is for three years, unless extended or terminated earlier. The Authority was formed for the purpose of administering and managing the operation of the Capitol Corridor Rail Service as part of the California intercity passenger rail system. The District is the managing agency of the Authority and in that capacity shall provide all necessary administrative support to the Authority.

The governing board of the Authority consists of six members from the District and two members from each of the five other Agencies. Neither the District nor the other Agencies are responsible for any debt, liabilities and obligations of the Authority.

At the end of the term or upon the earlier termination of the Agreement, all assets of the Authority shall be distributed to the six participants, and any surplus money on hand shall be returned to these participants in proportion to their respective contributions to the Authority.

The District has not contributed any assets to the Authority. Because the District is not an investee in the Authority, the equity method is not considered appropriate.

On July 1, 1998, the District became the administrator of the Capitol Corridor Joint Powers Authority. The District incurred $737 of start-up expense from inception to June 30, 1998.

Technology Reinvestment Project

In 1994, the District and the joint venture of Hughes Transportation Control Systems, Inc. (Hughes), and Morrison Knudsen Train Control, Inc. (HMK) entered into a memorandum of understanding (MOU) to form an alliance (Alliance) to develop a cost-effective, highly reliable and safe train control system for passenger and freight-carrying trains. The project is funded under the Technology Reinvestment Project managed by the Advanced Research Projects Agency (ARPA). The Federal Transit Administration (FTA) has agreed to manage and oversee the project on behalf of ARPA. This project has an initial term of 29 months.

During fiscal year 1998, the Alliance was reorganized. Hughes and HMK withdrew and were replaced by Harmon Industries, Inc. (Harmon). In August 1998, a MOU was executed between the District and Harmon which replaced the 1994 MOU between the District and the joint venture of Hughes and HMK.

Under the new Alliance, the project is governed by an executive committee which will consist of six members: two appointed by the District, three appointed by Harmon, and one appointed by the FTA. The executive committee will be chaired by the District's general manager or designee.

The District's participation in this project is in the form of in-kind contributions which consist primarily of labor costs and direct costs that are partially reimbursable by the Alliance. As of June 30, 1998 and 1997, the District had provided the Alliance with approximately $12,758 in cumulative in-kind contributions and had incurred approximately $5,576 and $3,170 of cumulative costs, respectively, $948 of which were reimbursed by the Alliance.

Paratransit Consortium

In 1994, the District and the Alameda-Contra Costa Transit District (AC Transit) executed a Joint Exercise of Powers Agreement establishing the East Bay Paratransit Consortium (the Consortium). The purpose of the Consortium is to enable the District and AC Transit to jointly administer ADA paratransit services in the service area overlapped by the District and AC Transit. The Consortium receives operating subsidies of State Transit Assistance funds administered by the MTC. The project receives direction from the Service Review Committee, which consists of the general manager (or designee) from each member agency

For the year ended June 30, 1998, MTC established the District as the lead agency responsible for administering the ADA paratransit services. The lead agency is rotated annually.

The District received approximately $551 and $286 from MTC in fiscal year 1998 and 1997, respectively.

6. Long-Term Debt

Long-term debt at June 30, 1998 and 1997 is summarized as follows:

	1998	1997
1962 General Obligation Bonds	$ 41,125	$ 84,800
1966 Special Service District Bonds	—	700
1990 Sales Tax Revenue Refunding Bonds	81,755	143,300
1991 Sales Tax Revenue Bonds	13,205	52,015
1993 Sales Tax Revenue Notes	—	74,500
1995 Sales Tax Revenue Bonds	105,620	132,175
1998 Sales Tax Revenue Bonds	348,510	—
Note payable	—	44,550
	590,215	532,040
Less:		
Unamortized bond discount and issuance costs	(12,921)	(8,859)
Deferred charges on insubstance defeasance	(7,146)	—
Current portion	(53,620)	(137,030)
Net long-term portion	$ 516,528	$ 386,151

1962 General Obligation Bonds

In 1962, voters of the member counties of the District authorized a bonded indebtedness totaling $792,000 of General Obligation Bonds maturing through 1999, with interest rates ranging from 1.5% to 6%. Payment of both principal and interest is provided by the levy of District-wide property taxes. At June 30, 1998, the 1962 bonds consist of $41,125 of general bonds due on June 15, 1999.

1966 Special Service District Bonds

In 1966, City of Berkeley voters formed Special Service District No. 1 and authorized the issuance of $20,500 of General Obligation Bonds maturing through 1998, of which $12,000 were issued for construction of subway extensions within that city. Payment of both principal and interest is provided by taxes levied upon property within Special Service District No. 1. Bond interest rates range from 4% to 5.5%. The remaining $700 principal was fully paid during 1998.

1990 Sales Tax Revenue Refunding Bonds (the 1990 Bonds)

In July 1990, the District issued sales tax refunding bonds totaling $158,478. The 1990 Bonds are special obligations of the District payable from and collateralized by a pledge of the sales tax revenues. At June 30, 1998, the 1990 Bonds consist of $53,410 of current interest serial bonds due from 1998 to 2011 with interest rates ranging from 6.5% to 6.75% and $28,345 of capital appreciation serial bonds ($16,828 original amount) with yields of 6.65% to 6.75% due from 2002 to 2005. Interest on the capital appreciation bonds is payable at maturity. For financial reporting purposes, accrued interest is added to the principal balance. The current interest bonds maturing on

Notes to Financial Statements (Dollars in thousands) – *continued*

July 1, 2009 totaling $56,215 were defeased in March 1998 using part of the proceeds from the 1998 Sales Tax Revenue Bonds.

1991 Sales Tax Revenue Bonds (the 1991 Bonds)

The 1991 Bonds were issued in August 1991 in the amount of $56,010 and are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 1998, the 1991 Bonds consist of $10,530 of serial bonds due from 1998 to 2002 with interest rates ranging from 5.9% to 6.4% and of $2,675 of term bonds due in 2003 with an interest rate of 6.4%. Additionally, the 1991 Bonds maturing after June 30, 2001 are redeemable, at the option of the District, at prices ranging from 100% to 102%. In March 1998, the District used part of the proceeds from the 1998 Sales Tax Revenue Bonds to defease $37,200 principal amount of term bonds.

1993 Sales Tax Revenue Notes

In January 1993, the District issued subordinate sales tax revenue notes totaling $74,500 to provide funds for the acquisition of 30 mass transit rail vehicles. The notes are special obligations of the District payable from and collateralized by a pledge of certain sales tax revenues and by property tax revenues. The pledge of the sales tax revenue is subordinate to the District's pledge of sales tax revenues with respect to payment of its $158,478 original principal amount of Sales Tax Revenue Refunding Bonds, Series 1990, and its $56,010 original principal amount of Sales Tax Revenue Bonds, Series 1991, and any obligations of the District payable on a parity with such bonds pursuant to the terms of the indenture under which such bonds were issued.

In March 1998, the District used part of the proceeds from the 1998 Sales Tax Revenue Bonds to defease $38,085 principal amount of the Subordinate Sales Tax Revenue Notes, Series 1993.

1995 Sales Tax Revenue Bonds (the 1995 Bonds)

In June 1995, the District issued sales tax revenue bonds totaling $135,000 to provide funds for certain capital improvements including rehabilitation of District vehicles and facilities and energy conservation measures. The bonds are special obligations of the District, payable from and collateralized by a pledge of sales tax revenues. At June 30, 1998, the 1995 Bonds consist of $55,345 serial bonds due from 1998 to 2011 with interest rates ranging from 4.5% to 5.7% and $50,275 of term bonds due from 2012 to 2020 with an interest rate of 5.5%. The District is required to make sinking fund payments on the term bonds beginning on July 1, 2012. In addition, the 1995 Bonds maturing after June 30, 2006 will be redeemable after July 1, 2005 at the option of the District at prices ranging from 100% to 101%. In March 1998, the District used part of the proceeds from the 1998 Sales Tax Revenue Bonds to defease $23,615 principal amount of term bonds.

1998 Sales Tax Revenue Bonds (the 1998 Bonds)

In March 1998, the District issued sales tax revenue bonds totaling $348,510 to provide funds for certain capital improvements, including rehabilitation of the District's vehicles and facilities to retire $38,085 principal of Subordinate Sales Tax Revenue Notes, Series 1993, to repay obligation of approximately $49,645 related to a lease of certain telecommunications equipment, and to refund certain outstanding bonds with principal amounts of $117,030 to achieve debt service savings. The bonds are special obligations of the District's payable from and collateralized by a pledge of sales tax revenues. At June 30, 1998, the 1998 Bonds consist of $156,140 serial bonds due from 2000 to 2018 with interest rates ranging from 3.65% to 5.5% and $79,105 of the term bond due July 1, 2023 with interest rate of 4.75% and $113,265 of term bond due July 1, 2028 with interest rate of 5%. The District is required to make sinking fund payments on the term bond due July 1, 2023 beginning on July 1, 2019 and on the term bond due July 1, 2028 beginning on July 1, 2024. In addition, the 1998 bonds maturing after June 30, 2009 may be redeemed prior to their respective maturities after June 30, 2008 and at the option of the District at prices ranging from 100% to 101%.

Defeased Bonds

In March 1998, the District defeased several bonds by placing part of the proceeds of the 1998 Sales Tax Revenue Bonds in an irrevocable trust to provide for future debt service payments on these bonds. The advance refunding met the requirement of an insubstance debt defeasance, and the term bonds were removed from the District's Long-Term debt. Accordingly, the Trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As a result of the advance refunding, the District reduced its total debt service requirement by $16,644 which resulted in an economic gain (the difference between the present value of the debt service payments on the old and new debt) of $10,721. As of June 30, 1998, the amount of defeased debt outstanding and removed from the long-term debt was as follows:

	1998 Defeassance
1990 Sales Tax Revenue Refunding Bonds	$ 56,215
1991 Sales Tax Revenue Bonds	37,200
1993 Sales Tax Revenue Notes	38,085
1995 Sales Tax Revenue Bonds	23,615
Total defeased	$155,115

The District deferred interest expenses of $7,767 related to the defeasance of certain bonds. These deferred charges are recorded as a reduction of the new 1998 bonds and are amortized over the life of the defeased bonds. Amortization expense on these deferred charges was $621 for 1998.

The District is subject to certain bond covenants, the most restrictive of which is to make no use of the proceeds of the bonds which will cause the bonds to be arbitrage bonds subject to federal income taxation.

Bond and note discount and issuance costs are amortized over the life of the related debt.

Note Payable

In September 1994, the District entered into a note payable arrangement with Pitney Bowes Credit Corp., (Pitney) in the amount of $44,550 to finance the cost of constructing a telecommunications system (System) along the District's right-of-ways. The note payable matured in March of 1998 and was paid using part of the proceeds from the 1998 Bonds.

The following is a schedule of long-term debt principal payments required as of June 30, 1998:

Year ending June 30	1962 General Obligations Bonds	1990 Sales Tax Revenue Refunding Bonds	1991 Sales Tax Revenue Bonds	1995 Sales Tax Revenue Bonds	1998 Sales Tax Revenue Bonds	Total
1999	$ 41,125	$ 7,655	$ 1,770	$ 3,070	—	$ 53,620
2000	—	8,195	1,935	3,205	—	13,335
2001	—	8,785	2,090	3,355	$ 820	15,050
2002	—	7,750	2,270	3,510	845	14,375
2003	—	7,287	2,465	3,680	880	14,312
Thereafter	—	42,083	2,675	88,800	$ 345,965	479,523
Subtotal	$ 41,125	$ 81,755	$ 13,205	$ 105,620	$ 348,510	590,215
Less:						
Unamortized bond discount and issuance cost						12,921
Unamortized deferred charges on insubstance defeasance						7,146
Current portion						53,620
Net long-term portion						$ 516,528

7. Federal Grants

The U.S. Department of Transportation provides financial assistance to the District for capital projects and planning and technical assistance. Grants which were active during the year ended June 30, 1998 are summarized as follows:

Total approved project costs	$ 497,028
Total approved federal funds	$ 392,045
Less cumulative amounts earned	(313,435)
Remaining amount available under federal grants	$ 78,610

8. Local and State Financial Assistance

The District receives local operating and capital assistance from Transportation Development Act Funds (TDA). For the year ended June 30, 1998 and 1997, TDA assistance was $588 and $1,244 respectively, all of which was used for operating assistance. These funds are received from the counties of Alameda and Contra Costa to meet, in part, the District's operating requirements based on annual claims filed by the District and approved by MTC.

Notes to Financial Statements (Dollars in thousands) – *continued*

9. Employees' Retirement Plan

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (Fund) of the State of California's Public Employees' Retirement System under the Miscellaneous Plan and the Safety Plan of the San Francisco Bay Area Rapid Transit. The Fund is an agent multiple-employer defined-benefit retirement plan that acts as a common investment and administrative agent for 1,356 local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and District ordinance.The Fund uses the accrual basis of accounting. Retirement contributions and health care premiums are recorded when due. Investment income is recognized when earned and expenditures are recorded when incurred. Benefits are recognized when due and payable.

All investments are reported at fair value. The fair value of investments in securities is generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. Investments held in internal investment pools have been reported at fair value.

Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, are estimated based on independent appraisals. Short-term investments are reported at fair value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management in consultation with their investment advisors has determined the fair values for the individual investments.

Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the Plan: California PERS, P.O. Box 942709, Sacramento, CA 94229-2709, (916) 326-3420.

Funding Policy

The Plan's funding policy provides for periodic District contributions at actuarially-determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual entry age normal method is used to determine the normal cost, and beginning on July 1, 1997, the unfunded actuarial accrued surplus or liability (past service liability) is amortized as a level percentage of future covered payroll over 13 and 2 years for the Miscellaneous Plan and the Safety Plan, respectively. District contributions for the year ended June 30, 1998 to cover normal cost and to amortize the unfunded actuarial accrued surplus approximated 6.467% and 3.943% of covered payroll for the Miscellaneous Plan and the Safety Plan, respectively.

The District was not required to make a contribution to the Fund for covered employees for the year ended June 30, 1997 due to a surplus of the District's portion of the Fund's net assets over the District's pension benefit obligation caused by a change in 1988 in the actuarial valuation method and an actual rate of return on investment assets that exceeded the assumed rate.

The District's covered payroll for employees participating in the Fund for the years ended June 30, 1998 and 1997 was $164,342 and $159,592, respectively. The District's 1998 and 1997 payroll for all employees was $188,024 and $175,655, respectively. The District, due to a Collective Bargaining Agreement, also has a legal obligation to contribute an additional 9% for public safety personnel and 7% for miscellaneous covered employees. Employees have no obligation to contribute to the Fund.

Since the District had made the actuarially-determined required contributions since 1988, the pension liability or asset was zero at June 30, 1998, in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*.

Funding Status and Annual Pension Cost

Three-Year Trend Information for the Fund

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous Plan:	June 30, 1996	—	100%	—
	June 30, 1997	—	100%	—
	June 30, 1998	$9,150	100%	—
Safety Plan:	June 30, 1996	—	100%	—
	June 30, 1997	—	100%	—
	June 30, 1998	$ 364	100%	—

The required contribution was determined as part of an actuarial valuation performed as of June 30, 1996, the latest available for the Fund. The significant actuarial assumptions used in the 1996 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.50%, annual payroll increases of 4.5% attributable to inflation, 0% attributable to real salary increases, and merit increases that vary by length of service, and no postretirement benefit increases.

The funding status applicable to the District's employee group at June 30, 1996 (the latest available for the Fund) is summarized as follows:

Funded Status of the Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/94	$ 368,683	$ 368,646	$ 37	100.0%	$ 126,546	0.030%
6/30/95	$ 402,750	$ 414,307	$ (11,557)	102.9%	$ 129,565	(8.920%)
6/30/96	$ 475,493	$ 486,061	$ (10,568)	102.2%	$ 126,198	(8.374%)

Funded Status of the Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/94	$ 29,138	$ 30,104	$ (966)	103.3%	$ 8,303	(11.634%)
6/30/95	$ 34,044	$ 34,224	$ (180)	100.5%	$ 8,452	(2.130%)
6/30/96	$ 40,255	$ 40,120	$ 135	99.7%	$ 9,027	1.500%

Postretirement Health Care Cost

In addition to the retirement benefits described above, as specified in the District's ordinance, the District provides postretirement health care benefits assistance to all employees who retire directly from the District or to their surviving spouse. Substantially all of the District's employees may become eligible for those benefits if they reach age 55 while working for the District. Currently, 354 retirees are provided this benefit. The District reimbursed up to $37 per month for health insurance premiums paid by the retiree or their surviving spouse during fiscal year 1998. These benefits are fully funded by the District and accounted for on a pay-as-you-go basis through payments to the Plan. Cash reimbursements of these benefits totaled $351 in 1998.

Notes to Financial Statements (Dollars in thousands) – *continued*

10. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The deferred compensation plan, available to all officers and employees, permits them to defer receipt of a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination, or certain other covered events.

On January 1, 1997, the District amended the Plan to conform to the Federal Small Business Protection Act of 1996 (SBPA). The amendment provided for the creation of a trust for the deferred compensation plan and all income attributable to those amounts. The funds are not subject to the claims of the District's general creditors. The Plan is no longer considered part of the District's assets.

The plan administrator has invested the deferred amounts in numerous participant-directed uninsured investments. Total employee contributions for this plan for the years ended June 30, 1998 and 1997 were $12,350 and $10,737, respectively. The Deferred Compensation Plan assets at June 30, 1998 and 1997 (excluded from the accompanying financial statements) were $201,653 and $170,012, respectively.

11. Money Purchase Pension Plan

All District employees, except sworn police officers, participate in the Money Purchase Pension Plan, which is a supplemental retirement program. In January 1981, the District's employees elected to withdraw from the Federal Social Security System (FICA) and established the Money Purchase Pension Plan. The District contributes, on a pay-as-you-go basis, an amount equal to 6.65% of covered employee's annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. Non-represented employees receive an additional 1.627% of annual regular earnings up to $160,000 in excess of $29,700. Each employee's account is available for distribution upon such employee's termination.

The District's total expense and funded contribution for this plan for the year ended June 30, 1998 and 1997 were $6,659 and $6,518, respectively. Money Purchase Pension Plan assets at June 30, 1998 and 1997 (excluded from the accompanying financial statements) were $197,559 and $173,210, respectively. At June 30, 1998, there were approximately 341 participants currently eligible to receive benefits under this plan.

12. Commitments and Contingencies

Litigation

The District is involved in various lawsuits, claims and disputes, which for the most part are normal to the District's operations. It is the opinion of the District's management that the costs that might be incurred in the disposition of these matters, if any, would not materially affect the District's financial position or results of operations.

Lease Commitments

The District leases certain facilities under operating leases with original terms ranging from two to five years with options to renew.

Future minimum rental payments under non-cancelable operating leases with initial or remaining lease terms of over one year at June 30, 1998 are as follows:

	Operating Leases
1999	$ 2,211
2000	2,144
2001	2,346
2002	2,261
2003	1,091
Thereafter	—
Total minimum payments	$10,053

Rent expense under all operating leases was $2,291 and $2,144 for the years ended June 30, 1998 and 1997, respectively.

Sale/Leaseback

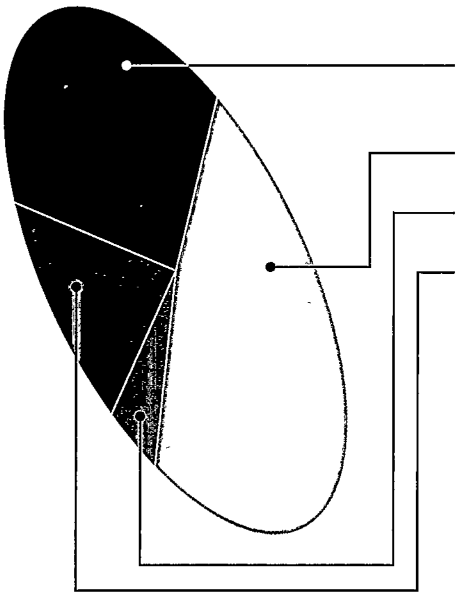
On March 30, 1995, the District entered into an agreement with a Swedish corporation to sell 25 newly manufactured C-2 rail cars for $50,383 and simultaneously entered into an agreement to lease them back. The lease agreement was effective on the closing date of September 15, 1995, and continues through January 15, 2011.

The District recognized a gain on the sale of approximately $2,000 which is equal to the amount of cash received on the sale. The gain was deferred and is being amortized over 30 years. In addition, the District recorded a receivable of $48,368 and a capital lease obligation of the same amount. The receivable and the liability will be reduced by a corresponding amount over the term of the lease. Other than the cash received upon the sale, no cash will be exchanged between the parties in settlement of the receivable and liability.

Operating Funds 1997-98

(Dollars in Thousands)

Sources of Funds



Total
$339,000 100.00%

Transactions and Use Sale Tax
$117,129 34.55%

Passenger Fares
$163,098 48.11%

Property Tax
$13,358 3.94%

Other
$45,415 13.40%

Investment Income and Other Operating Revenues
$13,783 4.07%

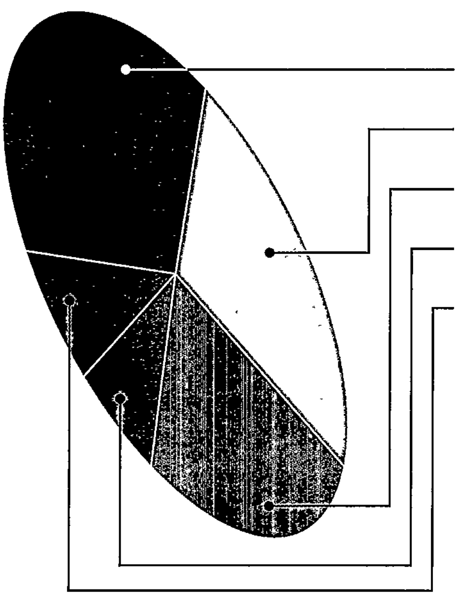
Construction Funds (Capitalized Costs)
$29,969 8.84%

Regional Financial Assistance

Local
$588 0.17%

State
$1,075 0 32%

Uses of Funds



Total
$339,000 100.00%

Maintenance
$122,537 36.14%

Transportation
$86,696 25.57%

General Administration
$81,759 24.12%

Police Services
$22,418 6.61%

Other
$25,590 7.56%

Capital Designation
$12,800 3 78%

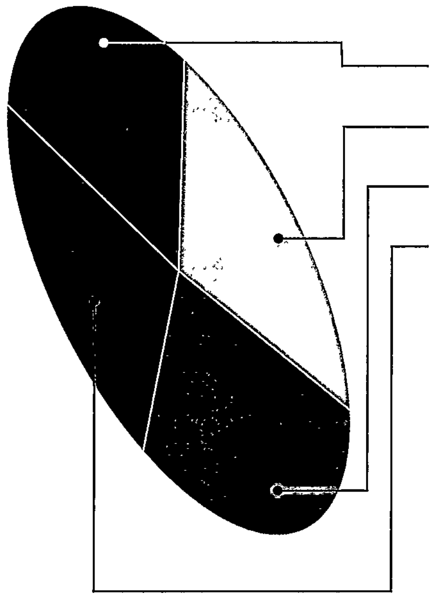
Construction and Engineering
$12,771 3.77%

Increase in Retained Earnings
$19 0.01%

Capital Funds 1997-98

(Dollars in Thousands)

Sources of Funds



Total
$214,749 100.00%

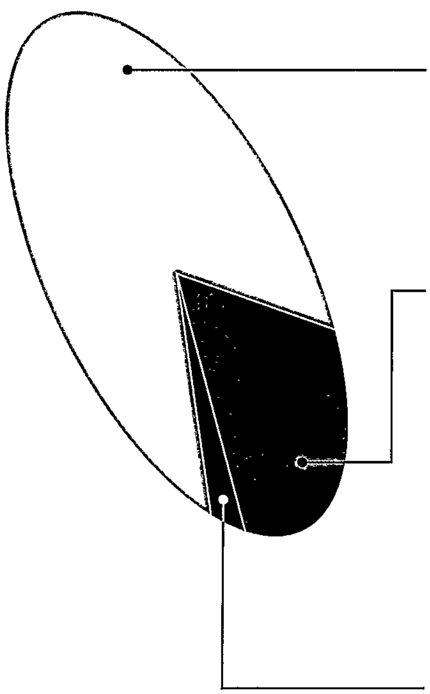
District
$52,696 24.54%

Federal
$49,081 22.86%

State
$62,710 29.20%

Local
$50,262 23.40%

Expenditures



Total
$214,749 100.00%

Construction
$154,967 72 16%

Line
$125,301 58.35%

Systemwide
$29,131 13.56%

Support Facilities
$535 0.25%

Equipment
$53,186 24.77%

Train Control
$8,645 4.03%

Communications
$15,892 7.40%

Transit Vehicles
$20,883 9 72%

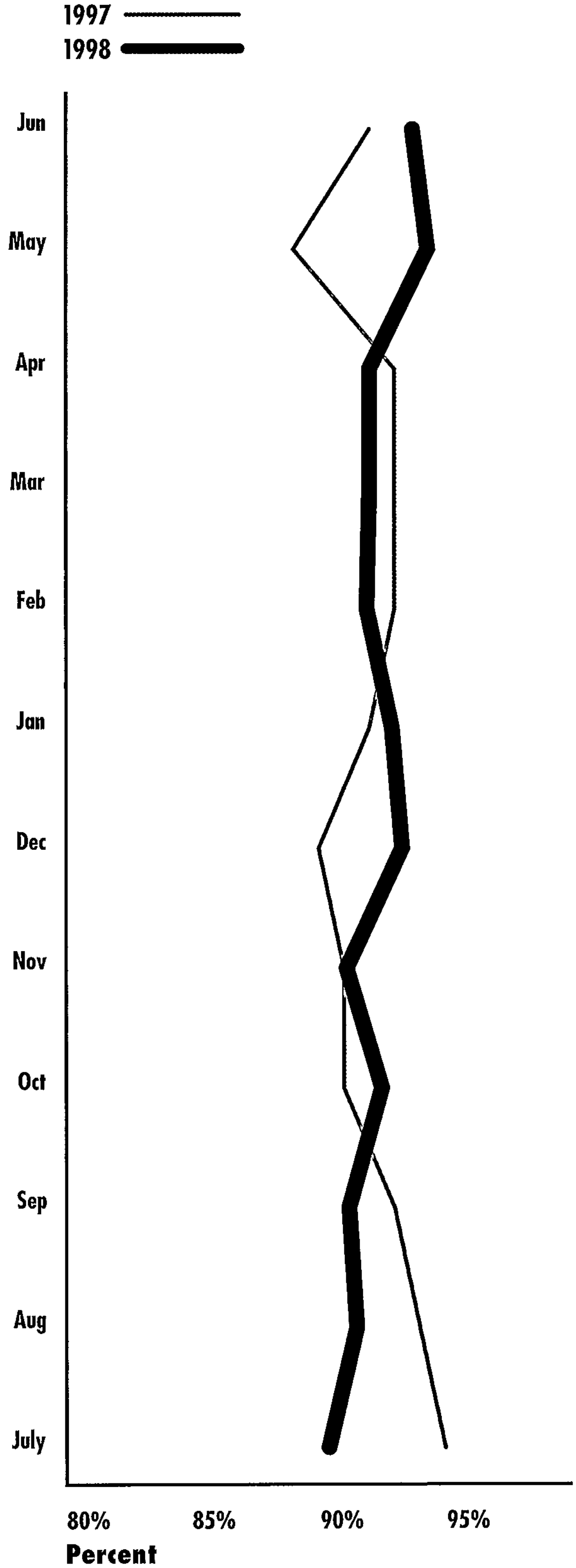
Automatic Fare Collections
$3,583 1 67%

Management Information Systems
$484 0 23%

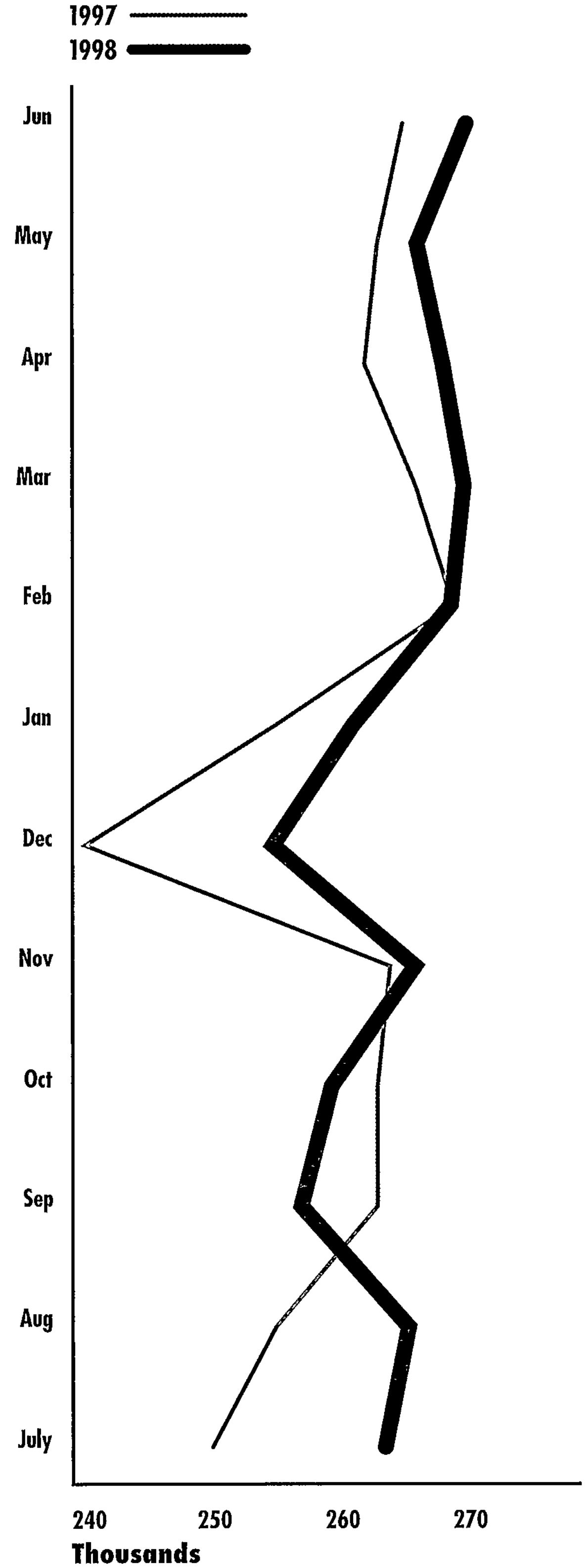
Other Equipment
$3,699 1 72%

Studies and Others
$6,596 3.07%

Daily On-Time Train Performance



Average Weekday Trips



ART patronage

et revenue for

iscal year 1998

ncreased 9.12%.

Performance Highlights

		FY 1998	FY 1997
Rail Ridership	Annual passenger trips	75,667,999	75,871,750
	Average weekday trips	265,324	260,543
	Average trip length (miles)	13.04	12.75
	Annual passenger miles	987,864,133	967,427,593
	Daily train on-time performance	92.20%	92.10%
	System utilization	25.66%	28.62%
	End-of-period ratios: Peak patronage	48.00%	46.79%
	Off-peak patronage	52.00%	53.21%
Operations	Annual revenue car miles	55,270,306	48,523,158
	Unscheduled train removals—average per revenue day	1.91	2.17
	4:00 a.m. car availability	84.0%	79.8%
	Passenger accidents per million passenger trips	9.89	10.83
	Passenger crimes per million passenger trips	55.30	57.40
Financial	Net passenger revenue	$ 163,098,335	$ 149,464,741
	Other operating revenue	$ 13,783,586	$ 14,660,775
	Total operating revenue	$ 176,881,921	$ 164,125,516
	Net operating expenses	$ 296,212,402	$ 267,736,984
	System farebox ratio (net passenger revenue to net operating expense)	55.06%	55.83%
	System operating ratio (total operating revenue to total operating expense)	59.71%	61.30%
	Net rail passenger revenue per passenger mile	$ 0.164	$ 0.153
	Rail operating cost per passenger mile	$ 0.289	$ 0.263
	Net average rail passenger fare (including FastPass)	$ 2.146	$ 1.951

B A R T

an Francisco Bay Area Rapid
ansit District (BART)
adquarters in Oakland, California
00 Madison Street, P.O. Box 12688
akland, CA 94604-2688
510) 464-6000

ablished in 1957 by the California
ate Legislature. Authorized to plan,
ance, construct, and operate rapid
ansit system.

overned by a Board of Directors
ected for four-year terms by voters
nine election districts within the
unties of Alameda, Contra Costa and
an Francisco.

The Annual Report is published by the District pursuant to Section 28770, Public Utilities Code of the State of California