



Agenda Item No. 5

To: Finance-Auditing Committee/Committee of the Whole
Meeting of May 22, 2008

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

Subject: **DISCUSSION RELATIVE TO THE DRAFT FISCAL YEAR 08/09
OPERATING AND CAPITAL BUDGET**

Recommendation

This action is scheduled to come to the Finance-Auditing Committee meetings of May 8, May 22 and June 12, 2008, and is preliminarily scheduled for Board action on June 13, 2008.

The Finance-Auditing Committee recommends that the Board of Directors approve the Fiscal Year (FY) 08/09 Proposed Operating and Capital Budget and the following items as contained in the budget:

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

Summary

The FY 08/09 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 \$155.2 million;
- Operating Budget expenditures of \$164.2 million;
- Capital Budget revenues of \$23.7 million;
- Capital Budget expenditures of \$32.1 million; and,
- District reserves are budgeted to be used to fund the FY 08/09 Operating Budget shortfall of \$9 million and District share of the Capital Budget of \$8.4 million.

This report is a summary of the development process and general overview of the FY 08/09 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 is preliminarily scheduled for the Board of Directors meeting of June 13, 2008.

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 08/09.

Summary Information on the Proposed Budget

Operating Budget

The FY 08/09 Proposed Operating Budget contains \$164.2 million in expenses and \$155.2 million in revenue and includes the negotiated salary increase of 3% for represented and non-represented employees, changes to the District reserves structure and changes to the Table of Organization. There is a zero net impact to the Table of Organization. The proposed budget also includes a \$9 million charge to operations to fund the reserves for future capital projects and \$13.6 million for current and future Other Postemployment Benefits (OPEB).

The proposed operating budget increases the projected deficit for FY 08/09 from \$6.5 million to \$9 million. This increase is almost entirely due to a new actuarially determined contribution for OPEB that was not known at the time of the original projections. However, the FY 08/09 Proposed Budget continues the District's efforts toward achieving long-term financial sustainability. It builds on the actions taken in previous years to increase revenues and decrease operating costs in order to reduce the deficit. The District will continue its strategic planning process with future workshops. 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 08/09 Proposed Capital Budget includes an expenditure of \$32.1 million, funded with \$8.4 million District funds and \$23.7 million federal, state and local grant funds, to support implementation of 59 new and continuing projects necessary to maintain existing services and facilities and to further high priority safety and security projects. Of the proposed program, 47% of expenditures proposed by the budget fund the Golden Gate Bridge seismic retrofit activities, 17% fund Bridge safety and security projects, 19% fund bus replacement and bus facilities projects, 14% fund Ferry, Ferry facilities rehabilitation projects and dredging, and 3% fund various other projects. The FY 08/09 Proposed Capital Budget contains estimates of project expenditures for FY 07/08 and assures completion of several projects by June 30, 2008. At printing, the FY 08/09 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 08/09 Capital Budget detail can be found in Appendix C.

Use of Reserves

The proposed FY 08/09 Operating and Capital Budget results in the use of \$17.4 million in reserves to cover the projected operating deficit and the District's portion of capital expenses. As an offset to this \$17.4 million reserve spending, the FY 08/09 Proposed Budget also includes \$17.8 million in transfers to reserves resulting in a net reserve increase of \$0.4 million. Although the proposed FY 08/09 Operating and Capital Budget is projected to slightly increase reserves, the amount available for operating and capital expenditures is projected to decrease as some of the growth in reserves is intended to fund specific liability reserve requirements.

Fiscal Impact

The FY 08/09 Budget projects Operating Revenues of \$155.2 million and Capital Revenues of \$23.7 million and provides a spending plan for \$164.2 million in Operating Expenses and \$32.1 million in Capital Expenditures. The \$17.4 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.

Attachment: FY 08/09 Proposed Budget