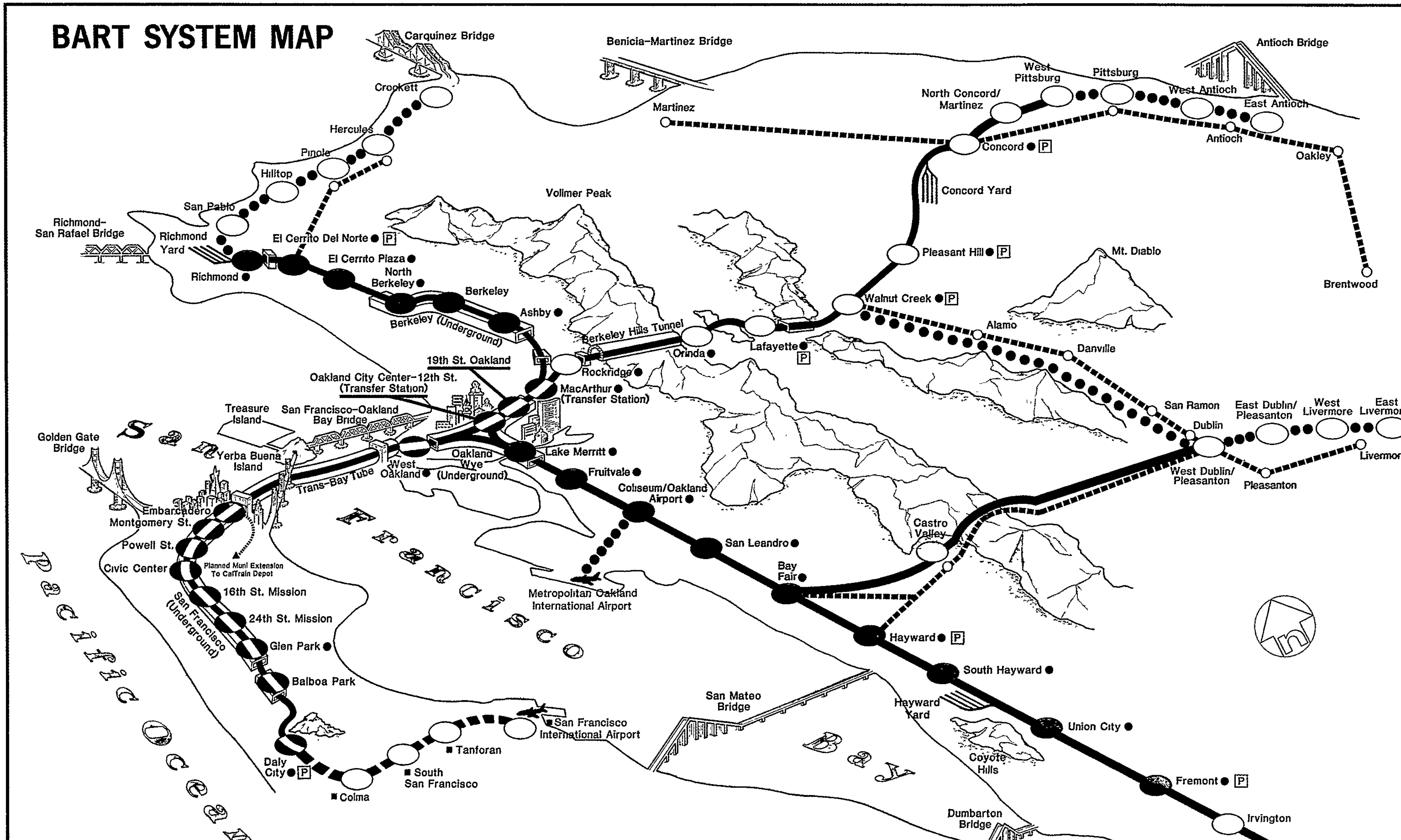
BAY AREA RAPID TRANSIT DISTRICT
ANNUAL REPORT 1988/1989

BART SYSTEM MAP



Line Miles†

A Line—(Fremont to Lake Merritt) 23 Miles
M Line—(Daly City to Oakland West) 15 Miles
R Line—(Richmond to MacArthur) 12 Miles
C Line—(Downtown Oakland to Concord) 21.5 Miles
Total Miles 71.5 Miles

†All miles are calculated from the Oakland WYE

System Information

Total number of automobile parking spaces at BART Stations: 26,422 (10% of these parking spaces for mid-day parking)

CONCORD/DALY CITY
RICHMOND/DALY CITY
RICHMOND/FREMONT
FREMONT/DALY CITY

BART Express Bus
Parking
P Preferential Carpool Parking
BART Rail System
BART First Phase Extensions Inside District
BART First Phase Extensions Outside District
BART Second & Third Phase Extensions Inside District

■ Extensions outside the District are subject to a satisfactory cost-sharing arrangement.
▲ Planned Muni Metro Turnaround and Extension.

BART

March 1, 1989

KEEPING OUR EYE ON THE RIDER

As the leading player on the Bay Area's public transportation scene, BART continued during fiscal 1989 to provide safe, reliable and convenient train service for commuters, shoppers, sightseers and people attending special events.

BART also continued to plan and prepare for extending its present 71.5 mile system to communities not presently served by rapid rail transit and to expand its capacity for carrying passengers on the existing system.

INCREASING OUR CAPACITY AND FREQUENCY

Fleet of Cars

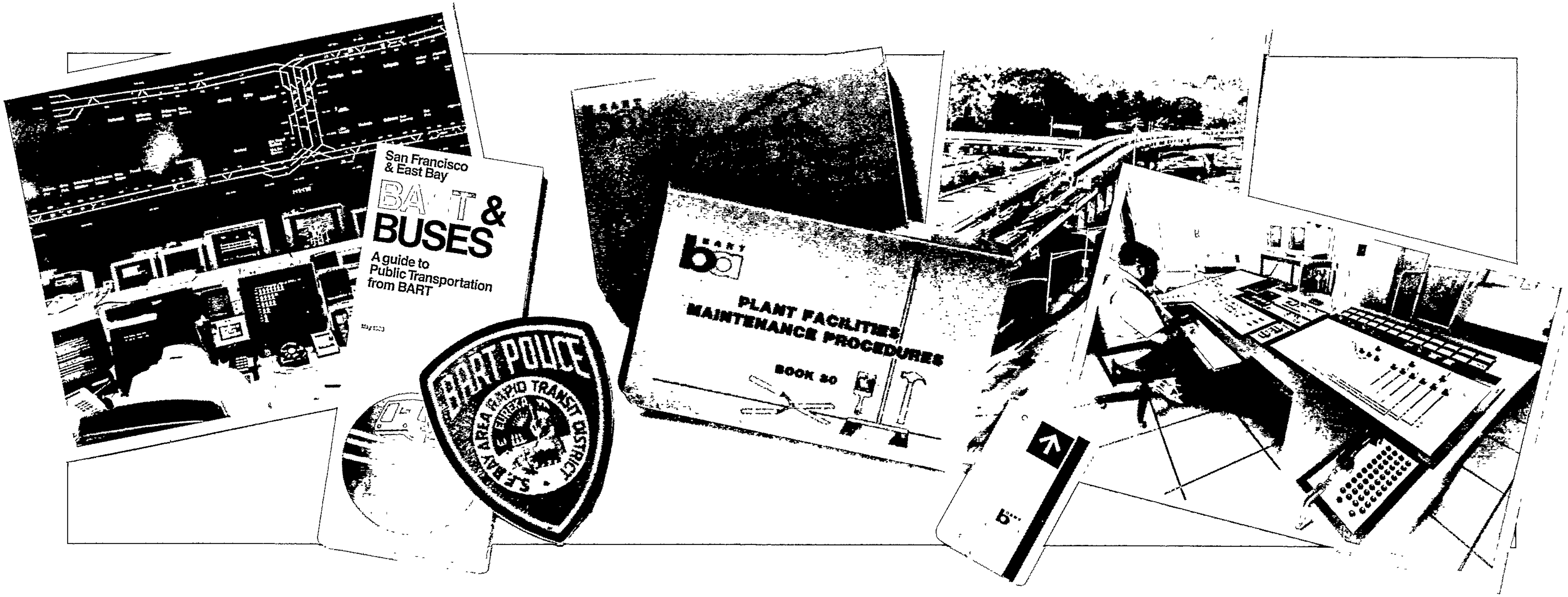
As of June 30, 1989, BART had accepted 90 of the 150 new C-Cars designed to boost passenger capacity and increase operating efficiency. More than a year previously, on March 28, 1988, the first of the C-Cars in revenue service made an inaugural run from Fremont to Daly City.

The new cars had accumulated approximately 80,000 hours of revenue service as of June 30, 1989, but the number of the new cars available for revenue service (62 percent in the April-June quarter) fell below District expectations.

BART identified deficiencies in the components of the new cars and communicated with the manufacturer and sub-contractors to correct them.

Integrated Control System

BART's new integrated control system (ICS) is designed to replace the District's existing train control computers and permit the operation of 75 trains instead of the present capacity of 55 trains.



The seven-stage project, when it is fully in place in 1991, will allow BART to monitor and supervise train scheduling, route selection and the setting of train performance levels.

During fiscal 1989, work on the interlocking and train tracking software was completed and work continued on prototypes to control failover (the process of a backup computer taking over from a failed primary computer) and recovery, train dispatching and scheduling, train management and the integration of the new control system.

Daly City Projects

Nearing completion at the end of the fiscal year on June 30, 1989 were BART's Daly City Turnback, Yard and Shop projects, the largest construction program undertaken since the completion of the original system.

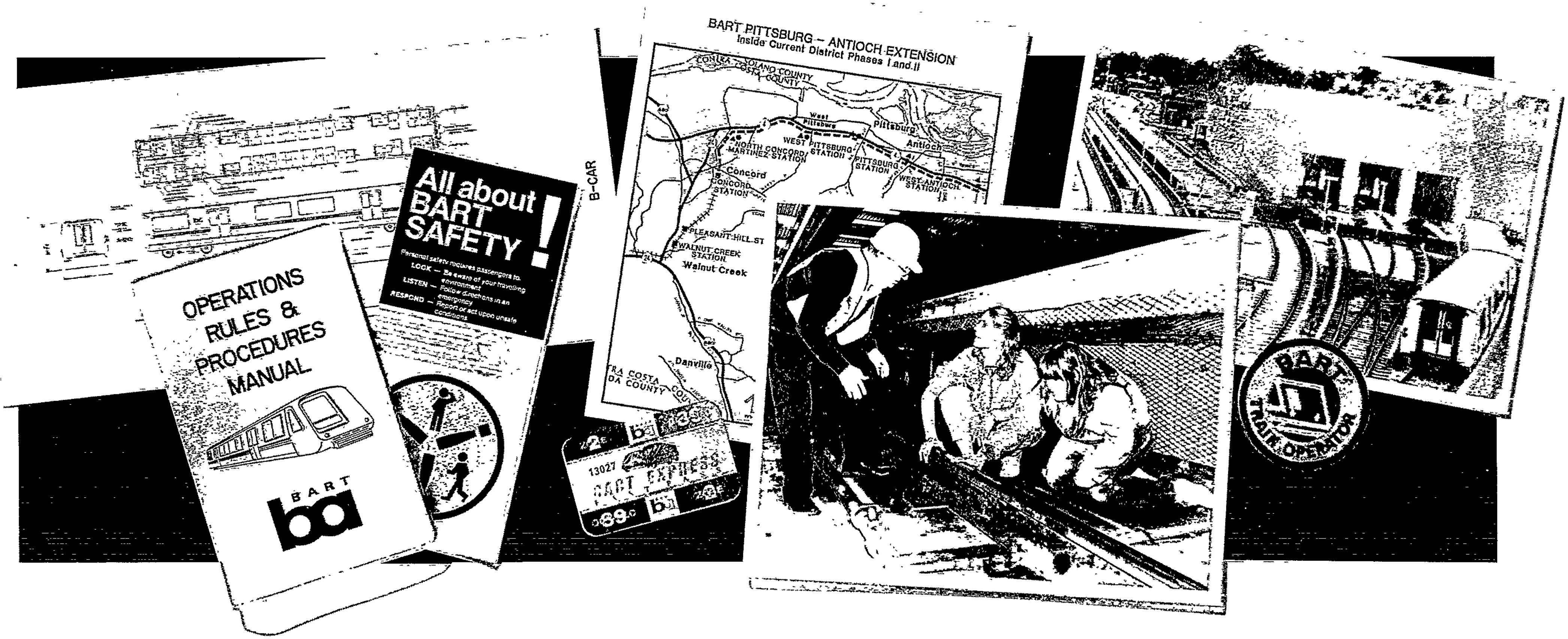
At a completion cost of approximately $150 million, the Turnback, Yard and Shop will permit a faster "turnback" of southbound trains reaching the Daly City Station. They will also provide storage and maintenance capacity for the increased fleet of cars and reduce dead-head miles. Decreasing the turnback time increases the allowable frequency of service.

As the fourth quarter of the fiscal year drew to a close, the Yard track and contact rail installation was virtually complete and the Yard traction power installation was roughly three-fourths complete.

At the same time, communications equipment and Yard control conduit and cables were being installed and the train control equipment was being tested.

Electrical Capacity Increase

In June, 1989, just prior to the end of the fiscal year, BART awarded a contract for the installation of equipment designed to boost third rail power capacity and distribu-



tion. The project, expected to cost nearly $8 million, is designed to allow the operation of more trains on BART's mainline tracks and in its yards.

New On-Board Control

BART's vehicle Automatic Train Control (ATC) system, designed to sharply reduce service disruptions due to equipment failure in BART's original control system, was retrofitted to 131 A-Cars by the close of the fiscal year. (The new C-Cars are already equipped with the new system.)

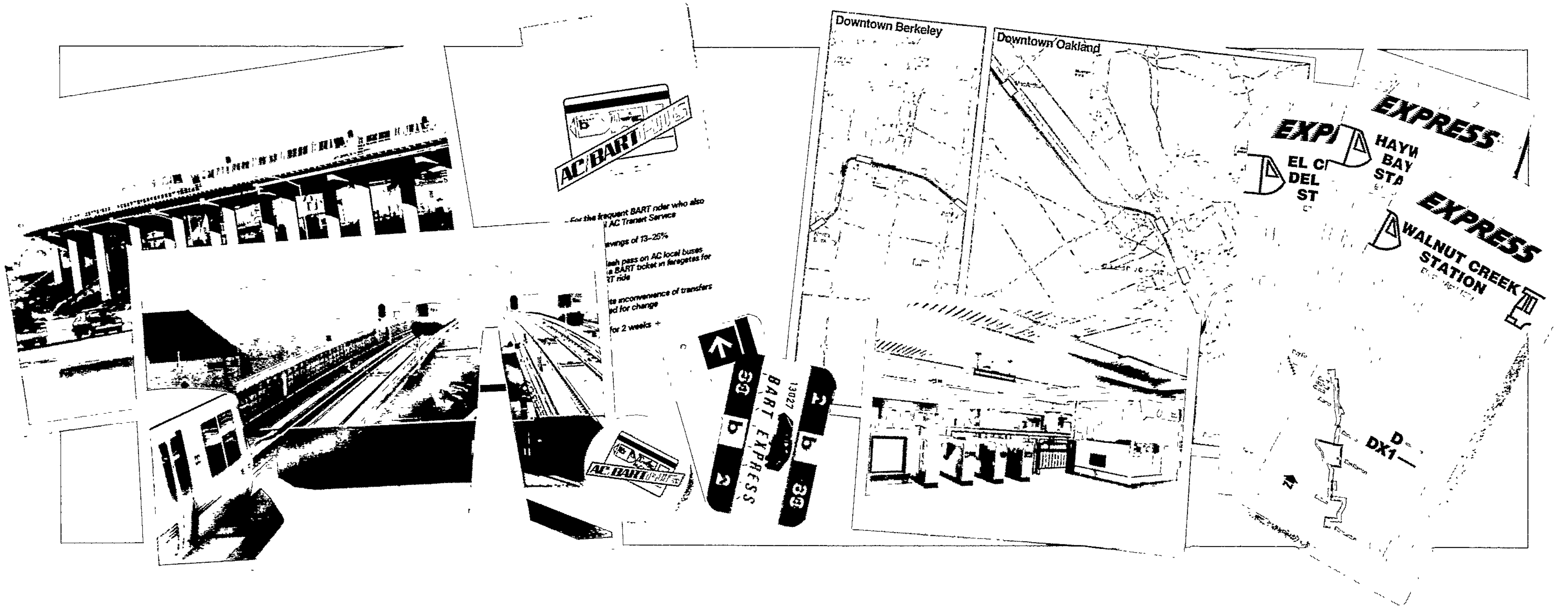
Software and hardware modifications to improve the new ATC even further were under evaluation at the close of the year, for application to BART's C-Cars.

The primary benefit of the new system is the improvement in service reliability but it will also provide a smoother ride for passengers and will result in savings in energy consumption.

Wayside Train Control Modifications

A $15 million program to reconfigure and modify track circuits, station approach markers, signals and software aimed at allowing trains to run at more frequent intervals to and from San Francisco and the East Bay progressed on schedule during the fiscal year.

Due to the original design of BART's trackway, only one train can occupy a track "block" at any one time and the original block size limits the time intervals between trains to 3.75 minutes. The wayside project includes shortening the blocks so that the trains can run at intervals of 2.25 minutes. The project is scheduled to be completed in 1991.



INCREASING OUR REACH

BART entered the 1989 fiscal year shortly after the adoption of a rail-funding program by the Metropolitan Transportation Commission (MTC). The MTC program included BART extensions in Alameda, Contra Costa and San Mateo counties. The adoption of the MTC program, reflecting a regional consensus, is considered to be a pivotal step in securing state funding commitments and in persuading voters to support additional sales-tax funding.

In October, 1988, for example, the California Transportation Commission (CTC) committed $200 million, plus escalation for inflation up to an additional $48 million, to help fund BART Phase 1 extensions from Concord to West Pittsburg, with a station at North Concord/Martinez; from Fremont to Warm Springs, with a station at Irvington; from BART's Bayfair Station to the Dublin/Pleasanton area, with a stop at Castro Valley; and from the Daly City Station to San Francisco International Airport, with stops at Colma, South San Francisco and San Bruno.

The CTC action, which will require state funding legislation, will be released to BART in increments as the extensions are built.

In August, 1988, escrow closed on the purchase of a 53.9-acre parcel of land in West Livermore as a future site for a BART station as part of the second phase of the District's extension program. Construction would also not begin until the completion of an environmental impact report.

In April, 1989, BART's Board of Directors approved an $18 million contract for preliminary engineering and general engineering for extensions to Pittsburg, Warm Springs and Colma. Preliminary engineering for the extension to Dublin was already in progress under a separate consultant contract.

BART APPROVES THREE-YEAR UNION CONTRACTS

BART's Board of Directors approved in September, 1988, three-year collective bargaining agreements between the District and the Amalgamated Transit Workers Union and the United Public Employees Union.

The new contracts have cost increases amounting to $22.5 million more than the previous contracts. Work rule changes and other negotiated items, however, are expected to bring the net costs of the contracts to $14.8 million.

EXTRA SERVICES FOR SPECIAL EVENTS

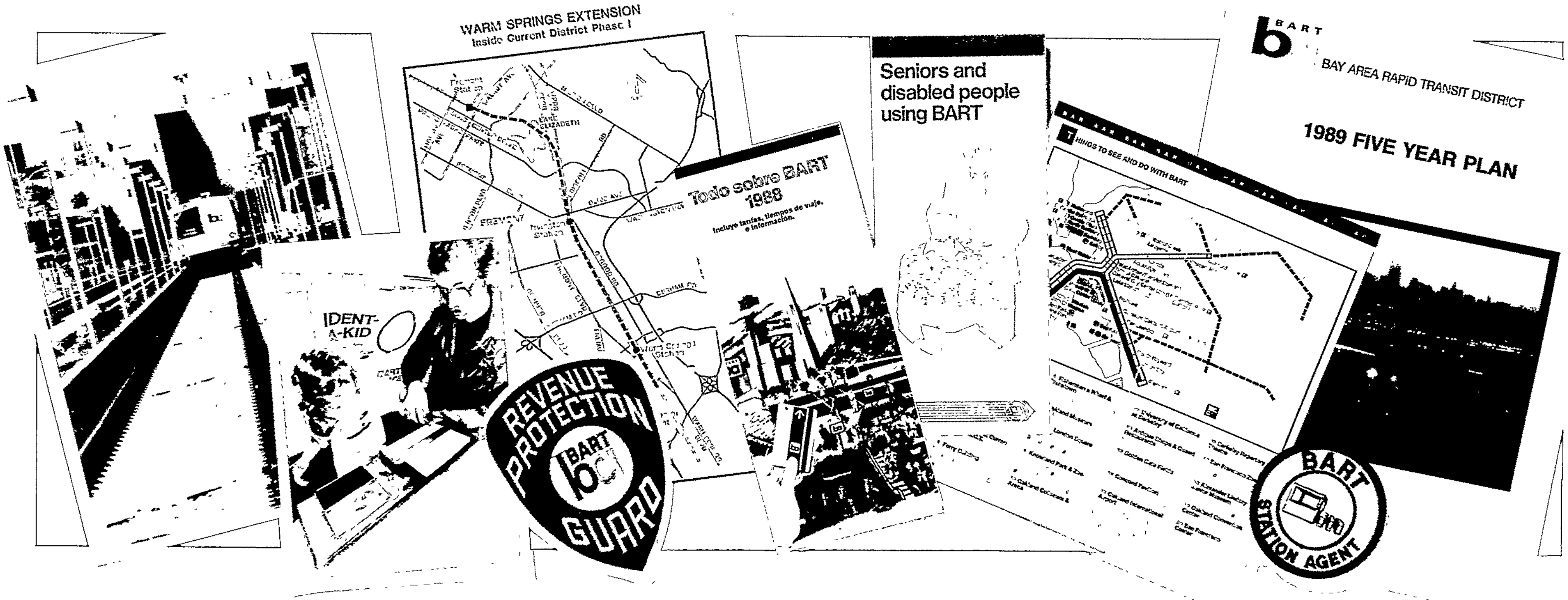
BART stepped up its efforts during the fiscal year to encourage Bay Area residents and visitors to ride BART to special events.

Beginning with the July 4 weekend, BART inaugurated a special family fare discount program that allowed three passengers to ride for the price of only one full-fare ticket. The special fare was in effect on weekends through Labor Day.

In September, BART kept open its Coliseum Station until 1 a.m. and had twelve 10-car trains standing by to provide service for fans attending the Amnesty International concert at the Alameda County/Oakland Coliseum.

A month later, BART provided additional trains, plus direct service from San Francisco and Concord on a Sunday for the American League play-off games. Additional trains were also in service when the victorious A's met the Los Angeles Dodgers in the World Series and direct service was available from Concord. Roughly one-third of the fans who saw the third, fourth and fifth games of the World Series at the Coliseum took BART.

Additional service was also provided for the UC Berkeley/Stanford football game, the



BART "Shopper Specials" over the Christmas holiday season, early morning New Year's day revelers, the "Welcome Home" to the San Francisco 49ers for their Super Bowl victory, the Bay to Breakers run and other special events.

DISADVANTAGED BUSINESS ENTERPRISES

BART continued its efforts to make sure that at least 21 percent of the dollar amount of its contracts for goods and services was awarded to companies owned by minorities and women.

Several such companies, referred to as Disadvantaged Business Enterprises (DBE), were awarded BART contracts during fiscal year 1989.

Particularly noteworthy was the selection of two DBE companies as part of a joint venture construction contract-management team to administer and oversee BART's $1.6 billion extension program. The two companies will be involved in supervising contracts for the preliminary engineering and construction of 33 miles of track, 10 stations and a maintenance yard.

Breaking new ground was a BART contract awarded to a group of DBE companies as a part of a joint venture senior underwriter and co-manager teams to assist the district in the refunding of approximately $135 million in sales tax revenue bonds. This contract marked a significant milestone.

Minority and women-owned companies have had limited success in the financial services area.

PERFORMANCE HIGHLIGHTS

	FY 1988/89	FY 1987/88
Rail Ridership		
Annual passenger trips	**60,457,004**	57,595,481
Average weekday trips	**207,231**	198,259
Average trip length	**12.5 miles**	12.5 miles
Annual passenger miles	**757,225,230**	722,583,063
Patron trip on-time performance (%)	**95.3%**	94.5%
System utilization ratio (passenger miles to available seat miles)	**31.7%**	32.0%
End-of-period ratios:		
Peak patronage	**48.9%**	49.4%
Offpeak patronage	**51.1%**	50.6%
BART's estimated share of peak period transbay trips — cars, trains & buses (a)	**39.2%**	38.8%
Operations		
Annual revenue car miles	**33,195,099**	31,393,094
Unscheduled train removals — average per revenue day	**2.9**	4.5
Transit car availability to revenue car fleet (b)	**81.7%**	88.8%
Passenger miles per equivalent gallon of gasoline	**84.4**	79.0

	FY 1988/89	FY 1987/88
Passenger accidents reported per million passenger trips	**12.64**	13.94
Patron-related crimes reported per million passenger trips	**32.92**	34.17
Financial		
Net passenger revenues	**$ 83,192,000**	$ 78,475,000
Other operating revenues	**6,421,000**	5,648,000
Total operating revenues	**$ 89,613,000**	$ 84,123,000
Net operating expenses (excluding depreciation)	**$172,216,000**	$167,775,000
Farebox ratio (net passenger revenues to net operating expenses)	**48.3%**	46.8%
Operating ratio (total operating revenues to net operating expenses)	**52.0%**	50.1%
Net rail passenger revenue per passenger mile	**11.0¢**	10.8¢
Rail operating cost per passenger mile	**20.8¢**	21.0¢
Net average rail passenger fare (c)	**$ 1.38**	$ 1.35

Notes

General note: Data represents annual averages unless otherwise noted.
(a) Based on MTC Transbay survey data for October 1988 and April 1989 (7-9 a.m., 4-6 p.m.)
(b) At 8 a.m. each day (c) Includes **BART/MUNI** Fast Pass

BART patronage increased by more than 2.8 million passenger trips during the 1989 fiscal year, with annual passenger trips reaching 60,457,004, compared with 57,595,481 for the prior year.

The District's estimated share of peak period transbay traffic, including cars, buses and trains, was 39.2 percent, up from 38.8 percent the previous year, based on surveys conducted by the Metropolitan Transportation Commission.

Net passenger revenues reached $83,192,000 for fiscal 1989, an increase of $4,717,000 over the fiscal 1988 figure of $78,475,000. Total operating revenues (including $6.4 million in interest income, advertising in trains and stations and other income) was $89,613,000, an increase of over $5 million from the previous fiscal year.

BART funded 52.0 percent of its net operating expenses, which amounted to $172,216,000 (excluding depreciation) for fiscal 1989, from passenger fares and other operating revenues. This operating ratio was an increase of 1.9 percentage points from the prior fiscal year. The District's objective is to fund no less than one-half of its net operating expenses from operating revenues.

BART's farebox ratio, which relates net passenger revenues to net operating expenses, was 48.3 percent for fiscal 1989, an increase of 1.5 percentage points from the figure for fiscal 1988.

Net rail passenger revenue per passenger mile for fiscal 1989 was 11.0 cents, an increase from the previous year's 10.8 cents. Rail operating costs per passenger mile for fiscal 1989 was 20.8 cents, favorable compared to the previous year's figure of 21 cents.

Weekday passenger trips averaged 207,231 for fiscal 1989, compared with 198,259 for the previous year. Annual passenger miles reached 757,225,230 for fiscal 1989, an increase of 34,642,167 over the previous year, with an average of 12.5 miles for each trip during fiscal 1989, the same average figure reached the previous year.

In addition to funds derived from passenger fares, interest income and advertising, BART received $100.6 million in revenues from 75 percent of the one-half cent transit sales tax in the three BART counties, $732,000 in state and local funds and $9.1 million in property tax available for operations.

Of the $100.6 million derived from the sales tax, $14.5 million was allocated to debt service and $86.1 million was made available for operations.

BART Directors again reduced the property tax rate on the levy for repayment of the principal and interest of $792 million in general obligation bonds approved by voters in 1962 for construction of the system. Directors set a tax rate of 3.72 cents per $100 assessed value, down 3.9 cents for the previous fiscal year. The property tax generated revenues of $50.3 million from property owners in Alameda, Contra Costa and San Francisco counties, the three counties making up the District.

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors of San Francisco
Bay Area Rapid Transit District:

We have audited the accompanying balance sheets of San Francisco Bay Area Rapid Transit District as of June 30, 1989 and 1988 and the related statements of operations, capital and changes in financial position for the years then ended. These financial statements and the supplemental schedule discussed below are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of San Francisco Bay Area Rapid Transit District at June 30, 1989 and 1988 and the results of its operations and the changes in its financial position for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, reconciliation of excess operating revenues over (under) expenses, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte Haskins + Sells   Adams, Grant, Werner & Co.

Deloitte Haskins + Sells   Adams, Grant, Werner & Co.
Oakland, California   September 8, 1989

BALANCE SHEETS

JUNE 30, 1989 AND 1988 (In thousands)

ASSETS	1989	1988
CURRENT ASSETS:		
Cash and investments (Note 3)	$ 304,544	$ 220,717
Deposits (Note 3)	24,332	23,795
Notes and other receivables	16,483	9,139
Materials and supplies — at average cost	14,623	15,076
Total current assets	359,982	268,727
INVESTMENTS (Note 3)	—	78,721
DEFERRED COMPENSATION PLAN INVESTMENTS (Notes 3 and 9)	47,855	37,494
INVESTMENTS RESTRICTED FOR BOARD DESIGNATED PURPOSES (Note 3)	25,270	25,771
FACILITIES, PROPERTY AND EQUIPMENT — At cost, less accumulated depreciation (Note 4)	1,670,319	1,580,433
TOTAL ASSETS	$2,103,426	$1,991,146

LIABILITIES AND CAPITAL	1989	1988
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 5)	$ 42,585	$ 38,880
Payroll and other liabilities	64,824	54,601
Self-insurance liabilities	7,669	6,313
Unearned passenger revenue	1,832	1,620
Total current liabilities	116,910	101,414
DEFERRED COMPENSATION (Note 9)	47,855	37,494
LONG-TERM DEBT (Note 5)	497,065	539,650
CAPITAL:		
Grants and contributions, net	746,535	680,072
Accumulated net revenues	695,061	632,516
Total capital	1,441,596	1,312,588
TOTAL LIABILITIES AND CAPITAL	$2,103,426	$1,991,146

See notes to financial statements

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JUNE 30, 1989 AND 1988 (In thousands)

	1989				1988			
	OPERATIONS	**CONSTRUCTION (Note 2)**	**DEBT SERVICE**	**COMBINED TOTAL**	OPERATIONS	CONSTRUCTION (Note 2)	DEBT SERVICE	COMBINED TOTAL
OPERATING REVENUES:								
Fares	**$ 83,192**			**$ 83,192**	$ 78,475			$ 78,475
Other (including investment income)	**6,421**			**6,421**	5,648			5,648
Total operating revenues	**89,613**			**89,613**	84,123			84,123
OPERATING EXPENSES:								
Transportation	**61,656**			**61,656**	61,462			61,462
Maintenance	**71,598**			**71,598**	68,107			68,107
Police services	**9,801**			**9,801**	9,540			9,540
Construction and engineering	**6,722**			**6,722**	6,268			6,268
General and administrative	**31,772**			**31,772**	31,270			31,270
Depreciation	**37,767**			**37,767**	35,202			35,202
Total operating expenses	**219,316**			**219,316**	211,849			211,849
Less capitalized costs	**(9,333)**			**(9,333)**	(8,872)			(8,872)
Net operating expenses	**209,983**			**209,983**	202,977			202,977
OPERATING LOSS	**(120,370)**			**(120,370)**	(118,854)			(118,854)
OTHER REVENUES (EXPENSES):								
Transactions and use tax	**86,120**		**$ 14,494**	**100,614**	79,649		$ 12,594	92,243
Property tax	**9,083**		**54,995**	**64,078**	8,226		50,867	59,093
State financial assistance	**362**			**362**	77			77
Local financial assistance	**370**			**370**	348			348
Sale of tax benefits		**$ 3,077**		**3,077**				
Other investment income		**22,471**	**2,380**	**24,851**		$21,317	4,984	26,301
Interest expense			**(25,683)**	**(25,683)**			(35,146)	(35,146)
Other—net			**(41)**	**(41)**			(26)	(26)
Total other revenues	**95,935**	**25,548**	**46,145**	**167,628**	88,300	21,317	33,273	142,890
EXCESS OF REVENUES OVER (UNDER) EXPENSES	**$ (24,435)**	**$25,548**	**$ 46,145**	**$ 47,258**	$ (30,554)	$21,317	$ 33,273	$ 24,036

See notes to financial statements.

STATEMENTS OF CAPITAL

FOR THE YEARS ENDED JUNE 30, 1989 AND 1988 (In thousands)

	GRANTS AND CONTRIBUTIONS	ACCUMULATED NET REVENUES	TOTAL
BALANCES, JUNE 30, 1987	$611,127	$592,366	$1,203,493
EXCESS OF REVENUES OVER EXPENSES		24,036	24,036
OTHER ADDITIONS (DEDUCTIONS):			
Grants and contributions	85,059		85,059
Depreciation and retirements of assets acquired with grants and contributions	(16,114)	16,114	
BALANCES, JUNE 30, 1988	680,072	632,516	1,312,588
EXCESS OF REVENUES OVER EXPENSES		**47,258**	**47,258**
OTHER ADDITIONS (DEDUCTIONS):			
Grants and contributions	**81,750**		**81,750**
Depreciation and retirements of assets acquired with grants and contributions	**(15,287)**	**15,287**	
BALANCES, JUNE 30, 1989	**$746,535**	**$695,061**	**$1,441,596**

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED JUNE 30, 1989 AND 1988 (In thousands)

	1989	1988
OPERATING ACTIVITIES:		
Excess of revenues over expenses	**$ 47,258**	$ 24,036
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	**37,767**	35,202
Capitalized interest (income) expense	**(4,052)**	913
Net effect of changes in.		
Deferred compensation plan liabilities	**10,361**	5,967
Notes and other receivables	**(1,092)**	1,158
Materials and supplies	**453**	(396)
Payroll and other liabilities	**4,108**	4,759
Self-insurance liabilities	**1,356**	1,163
Unearned passenger revenue	**212**	36
Net cash provided by operating activities	**96,371**	72,838
INVESTMENT ACTIVITIES:		
Expenditures for facilities, property and equipment	**(116,393)**	(118,096)
Proceeds from sale of investments	**308,335**	186,326
Purchase of investments	**(308,335)**	(186,326)
Total cash used by investment activities	**(116,393)**	(118,096)
FINANCING ACTIVITIES·		
Repayments of notes payable	**—**	(63,975)
Repayments of long-term debt	**(38,880)**	(36,710)
Capital grant contributions received	**75,498**	85,059
Total cash provided (used) by financing activities	**36,618**	(15,626)
CASH AND INVESTMENTS (Note 3):		
Net increase (decrease) for year	**16,596**	(60,884)
Beginning of year	**381,792**	442,676
End of year	**$398,388**	$381,792

1. ORGANIZATION AND BASIS OF PRESENTATION

Description of Reporting Entity - San Francisco Bay Area Rapid Transit District (District) is a public agency created by the legislature of the State of California in 1957 and regulated by the San Francisco Bay Area Rapid Transit District Act, as amended, and subject to transit district law as codified in the California Public Utilities Code. The disbursement of all funds received by the District is controlled by statutes and by provisions of various grant contracts entered into with federal, state and local agencies.

For financial reporting purposes, the District's financial statements include all financial activities that are controlled by or dependent upon actions taken by the District's Board of Directors.

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. As a matter of policy, the District holds investments until their maturity.

Deposits, consisting of cash and investments, are held by trustee banks in accordance with the District's various bond indentures and for general debt service requirements. Deposits are stated at cost.

Facilities, Property and Equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation of assets acquired with District funds is distinguished from depreciation of assets acquired with grants and contributions by others

The District capitalizes certain interest revenue and expenditures related to tax-free borrowings. The net effect of such interest capitalization was to increase expenditures for facilities, property and equipment by $4,052,000 during the year ended June 30, 1989 for excess interest expenses over interest revenue from applicable borrowing and to decrease expenditures for facilities, property and equipment by $913,000 during the year ended June 30, 1988 for excess interest revenue over interest expenses from applicable borrowings.

Self-insurance Liabilities - The District is largely self-insured for workers' compensation claims, general liability claims, and major property damage. The District accrues the estimated costs of the self-insured portion of claims.

Unearned Passenger Revenue is an estimate of passenger tickets purchased which have not yet been completely used.

Contributed Capital - The District periodically receives grants from the Urban Mass Transportation Administration (UMTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit related equipment and improvements. Capital grant funds earned, less amortization equal to annual and accumulated depreciation of the related assets, are included in contributed capital.

Statements of Operations have been expanded to present the financial activities of the general operations of the transit system, revenues restricted by the Board of Directors for construction activity, and revenues restricted by the District's various bond indentures for debt service (including interest expense) on outstanding long-term debt.

Transactions and Use Tax (Sales Tax) Revenue - A ½% transactions and use tax is collected within District boundaries and administered by the State Board of Equalization. Of amounts available for distribution, 75% is paid directly by the State Board of Equalization to the District's trustee for the purpose of paying bond interest, principal and expenses. Monies not required for these purposes are transmitted to the District. The remaining 25% is allocated by the Metropolitan Transportation Commission (MTC) to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services. The District records the total transactions and use taxes earned (including amounts paid to the trustee) as revenue

Property Taxes, Collection and Maximum Rates - The State of California 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 from a 1% tax levy among the counties, cities, school districts and other districts, such as the District.

The District receives property tax revenues to meet the debt service requirements of its General Obligation Bonds. The District also receives an allocation of property tax revenues for transit operations.

San Francisco, Alameda and Contra Costa Counties assess properties, bill for, collect, and distribute property taxes. Property taxes are recorded as revenue and receivables, net of estimated uncollectibles, in the fiscal year of levy

Financial Assistance Grants are accrued as revenue in the period to which the grant applies.

Sale of Tax Benefits - The District has entered into agreements to sell tax benefits for certain District-owned transit equipment contracted for purchase prior to August 1986. The transactions have been structured in the form of leases for tax purposes. The District recognizes tax benefit sales proceeds in the period of sale of tax benefits.

Pension Costs are expensed as incurred. Such costs equal the actuarially determined annual contribution amount. See Note 8.

3. CASH AND INVESTMENTS

The District maintains a cash and investment pool that includes cash and investments available for general use and restricted for Board designated purposes. Cash and investments of the District's deferred compensation plan (see Note 9) are held separately by the plan's administrator.

Deposits - At June 30, 1989 (and 1988), the District's cash on hand was $968,000 (1988, $899,000), and the carrying amount of the District's time and demand deposits was $1,189,000 (1988, $6,405,000) with the corresponding bank balance of $4,867,000 (1988, $12,120,000). Of the bank balance $499,000 (1988, $375,000) was insured by federal depository insurance or collateralized by securities held by the District's agent in the District's name, and $4,368,000 (1988, $11,745,000) was collateralized 110% as required by Section 53652 of the California Government Code by the pledging financial institutions. However, such collateral is not in the District's name.

Investments - State of California statutes and District policy authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, repurchase and reverse repurchase agreements, and the State Treasurer's investment pool. The District did not enter into any reverse repurchase agreements during 1989 or 1988.

The District's investments are categorized below to give an indication of the credit risk assumed by the District at June 30, 1989. 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)						
	1989					1988	
	Category 1	Category 2	Category 3	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. Treasury notes	$ 12,955			$ 12,955	$ 12,959	$ 45,731	$ 45,566
Federal agency obligations	268,755	$34,739		303,494	303,849	258,307	258,514
Repurchase agreements	23,703	8,224		31,927	31,927	32,375	32,375
Total	$305,413	$42,963	—	348,376	348,735	336,413	336,455
Cash on hand				968	968	899	899
Time and demand deposits				1,189	1,189	6,405	6,405
Mutual funds:							
Fidelity Money Market						581	581
Deferred compensation plan investments				47,855	47,855	37,494	37,494
Total				$398,388	$398,747	$381,792	$381,834
Reported as:							
Cash and investments				$304,544		$220,717	
Payroll and other liabilities (representing cash overdraft)				(3,613)		(4,706)	
Deposits				24,332		23,795	
Investments				—		78,721	
Deferred compensation plan investments				47,855		37,494	
Investments restricted for Board designated purposes				25,270		25,771	
Total				$398,388		$381,792	

Cash and investments restricted for Board of Directors' designated purposes are summarized as follows (in thousands):

	1989	1988
Basic system completion	$ 9,602	$10,413
System improvement	3,068	2,858
Self-insurance	9,000	9,000
Operating	3,600	3,500
Total	$25,270	$25,771

4. FACILITIES, PROPERTY AND EQUIPMENT

Facilities, property and equipment, assets lives, and accumulated depreciation and amortization at June 30, 1989 and 1988 are summarized as follows (in thousands):

	Lives (Years)	1989 Cost	1989 Accumulated Depreciation and Amortization	1988 Cost	1988 Accumulated Depreciation and Amortization
Land		$ 184,048		$ 179,244	
Improvements	80	1,168,682	$208,521	1,118,988	$194,336
System-wide operation and control	20	180,741	83,300	142,686	75,448
Revenue transit vehicles	30	305,348	86,898	211,048	77,371
Service and miscellaneous equipment	3-20	22,744	13,411	21,362	11,978
Capitalized construction and start-up costs	30	100,943	50,975	100,331	47,452
Repairable property items	30	10,141	3,409	8,544	3,104
Construction-in-progress		144,186	—	207,919	—
Total		$2,116,833	$446,514	$1,990,122	$409,689

The District has entered into contracts for the construction of various facilities and equipment totaling approximately $242 million at June 30, 1989.

In June 1988, the District entered into Principles of Agreement (Agreement) with the San Mateo County Transit District (SamTrans) pertaining to extending the transit system to the vicinity of San Francisco International Airport (Airport). Under the terms of the Agreement, SamTrans will pay the District a $200 million capital contribution, to be used for East Bay expansion and to be paid in installments (adjusted for inflation) upon reaching certain Airport extension milestones and, in addition, SamTrans will be responsible for funding 25% of the cost of extending the transit system to the Airport. District management's most current estimate, performed in 1987, of the cost of such Airport extension is approximately $600 million. This project is contingent upon the District receiving adequate commitments for federal funding, and also upon expansion of the transit system in the East Bay.

5. LONG-TERM DEBT

Long-term debt at June 30, 1989 and 1988 is summarized as follows (in thousands):

	1989	1988
1962 General Obligation Bonds	$389,300	$427,700
1966 Special Service District Bonds	5,350	5,830
Total General Obligation Bonds	394,650	433,530
1985 Sales Tax Revenue Bonds	145,000	145,000
Total long-term debt	539,650	578,530
Current portion	(42,585)	(38,880)
Net long-term portion	$497,065	$539,650

1962 General Obligation Bonds - In 1962, voters of the member counties of the District authorized a bonded indebtedness totaling $792 million of General Obligation Bonds. Payment of both principal and interest is provided by the levy of District-wide property taxes. Bond interest rates range from 1.5% to 6.0%.

1966 Special Service District Bonds - In 1966, City of Berkeley voters formed Special Service District No. 1 and authorized the issuance of $20.5 million of General Obligation Bonds, of which $12 million were issued, for construction of subway extensions within that city. Payment of both principal and interest is provided by taxes levied upon property within Special Service District No 1. Bond interest rates range from 4.0% to 5.5%.

1985 Sales Tax Revenue Bonds - The 1969 Legislature of the State of California authorized the District to impose a ½% transactions and use tax within District boundaries and issue Sales Tax Revenue Bonds. On September 30, 1977, the Governor signed legislation which extended the transactions and use tax indefinitely. The tax is collected and administered by the State Board of Equalization Of amounts available for distribution, 75% is paid to the District's trustee for the purpose of paying bond interest, principal and expenses. Monies not required for these purposes are transmitted to the District. The remaining 25% is allocated by the MTC to the District, the City and County of San Francisco, and the Alameda-Contra Costa Transit District for transit services on the basis of regional priorities established by MTC.

In November 1985, the District issued sales tax revenue bonds (1985 bonds), totaling $145,000,000, to refund and defease $63,965,000 outstanding principal amount of sales tax revenue bonds issued in 1982, and to finance certain system improvements.

The 1985 bonds are special obligations of the District secured by a pledge of the sales tax revenues and are payable from revenues, including all sales tax revenues, all passenger fares, certain property tax revenues, and certain interest, grants, and other income. Bond interest rates range from 6.40% to 9.00%. Bonds maturing on or after July 1, 1996 ($127,250,000) are redeemable prior to maturity at the option of the District beginning July 1, 1995 on various dates at prices ranging from 103% to 100%, including bonds maturing July 1, 2004 ($41,005,000) and July 1, 2011 ($78,660,000) which are subject to redemption prior to maturity on or after July 1, 1998 and July 1, 2005, respectively, at 100%.

The following is a schedule of long-term debt principal repayments required as of June 30, 1989 (in thousands):

	1962 G.O. Bonds	1966 Special Service District Bonds	1985 Sales Tax Revenue Bonds	Total
Year ending June 30:				
1990	$ 40,200	$ 500	$ 1,885	$ 42,585
1991	33,700	520	2,070	36,290
1992	34,975	540	2,270	37,785
1993	36,275	570	2,495	39,340
1994	37,525	590	2,735	40,850
Thereafter	206,625	2,630	133,545	342,800
Total	$389,300	$5,350	$145,000	$539,650

6. FEDERAL CAPITAL GRANTS

The U.S. Department of Transportation provides financial assistance to the District for capital projects. Grants which were active during the year ended June 30, 1989 are summarized as follows (in thousands):

Total approved project costs	$511,317
Total approved federal funds	$397,419
Less amounts received	(317,026)
Remaining amount available under federal grants	$ 80,393

7. STATE AND LOCAL FINANCIAL ASSISTANCE

The District receives local operating and capital assistance from Transportation Development Act Funds (TDA). For the year ended June 30, 1989 TDA assistance was $375,000 (1988, $387,000), of which $5,000 (1988, $39,000) was used for capital purposes and $370,000 (1988, $348,000) was operating assistance. These funds are received from the counties of Alameda and Contra Costa to meet, in part, the District's operating and capital requirements based on annual claims filed by the District and approved by the MTC.

The District receives state operating and capital assistance from State Transit Assistance Funds (STA). For the year ended June 30, 1989, STA assistance was $501,000 (1988, $250,000), of which $139,000 (1988, $93,000) was used for capital purposes, $362,000 (1988, $77,000) was used for operating assistance and none (1988, $80,000) was used for flow-through projects. These funds are allocated by 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

8. EMPLOYEES RETIREMENT PLAN

Plan Description - All permanent employees are eligible to participate in the Public Employees' Retirement Fund (Fund) of the State of California's Public Employees' Retirement System. The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and District ordinance.

The District was not required to make a contribution to the Fund for public safety personnel or for miscellaneous covered employees for the years ended June 30, 1989 and 1988 due to a surplus of the District's portion of the Fund's net assets over the District's pension benefit obligation caused by a change in 1988 in the actuarial valuation method and an actual rate of return on investment assets that exceeded the assumed rate. The District's covered payroll for employees participating in the Fund for the years ended June 30, 1989 and 1988 was $85,746,000 and $83,178,000, respectively. The District's 1989 and 1988 payroll for all employees was $95,187,000 and $91,325,000, respectively. The District, due to a Collective Bargaining Agreement, also has a legal obligation to contribute an additional 9% for public safety personnel and 7% for miscellaneous covered employees. Employees have no obligation to contribute to the Fund.

Funding Status and Progress - The "pension benefit obligation" is determined for each participating employer by the Fund's actuary and is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, 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 District's portion of the Fund to which contributions are made 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.

The pension benefit obligation shown below was computed as part of an actuarial valuation performed as of June 30, 1988, the latest available for the Fund. The significant actuarial assumptions used in the 1988 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.5%, annual payroll increases of 5 5% attributable to inflation and 1.5% attributable to merit or seniority, and no postretirement benefit increases.

The funding status applicable to the District's employee group at June 30, 1988 (the latest available for the Fund) follows (in thousands).

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 73,272
Current employees	
Accumulated employee contributions and allocated investment earnings	72,820
Employer-financed, vested	23,866
Employer-financed, nonvested	1,395
Total pension benefit obligation	171,353
Net assets available for benefits, at cost (total current (market) value, $242,362)	214,290
Net assets in excess of pension benefit obligation	$ 42,937

Actuarially Determined Contributions Required and Contributions Made - The funding policy of the Fund provides for actuarially determined periodic contributions by the District at rates such that sufficient assets will be available to pay benefits when due. The District was not required to make a contribution to the Fund for the years ended June 30, 1989 and 1988 in accordance with the actuarially determined requirements computed as of June 30, 1988 and 1987, respectively The District's surplus asset position is being offset against the current year's normal cost contribution. The actuarially determined normal cost contribution rate before reduction for the surplus asset amortization was 15.342% (1988, 17 075%) for public safety employees and 8.201% (1988, 8.257%) for miscellaneous employees. As a result of collective bargaining agreements, any savings in pension expenditure due to a reduction in contribution rate is to be redistributed towards an alternative benefit for covered employees.

The District's normal cost contribution rate is determined using the entry-age normal funding method, a projected benefit cost method. The Fund would use the same method to amortize any unfunded liability.

Significant actuarial assumptions used in the June 30, 1988 valuation to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above

Historical Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

For the District's portion of the Fund, trend information for the years ended June 30, 1988 and 1987, follows (dollars in thousands):

	1988	1987
Net assets available for benefits, at cost	$214,290	$189,801
Pension benefit obligation	$171,353	$151,795
Net assets available for benefits as a percentage of pension benefit obligation	125%	125%
Assets in excess of pension benefit obligation	$ 42,937	$ 38,006
Annual covered payroll	$ 83,178	$ 79,940
Assets in excess of pension benefit obligation as a percentage of annual covered payroll	51.6%	47 5%
Contributions made in accordance with actuarially determined requirements as a percentage of annual covered payroll	0%	0%

Trend information for 1989 is not yet available.

9. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to all officers and employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination, or certain other covered events.

As required by IRC Section 457, all amounts of compensation deferred under the deferred compensation plan and all income attributable to those amounts, remain the property of the District (until paid or made available to the participants), subject only to the claims of 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 plan administrator has invested the deferred amounts in numerous participant-directed, uninsured investments.

District Management believes that the District has no liability under the terms of the plan for any amounts other than the participants' account balances.

10. MONEY PURCHASE PENSION PLAN

All District employees, except sworn police officers, participate in the Money Purchase Pension Plan which is a supplemental retirement program. In January 1981, the District's employees elected to withdraw from the Federal Social Security System (FICA) and established the Money Purchase Pension Plan. The District contributes an amount equal to 6.65% of covered employee's annual compensation (up to $29,700 after deducting the first $133 paid during each month) up to a maximum annual contribution of $1,868. Additionally, the District contributes to each employee's account approximately 1 63% of covered payroll for the savings realized when the District de-pooled its Public Employees Retirement Fund (Fund) account. This amount was formerly paid to the employee's Fund account. Each employee's account is available for distribution upon such employee's termination.

The District's total expense and funded contribution for this plan for the years ended June 30, 1989 and 1988 was $5,587,000 and $5,210,000, respectively. Money Purchase Pension Plan assets at June 30, 1989 and 1988 (excluded from the accompanying financial statements) were $54,489,000 and $45,766,000, respectively.

11. LITIGATION

The District is involved in various lawsuits, claims and disputes, which for the most part are normal to the District's operations. In the opinion of District Management, the costs that might be incurred, if any, would not materially affect the District's financial position or operations.

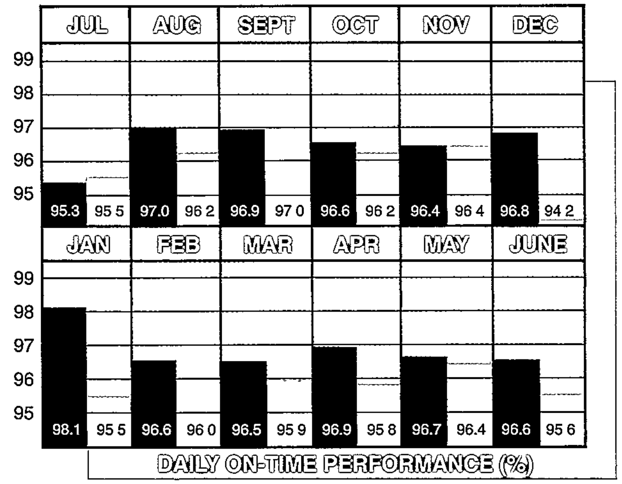
SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF EXCESS OPERATING REVENUES OVER (UNDER) EXPENSES FOR THE YEARS ENDED JUNE 30, 1989 AND 1988
(In thousands)

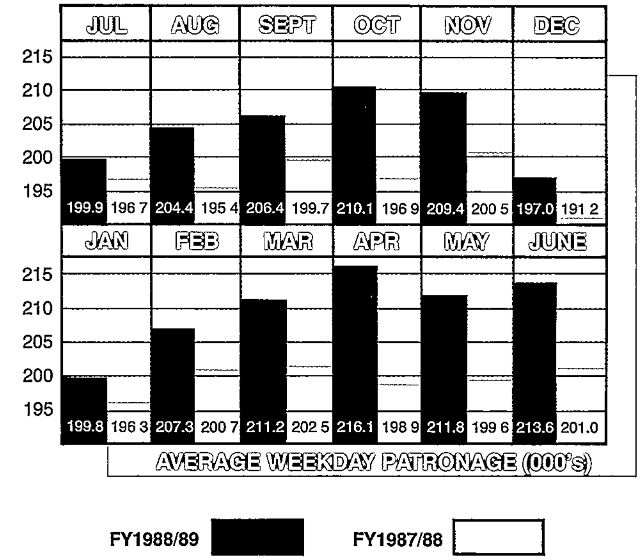
The following is a reconciliation of excess operating revenues over (under) expenses after capital designations and before depreciation:

	1989	1988
EXCESS OF EXPENSES OVER REVENUES:		
Operations	$(24,435)	$(30,554)
CAPITAL DESIGNATIONS	(11,817)	(4,708)
DEPRECIATION	37,767	35,202
EXCESS OF OPERATING REVENUES OVER (UNDER) EXPENSES AFTER CAPITAL DESIGNATIONS AND BEFORE DEPRECIATION	$ 1,515	$ (60)

Capital designations are made by the District annually for capital purposes which represent the excess of revenue over expenses before depreciation generated by operations

MESSAGE FROM THE GENERAL MANAGER





Four days before the end of the 1989 fiscal year, I assumed my position as General Manager of BART.

I was new to BART, but BART wasn't new to me. Through the years, I had followed BART's development closely and regarded the District as being in the forefront of up-to-date mass rail transit operations.

I gave a great deal of thought to BART just before I accepted the position of General Manager. It seemed to me that three words summed up BART's situation as the District moved to expand its passenger capacity and extend its service to additional communities. Those three words are heritage, maturity and challenge.

BART's heritage arises from the boldness and uniqueness of its concept and design and from the unrelenting energy and drive, against powerful opposition, that were given to its development and construction. Building BART, to most of those people who were responsible for its construction, was virtually a crusade, a matter of faith.

The size of the system, cost, technical innovations, engineering difficulties and, last but not least, its potential for service were unprecedented.

When I walked into BART in June, 1989, I was well aware of BART's heritage and I sensed that the District was at a crossroads. In a way, BART was like a mature individual with a brilliant career as a young person but with even more promise ahead. BART had conquered a host of early shakedown problems. It was well run, widely respected and had its face to the future.

BART's responsibility to the future defines the challenge of today. BART now has nearly in place all of the elements of its program to expand capacity on the present 71.5 mile system: new passenger cars, additional electrical capacity, more storage and track facilities and better train control. At the same time, we are moving ahead with our extension program.

These projects must move ahead with the same dynamic energy that propelled the construction of the system in the 1960s and 1970s. We can't miss a beat. We must continue to plan well, operate well and deliver well on our promise to expand and extend our service. But at the same time we set our sights to the future and a 50 percent expansion of the system, we must be ever mindful that our existing facilities have aged well but they have aged. We must embark on an aggressive rebuilding, renovation and rehabilitation of both fixed and operating assets. The promise of the future can only be built on the foundation of performance of the present system.

All of this isn't going to be easy. In fact, it's going to take a lot of hard work, but it's certainly a challenge that BART can meet. BART's heritage provides all of us at BART with an inspiration. We now have the opportunity to build on that heritage and continue to hold our position as the model for rail commuter systems throughout the world.

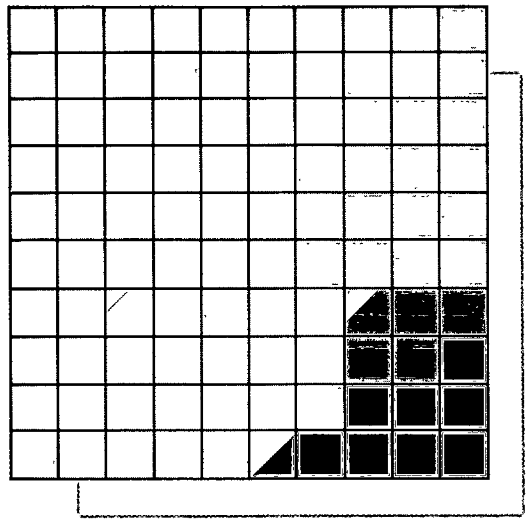
Frank J. Wilson

Frank J. Wilson
General Manager, BART

OPERATING FUNDS 1988/1989

Where Funds Came From (In Thousands)

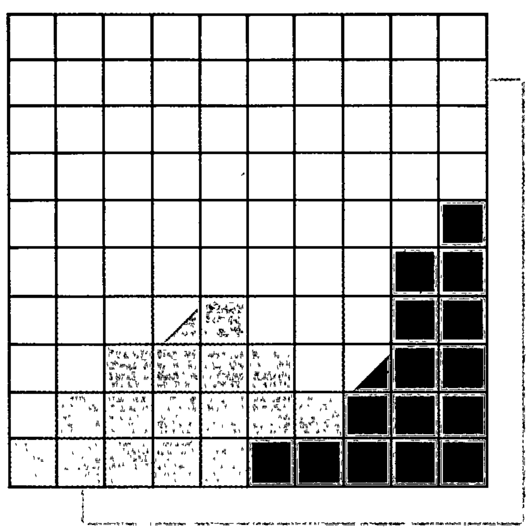
- **Transaction & Use Sales Tax**
  $86,120 44.19%
- **Fares**
  $83,192 42.69%
- **Property Tax**
  $9,083 4.66%
- **Other**
  $16,486 8.46%
  - **Investment Income and Other Operating Revenues**
    $6,421 3.29%
  - **State Financial Assistance**
    $362 0.19%
  - **Construction Funds**
    $9,333 4.79%
  - **Regional Financial Assistance**
    $370 0.19%



TOTAL
$194,881 100.00%

How Funds Were Applied (In Thousands)

- **Maintenance**
  $71,598 36.74%
- **Transportation**
  $61,656 31.64%
- **General Administration**
  $31,772 16.30%
- **Police Services**
  $9,801 5.03%
- **Other**
  $20,054 10.29%
  - **Capital Designations**
    $11,817 6.06%
  - **Construction & Engineering**
    $6,722 3.45%
  - **Increase in Working Capital***
    $1,515 0.78%



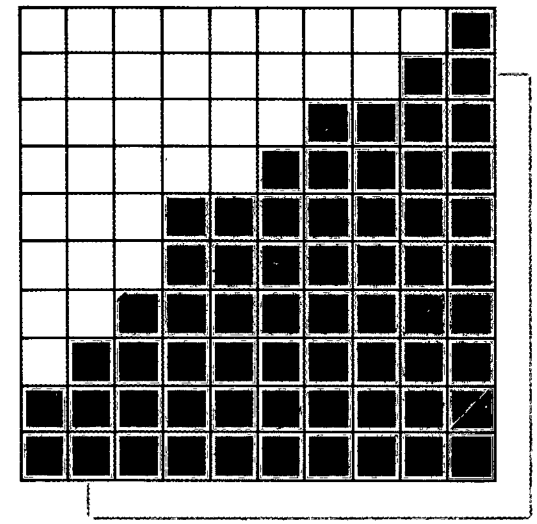
TOTAL
$194,881 100.00%

*Funded excess of revenues over expenses

CAPITAL FUNDS 1988/1989

Source of Funds (In Thousands)

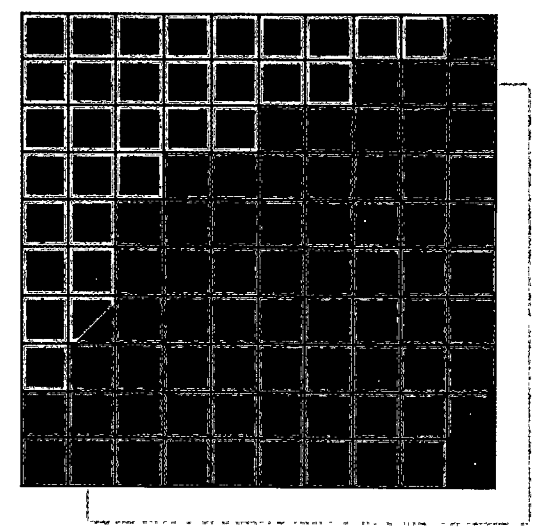
- **District**
  $41,583 37.08%
- **Federal**
  $54,042 48.20%
- **State**
  $14,825 13.22%
- **Local**
  $1,685 1.50%



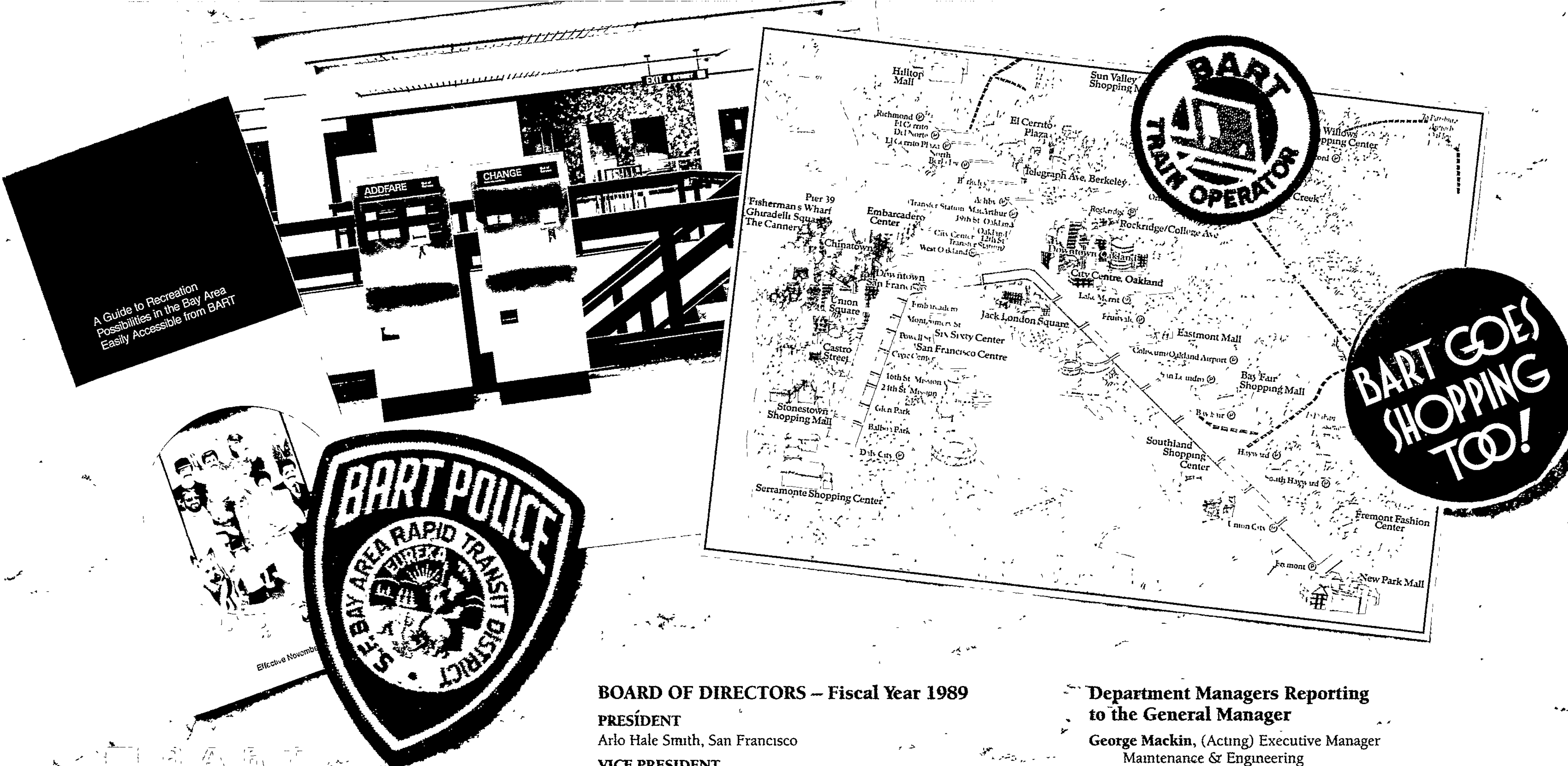
TOTAL
$112,135 100.00%

Expenditures (In Thousands)

- **Construction:**
  - **Line**
    $32,116 28.64%
  - **Systemwide**
    $2,039 1.82%
  - **Support Facilities**
    $157 0.14%
- **Equipment:**
  - **Train Control**
    $8,128 7.25%
  - **Communications**
    $2,885 2.57%
  - **Transit Vehicles**
    $62,635 55.87%
  - **Automatic Fare Collection**
    $297 0.26%
  - **Management Information Systems**
    $562 0 50%
  - **Support Vehicles**
    $58 0.05%
  - **Other Equipment**
    $1,518 1.35%
- **Studies and Other**
  $1,740 1.55%



TOTAL
$112,135 100.00%



San Francisco Bay Area
Rapid Transit District (BART)

Headquarters in downtown Oakland, California
800 Madison Street, P.O. Box 12688
Oakland, CA 94604-2688 (415) 464-6000

Established in 1957 by the California State Legislature
Authorized to plan, finance, construct, and operate a rapid transit system

Governed by a Board of Directors elected for four-year terms by voters in nine election districts within the counties of Alameda, Contra Costa and San Francisco.

BOARD OF DIRECTORS – Fiscal Year 1989

PRESIDENT
Arlo Hale Smith, San Francisco

VICE PRESIDENT
Nello Bianco, El Sobrante

Members of the Board

District #1 – **Joe Fitzpatrick**, Orinda
District #2 – **Nello Bianco**, El Sobrante
District #3 – **Sue Hone**, Berkeley
District #4 – **Margaret K. Pryor**, Oakland
District #5 – **Erlene DeMarcus**, Pleasanton
District #6 – **John Glenn**, Fremont
District #7 – **Wilfred T. Ussery**, San Francisco
District #8 – **Arlo Hale Smith**, San Francisco
District #9 – **Michael Bernick**, San Francisco

Board-Appointed Officers

Frank J. Wilson, General Manager
Sherwood Wakeman, General Counsel
Alvan Teragawachi, Controller/Treasurer
Phillip O. Ormsbee, District Secretary

Department Managers Reporting to the General Manager

George Mackin, (Acting) Executive Manager
Maintenance & Engineering
William B. Fleisher, Chief Transportation Officer
Howard L. Goode, Planning, Budget & Analysis
Michael C. Healy, Public Affairs
Ernest G. Howard, Administrative Services
John Mack, Affirmative Action
Thomas R. Sheehan, Information Systems
William Thomas, Material Management & Procurement
Ralph S. Weule, Safety
Larry A. Williams, Employee Relations

The Annual Report is published by the District pursuant to Section 28779, Public Utilities Code of the State of California.

Design **DiVittorio & Associates**, San Francisco
Typography & Printing **Dharma Enterprises**, Oakland
Photography **Gordon C. Kloess**, Half Moon Bay
Collage Photography. **Craig Mole**, San Francisco
System Map. **Arthur Richardson**, BART Documentation
Writer: **Dudley Creed**, San Francisco
Editor. **Sy Mouber**, BART Public Information Office