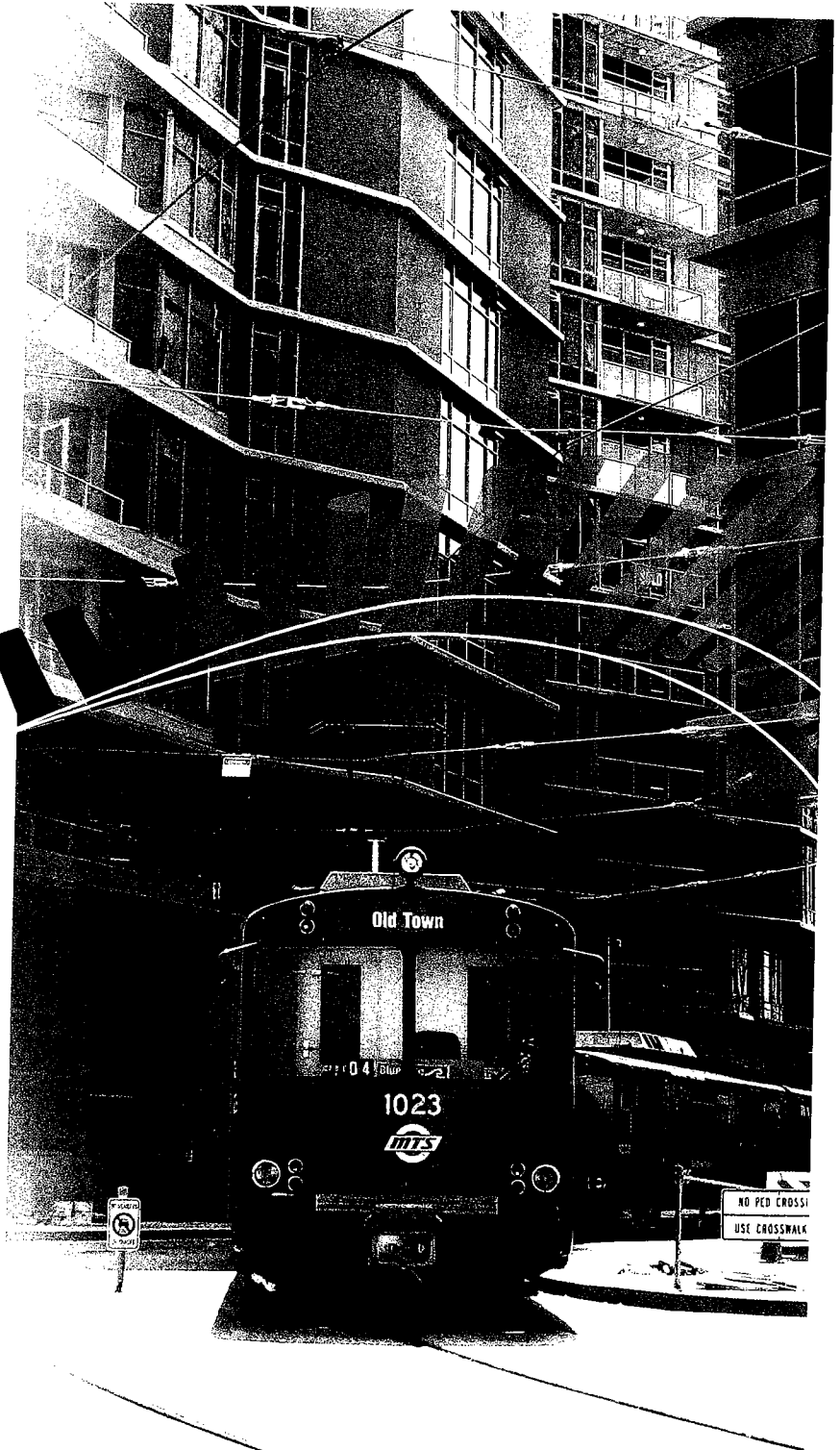
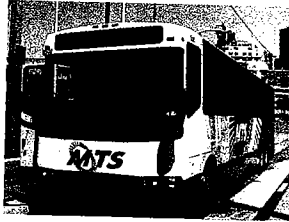
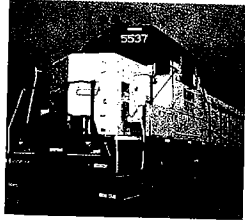


MTS Adopted Fiscal Year 2008 Budget



**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
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BUDGET FISCAL YEAR 2008**

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San Diego Metropolitan Transit System

Resolution No. 07-6

Resolution Approving the Fiscal Year 2008 Budget

WHEREAS, the Metropolitan Transit System (MTS) staff has coordinated with the staffs of San Diego Transit Corporation (SDTC), San Diego Trolley, Inc. (SDTI), MTS Contract Services, Chula Vista 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 MTS Board of Directors (hereinafter referred to as Board) as follows:

1. That the budget for fiscal year (FY) 2008, on file with the Clerk of the Board, is hereby adopted (including MTS Operators); and
2. That 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 08 budget is not exceeded by more than \$100,000, the total amount authorized to be spent by the FY 08 budget is not exceeded, and all such transfers are reported to the Board in the monthly Budget Monitoring Report; and
3. That the Chief Executive Officer is authorized to approve expenditures up to a maximum of \$100,000; and
4. That the check-signing authority on behalf of the Board shall be governed by MTS Policy No. 41, Signature Authority; and
5. That the annual lease and debt-service payments are included in the FY 08 budget as set forth in Section 7.02; and
6. That the MTS Budget establishes absolute spending limits, and that the budgeted expenditures cannot be exceeded without prior written approval of the Board; and
7. That any budget variances will be reported to the Board; and
8. That MTS is authorized to withhold monthly subsidy payments to those operators who do not provide the information according to an established schedule; and
9. That the position schedules of MTS, SDTC, and SDTI as contained in the FY 08 budget are approved; and

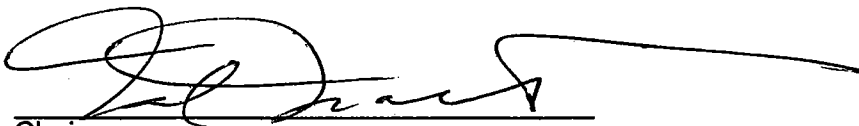
PASSED AND ADOPTED, by the Board this 14th day of June, 2007, by the following vote:

AYES: Atkins, Clabby, Emery, Ewin, Falconer, Lewis, Mathis, McLean, Rindone, Roberts, and Young

NAYES:

ABSENT: Jones, Maienschein, and Monroe

ABSTAINING:



Chairman
San Diego Metropolitan Transit System

Filed by:



Clerk of the Board
San Diego Metropolitan Transit System

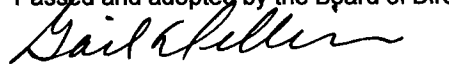
Approved as to form:



Office of the General Counsel
San Diego Metropolitan Transit System

JUNE14-07.25.AttB.RES NO 07-6.LMARINESI.doc

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 2008
Section 1.01**

Review of Fiscal Year 2007 / Preview of Fiscal Year 2008

Comprehensive Operational Analysis (COA):

A significant evaluation of the MTS combined system began within fiscal year 2006 and continued through fiscal year 2007. 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 implementation of COA Phase II has been staged over the course of the fiscal year with only a few minor modifications remaining to take place in June 2007. While MTS viewed this significant restructuring as a long-term solution in achieving our transportation goals, realization of the benefits has already taken place.

Within restructured routes in fiscal year 2007, MTS has realized a 5.5% increase in ridership. On time performance and resources utilization have also significantly improved. We expect that as MTS passengers continue their familiarity of the modified system, MTS will achieve additional positive trends in ridership, on time performance and resource utilization.

Consolidating of Purchased Transportation Activities:

A significant consolidated bidding of MTS Contract Services was completed during fiscal year 2007. The strategic purpose of this procurement was primarily to consolidate many of MTS' current purchased transportation contracts, including Chula Vista Transit's contract, to produce economies of scale and cost efficiencies, and to provide a consolidated efficient contracted service. The approved 5½ year contract with 3 option years totaled over \$344 million and was awarded to Veolia Transportation, Inc. The negotiated procurement process used to procure this contract will save the organization over \$19.4 million over the 8½ years.

National City Transit:

In March 2007, MTS assumed operations previously managed by McDonald Transit Associates on behalf of National City. From a business perspective, the continued operation of a separate 14-bus system in National City was an inefficient use of taxpayer funds. Projected annualized operating cost savings of approximately \$565,000 have been realized due to the elimination of management fees, facility rental payments and overhead payments as well as benefits due to efficiencies in the consolidation of operations.

Due to the consolidation, MTS was able to reinvest the savings into a 41% increase in service in the National City area as recommended by the COA. The consolidation coupled with the COA implementation in National City enabled the ability to integrate routes serving the City of National City with the broader transit network.

National City Transit vehicles that were operated consumed diesel fuel as its energy source. As an additional benefit, the consolidation eliminated the need to build a separate, costly compressed natural gas (CNG) infrastructure at the facility in National City. With all revenue vehicles now operating out of our South Bay Maintenance Facility, the ability to more quickly introduce CNG technology into National City has increased.

Continued MTS Consolidation:

This is the third 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.

During fiscal year 2007, MTS consolidated all bus operating activities into one Transit Services organization. This consolidated entity now includes our internal bus operations, formerly San Diego Transit, Inc. and our contracted services operations. 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.

Operating and Capital Budgets:

The long-term ongoing goal of the MTS operating budget is to fund operations utilizing recurring revenues. The 2005 fiscal year operating budget was funded utilizing \$15 million of nonrecurring revenues, with \$8.2 million coming from contingency reserves.

Within the 2006 fiscal year, MTS came very close to the goal of funding operations with recurring revenues. No contingency reserves were utilized to balance the FY 2006 operating budget. Nonrecurring Congestion Mitigation and Air Quality (CMAQ) funding (\$4.6 million) was available and utilized for the start-up operations of Mission Valley East (MVE). CMAQ funding is available for a three-year period for operating purposes when a new operating segment becomes available. Also within FY 2006, nonrecurring TransNet funding (\$2.4 million) was utilized to balance the operating budget.

Through significant operational and fiscal management, fiscal year 2007 proved to be the first year in recent history where MTS balanced the operating budget using recurring revenues (excluding CMAQ funding for MVE start-up). Additionally, recurring revenues exceeded recurring expenses and the MTS Board of Directors shifted over \$2.0 million in recurring revenues into our significantly under-funded Capital Improvement Program (CIP).

From a capital budget perspective, MTS has a significant disparity between funding levels and project needs. While fiscal year 2008 includes a significant funding infusion with non-recurring STA spillover and Proposition 42 repayment, as well as other non-federal one-time funding sources, MTS needs were substantially greater than funding availability. As detailed within Section 8.01, the FY08 MTS Board-approved CIP totals \$50.1 million in funding. This available budget funds 66 total projects including over \$21.7 million dedicated to the procurement of 40-foot and high capacity vehicles. Over the following four years, revenues are expected to range from just over \$31 million in fiscal year 2009, to over \$40 million in fiscal year 2012. As our agency capital needs continue over the five years, MTS is projecting just under \$600 million in total needs and forecasting only a 32.6 percent funding to needs ratio.

Subsidy Revenue:

In fiscal year 2008, MTS has been challenged with reduced subsidy levels, primarily within Transportation Development Act (TDA), TransNet, and State Transit Assistance (STA) funding, than originally projected. Within our operating budget, TDA and STA levels have been reduced from our amended fiscal year 2007 levels. TransNet levels are projected to increase, but not at the levels originally projected.

TDA and TransNet revenues make up a considerable portion of MTS' operating revenue and comprise approximately 36 percent and 11 percent respectively of MTS' overall operating revenue. This decline is primarily due to lower available home equity and declines in the construction, housing and automobile sectors of the economy. These primary factors have contributed to lower sales tax receipts.

Energy:

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 three years, the original budgeted rates for diesel and CNG grew from \$1.10 per gallon and \$0.90 per therm, to \$2.45 per gallon and \$1.36 per therm, respectively. Annual fuel costs have increased \$6.9 million in just three years. Fiscal year 2005 totaled \$11.4 million in annual fuel costs and fiscal year 2008 totals \$18.3 million in annual fuel costs.

Agency Comparison:

One of the goals of MTS is to run an extremely efficient and well-managed operation. MTS sets the standard compared to 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 36% recovery rate far exceeds all other operators with King County, WA next at 22%. 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 \$81.45 per revenue hour. Utah (UTA) and Denver (RTD) are the closest at \$84.40 and \$86.61 respectively. 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 \$1.55 per passenger. Portland (Tri-Met) is next at \$2.22, and all other operators exceed \$2.70 per passenger.

Overview of the Budget Process

This budget includes all MTS transit resources that are budgeted collectively and includes bus operations, rail operations, contracted bus operations, Chula Vista Transit, and the Coronado Ferry.

All operators and departments submitted budgets utilizing a zero-based approach. This allowed MTS to review all expenses from the ground up rather than simply increasing an unjustified base. Utilizing this process, base operations and administrative costs were held to a 2.7% increase (which includes the energy rate impacts and CNG fuel rebates).

Fiscal Year 2008 Budget / Operational Highlights

MTS' fiscal year 2008 proposed operating budget totals \$239.0 million, and several strategic measures were taken for fiscal year 2008 operating budget closure.

