

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
FIFTH QUARTERLY MONITORING REPORT**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-861.5

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
FIFTH QUARTERLY MONITORING REPORT

DECEMBER 1989



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Acting Auditor General

December 20, 1989

P-861.5

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its fifth quarterly monitoring report concerning the Alameda-Contra Costa Transit District's progress in implementing the recommendations from the Office of the Auditor General's report P-767 entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement." The report shows that the district met its budget goals for the first three months of fiscal year 1989-90, but that the aftermath of the earthquake on October 17, 1989, will result in increased expenses for the district.

Respectfully submitted,



KURT R. SJOBERG
Acting Auditor General

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SUMMARY

RESULTS IN BRIEF

Since the release of our initial March 1988 report about the Alameda-Contra Costa Transit District's (district) financial and administrative controls, the district has taken steps to improve its operations. During our review for this report (our fifth monitoring report of the district), we noted the following conditions:

- The district's budget for fiscal year 1989-90 projected that the district's revenues and subsidies would equal the district's expenses, resulting in a balanced budget;
- For the first three months of the fiscal year, the district's expenses were slightly less than its revenues and subsidies;
- However, as a result of the earthquake of October 1989, the district substantially increased its bus services and its expenses; and
- The district has addressed our previous concerns by promptly circulating its budget variance reports and ensuring that all overpayments of travel and personal expenses have been repaid.

BACKGROUND

As required by Chapter 1147, Statutes of 1988, this is our fifth quarterly monitoring report on the actions that the district has taken to correct deficiencies noted in the Office of the Auditor General's report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988.

The district operates over 800 buses that, in fiscal year 1988-89, provided over 55 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, in San Francisco and San Mateo counties. The district is governed by an elected board of seven directors. The board of directors appoints a general manager, who is responsible for the operations of the district.

During our March 1988 review, we found that the district had insufficient financial control over its operations. In fiscal years 1984-85 and 1986-87, the district's expenses exceeded its revenues and subsidies, resulting in operating deficits. In addition, the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments.

PRINCIPAL FINDINGS

The District Developed a Balanced Budget for Fiscal Year 1989-90, but New Services Resulting From the Bay Area Earthquake of 1989 Will Substantially Increase Expenses

The district's operating budget for fiscal year 1989-90 projected that the district's revenues and subsidies would equal the district's expenses, resulting in a balanced budget of \$124.8 million. For the first three months of fiscal year 1989-90, the district's expenses were slightly less than its revenues and subsidies. Further, for the three months ended September 30, 1989, the district's actual revenues, subsidies, and expenses were within approximately one percent of the budgeted amount.

However, on October 17, 1989, the San Francisco Bay Area was hit by a devastating earthquake. The San Francisco-Oakland Bay Bridge was severely damaged and was closed to thousands of daily commuters. As a result, the district increased its bus services by 29 percent more revenue miles and 21 percent more revenue hours. Preliminary district estimates were that, even with the revenue from new passengers, the added services would cost the district between \$4 million and \$5 million per month

until Bay Area traffic patterns return to normal. At the time of our review, the district had appealed to the Metropolitan Transportation Commission for an increase in subsidies to offset the new expenses. However, as of October 24, 1989, no new sources of revenues or subsidies to offset these new expenses had been identified.

In this monitoring review, we also found that the district is now distributing its budget variance reports more promptly and the last of the directors who had received overpayments in travel and personal expenses has repaid the district.

AGENCY COMMENTS

The Alameda-Contra Costa Transit District agrees with the content of our report.

INTRODUCTION

As required by Chapter 1147, Statutes of 1988, this is the fifth quarterly monitoring report on the actions that the Alameda-Contra Costa Transit District (district) has taken to correct deficiencies noted in the Office of the Auditor General's report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988. (Appendix A contains a summary of our four previous monitoring reports.)

The district operates over 800 buses that, in fiscal year 1988-89, provided more than 55 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, in San Francisco and San Mateo counties. The district, which has its headquarters in Oakland, has over 2,000 employees. The district's operating budget for fiscal year 1989-90 shows projected revenues and subsidies of \$124.8 million and projected expenses of \$124.8 million, yielding a balanced budget. (Appendix B shows a comparison between the district's revised operating budget for fiscal year 1988-89 and its operating budget for fiscal year 1989-90.)¹

¹In January 1989, the district's general manager submitted to the board of directors a revised version of the original operating budget for fiscal year 1988-89. The budget had been modified based on changes in the district's revenues and expenses during the first five months of the fiscal year.

As specified in the California Public Utilities Code, the district is governed by a board of directors that supervises and regulates every transit facility owned and operated by the district. The board of directors is also responsible for administering the district's affairs and approving the district's budget. The voters of Alameda and Contra Costa counties elect the board's seven directors, who serve four-year terms. The board of directors appoints the officers of the district: a general manager, who is responsible for the operations of the district; a secretary; and an attorney.

During our initial review, the results of which we released in March 1988, we found that the district had several weaknesses in its operations. For example, for fiscal years 1984-85 and 1986-87, the district's expenses had exceeded its revenues, and as a result, the district incurred deficits. We found that the district had insufficient controls over its financial operations, with weaknesses in its budgeting process contributing to its financial difficulties. For example, we found that the district generally overestimated its revenues and always underestimated its expenses. Furthermore, the district's monthly budget variance reports contained errors and were not submitted promptly to the board of directors.

We also found that the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments.

To ensure that the district resolved its fiscal problems, we recommended that the district develop well-documented and reliable budget estimates; develop and promptly submit to the board of directors accurate variance reports; and balance its budget by increasing its revenues, decreasing its expenses, or both. We also recommended that the district recover overpayments made to district directors.

As a result of our review, the Legislature enacted Chapter 1147, Statutes of 1988, requiring the Office of the Auditor General to monitor the district's progress in correcting the deficiencies noted in our March 1988 report. The Office of the Auditor General is required to issue quarterly reports through July 1, 1990.

In our four previous monitoring reports, we reported that the district has improved its budgeting process and that the district's budgets for fiscal years 1988-89 and 1989-90 are better documented and contain more reliable estimates of revenues, subsidies, and expenses. We also reported that the district has improved its travel and personal expense policies and has recovered overpayments from all but one of the district's directors.

SCOPE AND METHODOLOGY

The purpose of this review was to monitor the district's operating budget for fiscal year 1989-90 and to follow up on those problems we had identified in our previous monitoring reports. In our

previous reports, we found that the district's process for preparing its operating budget for fiscal year 1989-90 was satisfactory. Furthermore, we determined that the district's system for monitoring budget variances had improved. We reviewed the district's budget variance reports for the first three months of fiscal year 1989-90 to determine whether the district was meeting its budget goals. In addition to reviewing the variance reports for measuring budget performance, we also determined whether the reports were being sent to the district managers and the board of directors promptly. We did not review the district's preparation of its capital budget.

A further goal of this audit was to review the effects of the Bay Area earthquake of October 17, 1989, on the district's operations and budget. We reviewed the district's preliminary assessments of the costs of the earthquake. We also documented the district's estimates of the added service (the number of added revenue miles and revenue hours) it felt will be required as a result of the earthquake. However, because we ended our fieldwork on October 31, 1989, before the actual costs of the expanded services were known, we did not attempt to verify the accuracy of the district's estimates.

In addition, we did not evaluate the effect of a new labor agreement on the district's operating budget because the agreement was reached on November 1, 1989, after the completion of our fieldwork. We will review the effects of the earthquake and the new union agreement on the district's operations in future monitoring reports.

During this review, we also monitored the progress the district has made in collecting overpayments from the director who still owed the district. Finally, we reviewed district accounting records to determine if the director had repaid the district.

AUDIT RESULTS

THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT DEVELOPED A BALANCED BUDGET FOR FISCAL YEAR 1989-90, BUT NEW SERVICES RESULTING FROM THE BAY AREA EARTHQUAKE OF 1989 WILL SUBSTANTIALLY INCREASE EXPENSES

In its operating budget for fiscal year 1989-90, the Alameda-Contra Costa Transit District (district) projected that the district's revenues and subsidies would equal the district's expenses, resulting in a balanced budget of \$124.8 million. For the first three months of fiscal year 1989-90, the district's expenses were slightly less than its revenues and subsidies. Further, for the three months ended September 30, 1989, the district's actual revenues, subsidies, and expenses were within approximately one percent of the budgeted amounts. However, on October 17, 1989, the San Francisco Bay Area was hit by a devastating earthquake. The San Francisco-Oakland Bay Bridge was severely damaged and was closed to thousands of daily commuters. As a result, the district increased its bus services by 29 percent more revenue miles and 21 percent more revenue hours. Preliminary district estimates were that, even with the revenue from new passengers, the added services would cost the district between \$4 million and \$5 million per month until Bay Area traffic patterns return to normal. At the time of our review, the district had appealed to the Metropolitan Transportation Commission for an increase in subsidies to offset the new expenses. However, as of October 24, 1989, no new sources of revenues or subsidies to offset these expenses had been identified. During our review, we also found that the district has

addressed our recommendations from previous monitoring reports by promptly circulating its budget variance reports and ensuring that the director who owed the district for overpayments of travel and personal expenses has repaid the district.

BEFORE THE OCTOBER EARTHQUAKE, THE
DISTRICT WAS MEETING ITS BUDGET GOALS

In our March 1988 report, we recommended that the district develop a balanced or surplus budget. For fiscal year 1989-90, the district developed a balanced budget of \$124.8 million in which the district's revenues and subsidies were projected to equal its expenses. Revenues include fares collected from passengers (farebox revenue), advertising revenues, and interest income. Subsidies are funds provided by federal, state, and local governmental agencies and include the district's share of property and sales taxes. Expenses are the costs of operating the district and include items such as salaries and wages, fuel, and interest.

The district projected revenues of \$38.0 million in fiscal year 1989-90. According to its budget, the district expected that its revenues from passenger fares, \$29.3 million, would be the same in fiscal year 1989-90 as they were in fiscal year 1988-89. The district also estimated that it would receive \$86.8 million in subsidies in fiscal year 1989-90. The district's operating and interest expenses for fiscal year 1989-90 were projected to total \$124.8 million.

We reviewed the district's monthly financial statements and budget variance reports for the months of July, August, and September 1989 and found that the district's actual operating expenses were less than its budgeted revenues and subsidies. Further, subsidies and revenues were less than one percent more than the budget projected for the three months, and operating expenses were 1.2 percent over budget. We found no significant budget variances. (Appendix C shows the district's actual versus its budgeted amounts for revenues, subsidies, and expenses for the period ended September 30, 1989.)

The District Has Issued
Revenue Anticipation Notes

The district projected that it will have \$2.1 million in interest expenses in fiscal year 1989-90, an increase in interest expense of \$0.7 million (48.9 percent) when compared with the projected interest expense for fiscal year 1988-89. The increase in interest expense is due to the district's plan to use different methods to finance debt, such as revenue anticipation notes and certificates of participation, to help with the district's cash flow and capital improvement plans. The interest expense is, in part, the cost of repaying these notes. The district issued a request for proposals in May 1989 for the services of a financial advisor and underwriter to help implement the plan. In June 1989, the district selected two firms.

In October 1989, one of the district's underwriters issued a series of revenue anticipation notes for the district. Revenue anticipation notes are a funding mechanism that provides a means of borrowing against future district revenues. Investors buy the notes and receive from the district both the initial investment and a set amount of interest. The district pays the notes with its "revenues, cash, income, and other monies lawfully available." The issue of notes will generate \$5.2 million for the district's use. The district will repay the notes at maturity on October 18, 1990, at a 6.15 percent interest rate. The district plans on using the revenue from the notes to cover any cash flow shortfalls and to provide additional revenue by increasing the funds available for short-term investments.

The Earthquake of 1989 Will
Significantly Alter The District's Budget

On October 17, 1989, a major earthquake occurred in the San Francisco Bay Area. The earthquake resulted in widespread injuries and damage, destroying major sections of the Bay Area's freeway and bridge systems. The earthquake destroyed or severely damaged sections of the San Francisco-Oakland Bay Bridge (Bay Bridge), the Embarcadero Freeway (I-480), and the Cypress Viaduct (I-880); all of these major thoroughfares were closed as a result. Because of the extent of the damage, it was estimated that thousands of Bay Area commuters would be affected by these closures. While the district has estimated that its facilities sustained less than \$100,000 in damage, the road closures

and the consequent changes in commute patterns have significantly affected the district's projections of its expenses.

As a result of the earthquake, the district took a series of actions to provide added services to affected commuters. It established "bus bridges" to transport commuters across the Golden Gate Bridge, Richmond-San Rafael Bridge, and San Mateo Bridge, supplementing its regular service with its reserve fleet of buses. Recognizing that extensive freeway damage was forcing Bay Area commuters to travel by alternative means, the district expanded its "feeder" service to San Francisco Bay Area Rapid Transit District (BART) stations and ferries, and it honored transit passes of other transit agencies. These actions, in addition to the need for fully reviewing the structural integrity of all district facilities, added considerable expenses that were not part of the district's fiscal year 1989-90 budget.

According to preliminary estimates, dated October 23, 1989, that the district prepared for the Metropolitan Transportation Commission, the district has added 20,706 revenue miles per day to its routes since the earthquake. This is a total of 629,475 extra revenue miles per month, an increase of more than 29 percent over the August 1989 total of 2,126,468 revenue miles. The additional miles translate into an additional 1,144 revenue hours daily. This is 34,778 new hours per month, an increase of more than 21 percent over the August 1989 total of 160,368 revenue hours.

The district's preliminary estimates were that this expanded service would increase the district's expenses, which, combined with its estimated loss of revenue, will cost the district \$4.7 million for the first month and almost \$4.0 million per month in subsequent months. The district estimates that its costs will increase because of increased salaries and wages; costs of outside maintenance; increased costs of materials and supplies; costs of leasing buses; and increased costs for insurance, maintenance, fuel, lubricants, and tires. Adding to these increases, the district has postponed its scheduled service cuts that were to go into effect in December 1989.

In its estimate of new costs, the district included wages, both regular and premium (overtime), for operators and all other related staff. The largest component of its estimate is that of added operator wages. In its 1989-90 operating budget, the district had estimated that operator wages for September 1989 would total \$2.8 million and that it would not pay any premium wages. As a result of its increased services after the earthquake, the district estimates that it will pay an extra \$968,940 per month to operators, 34 percent more than it had estimated it would pay operators in September 1989. The district estimates that, of the extra \$968,940 it will pay operators, \$322,980, over 33 percent, will be overtime wages.

As part of its projection of the costs to provide services after the earthquake of 1989, the district took into account the loss of revenues because of the earthquake. The district predicted that it

would lose revenue during the closure of the Bay Bridge because it had to suspend revenue-generating routes across the bridge and because the district receives part of the bridge toll revenues. The district estimated that it would lose \$622,256 per month because of the bridge's closure. On November 17, 1989, the Bay Bridge reopened; however, the Cypress Viaduct and the Embarcadero Freeway, which have provided access to the bridge, remain closed. While the district's Bay Bridge losses will likely decrease with the bridge reopened, we cannot estimate how much the losses will decrease.

Although the district will carry more passengers as it provides earthquake-related services, the revenue from fares is not anticipated to offset the costs of the new services. Revenues from passenger fares in fiscal year 1988-89 accounted for only 25 percent of the district's income. The district relies primarily on subsidies for its operating income. The subsidy amounts for the district are determined by the Metropolitan Transportation Commission, the local transportation planning agency, before the district prepares its budget. Since the district cannot change the amount of these subsidies, it must rely on other sources to fund its new services related to the earthquake. The district has appealed to the Metropolitan Transportation Commission for aid and has recommended that the commission appeal to the State, the federal Urban Mass Transportation Administration, and the Federal Emergency Management Agency for funds.

On November 6, 1989, the governor signed legislation that will increase the State's sales tax by a quarter-percent. This thirteen-month increase in the tax will generate an estimated \$800 million for earthquake relief. The federal government has also approved earthquake relief funds.

The district stated that it will also explore other funding alternatives, such as increasing the cost of fares and passes; requesting union approval to use more part-time operators, which cost the district less; and using alternative shifts for maintenance workers so that they could work during evening and off-peak hours. However, as of October 24, 1989, the district had not identified a source to fund the added services.

We did not evaluate the accuracy of the district's estimates of its added expenses and its projected loss of revenues resulting from the October 17, 1989, earthquake. In addition, we cannot predict how long the district will incur the added expenses of providing earthquake-related services. The need for these services will most likely continue until Bay Area traffic patterns return to normal. In future reports, we will continue to monitor the effects of the earthquake on the district's budget.

THE DISTRICT DISTRIBUTES ITS BUDGET
VARIANCE REPORTS MORE PROMPTLY

In our last monitoring report, we reviewed the budget variance reports prepared monthly by the accounting staff and determined that these reports were not being distributed promptly. Our review of the September variance reports indicates that the district is now distributing its budget variance reports more promptly. These reports were circulated on October 26, 1989, within one day of the district's distribution goal of 15 working days (one working day was lost in October because of the October 17, 1989, earthquake). The district now has a schedule for the the preparation of variance reports to ensure that they are distributed to managers within 15 working days of the end of the previous month.

THE DIRECTOR HAS REPAID TRAVEL
AND PERSONAL EXPENSE OVERPAYMENTS

In our March 1988 report, we reported that the district had weak controls over the travel and personal expenses of its board of directors and officers, resulting in some overpayments. As we stated in previous monitoring reports, the district revised its rules governing travel and personal expenses and was in substantial compliance with those rules.

In our first monitoring report, we also noted that the district billed each director who received an overpayment and all but one director had repaid the district. As a result of our first quarterly monitoring report, the district sent the director a second bill. On May 9, 1989, the director requested that the district withhold her compensation payments for monthly meetings, effective May 1989, until the \$2,350.28 was repaid. As of September 30, 1989, the director had repaid the entire overpayment.

CONCLUSION


The Alameda-Contra Costa Transit District's operating budget for fiscal year 1989-90 projected that the district's revenues and subsidies would equal the district's expenses, resulting in a balanced budget of \$124.8 million. For the first three months of fiscal year 1989-90, the district's expenses were slightly less than its revenues and subsidies. However, on October 17, 1989, the San Francisco Bay Area was hit by a devastating earthquake that the district estimates will substantially affect its budget projections. The district increased its bus services by 29 percent more revenue miles and 21 percent more revenue hours and its preliminary estimates were that its monthly expenses would consequently increase almost \$4 million. At the time of our review, the district had appealed to the Metropolitan Transportation Commission for an increase in subsidies to offset the new

expenses. On November 6, 1989, the governor signed legislation that is projected to generate \$800 million for earthquake relief. However, as of October 24, 1989, the district had not identified a source of revenue to offset the costs of new services.

During our review, we also found that the district has addressed our recommendations from previous monitoring reports by distributing its budget variance reports more promptly and ensuring that the director who owed the district for overpayments of travel and personal expenses has repaid the district.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Acting Auditor General

Date: December 18, 1989

Staff: Samuel D. Cochran, Audit Manager
Clifton John Curry

**SUMMARY OF PREVIOUS MONITORING REPORTS OF
THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT**

Alameda-Contra Costa Transit District: First Quarterly Monitoring Report, January 5, 1989, Report P-861.1

In our first quarterly monitoring report, we noted that the Alameda-Contra Costa Transit District (district) had improved aspects of its budgeting process but that its budget for fiscal year 1988-89 contained a \$2.0 million deficit. We also noted that the district had revised its rules and added new policies that appear to better control the travel and personal expenses of its directors and district officers. We found that the district had recovered travel and personal expense overpayments from all but one of its directors. We also determined that the district had added new policies that prohibit employees from using district resources for nondistrict purposes and that it had prohibited its attorneys from engaging in private law practices while employed by the district.

Alameda-Contra Costa Transit District: Second Quarterly Monitoring Report, April 6, 1989, Report P-861.2

In our second monitoring report we found that the district, for fiscal year 1988-89, developed a budget that is better documented and contained what should prove to be more reliable estimates of revenues, subsidies, and expenses. Nevertheless, we noted that the revised budget contained a \$2.5 million deficit. We determined that the district was substantially complying with its rules and policies for the travel and personal expenses of its directors, officers, and employees. We also noted that the district's attorneys appeared to be adhering to the policy prohibiting them from private law practice while employed by the district. We did, however, determine that the district had not fully disseminated its policy that prohibits employees from using district resources for nondistrict purposes.

Alameda-Contra Costa Transit District: Third Quarterly Monitoring Report, July 7, 1989, Report P-861.3

The third monitoring report showed that the district's revised budget for fiscal year 1988-89 appeared more accurate than district budgets of the past. We noted, however, that the district's system for reporting budget variances needed improvement. The one director who still owed the district for travel and personal expense overpayments, according to this report, had agreed to repay the district. In addition, we found that the district had disseminated its policy prohibiting the use of district resources for nondistrict purposes.

In this report, we also showed that the district had had operating deficits for three of the previous fiscal years (fiscal year 1984-85 through fiscal year 1988-89). We explained that the district's expenses have increased at a rate higher than its revenues and subsidies and that the district's working capital and its cash and investments have generally decreased.

Alameda-Contra Costa Transit District: Fourth Quarterly Monitoring Report, October 4, 1989, Report P-861.4

In our last monitoring report, we showed that the district used the same improved budgeting process to develop its operating budget for fiscal year 1989-90 as it used to develop its operating budget for fiscal year 1988-89. The district's budget was balanced, with operating revenues and subsidies of \$124.8 million equal to its operating expenses. We also noted that the district had improved the accuracy of its budget variance reports. Finally, we found that the director who owed the district for travel and personal expense overpayments was repaying the district.

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF THE OPERATING BUDGET
FOR FISCAL YEAR 1988-89
WITH THE BUDGET FOR FISCAL YEAR 1989-90

	Revised 1988-89 Budget	Fiscal Year 1989-90 Budget	Dollar Change	Percent Change
REVENUES				
Farebox	\$ 29,323,301	\$ 29,323,301	\$ 0	0.0
BART transfers	6,154,800	6,255,618	100,818	1.6
Contract service	3,736,947	0	(3,736,947)	
Advertising	580,000	609,000	29,000	5.0
Interest income	801,324	1,266,667	465,343	58.1
Other income	<u>767,565</u>	<u>527,362</u>	<u>(240,203)</u>	(31.3)
Total Revenues	<u>41,363,937</u>	<u>37,981,948</u>	<u>(3,381,989)</u>	(8.2)
SUBSIDIES				
Property taxes	20,247,000	25,539,603	5,292,603	26.1
State Transit Assistance	113,158	361,078	247,920	219.1
Sales tax (AB 1107)	16,875,000	18,040,418	1,165,418	6.9
Sales tax (Transportation Development Act)	26,867,270	29,584,769	2,717,499	10.1
Federal Operating Assistance Section 9	6,827,002	6,827,626	624	0.0
Federal Operating Assistance Section 8	159,998	64,000	(95,998)	(60.0)
Measure B	<u>6,284,000</u>	<u>6,411,311</u>	<u>127,311</u>	2.0
Total Subsidies	<u>77,373,428</u>	<u>86,828,805</u>	<u>9,455,377</u>	12.2
Total Revenues and Subsidies	<u>118,737,365</u>	<u>124,810,753</u>	<u>6,073,388</u>	5.1
EXPENSES				
Salaries and wages	61,480,721	60,594,032	(886,689)	(1.4)
Fringe benefits	31,795,392	31,957,503	162,111	0.5
Services	7,344,859	8,613,725	1,268,866	17.3
Fuel and oil	3,573,895	4,923,558	1,349,663	37.8
Other materials and supplies	8,077,106	8,418,094	340,988	4.2
Insurance	3,711,687	3,670,000	(41,687)	(1.1)
Leases and rentals	599,356	635,944	36,588	6.1
Other expenses	<u>3,184,299</u>	<u>3,860,679</u>	<u>676,380</u>	21.2
Total Operating Expenses	<u>119,767,315</u>	<u>122,673,535</u>	<u>2,906,220</u>	2.4
Interest Expenses	1,434,993	2,137,218	702,225	48.9
Total Expenses	<u>121,202,308</u>	<u>124,810,753</u>	<u>3,608,445</u>	3.0
Net Surplus (Deficit)	<u>\$ (2,464,943)</u>	<u>\$ 0</u>		

Source: Alameda-Contra Costa Transit District, Budget for Fiscal Year 1989-90.

APPENDIX C

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF ACTUAL REVENUES, SUBSIDIES,
AND EXPENSES WITH THE BUDGET FOR THE
FIRST THREE MONTHS OF FISCAL YEAR 1989-90
(UNAUDITED)

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under) <u>Budget</u>	Variance <u>Percentage</u>
<u>REVENUES</u>				
Farebox	\$ 7,074,706	\$ 7,057,929	\$ 16,777	0.24
Other transfer fares	13,807	0	13,807	100.00
BART transfers	1,563,906	1,563,906	0	0.00
Advertising	151,250	152,250	(1,000)	(0.66)
Interest income	415,105	269,167	145,938	54.22
Other income	<u>50,187</u>	<u>131,841</u>	<u>(81,654)</u>	<u>(61.93)</u>
Total Revenues	<u>9,268,961</u>	<u>9,175,093</u>	<u>93,868</u>	1.02
<u>SUBSIDIES</u>				
Property taxes	6,384,900	6,384,900	0	0.00
State Transit Assistance	90,270	90,270	0	0.00
Sales tax (AB 1107)	4,510,104	4,510,104	0	0.00
Sales tax (Transportation Development Act)	7,396,147	7,396,191	(44)	0.00
Federal Operating Assistance Section 9	1,706,907	1,706,907	0	0.00
Federal Operating Assistance Section 8	15,999	15,999	0	0.00
Measure B	<u>1,602,828</u>	<u>1,602,828</u>	<u>0</u>	<u>0.00</u>
Total Subsidies	<u>21,707,155</u>	<u>21,707,199</u>	<u>(44)</u>	0.00
Total Revenues and Subsidies	<u>30,976,116</u>	<u>30,882,292</u>	<u>93,824</u>	0.30
<u>EXPENSES</u>				
Operator wages	8,634,048	8,724,484	(90,436)	(1.04)
Other wages	6,315,040	6,362,161	(47,121)	(0.74)
Fringe benefits	8,356,867	7,946,438	410,429	5.16
Services	1,671,757	2,088,518	(416,761)	(19.95)
Materials and supplies	3,491,938	3,260,477	231,461	7.10
Utilities	550,231	387,466	162,765	42.01
Insurance	962,375	776,627	185,748	23.92
Taxes	270,767	313,345	(42,578)	(13.59)
Leases and rentals	133,598	157,527	(23,929)	(15.19)
Other expenses	205,143	206,900	(1,757)	(0.85)
Interest expense	<u>372,967</u>	<u>384,306</u>	<u>(11,339)</u>	<u>(2.95)</u>
Total Operating Expenses	<u>30,964,731</u>	<u>30,608,249</u>	<u>356,482</u>	1.16
Net Surplus (Deficit)	<u>\$ 11,385</u>	<u>\$ 274,043</u>	<u>\$(262,658)</u>	<u>(95.85)</u>

Source: Alameda-Contra Costa Transit District, Budget for Fiscal Year 1989-90.



December 5, 1989

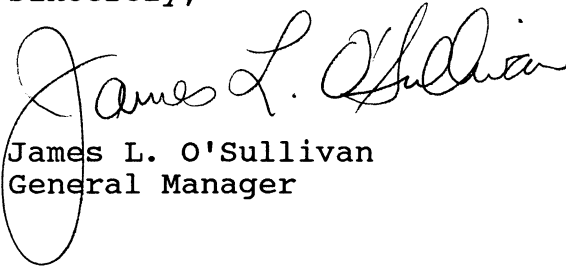
Mr. Kurt Sjoberg
Acting Auditor General
Office of the Auditor General
660 "J" Street Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

Thank you for allowing us to comment on your fifth monitoring report of the Alameda-Contra Costa Transit District (District). We are pleased that the office of the Auditor General has continued to recognize that the District has improved its administrative and financial operations by implementing the recommendations of the Auditor General.

Despite the dislocations caused by the recent earthquake, and yet unknown financial consequences for the District, the District will continue to strive to improve its operations and to improve essential transportation services for the people of the East Bay.

Sincerely,

A handwritten signature in cursive script that reads "James L. O'Sullivan". The signature is written in black ink and is positioned above the typed name and title.

James L. O'Sullivan
General Manager

JLO;jmj
(PAMS:AUDGEN5)

ALICE H. CREASON
PRESIDENT

RUTH GANONG
VICE-PRESIDENT

DIRECTORS

MICHAEL WINTER
WARD I

RUTH GANONG
WARD II

ALICE H. CREASON
WARD III

WILLIAM J. BETTENCOURT
WARD IV

LINDA SHEPARD
WARD V

ROY NAKADEGAWA
DIRECTOR AT LARGE

JOHN WOODBURY
DIRECTOR AT LARGE

December 7, 1989

Mr. Kurt R. Sjoberg
Acting Auditor General
State of California
Office of the Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

RE: 5th Quarterly Monitoring Report

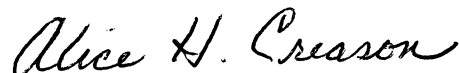
Dear Mr. Sjoberg:

I appreciated the opportunity to review the Auditor General's draft report entitled "Alameda-Contra Costa Transit District: Fifth Quarterly Monitoring Report".

I would like to comment on the preliminary cost estimates for additional services provided after the October 17, 1989 earthquake. AC Transit responded to the crisis and has made every effort to be prudent in the use of resources in providing these additional services. The District expects that the actual costs associated with the provision of these services will come in under the preliminary cost estimates.

Thank you for your efforts. The reports have demonstrated the progress which the District has made in implementing financial controls. We will continue our efforts and look forward to sustained improvements.

Sincerely,



Alice H. Creason
President

JLO:gmd

cc: Board of Directors
J. O'Sullivan
S. Cochran
C. Curry

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps