



Agenda Item No. 5

To: Finance-Auditing Committee/Committee of the Whole
Meeting of June 8, 2006

From: Joseph M. Wire, Auditor-Controller
Celia G. Kupersmith, General Manager

Subject: **DISCUSSION RELATIVE TO THE DRAFT FISCAL YEAR 06/07
OPERATING AND CAPITAL BUDGETS**

Recommendation

The following action will be taken at a future Finance-Auditing Committee meeting (June 9, 2006). The Finance-Auditing Committee recommends that the Board of Directors approve the Fiscal Year (FY) 06/07 Proposed Operating and Capital Budgets and the following items as contained in those budgets:

- a. District workplans, goals and objectives;
- b. 2% negotiated pay increase for the ATU represented employees;
- c. Changes to the Reserve Structure; and,
- d. Changes to the Table of Organization.

Summary

The FY 06/07 Proposed Budget continues the multi-year process to change the budget into a policy document that identifies the strategic direction and priorities of the Board of Directors for the budget year. The budget includes:

- Operating Budget revenues of \$144.9 million;
- Operating Budget expenditures of \$147.6 million;
- Capital Budget revenues of \$33.0 million;
- Capital Budget expenditures of \$47.3 million; and,
- District reserves are budgeted to be used to fund the FY 06/07 Operating Budget shortfall of \$2.7 million and District share of the Capital Budget of \$14.3 million.

This report is a summary of the development process and general overview of the FY 06/07 Proposed Budget. The proposed budget will be discussed at the Finance-Auditing meetings in May and June with final adoption scheduled for the Board of Directors meeting of June 9, 2006.

Background Summary Information on the Proposed Budget

Operating Budget

The FY 06/07 Proposed Operating Budget contains \$147.6 million in expenses and \$144.9 million in revenue and includes no pay increase for Coalition represented and non-represented employees as per past practice when there will be no contract in force at the start of a year. The Budget contains a 2% negotiated pay increase for Bus Operators in March 2007, administrative cost savings, changes to the District reserves structure and changes to the Table of Organization. The Table of Organization will show a net increase of five positions - seven positions added and two limited term positions eliminated. Four of the positions relate to Baseball Ferry Service in which the funding has always existed, but no dedicated positions assigned. The remaining three additional positions (two will be grant funded) will add resources for project management. The proposed budget also includes a \$9 million charge to operations to fund the reserves for future capital projects.

The proposed operating budget reduces the projected deficit for FY 06/07 from \$9.3 million to \$2.7 million through continued management of staff costs, effective management of the Workers' Compensation program, fare increases and increased contributions from local partners. Further reduction of the deficit will be achieved through the strategic planning workshops held in the fall and winter of 2006/07. The strategic plan process is intended to guide the District to a healthy, sustainable financial condition and ensure replenishment of the necessary reserve accounts.

Capital Budget

The FY 06/07 Proposed Capital Budget includes an expenditure of \$47.3 million, funded with \$14.3 million District funds and \$33 million federal and state grant funds, to support implementation of 49 new and continuing projects necessary to maintain existing services and facilities and to further high priority safety and security projects. Of the proposed program, 36% of expenditures proposed fund the Golden Gate Bridge seismic retrofit activities, 29% fund Bridge capital projects, 26% fund Ferry, Ferry facilities rehabilitation projects and dredging, and 9% fund various other projects. The FY 06/07 Proposed Capital Budget contains estimates of project expenditures for FY 05/06. The FY 06/07 Adopted Capital Budget will include adjustments to reflect any carryover in unspent project funds. The proposed FY 05/06 Capital Budget detail can be found in Appendix C.

Use of Reserves

The proposed FY 06/07 Operating and Capital Budget results in the use of \$17 million in reserves to cover the projected operating deficit and the District's portion of capital expenses. The proposed FY 06/07 Operating and Capital Budget is projected to increase the total amount of reserves available to be spent on operating and capital projects from an estimated beginning of the year balance of \$83 million to \$84 million by the end of the fiscal year. This represents a positive net change in total reserves available for operating and capital projects as capital expenditures will be offset by inflows from the operating budget (e.g. depreciation and the contribution to capital reserves).

Fiscal Impact

The FY 06/07 Budget projects Operating Revenues of \$144.9 million and Capital Revenues of \$33 million and provides a spending plan for \$147.6 million in Operating Expenses and \$47.3 million in Capital Expenditures. The \$17 million deficit will be funded through reserves, which will be offset in future years through the long-term action plan discussed in Appendix G.