



Agenda Item No. 3

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 10, 2007

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

Subject: **DISCUSSION RELATIVE TO THE DRAFT FISCAL YEAR 07/08
OPERATING AND CAPITAL BUDGET**

Recommendation

This action is scheduled to come to the Finance-Auditing Committee meetings of May 10, May 24 and June 7, 2007, and is preliminarily scheduled for Board action on June 8, 2007.

The Finance-Auditing Committee recommends that the Board of Directors approve the Fiscal Year (FY) 07/08 Proposed Operating and Capital Budget and the following items as contained in the budget:

- a. District workplans, goals and objectives;
- b. Negotiated 3% pay increase for the Coalition represented employees and 3% pay increase for non-represented employees;
- c. Changes to the Reserve Structure; and,
- d. Changes to the Table of Organization.

Summary

The FY 07/08 Proposed Budget is a policy document that identifies the strategic direction and priorities of the Board of Directors for the budget year. The proposed budget is the implementation tool for the Board's policy directions that were developed in its long-term Strategic Financial Plan. It carries out the stated mission of the District within the bounds of that Strategic Financial Plan. The budget includes:

- Operating Budget revenues of \$151.1 million;
- Operating Budget expenditures of \$156.9 million;
- Capital Budget revenues of \$27.5 million;
- Capital Budget expenditures of \$37.4 million; and,
- District reserves are budgeted to be used to fund the FY 07/08 Operating Budget shortfall of \$5.8 million and District share of the Capital Budget of \$9.9 million.

This report is a summary of the development process and general overview of the FY 07/08 Proposed Budget. Staff will present an overview of the Budget at the first Finance-Committee Meeting in May, with discussion and Q&A at the subsequent Finance-Committee meetings. Final adoption preliminarily scheduled for the Board of Directors meeting of June 8, 2007.

In July, to kick off the new year, the officers and Deputy General Managers will make presentations to the Finance-Auditing Committee on the planned activities for FY 07/08.

Summary Information on the Proposed Budget

Operating Budget

The FY 07/08 Proposed Operating Budget contains \$156.9 million in expenses and \$151.1 million in revenue and includes the negotiated salary increase of 3% for Coalition represented and non-represented employees, 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 eight (8) positions – thirteen (13) positions added, five (5) positions eliminated, three (3) transfers, and seven (7) reclassifications of positions. The new positions will be added to help support new technology, facilitate implementation of new projects and to support expanded computer systems and network. The proposed budget also includes a \$9 million charge to operations to fund the reserves for future capital projects and \$11.3 million for current and future Other Postemployment Benefits (OPEB).

The proposed operating budget reduces the projected deficit for FY 07/08 from \$8.9 million to \$5.8 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 process with workshops likely to be held in the fall and winter of 2007/08. The strategic plan process is geared to guide the District to a healthy, sustainable financial condition and ensure replenishment of the necessary reserve accounts.

Capital Budget

The FY 07/08 Proposed Capital Budget includes an expenditure of \$37.4 million, funded with \$9.9 million District funds and \$27.5 million federal, state and local grant funds, to support implementation of 48 new and continuing projects necessary to maintain existing services and facilities and to further high priority safety and security projects. Of the proposed program, 43% of expenditures proposed by the budget fund the Golden Gate Bridge seismic retrofit activities, 18% fund Bridge safety and security projects, 19% fund bus replacement and bus facilities projects, 15% fund Ferry, Ferry facilities rehabilitation projects and dredging, and 5% fund various other projects. The FY 07/08 Proposed Capital Budget contains estimates of project expenditures for FY 06/07 and assures completion of several projects by June 30, 2007. At printing, the FY 07/08 Adopted Capital Budget will include adjustments to reflect any carryover in unspent project funds and will also carryover any projects not completed. The proposed FY 06/07 Capital Budget detail can be found in Appendix C.

Use of Reserves

The proposed FY 07/08 Operating and Capital Budget results in the use of \$15.7 million in reserves to cover the projected operating deficit and the District's portion of capital expenses. The proposed FY 07/08 Operating and Capital Budget is projected to keep constant the total amount of reserves available to be spent on operating and capital projects from an estimated beginning of the year balance of \$103 million to the same at the end of the fiscal year. This represents no 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 07/08 Budget projects Operating Revenues of \$151.1 million and Capital Revenues of \$27.5 million and provides a spending plan for \$156.9 million in Operating Expenses and \$37.4 million in Capital Expenditures. The \$15.7 million deficit will be funded through reserves, which will be offset in future years through the long-term Strategic Financial Plan as discussed in Appendix G.