



*Revised June 4, 2009*

Agenda Item No. 10.A.

**Special Order of Business**

To: Board of Directors  
Meeting of April 10, 2009

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

Subject: **OVERVIEW OF DISTRICT'S FINANCIAL CONDITION AND IMPACT OF ECONOMIC DOWNTURN**

**Recommendation**

The following report is provided for informational purposes and does not require any action.

**Introduction**

This report is intended to provide information to the Board and public on the current and future financial condition of the District and the impact of the current recession on the District's finances. It provides a common ground for discussion on guidance for the development of next year's budget and a strategic plan to balance the District's finances over the long-term. The report is divided up into the following sections:

- I. Financial Strength
- II. Status of the Current Budget and the Impact of the Recession
- III. Financial 5 and 10 Year Projection
- IV. Fiscal Year 09/10 Budget Preparation Guidance
- V. Next Steps

**I. Financial Strength**

The District is currently in a strong financial position, but has known expenses in future years that will undermine that financial strength if action is not planned and taken in the coming 6 to 24 months. That financial strength is based on over \$100 million in capital reserves and, most importantly, on an institutionalized process for adding to those reserves as dictated by the needs of the long-term capital plan. However, this process only works if the operating budget is balanced over the long-term. The current year's operating budget will produce a surplus even with the onset of the recession. The projection for future years, starting with next year's FY

09/10 budget, is for operating budget deficits. It is these operating budget deficits that a strategic plan will seek to eliminate.

## **II. Status of the Current Budget and the Impact of the Recession**

The recession has undermined the current budget, FY 08/09, but it is still expected to produce a small surplus. That surplus is essential to the long-term financial health of the District. The District's historical funding cycle is to produce budget surpluses for several years after a toll increase, then several years of deficits before the next toll increase. The September 2008 toll increase was projected to create two, possibly three, years of surpluses or balanced budgets, but subsequent events have changed that. It is now projected that the next budget year, FY 09/10, will produce a deficit.

The primary "subsequent events" are the arrival of the world-wide economic recession which reduced revenues and increased expenses and the Board's action to provide a contribution of \$75 million to fund the Doyle Drive project.

The recession caused a reduction in Bridge traffic of almost 4%, or a \$4 million reduction in expected revenue, and caused the State to eliminate the State Transit Assistance (STA) operating funding for the foreseeable future, another \$4 million reduction in expected revenue. In addition, the recession has led to a pronounced drop in the value of the assets the District has set aside to pay employee pensions. The District is expected to have to increase pension contribution expenses by approximately \$3.5 million a year in the coming years.

The second challenge to future budgets is the contribution to the Doyle Drive project. Even if the contribution is spread over 10 years, it equates to an increase in expenses of \$7.5 million a year.

Given these changes, the September 2008 financial projection was updated ahead of schedule (it will be redone in August/September 2009 on its regular cycle) to provide the Board, staff and public a better understanding of the District's financial future.

## **III. Financial 5 and 10 Year Projection**

The updated September 2008 projection finds that the FY 09/10 budget will be approximately \$11 million in deficit if all assumptions hold and no changes are made to increase revenues or decrease expenses (a complete copy of the updated projection is attached). The five year projected deficit is \$102 million.

As always, the projection is a current services baseline and assumes that expenses go up with inflation, but assumes no policy decisions that would reduce expenses or increase revenues. That baseline will be used to guide the type and magnitude of policy changes that need to be made in the coming years to eliminate the deficit.

#### **IV. Fiscal Year 09/10 Budget Preparation Guidance**

The first opportunity to reduce the deficit is next year's budget which will be presented to the Board for review during the second Board meeting in May. Staff is producing a baseline budget that continues current services while targeting a reduction from the \$11 million projected deficit. The current services budget is intended to be a starting point to keep the operations running while Board and staff determine the nature, magnitude and timing of the steps that need to be taken to reduce the long-term deficit.

In addition to the next year's budget, staff is developing a number of expense reduction or revenue enhancement proposals that will enable the District to eliminate its long-term deficit. Particular attention is focused on proposals that make permanent changes in expenses or revenues because the District's loss of revenue and increase in expenses are mostly long-term or permanent. Before considering the elimination of any services provided to customers, expense reduction proposals will focus on internal savings and the elimination of choices where the same service is provided in multiple ways. Given the recent general toll increase, revenue enhancement proposals will focus on new sources of revenue and existing services where value to the customer may exceed price.

#### **V. Next Steps**

In the coming months, staff will work with the Board to formalize a series of actions that will, over time, lead to eliminating the long-term deficit. How these proposals are brought forth and considered will be discussed in the course of today's Board meeting.

#### **Fiscal Impact**

There are no recommended actions in this report, thus no fiscal impact.