

ANNUAL ALAMEDA-CONTRA COSTA TRANSIT DISTRICT REPORT

FOR THE YEAR OF 1988







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1988 Annual Report

Fiscal Year 1987-88 was one of the busiest on record at AC Transit as the District's Directors, management and staff strove to maintain service to the public while adding new improvements that make intersystem transit usage even easier. Accomplishments of note included:

- Establishing a "Timed Transfer" demonstration project that links bus schedules to timetables for BART intercity rail service at the Hayward Station.
- Expanding intersystem user information aids — illustrating for the traveling public the steadily-increasing ease of making connections between the East Bay bus service and transit systems serving other parts of the region.
- Expanding and adapting the revenue fleet and adding new capabilities in the non-revenue fleet to improve reliability of on-street service to the public.
- Establishing new partnerships with public agencies and private sector institutions to help support bus service expansion and improvements.
- Adopting a sweeping Financial Recovery Program tailored to move the District toward a more solid financial footing despite the harsh economic pressures of the late 1980's.
- Continuing to provide high levels of training and education tailored to hone the skills and enhance the productivity of the District's bus drivers, maintenance workers and support personnel.

Timed Transfer Test...

In FY 1988, AC Transit joined BART in an on-street road test of a "timed transfer" concept that's aimed at

speeding riders' trips — whether across town or across San Francisco Bay.

Timed Transfers, kicked off May 2nd at BART/Hayward Station, provide a new level of customer convenience by insuring fast connections between 14 AC Transit and BART Express bus routes plus SamTrans transbay service to San Mateo County. In addition, the local routes make convenient meets with selected BART trains on the Fremont/San Francisco and Fremont/Richmond lines.

Basically, timed transfers eliminate long waits between legs of a transit trip, benefitting riders either by shortening total trip time or permitting longer trips in the same time period. Meshed bus/train schedules are one of the far-reaching improvements proposed in AC Transit's long-range Comprehensive Service Plan...an ambitious undertaking that will totally revamp bus routes and schedules serving the entire metropolitan East Bay.

Planning For The Future...

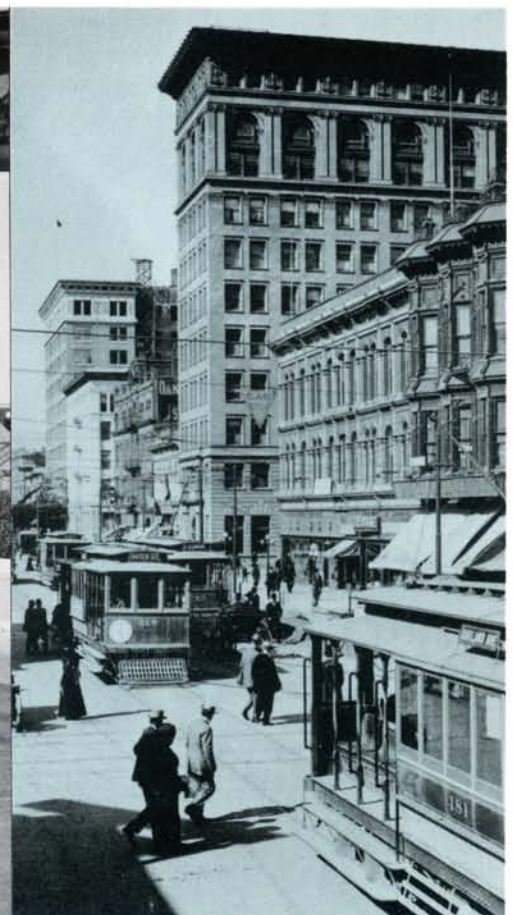
Mass transit, in the form of a horse-drawn car, was introduced to the streets of Oakland in 1869. In the years since, improvements and adjustments were made largely in response to localized demands and pressures. This year, the District continued considerable progress toward a sweeping Comprehensive Service Plan (CSP) that — for the first time — will analyze the entire East Bay bus network, and its relationship to BART rail, as a single integrated unit.

This year, the District's planners began involving others — including the public, as well as AC Transit drivers, maintenance workers and support personnel — in the process of examining a "model" bus route

network which serves as tangible illustration of the CSP service improvements for better serving current riders' needs while also attracting new patrons to the System.

Drafted with assistance from UC Berkeley's Institute for Transportation Studies, this model CSP network makes it easier for transit professionals and others to undertake in-depth examination of mass transportation — in the context of the East Bay's current and projected shifts in employment, educational, commercial, residential and recreational patterns.

Though it's relatively easy to get around the East Bay today using AC Transit buses, the CSP concepts are tailored to provide improved access to a greater number of destinations. This year, staff reached out to public officials, businesses, civic and neighborhood groups, and other interested individuals, to gain reactions and suggestions from the entire East Bay. In the coming fiscal year, the District and its Directors will assess that public input and adjust the CSP accordingly.



Serving Riders Today...

Ridership statistics remained relatively stable in this fiscal year, with the District again registering patronage totals about 60 million riders. Internally, various adjustments helped enable the District to serve riders with greater efficiency and cost-effectiveness.

In a move that helps to insure transportation of elderly and disabled riders to where they need to go, AC Transit acquired five vans modified to accept rear-door passenger lifts. The vehicles serve two functions: normally, they're used by Road Supervisors who monitor service and assist bus drivers; but if necessary, they can be deployed to transport wheelchair

users encountering difficulty with regular fixed route bus service.

Riders, given the opportunity to judge a New Flyer coach on order for the District, found much to like in the prototype which was road-tested on East Bay streets this year. Responding to an on-street survey, riders were particularly appreciative of new large electronic destination signs, a high level of interior comfort, and the soothing effects of sound-deadening materials. These coaches were scheduled to begin arriving in the next fiscal year.

Coordination and Cooperation...

The East Bay's public bus system continued to spearhead improvements in intersystem coordination during the fiscal year. In addition, new strides were made in bringing private-sector agencies and institutions into the process of helping to establish — and to underwrite — East Bay bus service.

AC Transit played a key role this year in establishing a firm funding base to continue Line DB at the south end of San Francisco Bay. Operated by AC Transit since 1984, Line DB links BART and local East Bay bus service with SamTrans and Santa Clara County Transit in the





West Bay. The three bus systems are joined by BART and Union City Transit in Line DB — serving some 400 daily riders between Southern Alameda County and high-tech employment centers in Stanford Industrial Park.

Working in close conjunction with technical services staff at the Metropolitan Transportation Commission, the District was able this year to introduce bus riders to

automated schedule departure information at two key East Bay transfer centers. Computer-driven schedule displays went on line at BART/Hayward and BART/Oakland City Center stations, listing departure times for buses and BART trains. The displays are incorporated into comprehensive Regional Transit Information Centers being established — under the auspices of the Regional Transit Association — at more than two-dozen intersystem transfer points throughout the Bay Area.

Faced with continued shrinkage in financial support from federal and state sources, AC Transit turned to partnerships with the private sector to continue and improve some local transit service. Bus service to real estate developments in Richmond and Alameda resulted from

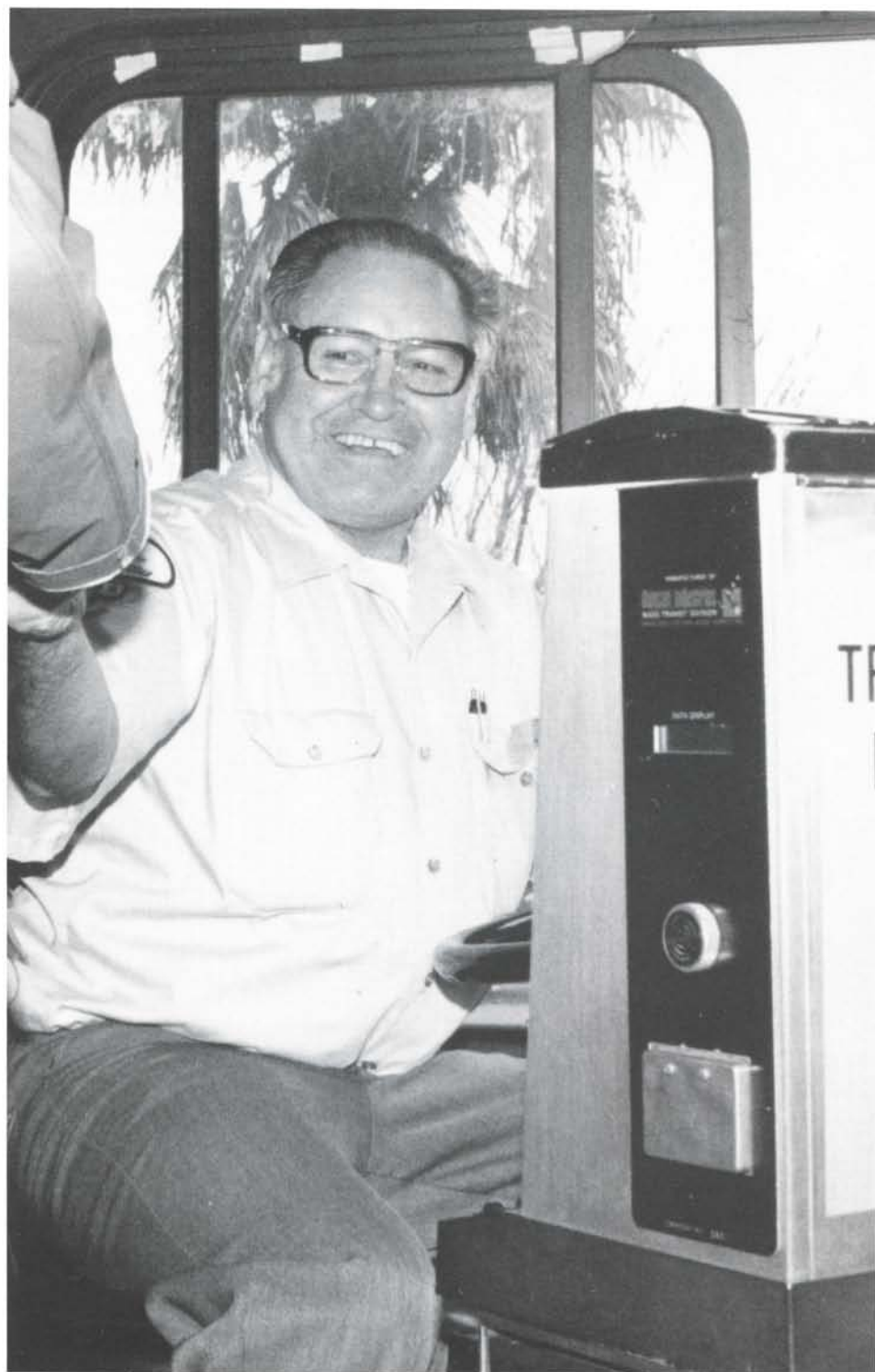


arrangements worked out by private developers and the public bus system. In both cases, the developers helped underwrite the cost of new route extensions by contracting to purchase monthly bus passes — and thus assure the District of stable, predictable funding to support the added service.

Downtown Oakland benefitted from a similar new partnership. Thanks to downtown civic and business

interests, the shuttle buses linking the city's commercial and retail district with the Jack London Square waterfront got a bold new look. In addition to paying for a striking new paint scheme, the downtown interests also contracted to underwrite a significant portion of the shuttle's operational costs — thereby permitting the buses to operate without fareboxes.

Administration...



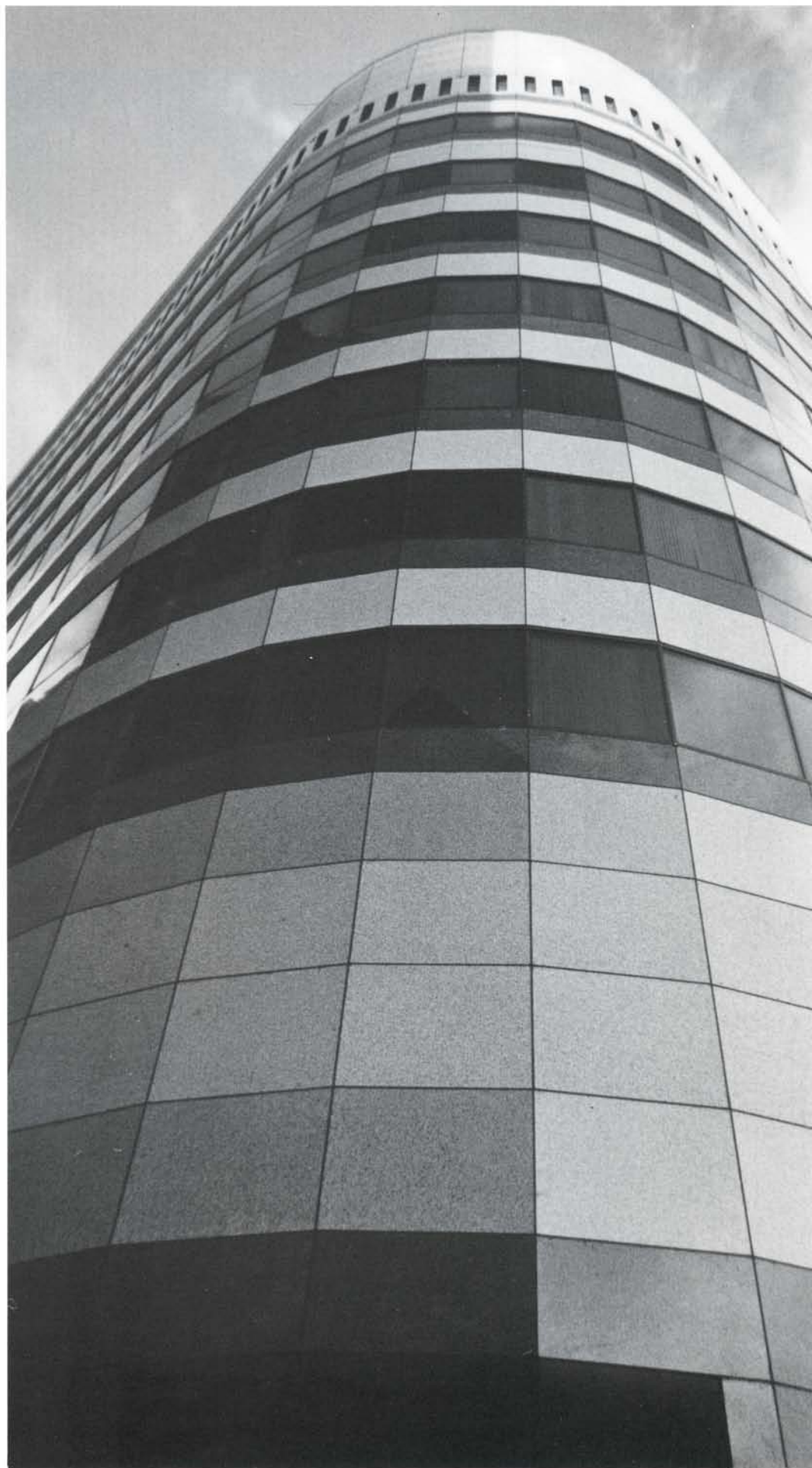
While in the process of coming to grips with the financial headaches of the 1980's, the District's administrative structure and top management roster underwent substantial change. During this fiscal period, one general manager, Gene Gardiner, retired and was succeeded by an interim manager while the District's Directors conducted a nationwide search, resulting in selection of a new chief executive officer, James L. O'Sullivan.

In the same period, the District got on the road to financial recovery after adopting an aggressive program aimed at containing operating costs and increasing productivity while also generating new revenues. While the projected FY 1987-88 budget was less than the previous year's spending plan, it still contained significant financial challenges — particularly anticipated increases in costs of labor as well as of materials, supplies and services required to conduct business.

The comprehensive financial plan combines internal economics with modest fare increases, plus service adjustments tailored to have minimal impact on bus riders. Targets for internal cost-cutting — without impacting bus service — included: tightening inventory control; curtailing usage of temporary help and utilities; and cutting expenditures for travel, meetings and consulting services.

In addition, this year's spending plan called for modest increases in cash local fares for adults and youth while leaving prices of Monthly Passes and convenience tickets unchanged — thereby providing cost-saving alternatives to regular commuters and occasional riders.

The spending plan also identified dollars to be directed to specific improvements: hiring more maintenance workers and road supervisors (while cutting administrative and support positions) with the aim of improving the reliability of AC Transit's on-street bus service.



ARTHUR ANDERSEN & Co.
SAN FRANCISCO, CALIFORNIA

Report of Independent Public Accountants

To the Board of Directors of
Alameda-Contra Costa Transit District:

We have examined the balance sheet of the ALAMEDA-CONTRA COSTA TRANSIT DISTRICT as of June 30, 1988 and the related statements of revenues and expenses, changes in capital and changes in financial position for the year then ended. Our examination was 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. The financial statements for the year ended June 30, 1987 were examined by other auditors whose report thereon dated January 8, 1988 (February 19, 1988 as to the last paragraph of Note 8 to those statements) expressed an unqualified opinion on those statements.

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, 1988 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information included in Schedules A and B is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. This information has been subjected to the auditing procedures applied in our examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Arthur Andersen & Co.

San Francisco, California
October 14, 1988

BALANCE SHEETS

JUNE 30, 1988 and 1987 (In Thousands)

ASSETS		NOTES	1988	1987*
Current Assets:	Cash and investments	3	\$ 11,295	\$ 21,924
	Accounts receivable and accrued revenues	4, 5, 6		
	Federal grants		11,301	874
	Other, principally state and local assistance		13,378	10,105
	Materials and supplies, at cost		5,951	6,756
	Prepaid expenses		1,181	1,799
	Total current assets		<u>43,106</u>	<u>41,458</u>
Deferred Compensation Plan Investments		3, 11	<u>2,714</u>	<u>2,497</u>
Cash and Investment Restricted for Payment of Accrued Pension Costs		3, 9	<u>97,465</u>	<u>87,624</u>
Property, Plant and Equipment:	Land		11,398	11,398
	Buildings, structures and improvements		78,214	75,839
	Revenue equipment		106,874	104,818
	Shop, office and other equipment and service vehicles		31,956	30,783
	Acquisitions in progress		27,777	16,356
	Total property, plant and equipment		<u>256,219</u>	<u>239,194</u>
	Accumulated depreciation		<u>(81,365)</u>	<u>(67,760)</u>
	Property, plant and equipment - net		<u>174,854</u>	<u>171,434</u>
	TOTAL ASSETS		<u>\$318,139</u>	<u>\$303,013</u>

LIABILITIES AND CAPITAL		NOTES	1988	1987*
Current Liabilities:				
Current portion of capital lease obligations	12		\$ 182	\$ 337
Current portion of accrued early retirement costs	10		910	—
Accounts payable			6,079	3,467
Salaries, wages and vacations			7,422	6,736
Other accrued liabilities			3,687	2,739
Advances under grants			430	950
Total current liabilities			<u>18,710</u>	<u>14,229</u>
Self-Insurance Liabilities:	13			
Workers' compensation claims			5,092	5,020
Public liability and property damage claims			5,205	4,717
Total self-insurance liabilities			<u>10,297</u>	<u>9,737</u>
Long-Term Portion of Accrued Early Retirement Costs	10		6,453	—
Deferred Compensation	11		2,714	2,497
Accrued Pension Costs	9		97,465	87,624
Capital Lease Obligations	12		<u>15,966</u>	<u>16,148</u>
Total liabilities			<u>151,605</u>	<u>130,235</u>
Commitments and Contingencies	12, 13			
Capital:				
District equity	8		11,763	21,333
Contributed capital -				
Federal grants			111,530	109,331
State toll bridge funds			28,020	26,987
Local transportation funds			15,221	15,127
Total capital			<u>166,534</u>	<u>172,778</u>
Total liabilities and capital			<u>\$318,139</u>	<u>\$303,013</u>

*Changed to conform to 1988 presentation.

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED JUNE 30, 1988 and 1987 (In Thousands)

	NOTES	1988	1987*
Operating Revenues:			
Fares		\$ 30,676	\$ 32,216
Contract service		13,472	13,109
Other operating revenues		<u>1,427</u>	<u>690</u>
Total operating revenues		<u>45,575</u>	<u>46,015</u>
Operating Expenses:			
Operator wages		37,439	36,658
Other wages		22,842	22,448
Fringe benefits		34,166	33,672
Depreciation and amortization		15,026	14,460
Fuel and oil		4,413	3,744
Other materials and supplies		7,430	8,717
Services		6,242	5,399
Insurance		4,282	4,193
Other		<u>3,734</u>	<u>4,198</u>
Total operating expenses		<u>135,574</u>	<u>133,489</u>
Net operating loss		<u>(89,999)</u>	<u>(87,474)</u>
Nonoperating Revenues (Expenses):			
Operating assistance	5, 6, 7		
Property taxes		21,644	18,167
Local sales tax		21,188	16,400
Local transportation funds		25,424	24,505
Federal		6,961	7,715
State Transit Assistance Fund		1,048	434
Interest income, net of amounts allocated to pension funds		1,154	1,073
Interest expense		<u>(1,761)</u>	<u>(73)</u>
Total nonoperating revenues (expenses)		<u>75,658</u>	<u>68,221</u>
Loss before addback of depreciation of assets acquired with contributed capital and nonrecurring item		(14,341)	(19,253)
Depreciation of Assets Acquired with Contributed Capital		<u>12,537</u>	<u>11,638</u>
Loss before nonrecurring item		(1,804)	(7,615)
Nonrecurring Item			
Costs of early retirement plan	10	<u>7,766</u>	<u>—</u>
Net loss		<u>\$ (9,570)</u>	<u>\$ (7,615)</u>

*Changed to conform to 1988 presentation.

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN CAPITAL

FOR THE YEARS ENDED JUNE 30, 1988 and 1987 (In Thousands)

CONTRIBUTED CAPITAL						
	NOTES	DISTRICT EQUITY	FEDERAL GRANTS	STATE TOLL BRIDGE FUNDS	LOCAL TRANSPORTATION FUNDS	TOTAL
Balance, June 30, 1986		\$28,948	\$106,232	\$26,259	\$11,898	\$173,337
Net loss*		(7,615)	—	—	—	(7,615)
Depreciation of assets acquired with contributed capital*		—	(8,038)	(2,251)	(1,349)	(11,638)
Capital grant funds earned	4	—	11,137	2,979	4,578	18,694
Balance, June 30, 1987		21,333	109,331	26,987	15,127	172,778
Net loss		(9,570)	—	—	—	(9,570)
Depreciation of assets acquired with contributed capital		—	(9,057)	(2,240)	(1,240)	(12,537)
Capital grant funds earned	4	—	11,256	3,273	1,334	15,863
Balance, June 30, 1988		<u>\$11,763</u>	<u>\$111,530</u>	<u>\$28,020</u>	<u>\$15,221</u>	<u>\$166,534</u>

*Changed to conform to 1988 presentation.

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED JUNE 30, 1988 and 1987 (In Thousands)

	1988	1987*
Source of Cash and Investments		
Operations -		
Net loss	\$ (9,570)	\$ (7,615)
Noncash expenses included in income -		
Depreciation and amortization	15,026	14,460
Depreciation of assets acquired with contributed capital	(12,537)	(11,638)
Early retirement plan costs	<u>7,766</u>	<u>—</u>
	685	(4,793)
(Increase) decrease in accounts receivable	(10,182)	7,614
Decrease in materials and supplies	805	704
(Increase) decrease in prepaid expenses	618	(486)
Increase in accounts payable	2,612	61
Increase in salaries, wages and vacations	686	676
Increase in other accrued liabilities	<u>948</u>	<u>233</u>
Total cash and investments provided (used) by operations	(3,828)	4,009
Other sources -		
Increase in self-insurance liabilities	560	584
Increase in deferred compensation liability	217	445
Increase in accrued pension costs	9,841	8,896
Increase in capital lease obligations	—	16,485
Capital grants -		
Capital grant funds earned	15,863	18,694
(Increase) decrease in capital grant funds receivable	(3,518)	3,679
Decrease in advances under grants	<u>(520)</u>	<u>(3,771)</u>
Total sources of cash and investments	<u>18,615</u>	<u>49,021</u>
Applications of Cash and Investments:		
Additions to property, plant and equipment	18,446	36,523
Payments of early retirement plan benefits	403	—
Increase in cash and investments restricted for payment of accrued pension costs	9,841	8,896
Increase in deferred compensation plan assets	217	445
Decrease in capital lease obligations	<u>337</u>	<u>—</u>
Total applications of cash and investments	<u>29,244</u>	<u>45,864</u>
Net increase (decrease) in cash and investments	(10,629)	3,157
Cash and Investments, beginning of year	<u>21,924</u>	<u>18,767</u>
Cash and Investments, end of year	<u>\$ 11,295</u>	<u>\$ 21,924</u>

*Changed to conform to 1988 presentation.

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.

In May 1988, the District created AC Transit Financing Corporation (AC Transit Financing), a nonprofit public benefit corporation incorporated in the state of California under the guidelines of the Nonprofit Public Benefit Corporation Law. AC Transit Financing was formed to provide financial assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, equipment, land, building improvements and other public improvements for the benefit of the residents of the District and surrounding areas and to borrow the necessary funds to perform any or all of the above activities. As of June 30, 1988, AC Transit Financing had no financial activity, and, as such, has not been reported as a separate component of the District's general purpose financial statements for the years ended June 30, 1988 and 1987 (see Note 12 for transaction involving AC Transit Financing that occurred subsequent to June 30, 1988).

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.

Supplemental Schedule B is presented for the purpose of showing all revenue sources and all recurring expenses, excluding depreciation.

2. Summary of Significant Accounting Policies:

Basis of Accounting — The District maintains its records on the accrual basis of accounting as an enterprise fund.

Investments — 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 — 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	30 years
Revenue equipment	12 years
Shop, office and other equipment and service vehicles	3 to 10 years

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 an amount equal to the 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 three noncontributory pension plans, one for all union employees and two that provide 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 40 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 two years. The District's policy is to amortize any overaccrued or underaccrued 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 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts of the 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 nonoperating revenue or are treated as capital contributions for capital expenditures, as determined by management, and as receivables, net of estimated uncollectibles, in the fiscal year of levy.

Operating Assistance Grants — Operating assistance grants are accrued as nonoperating revenue in the period of 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.

In May 1988, BART appointed a private transit firm to replace the District as the provider of express bus service to certain BART stations in Alameda and Contra Costa counties beginning January 15, 1989. District revenues from the BART express service totaled \$7,661,000 and \$7,303,000 for the years ended June 30, 1988 and 1987, respectively.

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, 1988, the carrying amount of the District's time and demand deposits was \$9,270,000 and the bank balance was \$11,257,000. Of the bank balance, \$2,732,000 was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name and \$8,526,000 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 cash, time and demand deposits below is an \$8,000,000 certificate of deposit, which the District maintains in an escrow account related to the administrative office lease agreement. With the purchase of the District's administrative office facilities by AC Transit Financing in July 1988 (see Note 12), all restrictions to this certificate of deposit have been removed.

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. There were no reverse repurchase agreements held at June 30, 1988.

The District's investments are categorized below to give an indication of the risk assumed by the District at June 30, 1988. 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.

Notes to Financial statements cont.

	Category			Carrying Amount	Market Value
	1	2	3		
	(In thousands)				
Repurchase agreements	\$19,500	\$ —	\$ —	\$ 19,500	\$ 19,500
Corporate bonds and notes	9,351	—	—	9,351	9,286
U.S. government securities	56,885	—	—	56,885	55,070
Bankers' acceptances	—	11,850	—	11,850	11,850
Total	<u>\$85,736</u>	<u>\$11,850</u>	<u>\$ —</u>	<u>97,586</u>	<u>95,706</u>
Cash, time and demand deposits				9,270	9,270
Mutual funds — U.S. government securities money market fund				1,904	1,904
Deferred compensation plan investments (Note 9)				2,714	2,714
Total				<u>\$111,474</u>	<u>\$109,594</u>
Reported as —					
Cash and investments (included in current assets)				\$ 11,295	
Cash and investments restricted for payment of accrued pension costs				97,465	
Deferred compensation plan investments				2,714	
Total				<u>\$111,474</u>	

4. Capital Grants

The District has eight grant contracts in process with UMTA that provide federal funds for the acquisition of buses and other equipment and improvements. These grants are summarized at June 30, 1988 as follows (in thousands):

Total approved project costs	<u>\$79,002</u>
Total approved federal funds	<u>\$62,825</u>
Less —	
Amounts received	33,881
Amounts receivable	<u>4,263</u>
Remaining amount available under federal grants	<u>\$24,681</u>

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, net of the related depreciation.

The District has also received allocations of funds generated from net toll bridge revenues of the San Francisco-Oakland 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 \$25,424,000 and \$24,505,000 were allocated to the District for the years ended June 30, 1988 and 1987, 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 Metropolitan Transportation Commission (MTC). State Transit Assistance funds of \$1,048,000 and \$434,000 were allocated to the District for the years ended June 30, 1988 and 1987. These funds are received directly from MTC based on the ratio of the District's transit operating revenue and local support as a percentage of total transit operating costs.

6. Local Sales Tax

The District receives local sales tax operating assistance from two principal sources. Local sales tax assistance (AB 1107) totaling \$15,238,000 and \$16,400,000 was allocated to the District after approval by MTC for the years ended June 30, 1988 and 1987, respectively.

In 1987, the District began receiving local sales tax assistance under Measure B. Approved by the voters of Alameda County, Measure B provides for the collection and distribution by the Alameda County Transportation

Authority of a one-half cent transactions and use tax. The District is authorized to receive 11.617% of the annual tax collected under the condition (among others) that the money be used for operations and maintenance exclusively in Alameda County. Funds totaling \$5,950,000 were received and recorded as nonoperating revenues for the year ended June 30, 1988.

7. Federal Operating Assistance

The District was allocated \$6,869,000 and \$7,500,000 of federal operating assistance and \$92,000 and \$215,000 of federal planning assistance for the years ended June 30, 1988 and 1987, respectively. These funds are distributed to the District by UMTA after approval by MTC.

8. 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, 1988
Amounts designated -	
Self-Insurance Retention	\$ 4,000
Working Capital Fund	7,763
Total	\$11,763

Designated funds are to be used for the following purposes:

- **Self-Insurance Retention** — To provide funds for uninsured losses, including the deductible portion of insured losses.
- **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 at the discretion of the Board and may not result in expenditures.

9. Pension Plan

Plan Description — All permanent District employees participate in the Alameda-Contra Costa Transit Employees' Pension Plans (the Plans). The Plans consist of three noncontributory single-employer-defined benefit retirement plans, one for all union employees and two that provide similar benefits for nonunion employees. The Plans are administered by a pension system board composed of individuals appointed by the District or designated by the Amalgamated Transit Union. The District's payroll for employees covered by the Plans for the year ended June 30, 1988 was \$69,592,000.

All full-time employees are eligible to participate in the Plans. Benefits vest after 10 years of service. District employees who retire at or after age 55 with 10 years of credited service are entitled to an annual retirement benefit, payable monthly for life, at a rate based upon the employees' ages, their average salaries during their last five years of employment and their completed years of service with the District. The rate increases incrementally from a low of 11.5% for certain employees who retire at age 55 to a high of 56% for certain employees who retire at age 65 or older. The Plans also provide death and disability benefits. These benefit provisions and all other requirements are established by the District.

Summary of Significant Accounting Policies and Plan Asset Matters

— 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 40 years. The District funds pension costs as the expense is accrued.

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. These investments are included in the cash and investment pool managed by the District (see Note 3 - Cash and Investments). The District intends to transfer management and control of the pension plan and the related assets to an independent trustee and investment manager.

Funding Status and Progress — The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plans on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Plans.

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 1988. Significant actuarial assumptions used in the valuation include (a) the projected unit credit method of determining the District's pension benefit obligation, (b) a rate of return on the investment of present and future assets of 8.5% a year compounded annually, (c) projected salary increases of 4.5% a year, and (d) the amortization of unfunded prior service costs over a 40-year period. The District's previous actuarial valuation was as of January 1, 1986 and used the entry age normal actuarial method for determining pension benefit obligation and the District's contribution requirements, as described below.

Total unfunded pension benefit obligation applicable to the District's employees was \$10,011,000 at January 1, 1988, as follows (in thousands):

Pension benefit obligation - vested	\$ 92,000
Pension benefit obligation - nonvested	10,055
Total pension benefit obligation	102,055
Net assets available for benefits, at cost (which approximates market)	92,044
Unfunded pension benefit obligation	<u>\$ 10,011</u>

Actuarially Determined Contribution Requirements and Contribution Made — The Plans' funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when they are due.

The District's contribution rates for the two years ended June 30, 1988 for union and nonunion employee groups were 11.26% and 15.87%, respectively, of the applicable covered payroll.

Pension expense and District contributions to the Plans totalled \$8,222,000 and \$8,074,000 for the years ended June 30, 1988 and 1987, respectively. The 1988 and 1987 expense and contribution were determined in accordance with the entry age normal method of determining contribution requirements based on the actuarial valuation performed as of January 1, 1986. Effective July 1, 1988, the District changed from the entry age normal method to the projected unit credit method for determining future pension expense and contribution requirements. The effect of this change in actuarial method will be to decrease pension expense and District contributions to the Plans by an estimated \$3,900,000 for the year ended June 30, 1989.

Ten-Year Historical Trend Information — Ten-year historical trend information for employer contributions to the Plans, interest income and benefit payments designed to provide information about the District's progress made in accumulating sufficient assets to pay benefits when due is presented in supplementary Schedule A to these general purpose financial statements.

10. Early Retirement Plan

During fiscal 1988, the District offered an early retirement plan to certain employees who reached age 50 years and had at least 20 years of service with the District. In accordance with Statement of Financial Accounting Standards No. 74, the District recorded \$7,766,000 as expense during the year, representing lump sum payments for benefits not previously earned or accrued and the present value of the increased pension benefits given to those employees accepting early retirement. It is management's opinion that future payroll savings resulting from the early retirement plan will be in excess of the additional early retirement plan costs recognized during the year ended June 30, 1988.

District until paid or made available to the participants, subject only to the District's general creditors. Participants' rights under the deferred compensation 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 deferred compensation plan administrator, the Hartford Insurance Group, has invested the deferred amounts in numerous participant-directed, uninsured investments.

12. Capital Lease and Long-Term Debt Obligations

In July 1987, the District sold its administrative office facilities to a financial institution and commenced leasing these facilities over a 20-year period. This lease is recorded as a capital lease in the District's balance sheets for the years ended June 30, 1988 and 1987. Lease payments totaled \$170,000 in fiscal 1988.

In July 1988, AC Transit Financing issued \$18,570,000 of certificates of participation (certificates) at interest rates varying from 5.10% to 8.00%. The certificates mature in installments over a 30-year period beginning July 1, 1989 and ending July 1, 2018. The net proceeds from the sale of the certificates were used to acquire the District's administrative office facilities. The remaining bond proceeds were deposited in a reserve fund or were used to pay issuance costs. The District began leasing the administrative office facilities from AC Transit Financing at a cost equal to AC Transit Financing's annual debt service requirements.

Interest on the certificates is payable semiannually on January 1 and July 1 of each year. Principal repayments are made when each installment matures on July 1. AC Transit Financing's debt service requirements total approximately \$1,630,000 yearly until final maturity in 2018. Certificates maturing on or after July 1, 1992 are subject to redemption at the District's option at any time on or after July 1, 1991.

The District leases certain data processing equipment costing \$925,000 under capital leases. These leases expire in fiscal year 1991.

Future minimum lease payments under capital leases for data processing equipment are as follows (in thousands):

Year Ending June 30	
1989	\$226
1990	226
1991	189
Total minimum lease payment	641
Less - Interest, at variable rates	77
Net	\$564

In April 1988, the District entered into a lease agreement with Santa Clara County Transit District (Santa Clara) to lease, with an option to purchase at book value, 30 articulated motor coaches. The term of the lease was for six months commencing in April. Lease payments totaling \$72,000 were made to Santa Clara during fiscal 1988.

On October 1, 1988, the lease agreement was extended for another six months under the same terms. It is the intent of management to purchase the motor coaches upon approval of the Urban Mass Transportation Authority (UMTA) in order to transfer UMTA funding of these motor coaches from Santa Clara to the District. The net book value of the motor coaches is estimated at \$5,762,000. Approximately 80% of the costs of the motor coaches would be funded through the transfer of UMTA funding from Santa Clara to the District. The District has applied for state toll bridge funds to finance the remaining 20% cost of the motor coaches. The motor coaches have an estimated remaining useful life of seven years.

13. Litigation

There are claims and litigation pending, which are considered normal to the District's operation of the transit systems. 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.

The District is self-insured for public liability damage claims up to \$1,000,000 and workers' compensation claims up to \$250,000 per occurrence. Insurance policies provide coverage in excess of the self-insured retention, with a \$25,000,000 limit for public liability and property damage and a \$2,000,000 for workers' compensation.

SCHEDULE A

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT EMPLOYEES' PENSION PLANS SUPPLEMENTARY SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE

(In Thousands)

Fiscal Year	Revenues by Source			Expenses by Type	Net Increase to Plan Assets	Cash and Investments Restricted for Payment of Accrued Pension Costs - Balance, End of Year
	Employer Contribution	Investment Income	Total	Benefit Payments		
1979	\$5,583	\$1,446	\$ 7,029	\$1,609	\$ 5,420	\$18,366
1980	6,280	2,738	9,018	1,959	7,059	25,425
1981	6,942	4,267	11,209	2,189	9,020	34,445
1982	7,741	6,190	13,931	2,538	11,393	45,838
1983	6,482	5,418	11,900	2,844	9,056	54,894
1984	5,009	5,943	10,952	3,235	7,717	62,611
1985	5,134	6,888	12,022	3,772	8,250	70,861
1986	5,280	6,784	12,064	4,197	7,867	78,728
1987	8,074	5,616	13,690	4,794	8,896	87,624
1988	8,222	7,260	15,482	5,641	9,841	97,465

SCHEDULE B

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT SCHEDULE OF REVENUES AND EXPENSES

EXCLUDING DEPRECIATION AND AMORTIZATION AND NONRECURRING ITEM
FOR THE YEARS ENDED JUNE 30, 1988 and 1987 (In Thousands)

	1988	1987*
Revenues:		
Fares	\$ 30,676	\$ 32,216
Contract service	13,472	13,109
Operating assistance -		
Property taxes	21,644	18,167
Local sales tax	21,188	16,400
Local transportation funds	25,424	24,505
Federal	6,961	7,715
State Transit Assistance Fund	1,048	434
Interest income, net of amounts allocated to pension funds	1,154	1,073
Other operating revenues	1,427	690
Total revenues	<u>122,994</u>	<u>114,309</u>
Expenses:		
Operator wages	37,439	36,658
Other wages	22,842	22,448
Fringe benefits	34,166	33,672
Fuel and oil	4,413	3,744
Other materials and supplies	7,430	8,717
Services	6,242	5,399
Insurance	4,282	4,193
Interest expense	1,761	73
Other	3,734	4,198
Total operating expenses, excluding depreciation and amortization	<u>122,309</u>	<u>119,102</u>
Net income (loss), excluding depreciation and amortization and nonrecurring item	<u>\$ 685</u>	<u>\$ (4,793)</u>



Drivers' Honors...

Louella Delaney, top overall scorer in the annual in-house Rodeo, poses with her trophy and her fellow winners, past and present: William Gamlen (second from right), 1987 AC Transit winner; Jesse Cruz (left), 1987

Regional winner; and Harry Kurz, this year's third-place finisher. Taking second-place in this latest Rodeo was Dan Hoile, Sr.

Louella Delaney, is first woman to top the list in AC Transit Rodeo history



ALAMEDA-CONTRA-COSTA TRANSIT DISTRICT
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