



ALAMEDA-CONTRA COSTA TRANSIT DISTRICT 1987 ANNUAL REPORT



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Fiscal Year 1986-87 proved to be demanding and productive as AC Transit's Directors, management and staff worked to adapt state-of-the-art facilities and techniques to the task of meeting long-standing challenges — maintaining on-street service while coping with the harsh economic realities of the mid-1980's. Accomplishments of note included:

- Completing major modernization at two of the District's four bus operating facilities.
- Achieving significant advances in strategic planning efforts aimed at modernizing the total East Bay bus service network to insure greater market penetration in years to come.
- Expanding previous public- and governmental-relations programs to establish new alliances with elected officials and opinion leaders at the local, regional, state and national levels.
- Helping in the successful promotion of a local Alameda county sales tax ballot measure tailored, in part, to fund bus service improvements over the next 15 years.
- Introducing new in-house classes with up-to-date training aids, to achieve greater productivity from bus drivers, maintenance and support workers.

Planning for the future

In FY 1987, as the District's decade-long facilities reconstruction program approached its end, AC Transit focused additional attention and energy on identifying actions to maximize productivity of greater metropolitan East Bay bus service.

An expansive study identified various major commute corridors within (or immediately adjacent to) the service area as top-priority prospects for major improvements in the 1990's. Such upgrading is necessary because of the explosive expansion of new suburban growth centers throughout Alameda and Contra Costa counties.

In the Bay Bridge corridor, current transportation modes (including bus and rail) already serve very heavy demand — more than 200,000 daily passenger trips — yet congestion remains severe. Similar conditions prevail in corridors paralleling the East Bay's interstate highways. AC Transit plans to help meet growing demand in such congested areas by introducing transportation mitigation measures, such as new services and improvements to existing networks.

This year, the District made considerable strides in defining the long-range strategic policies that will guide development of these additions and adjustments. Additionally, considerable attention was directed to refining the shorter-range Comprehensive Service Plan (CSP) — an ambitious project that will streamline and modernize existing bus service network to meet 1990's needs. The CSP, tantamount to a total overhaul of the system's routes and schedules, is tailored to improve mobility options for current riders while attracting new patrons.

Ridership totals remained relatively stable during this year; the System moved nearly 70 million passengers. But an important shift became apparent which impacts the District's farebox recovery ratio. Transbay ridership declined slightly while local usage went up. And the increase was in youth, senior-citizens, and disabled riders — all of whom pay substantially discounted fares. For the first time in its history, more than half of the District's local riders were paying discounted fares.



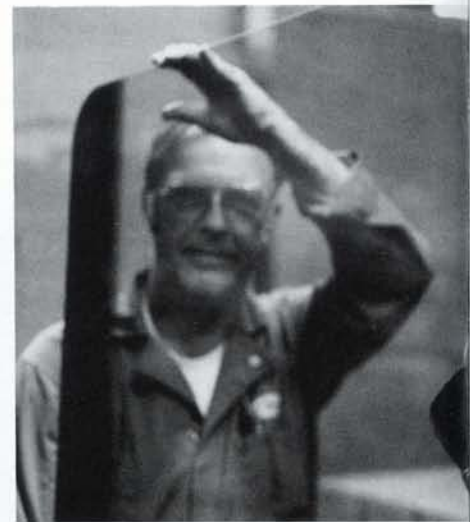
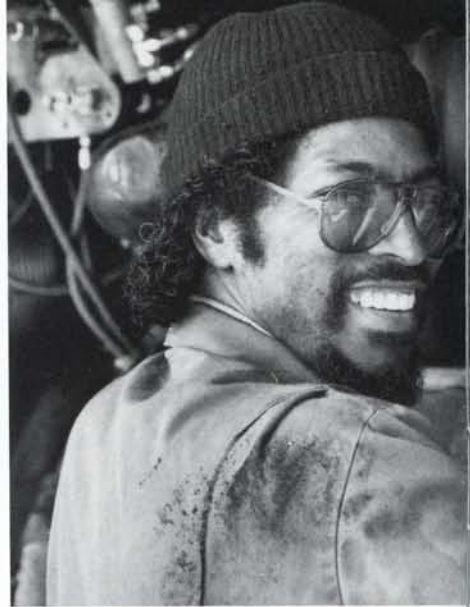


Regional cooperation

Again this year, the East Bay's public bus system played a leading role in improving inter-system coordination within the Bay Area. The AC/BART Plus, the region's newest inter-system fare instrument, was introduced in February. A flash pass on local buses, the new card also is valid, within limits, on the regional rail system.

AC Transit also lent encouragement and support to regional activities marking the 50th anniversary of the Oakland-

San Francisco Bay Bridge — which opened officially November 12, 1937, and since has been a vital link in the bus service network. Bus riders also joined in the salute. During the commemorative "Bridge Builders Dinner," held midway across the span at Treasure Island, a regular transbay commuter participated, representing the 750 million passengers who have utilized AC Transit (and predecessor, Key System) to cross the Bay Bridge since bus service was introduced to the span half a century ago.





Facilities up-date

While bulldozers moved in to begin total reconstruction of aging Richmond Division (built shortly after World War II), the transit workers assigned to the Emeryville and Hayward operating yards were adapting to totally new facilities.

Hayward Division, AC Transit's newest, began operations in September, absorbing bus service schedules dispatched since 1974 from a smaller Newark site and also some activities of long over-taxed East Oakland Division. The newly completed operational complex shares a 23-acre site with state-of-the-art Training and Education Center, opened last year.

Hayward Division houses about 550 employees who operate more than 200 buses serving riders in central and southern Alameda County, parts of Santa Clara and Contra Costa County, as well as commuters traveling transbay to and from San Francisco and Palo Alto.

The \$21 million Division is fully equipped with the latest example of coach operation/maintenance technology: computerized destination sign printing; and fast, powerful bus vacuuming and washing equipment.

In Emeryville, near the hub of AC Transit's metropolitan service area, the District's Operations personnel made a historic move — less than 1,000 feet in distance, but representing a dramatic leap from a 1930's-

style facility to a 1980's-modern building. The new Operations site opened in September — a 14,000 square foot structure which also houses the District's radio room and Central Dispatch function. Construction of a new maintenance building, automated fuel islands, bus washer and powered vacuuming systems also are included in this extensive \$24 million revamp.

AC Transit's administrative and support personnel moved also — vacating crowded, inefficient quarters in Oakland's Latham Square Building after nearly a quarter of a century. In June, 1987, AC Transit's new address became 1600 Franklin Street — just one block from the former offices. The new 10-story structure houses most District support functions, including: executive offices, finance, legal, payroll, personnel and a spacious new Customer Services Office, welcomed by patrons.

Located on District-owned land near many of AC Transit's mainline bus routes, the new building was designed and built to District specifications through the use of private-sector capital rather than public funds.



Through an innovative long-term lease/purchase agreement, title to the structure eventually will be acquired by the District.

The District's ambitious Facilities Master Plan, begun in the late 1970's, also includes reconstruction of an aging operating yard in East Oakland and the creation (completed last fiscal year) of a new Central Maintenance Center, also in East Oakland, where heavy bus maintenance and component remanufacture is performed. Central Maintenance also is home now to AC Transit's newly-computerized purchasing and warehousing functions.



Drivers' honors

AC Transit's most celebrated operator this year was Rick Vierra, a veteran driver who won the District's mid-year Bus Rodeo and then went on in October to take top honors in the APTA International Bus Rodeo competition in Detroit — registering 640 out of a possible 650 points in this tough test of at-the-wheel skills, job knowledge and professional appearance.

Since AC Transit now has an off-road bus driving course (at Training and Education Center in Hayward), the District was able for the first time this year to invite amateurs to try their hand at Bus Rodeo-style competition. As "Bus Drivers for A Day," some local elected officials and retired athletic stars joined members of the news media in a day of mock competition. In addition to positive press, this event yielded closer ties and cooperation with local city officials.



Training for the future

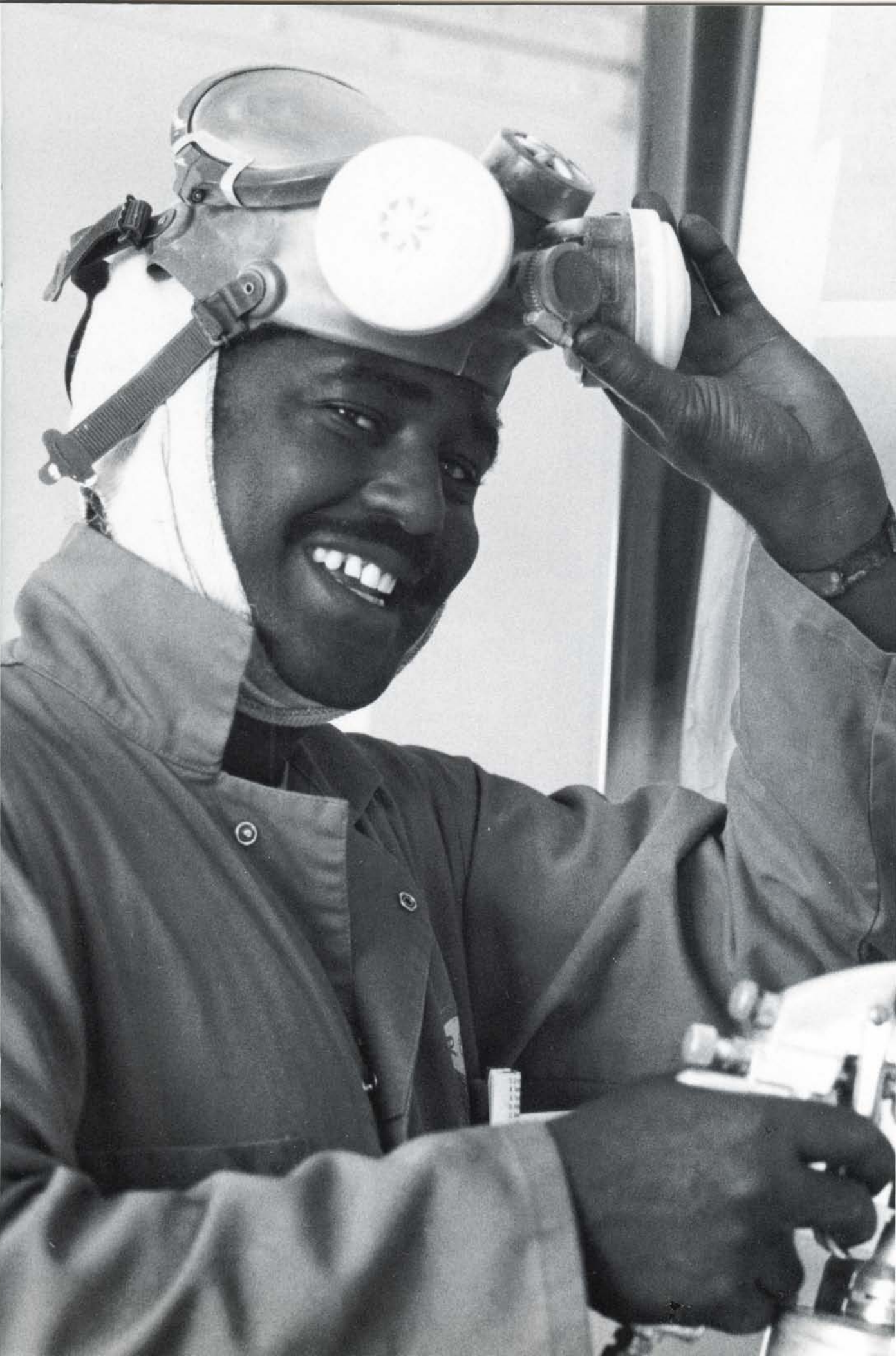
Increasing numbers of employees are going "back to school" at AC Transit as a sweeping array of educational and job-training programs are being introduced. To get the most out of state-of-the-art systems and equipment being installed throughout the District, AC Transit must also build a cadre of well trained personnel. Thus, human resources development remains a high priority effort.

Operations and maintenance personnel, for example, are participating in a course titled Productivity and Supervisory Skills, tailored to improve people-management. And in conjunction with a local university, the District sent 40 management employees to a five-month course titled Developing Frontline Leaders — which focused on the philosophy of good management and the day-to-day aspects of motivating and managing people.

With assistance from private-sector maintenance training experts, AC Transit developed comprehensive in-house study courses to insure that bus repair workers can maintain and improve their on-the-job skills. Thus, the Training and Education Center offers in-depth instruction,

at beginner and advanced levels, in the fine points of repairing engines, transmissions, and other on-board operating and safety systems.

AC Transit also undertook production of a training program to increase employees' sensitivity to the needs of elderly and disabled passengers. In cooperation with the World Institute on Disability (of Berkeley), the District is creating a comprehensive training package for application within the system, as well as distribution to other transit agencies which share in AC Transit's concern about improving service to this special segment of the riding public.



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INDEPENDENT AUDITORS' OPINION

The Board of Directors,
Alameda-Contra Costa Transit District:

We have examined the general purpose financial statements of the Alameda-Contra Costa Transit District as of and for the years ended June 30, 1987 and 1986 listed in the foregoing table of contents. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the general purpose financial statements referred to above present fairly the financial position of the Alameda-Contra Costa Transit District as of June 30, 1987 and 1986 and the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

Adams, Grant, Werner & Co.

January 8, 1988
(February 19, 1988 as to
the last paragraph of Note 8)

BALANCE SHEETS

JUNE 30, 1987 and 1986 (In Thousands)

ASSETS		NOTES	1987	1986
Current Assets:	Cash and investments	3	\$ 21,924	\$ 18,767
	Accounts receivable and accrued revenues:	4,5,6		
	Federal grants		874	12,691
	Other, principally state and local assistance		10,105	9,581
	Materials and supplies, at cost		6,756	7,460
	Prepaid expenses		1,799	1,313
	Total current assets		<u>41,458</u>	<u>49,812</u>
Deferred Compensation Plan Investments		3,9	<u>2,497</u>	<u>2,052</u>
Cash and Investments Restricted for Payment of Accrued Pension Costs		3,8	<u>87,624</u>	<u>78,728</u>
Property, Plant and Equipment:	Land		11,398	11,298
	Buildings, structures and improvements		75,839	24,145
	Revenue equipment		104,818	103,438
	Shop, office and other equipment and service vehicles		30,783	18,598
	Acquisitions in progress		16,356	45,861
	Total property, plant and equipment		239,194	203,340
	Accumulated depreciation		(67,760)	(53,969)
	Property, plant and equipment — net		<u>171,434</u>	<u>149,371</u>
TOTAL			<u>\$303,013</u>	<u>\$279,963</u>
LIABILITIES AND CAPITAL				
Current Liabilities:	Current portion of capital lease obligations	10	\$ 337	
	Accounts payable		3,467	\$ 3,406
	Salaries, wages and vacations		6,736	6,060
	Other accrued liabilities		2,739	2,506
	Advances under grants		950	4,721
	Self-insurance liabilities:			
	Workers' compensation		5,020	4,315
	Public liability and property damage		4,717	4,838
	Total current liabilities		<u>23,966</u>	<u>25,846</u>
Deferred Compensation		9	<u>2,497</u>	<u>2,052</u>
Accrued Pension Costs		8	<u>87,624</u>	<u>78,728</u>
Capital Lease Obligations		10	<u>16,148</u>	<u>—</u>
Capital:	District equity	7	21,333	28,948
	Contributed capital:			
	Federal grants		109,331	106,232
	State toll bridge funds		26,987	26,259
	Local transportation funds		15,127	11,898
	Total capital		<u>172,778</u>	<u>173,337</u>
TOTAL			<u>\$303,013</u>	<u>\$279,963</u>

See notes to general purpose financial statements.

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED JUNE 30, 1987 and 1986 (In Thousands)

	NOTES	1987	1986
Revenues:			
Fares		\$ 32,216	\$ 30,537
Property taxes		18,167	16,362
Contract service		13,109	12,171
Other operating revenues		690	795
Operating assistance:	5,6		
Local sales tax (AB 1107 / AB 2551)		16,400	10,800
Local transportation funds		24,505	28,043
Federal		7,715	8,250
State Transit Assistance Fund		434	2,260
Interest earned, less amounts allocated to pension funds		<u>1,073</u>	<u>2,115</u>
TOTAL		114,309	111,333
Expenses:			
Operator wages		36,658	34,320
Other wages		22,448	20,589
Fringe benefits		33,672	29,614
Fuel and oil		3,744	5,121
Other materials and supplies		8,717	8,841
Services		5,399	4,578
Insurance		4,193	4,771
Other		<u>4,271</u>	<u>3,279</u>
TOTAL		119,102	111,113
Excess of Revenues (Expenses) Before Depreciation		(4,793)	220
Depreciation		<u>14,460</u>	<u>12,402</u>
Excess of Expenses and Depreciation Over Revenues		<u>\$ (19,253)</u>	<u>\$ (12,182)</u>

See notes to general purpose financial statements.

STATEMENTS OF CHANGES IN CAPITAL

FOR THE YEARS ENDED JUNE 30, 1987 and 1986 (In Thousands)

CONTRIBUTED CAPITAL						
	NOTES	DISTRICT EQUITY	FEDERAL GRANTS	STATE TOLL BRIDGE FUNDS	LOCAL TRANSPORTATION FUNDS	TOTAL
Balance, June 30, 1985		\$31,322	\$ 86,386	\$21,437	\$11,755	\$150,900
Excess of expenses and depreciation over revenues (as restated)	7	(12,182)				(12,182)
Depreciation Expense of contributed assets transferred from District equity to contributed capital (as restated)	7	9,808	(7,129)	(2,053)	(626)	
Capital grant funds earned	4		26,975	6,875	769	34,619
Balance, June 30, 1986 (as restated)	7	28,948	106,232	26,259	11,898	173,337
Excess of expenses and depreciation over revenues		(19,253)				(19,253)
Depreciation Expense of contributed assets transferred from District equity to contributed capital		11,638	(8,038)	(2,251)	(1,349)	
Capital grant funds earned	4		11,137	2,979	4,578	18,694
Balance, June 30, 1987		<u>21,333</u>	<u>109,331</u>	<u>26,987</u>	<u>15,127</u>	<u>172,778</u>

See notes to general purpose financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED JUNE 30, 1987 and 1986 (In Thousands)

	1987	1986
Cash Provided (Used) by Operations:		
Excess of expenses and depreciation over revenues	\$ (19,253)	\$ (12,182)
Depreciation	14,460	12,402
Changes in working capital:		
Receivables	7,614	(1,668)
Other current assets	218	(2,758)
Accounts payable	61	(1,154)
Salaries, wages and vacations	676	286
Other accrued liabilities	233	352
Self-insurance liabilities	584	3,922
Cash provided (used) by operations	<u>4,593</u>	<u>(800)</u>
Cash Provided by Capital Grants		
Capital grants	18,694	34,619
Changes in working capital:		
Receivables	3,679	490
Advances under grants	(3,771)	1,895
Cash provided by capital grants	<u>18,602</u>	<u>37,004</u>
Cash Used For Investment Activities:		
Property expenditures	<u>(20,038)</u>	<u>(35,078)</u>
Cash and Investments:		
Increase for the year	3,157	1,126
Balance, beginning of year	<u>18,767</u>	<u>17,641</u>
Balance, End of Year	<u>\$ 21,924</u>	<u>\$ 18,767</u>

See notes to general purpose financial statements.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Description of Reporting Entity — Alameda-Contra Costa Transit District (the District) is a political subdivision of the State of California established in 1956 and subject to transit district law as codified in the California Public Utilities Code.

For financial reporting purposes, the District's general purpose financial statements include all financial activities that are controlled by or dependent upon actions taken by the District's Board of Directors. As such, the general purpose financial statements include the financial activities of the District's Special Transit Service Districts No. 1 and No. 2 and other areas in which the District has contracted to provide transit service.

The general purpose financial statements exclude the financial activities of the District's pension and deferred compensation fiduciary funds. These plans are governed by boards independent of the District's Board of Directors. As such, only the plans' assets and offsetting fiduciary liabilities are reported in the District's balance sheets.

2. Significant Accounting Policies

Investments — are stated at cost or amortized cost, except for investments of the deferred compensation plan which are stated at current (market) value.

Property, plant and equipment — is stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	20 to 30 years
Revenue equipment	12 years
Shop, office and other equipment and service vehicles	3 to 10 years

Self-Insurance Liabilities — The District is self-insured for public liability and property damage up to \$2,000,000 and workers' compensation claims up to \$150,000 for each occurrence. Claims in excess of these amounts are insured with commercial carriers. The District accrues, in each period, liabilities for the estimated costs of the self-insured portion of claims.

Contributed Capital — The District periodically receives federal grants from the Urban Mass Transportation Administration (UMTA) of the U.S. Department of Transportation, local transportation funds and state toll bridge revenues for the acquisition of buses and other equipment and improvements. Capital grant funds earned, less amortization equal to annual and accumulated depreciation of the related assets, are included in contributed capital. Advances received on capital grants are recorded as liabilities until the funds are expended for capital acquisitions.

Pensions — The District has two noncontributory pension plans, one for all union employees and another providing similar benefits for nonunion employees. Annual expenses for pension costs are based on percentages of gross payroll which include the normal cost of the plans plus amortization of prior service costs over a period of not more than forty years. The District funds pension costs as accrued. Cash and investments equal to the annual expense for pension costs are restricted by the Board of Directors to provide for the future payment of pension benefits. The District receives an actuarial valuation for each plan every three years. The District's policy is to amortize any over- or under-accrued expenses for pension costs over the period to the date of the next actuarial valuation.

Property Taxes, Collection and Maximum Rates

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

Alameda and Contra Costa Counties assess properties, bill for, collect, and distribute property taxes. Property taxes are recorded as revenue or contributed capital (for improvement allowance capital grants as determined by management), as appropriate, and receivables, net of estimated uncollectibles, in the fiscal year of levy.

Operating assistance grants — are accrued as revenue in the period to which the grant applies.

Contracted Services — The District has contracted to provide transit service for the Bay Area Rapid Transit District (BART) and several cities and other areas in Contra Costa County. The allocated cost of providing such service, less related operating revenue, is funded from local transportation funds, federal operating assistance and, for BART express service, by direct reimbursement which is recorded as contract service revenue.

3. Cash and Investments

The District maintains a cash and investment pool that is available for general use and is used for the funding of the pension plan.

Deposits — At June 30, 1987, the carrying amount of the District's time and demand deposits was \$23,810,000 and the bank balance was \$26,638,000. Of the bank balance \$1,638,000 was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name and \$25,000,000 was "uninsured and uncollateralized" as defined by Governmental Accounting Standards Board Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". As required by Section 53652 of the California Government Code, the pledging financial institutions have collateralized 110% of such "uninsured and uncollateralized" deposits with securities; such collateral, however, is not in the District's name.

Included in "Deposits" is an \$8,000,000 certificate of deposit which the District maintains in an escrow account related to a lease agreement (see Note 10).

Investments — Statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. The District is also authorized to enter into reverse repurchase agreements. The District did not enter into any reverse repurchase agreements during 1987 or 1986.

The District's investments are categorized below to give an indication of the risk assumed by the District at June 30, 1987. 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. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

	(In Thousands)				
	Category		Carrying	Market	
	1	2	3	Amount	Value
Commercial paper		\$18,500		\$ 18,500	\$ 18,500
U.S. Government securities		49,289		49,289	47,913
Bankers' acceptances			\$7,043	7,043	7,043
Total	<u>—</u>	<u>\$67,789</u>	<u>\$7,043</u>	<u>74,832</u>	<u>73,456</u>
Time and demand deposits				23,810	23,810
Mutual funds					
U.S. government securities money market fund				10,906	10,906
Deferred compensation plan investments (Note 9)				2,497	2,497
Total				<u>\$112,045</u>	<u>\$110,669</u>

Reported as Cash and investments (included in current assets)	\$ 21,924
Cash and investments restricted for payment of accrued pension costs	87,624
Deferred compensation plan investments	<u>2,497</u>
Total	<u>\$112,045</u>

4. Capital Grants

The District has eight grant contracts in process with UMTA which provide federal funds for the acquisition of buses and other equipment and improvements. These grants are summarized at June 30, 1987 as follows (in thousands):

Total approved project costs	\$ 99,982
Total approved federal funds	\$ 79,458
Less:	
Amounts received	(49,689)
Amounts receivable - net	<u>(745)</u>
Remaining amount available under federal grants	<u>\$ 29,024</u>

The District is committed to purchase additional equipment at a cost of approximately \$20,746,000 in connection with these projects.

Under the terms of the grants, proceeds from equipment sold are refundable to the federal government in proportion to the original federal capital grant funds.

The District has also received allocations of funds generated from net toll bridge revenues of the San Francisco Bay Bridge. These funds are received under provisions of the California Streets and Highways Code and are allocated based on claims approved by the Metropolitan Transportation Commission (MTC).

Local transportation funds received for capital grant projects include allocations received pursuant to the Transportation Development Act of 1971, certain property tax revenues, and certain local sales tax funds.

5. State and Local Operating Assistance

The District receives state and local operating assistance from two principal sources. Transportation Development Act funds of \$24,505,000 and \$28,043,000 were allocated to the District for the years ended June 30, 1987 and 1986, respectively. These funds are received from Alameda and Contra Costa Counties to meet, in part, the District's operating requirements based on annual claims filed by the District and approved by MTC. State Transit Assistance funds of \$434,000 and \$2,456,000 were allocated to the District for the years ended June 30, 1987 and 1986. These funds are received directly from MTC based on the ratio of the District's transit operation revenue and local support to the revenue and local support of all state transit agencies.

6. Federal Operating Assistance

The District was allocated \$7,500,000 and \$7,956,000 of federal operating assistance, and \$215,000 and \$294,000 of federal planning assistance for the years ended June 30, 1987 and 1986 respectively. These funds are distributed to the District by UMTA after approval by MTC.

7. Capital

District Equity — The Board of Directors has authorized the designation of portions of District equity to indicate tentative plans for utilization of District funds in future periods for the replacement of facilities and equipment and other expenditures, as follows (in thousands):

	June 30, 1987
Amounts designated:	
Restricted Fund	\$ 529
Self-Insurance	
Retention	4,000
Building Fund	8,000
Working Capital Fund	8,804
Total	<u>\$21,333</u>

Designated funds are to be used for the following purposes:

Restricted Fund — To provide for unusual or otherwise necessary expenditures for repair, improvements to or replacement of essential elements of the District's facilities or for operating requirements.

Self-Insurance Retention — To provide funds for uninsured losses, including the deductible portion of insured losses.

Building Fund — To assist in meeting the District's potential financial requirements associated with the purchase, construction or rehabilitation of a building to provide adequate permanent accommodations for the District's general offices consistent with the Master Facilities Improvement Program. These funds have previously been designated by the Board to be used for the construction of a general office facility.

Working Capital Fund — To provide sufficient funds to meet the District's operating requirements for approximately one month. District management deems this designation to be prudent due to the uncertainty relating to the timing of receipt of public operating assistance funds.

Such designations are subject to change, have not been legally authorized and may not result in expenditures.

Restatement of 1986 Amounts — During the year ended June 30, 1987, the District determined that 1986 depreciation expense was overstated by \$4,574,000. As a result, certain 1986 amounts have been restated from those previously reported, as follows (in thousands):

	As Previously Reported	Adjustments	As Restated
Depreciation expense	\$16,976	\$(4,574)	\$12,402
Excess of expenses and depreciation over revenues	(16,756)	4,574	(12,182)
Depreciation expense of contributed assets transferred from District equity to contributed capital:			
District equity	13,425	(3,617)	9,808
Federal grants	(9,769)	2,640	(7,129)
State toll bridge funds	(2,813)	760	(2,053)
Local transportation funds	(843)	217	(626)

8. Pension Plan

All permanent District employees participate in the Alameda-Contra Costa Transit Employees' Pension Plans (the Plans). The Plans are single employer defined benefit retirement plans administered by a pension system board composed of individuals appointed by the District or designated by the Amalgamated Transit Union. The Plans provide retirement, disability and death benefits based on employees' age, years of service and average of five final years compensation. Employees vest after ten years of service and are eligible to receive retirement benefits commencing at age 55.

Total pension expenses for the years ended June 30, 1987 and 1986 were \$8,074,000 and \$5,280,000, respectively, plus allocations of \$5,616,000 and \$6,784,000 of interest earned on Plan investments, respectively. Benefit payments for the year were \$4,794,000 (1986, \$4,197,000). The pension contribution includes amortization of the unfunded liability through the year 2015.

The actuarial present value of accrued benefits for the Plan is determined by the Plan's actuary and is that amount that results from applying actuarial assumptions to adjust accrued benefits to reflect the time value of money.

The most recent actuarial valuation date was January 1, 1986 (previous valuation date was January 1, 1983). Significant actuarial assumptions (used to compute the actuarial present value of accrued plan benefits) include the entry age normal cost method, assumed net investment yield on plan assets of 7.5% (changed from 8% in previous valuation) and salary progression of 4% (changed from 5% in previous valuation). The impact of such changes in assumption, since the prior valuation, has not been determined by the District's actuary.

A summary of accumulated Plan benefits and cash and investments restricted for payment of accrued pension costs follows (in thousands):

	January 1, 1986
Actuarial present value of accrued benefits:	
Vested	\$81,907
Nonvested	14,813
Total actuarial present value of accrued Plan benefits	\$96,720
Cash and investments restricted for payment of accrued pension costs	\$75,148

On February 19, 1988, the District's Board of Directors approved an early retirement program whereby employees with 20 years of District employment and 50 years of age are eligible for retirement with full benefits. If all 197 eligible employees elect this program, the present value of vested benefits is expected to increase \$11,500,000.

9. Deferred Compensation Plan

The District has a deferred compensation plan (the Plan) adopted pursuant to Internal Revenue Code (IRC) Section 457(b). The Plan, available to all District salaried employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to participants until retirement, termination, or certain other covered events. As required by IRC Section 457, Plan assets remain the property of the District until paid or made available to the participants, subject only to the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant. The District is not liable to the participants for any loss from investing of the funds as long as the District exercises its obligation in good faith. The Plan Administrator, the Hartford Insurance Group, has invested the deferred amounts in numerous participant directed, uninsured investments.

10. Capital Lease Obligations

On July 1, 1987, the District commenced leasing their administrative office facilities (which had been occupied by District personnel prior to July 1, 1987). This lease expires on June 30, 2007. Lease payments include a fixed portion that is sufficient to amortize the facilities cost over the lease term plus a variable portion that is the product of the unamortized facilities cost and a variable interest rate. The facilities (cost, \$15,756,000) are included in buildings, structures and improvements. The interest rate for the year ending June 30, 1988 is 9.86%. The District has the option to purchase the facilities on any anniversary of the lease at fair market value on that date. At the expiration of the lease in 2007, ownership of the facilities reverts to the District. The District has placed an \$8,000,000 certificate of deposit in an escrow account to protect the lessor against an event of default. This certificate of deposit is included in the District's cash and investments.

In addition, the District leases certain data processing equipment under capital leases (cost, \$925,000). These leases expire in fiscal year 1991.

Future minimum lease payments under capital leases are as follows (in thousands):

Year ending June 30:	
1988	\$ 1,932
1989	2,023
1990	2,020
1991	1,983
1992	1,793
Thereafter	27,869
Total minimum lease payments	37,620
Less variable interest, at estimated 9.86% rate	(21,135)
Net	\$ 16,485

11. Litigation

There are claims and litigation pending which are considered normal to the District's operation of the transit system. The District maintains insurance coverage for such incidents, and provision has been made in the financial statements for estimated losses under the deductible limits of insurance policies.

