



MTS ADOPTED FISCAL YEAR 2007 BUDGET





**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
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BUDGET FISCAL YEAR 2007**

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Resolution No. 06-6

A Resolution Approving the Fiscal Year 2007 Budget

WHEREAS, MTS staff has coordinated with the staff of San Diego Transit Corporation, San Diego Trolley, Inc., MTS Contract Services, Chula Vista Transit, National City Transit, and Coronado Ferry (hereafter referred to as "MTS Operators") throughout the budget preparation process to ensure consistent budget assumptions; and

WHEREAS, the budgets have been prepared using the budget assumptions approved by the MTS Board of Directors; NOW THEREFORE, BE IT RESOLVED, DETERMINED, AND ORDERED by the San Diego Metropolitan Transit System Board of Directors (hereinafter to as "Board") as follows:

1. The Budget for fiscal year (FY) 2007, on file with the Clerk of the Board, is hereby adopted (including MTS, San Diego Transit Corporation [SDTC], San Diego Trolley, Inc. [SDTI], Chula Vista Transit, National City Transit, and Coronado Ferry); and
2. The Chief Executive Officer is authorized to transfer appropriate amounts up to \$100,000 between object accounts, so long as the total amount authorized to be spent for an object account by the FY 07 Budget is not exceeded by more than \$100,000, the total amount authorized to be spent by the FY 07 Budget is not exceeded, and all such transfers are reported to the Board of Directors in the monthly Budget Monitoring Report; and
3. The Chief Executive Officer is authorized to approve expenditures up to a maximum of \$100,000 for local firms and up to a maximum of \$25,000 for all others; and
4. The check-signing authority on behalf of the Board shall be governed by MTS Policy No. 41, Signature Authority; and
5. The Board authorizes the following with respect to compensation:
 - a. A wage increase pool of 4% for all nonrepresented employees of MTS.
6. The Board approves \$550,000 for the FY 07 Performance Incentive Plan; and
7. The annual lease and debt-service payments are included in the FY 2007 Budget as set forth in Section 7.02; and
8. The MTS Budget establishes absolute spending limits, and the budgeted expenditures cannot be exceeded without prior written approval of the MTS Board of Directors; and
9. Any budget variances will be reported to the MTS Board of Directors; and
10. MTS is authorized to withhold monthly subsidy payments to those operators who do not provide the information according to an established schedule; and
11. The position schedules of the MTS Operators as contained in the FY 07 budget are approved; and

PASSED AND ADOPTED, by the Board of Directors this 8th day of June 2006, by the following vote:

AYES: Atkins, Clabby, Emery, Ewin, Hanson-Cox, Jones, Maienschein, Mathis, McLean, Monroe, Rindone, Roberts, Zarate

NAYS: None

ABSENT: Faulconer, Young

ABSTAINING: None



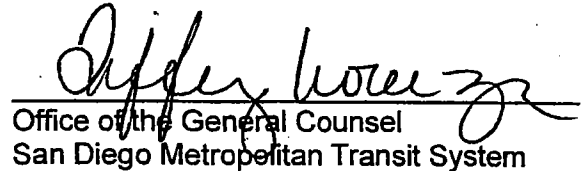
Chairman
San Diego Metropolitan Transit System

Filed by:



Clerk of the Board
San Diego Metropolitan Transit System

Approved as to form:



Office of the General Counsel
San Diego Metropolitan Transit System

JUNE8-06.25.FY07BUDGET.ATTB.RES06-6.LMARINESI

I HEREBY CERTIFY that this is a full, true, and correct copy of a DOCUMENT of the San Diego Metropolitan Transit System (MTS). Passed and adopted by the Board of Directors.



Gail Williams, Clerk of the Board

Section 1

Introduction

**San Diego Metropolitan Transit System
Chief Executive Officer's Statement
Proposed Budget Fiscal Year 2007
Section 1.01**

Review of Fiscal Year 2006 / Preview of Fiscal Year 2007

Fiscal year 2006 began with the Mission Valley East Light Rail Transit (LRT) segment opening in July 2005. This important segment added an additional 5.9 miles of track and four new stations to MTS's rail operations, including MTS's first underground tunnel at San Diego State University. The new Green Line begins in Old Town, runs through the four new stations (Grantville, San Diego State University, Alvarado, and 70th Street), continues to Santee, and provides the important linking of the existing Blue and Orange Lines. As this Mission Valley East segment began operations, 11 new Siemens S70, low-floor vehicles were added to our light rail fleet.

A significant evaluation of the MTS combined system began within fiscal year 2006. The goal of the Comprehensive Operational Analysis (COA) was to evaluate and restructure MTS services and operations to more efficiently and effectively serve the region's transit needs and meet regional transportation goals within the constraints of the current financial and operating environment. The first phase of the COA was implemented within the 2006 fiscal year. COA Phase II is programmed for implementation within fiscal year 2007. The dates of implementation are June 2006, September 2006, and January 2007.

This is the second year of working as an operating agency after splitting functions with the San Diego Association of Governments (SANDAG) under Senate Bill (SB) 1703. This legislation tasked the regional planning and programming functions to SANDAG and the operating functions to MTS. Within the fiscal year, internal consolidations have continued. This consolidation has given MTS the ability to enhance the focus of MTS's core mission of operations, produced uniformity within processes, and developed organizational efficiencies. This consolidation has provided opportunities to enhance MTS's ability of providing quality, efficient, reliable service to its customers.

MTS has been in a nonsustainable financial position over the past several years. Nonrecurring revenues were utilized to balance the operating budget, the MTS Capital Improvement Program has been significantly underfunded, and energy prices have skyrocketed.

Within the 2005 fiscal year, MTS utilized \$15 million of nonrecurring revenues to balance the budget. Within this \$15 million figure, \$8.2 million was used for contingency reserves. Within fiscal year 2006, this nonrecurring revenue figure had dropped to \$7.1 million and included no utilization of contingency reserves. This \$7.1 million included federally funded Congestion Mitigation and Air Quality (CMAQ) dollars (\$4.6 million) directly attributable to the opening of Mission Valley East, and some nonrecurring TransNet Bus Rapid Transit (BRT) funding (\$2.1 million) was utilized for operating usage for fiscal year 2006. Within fiscal year 2007, no CMAQ nonrecurring revenues have been programmed for utilization of the operating budget. Over a period of just two short years, MTS has reduced the amount of nonrecurring revenues in the operating budget balance from \$15 million, which includes no Mission Valley East funding, to under \$4.7 million (primarily Mission Valley East-CMAQ funding). The federal CMAQ funding will end at the close of fiscal year 2008 and will be replaced by TransNet II recurring operating funds.

The MTS Capital Improvement Program has a significant disparity between funding levels and project needs. The already-approved fiscal year 2007 Capital Improvement Program includes Federal 5307

and Federal 5309 funding, federal earmarks, and project transfers. Within the fiscal year 2006 operating budget, MTS also shifted \$2 million in nonrecurring BRT funding and \$3 million in State Transit Assistance (STA) funding into the Capital Improvement Program. The total available funding after debt service and preventative maintenance was \$32.4 million. The Capital Improvement Program needs for the fiscal year totaled \$82.4 million leaving a deficit of \$50 million. Looking over the following four years, projected funding amounts average approximately \$26.2 million, and MTS's organizational needs average approximately \$115.1 million, leaving an average deficit of approximately \$88.9 million per year for the next four years. The projected five-year outlook includes an accumulated deficit of \$405.1 million or a 25.3% funding-level-to-needs ratio.

Within fiscal year 2006, MTS began an analysis that projected the ten-year needs within the Capital Improvement Program. The projection included bus and rail infrastructure needs, various bus vehicle needs, and scenario options with regard to our light rail vehicles (purchases and rehabilitations). The funding deficits (project needs greater than funding) based upon the differing scenarios range from \$34 million to \$75 million per year for ten years. This significant long-range plan emphasizes the challenges for MTS in the short and long terms.

While these capital deficits loom, MTS is committed to bridge this gap. From an operating budget perspective, MTS has begun shifting any nonrecurring and recurring revenue funding into the Capital Improvement Program. Within fiscal year 2006, MTS was able to shift \$5 million, and in fiscal year 2007, the budget allows for an additional \$6.5 million into the Capital Improvement Program. MTS is exploring all other avenues of funding. The potential of the State of California's bond measure could bring \$17 million to \$20 million per year over the next ten years into the MTS Capital Improvement Program. MTS continues to look at securing federal earmarks, although this funding is not likely to generate significant capital funding.

Another challenge MTS faced over the fiscal year is energy rates. Diesel and compressed natural gas (CNG) rates have continued their significant rise. In just two short years, the original budgeted rates for diesel and CNG grew from \$1.10 per gallon and \$0.90 per therm, to \$2.32 per gallon and \$1.50 per therm, respectively. Over that two-year period, the operating expense increase totals over \$7.2 million.

One of the goals of MTS is to run an extremely efficient and well-managed operation. MTS compares very favorably with other similarly structured western operators in many operating statistics. There are many categories that MTS monitors, but I will mention three very important statistical comparisons (farebox recovery, cost per revenue hour, and subsidy per passenger) that confirm the leadership and direction of the MTS organization.

In terms of farebox recovery, MTS's 39% recovery rate far exceeds all other operators with Portland (Tri-Met) next at 24%. The cost per revenue hour is a very important statistic in which different-sized operators can comparatively assess cost efficiencies. MTS again leads the way at a rate of \$84.09 per revenue hour. Utah (UTA) is the closest at \$89.31, and all other western operators are well over \$100 per revenue hour. Subsidy per passenger provides insight in the utilization of taxpayer dollars for operating purposes. MTS again has the advantage by only utilizing \$1.42 per passenger. Tri-Met is next at \$1.96, and all other operators exceed \$3.00 per passenger.

Several strategies, from a technological implementation perspective, are underway. MTS's radio communications system and Automated Vehicle Location implementation took place within fiscal year 2006. This important tool will improve communication capabilities between MTS Central Control and bus operators as well as provide real-time bus location technology. Within fiscal year 2007, fare collection, passenger counting and Smartcard implementation will continue. These very important components will streamline many existing processes and provide operational and budgetary efficiencies.

