



ADOPTED FISCAL YEAR 2010 BUDGET



SAN DIEGO METROPOLITAN TRANSIT SYSTEM

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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Resolution No. 09-17

Resolution Approving the Fiscal Year 2010 Budget

WHEREAS, MTS staff has coordinated with the staffs of San Diego Transit Corporation, San Diego Trolley, Inc., 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 San Diego Metropolitan Transit System Board of Directors, hereinafter "Board," as follows:

1. That the Budget for fiscal year (FY) 2010, 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, and Coronado Ferry); 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 10 Budget is not exceeded by more than \$100,000, the total amount authorized to be spent by the FY 10 Budget is not exceeded, and all such transfers are reported to the Board of Directors 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 2010 Budget as set forth in Section 7.01; and
6. That the MTS Budget establishes absolute spending limits, and that the budgeted expenditures cannot be exceeded without prior written approval of the MTS Board of Directors; and
7. That any budget variances will be reported to the MTS Board of Directors; 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 10 budget are approved; and

PASSED AND ADOPTED, by the Board this 28th day of May 2009, by the following vote:

AYES: Boyack, Bragg, Faulconer, Gloria, Jones, Lightner, Mathis, McClellan, Ovrorn, and Rindone

NAYES:

ABSENT: Ewin, Roberts, Selby, and Young

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

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

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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 10 Budget is not exceeded by more than \$100,000, the total amount authorized to be spent by the FY 10 Budget is not exceeded, and all such transfers are reported to the Board of Directors in the monthly Budget Monitoring Report; and
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PASSED AND ADOPTED, by the Board this 28th day of May 2009, by the following vote:

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Chairman
San Diego Metropolitan Transit System

Filed by:



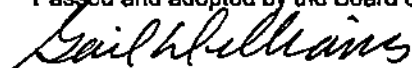
Clerk of the Board
San Diego Metropolitan Transit System

Approved as to form:



Office of the General Counsel
San Diego Metropolitan Transit System

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Gail Williams, Clerk of the Board

Section 1

Introduction

**San Diego Metropolitan Transit System
Chief Executive Officer's Statement
Proposed Budget Fiscal Year 2010
Section 1.01**

Review of Fiscal Year 2009 / Preview of Fiscal Year 2010

As a recap of the current financial position and objectives for MTS, the following is a review of historical operations and budgetary information over the past few years.

Fiscal Year 2009 Operational Highlights

- **Federal Transit Administration's (FTA) Triennial Review**

The FTA has just concluded its Triennial Review of MTS operations. The triennial review is one of the FTA's management tools for examining grantee performance and adherence to current FTA requirements and policies. It examines how recipients of Urbanized Area Formula Program funds meet statutory and administrative requirements. After thoroughly reviewing the 23 different areas of responsibility, the auditor found zero deficiencies.

- **Bus Procurements**

During fiscal year 2009, MTS took delivery of 55 CNG-powered forty-foot buses, 26 CNG-powered, sixty-foot articulated buses and 12 thirty-five-foot Super Loop gasoline hybrid-electric buses. These new buses replaced diesel buses that are up to 16 years old, as well as some 14 year old forty-foot CNG buses. As a result, MTS combined operations have reduced their consumption of diesel fuel by almost 50%.

- **Transit Oriented Development at Grossmont Trolley**

MTS partnered with Fairfield Residential and the City of La Mesa to create a residential development on the site of MTS-owned parking lots adjacent to the Grossmont Transit Center in La Mesa. This transit-oriented development project started leasing apartments this winter. The project will provide MTS with \$685 million in operating revenue over the life of the 99 year lease.

- **I-15 BRT Service**

Two interim BRT stations opened in fiscal year 2009, served by existing Premium Express routes: Sabre Springs in January and Rancho Bernardo in March. The Sabre Springs Station is served by routes 820 and 860. The Rancho Bernardo Station is served by routes 20, 810, 845, and 880. Route 880 is a new premium service developed for 4S Ranch that provides express service to Sorrento Valley and is funded through developer fees.

- **Super Loop Service**

Super Loop, a new rapid bus circulator route in the University City area, was included in the voter-approved TransNet II Ordinance list of transit projects. Full construction of the project is not scheduled for completion until 2010; however, MTS procured the gasoline hybrid-electric buses and partnered with SANDAG to begin a pilot service in the area on June 15, 2009. The pilot will include running service in both directions every 10 minutes in the peak on a loop route,

servicing nine stops between University of California San Diego's campuses, University Towne Centre, and La Jolla Village Square. This pilot will provide additional service in the north city area, which has experienced high transit demand and will be a precursor to the full Super Loop Project.

- Amalgamated Transit Union (ATU) Agreement

MTS staff negotiated and finalized a 5-year agreement with the Amalgamated Transit Union (ATU) in May 2008. This deal included concessions by ATU in agreeing to change dozens of work rules that will help management run a more cost-effective operation, including the first shake up with packaged (rostered) schedules.

MTS was able to negotiate changes that improved its ability to recruit bus operators, ensure operator staffing, and enable management to reduce absenteeism, overtime, and lost work as well as improve bus service to its passengers.

- International Brotherhood of Electrical Workers (IBEW) Agreement

MTS staff negotiated and finalized a 3-year agreement with the International Brotherhood of Electrical Workers (IBEW). This agreement included a 15 month pay freeze and other concessions by the IBEW that will help management run a more cost effective operation. In exchange, the money generated from these savings will allow MTS to maintain current benefit levels for existing employees and ensure a cooperative relationship for several more years.

- Hosted APTA National Convention and Expo

MTS was proud to host the most important gathering of public transit professionals in the country, the 2008 American Public Transportation Association (APTA) EXPO at the San Diego Convention Center, October 5 to 8, 2008. EXPO 2008 was the largest public transportation EXPO in the world. More than 15,000 public transportation leaders from a myriad of international venues attended EXPO 2008 to view more than 800 exhibits from manufacturers and suppliers of transit innovation - everything from passenger services and operations to alternative-powered and alternative-fueled vehicles that will continue to drive our "green technology." The local economic impact of the event was estimated to be \$58 million.

- Rail Centralized Train Control (CTC)

CTC will provide real time train location and systems information to the SDTI Central Control Facility. The initial phase of this project is due for implementation by SANDAG in October of 2009 and will encompass downtown to Old Town and out to Santee on the Green Line. The remainder of the system extending from center city San Diego on the Blue and Orange Lines will be part of phase 2 and implemented in future years.

- Trolley Blue and Orange Line Rehabilitation Project

Progress was made on the Trolley Blue and Orange Line Rehabilitation and Low Floor Vehicle Project. Both the Blue and Orange Lines will be retrofitted to accept low floor light rail vehicles as part of the overall project, and MTS will procure vehicles to ensure at least one new vehicle per train. In addition, this project will rehabilitate track, track switches, overhead catenary wire, stations, grade crossings, crossing signal equipment, signal cases and substation enclosures and activation switches. A combination of state bond funding, TransNet, MTS Federal 5309 and economic stimulus funding will be used to complete the project and purchase new low floor

vehicles. MTS joined with the Utah Transit Authority to contract with Siemens for an ultra short low floor vehicle that better suits the shorter blocks in downtown San Diego. This option will speed delivery of the vehicles once the stations have been retrofitted to accommodate them system wide.

- Rail System Operations Modification

The MTS Board approved staff's recommendation to modify system operations by extending the Green Line Terminal from the Old Town Transit Center to the Imperial Station, via the Bayside Corridor. Stations from Washington Street to Imperial Station Terminal will be modified to accommodate low-floor access. The Blue Line will terminate at the America Plaza Station and the Orange Line will terminate at the Santa Fe Depot with a timed Green Line transfer. This change in operations will produce an estimated \$750K annual operating savings.

- Ridership

Fiscal year 2009 ridership is expected to top 90 million passengers for the second year in a row, with a slight increase over fiscal year 2008. This increase has occurred despite budgetary service reductions, multiple fare adjustments, stabilizing gas prices, and a county wide unemployment increase from 5.9% in June 2008 to 9.3% in March 2009.

Historical Budgetary Recap

The long-term ongoing goal of the MTS operating budget is to fund operations solely utilizing recurring revenues.

Changes in the economic environment have created significant budget challenges in the past several years. Late in the 2007 fiscal year, MTS learned that sales tax receipts would be lower than anticipated and that trend has continued into fiscal year 2010. The decline in sales tax revenue impacts MTS's TransNet and Transportation Development Act (TDA) revenues that together make up approximately 47 percent of operating revenue.

In early November 2008, MTS staff was informed by the state that the agency's share of STA revenue would be cut from a projected \$14.1 million to approximately \$4.0 million. This represents the 25% of the total originally budgeted STA revenues. When the state closed their budget in February 2009, MTS was notified that they would receive 50% of the original budget, approximately \$7.0 million, for fiscal year 2009, but STA funding would be discontinued for the next five years. The elimination of all state assistance to public transportation has at least a \$14.5 million annual impact on MTS's budget.

The significant loss of subsidy revenues experienced by MTS in the past several years has forced a number of initiatives to reduce costs and generate revenue. These included service and fare adjustments, management personnel reductions, management benefit reductions, increased advertising and real property revenues, and belt-tightening initiatives. MTS also began to see beneficial results from efficiency-related changes such as a new contract for operation of approximately half of its bus service, the Comprehensive Operations Analysis implemented in 2007, risk management improvements, and consolidation of administrative functions.

Review of MTS Financial Status

Staff began the fiscal year 2010 budgetary process in November 2008. Despite belt-tightening measures, lower than anticipated fuel costs, and increased fare revenues, staff presented a budget

shortfall of \$11.0 million to the MTS Budget Development Committee (BDC), MTS Executive Committee (EC), and MTS Board of Directors. This was primarily due to the complete elimination of STA funding, as well as the continued reductions in TDA and TransNet revenues. The MTS Board of Directors was presented a scenario and options to close this \$11.0 million shortfall with adjustments to recurring revenue and recurring expenses in five categories: fiscal year 2009 projected carry-forward, non-fare revenue, non-service cost adjustments, personnel, fares and service.

1. FY 09 Projected Carry-Forward - This category includes the projected \$1.8 million revenues exceeding expenses in FY 09. These funds would be carried into the FY 10 operating budget as a buffer as there are many initiatives (particularly subsidy projections) in the following four categories that could fluctuate and have positive or negative impacts to our FY 10 operating budget.
2. Non-fare Revenue Adjustments – Options included expanding advertising within MTS kiosks, timetables, regional transit maps as well as website and telephone advertising. It also includes exploring advertising opportunities to establish sustainable markets, including pass sales to convention centers, etc. Establishing additional property development options and the El Cajon Transit Center redevelopment are included within this category.
3. Non-Service Cost Adjustments - MTS has been committed to running a lean operation, and this category focuses on the continuing of our internal “belt-tightening”.
4. Personnel Adjustments – The scenario presented included options to eliminate open positions, continue to freeze other positions, make additional staff reductions, and other benefit adjustments. Over the last several years, administrative staffing has been reduced by 18.6%.
5. Fare / Service Adjustments - A total of \$6.9 million in fares and service adjustments were targeted in order to balance the budget. Numerous scenarios varying the mix between fare and service changes were presented.

The MTS Board of Directors approved the initiatives proposed. As part of the budget closure, the following categories were addressed: State Transit Assistance funding, fare changes, service changes, and energy.

State Transit Assistance (STA)

In fiscal year 2007, the total amount of STA funds totaled \$28.6 million. Internally, MTS distributed \$11.0 million to the operating budget (based upon the “recurring” portion of STA) and just over \$17.6 million to the capital budget (based upon the spillover funding and Proposition 42 payback). Spillover and Proposition 42 funds have historically been volatile, unreliable sources of revenue due to State of California legislative actions. In fiscal year 2008, STA funds totaled \$14.6 million. MTS distributed \$9.4 million to the operating budget and \$5.2 million to capital.

By law, STA projections for fiscal year 2009 totaled approximately \$62 million. In order for the governor and legislative bodies to balance the state budget, MTS's allocation of STA funds dropped by \$48 million, which is approximately a 77% reduction to \$14 million. As a result, no STA funds were incorporated in MTS's fiscal year 2010 capital program. In February 2009 the state of California finally approved its fiscal year 2009 budget. It included an additional 50% reduction in STA funding, as well as the complete elimination of STA funding for five years.

Fare Changes

A total of \$2.2 million in fare adjustments were approved by the MTS Board of Directors on March 12, 2009. The approved fares adjustments are as follows:

- \$4 increase in adult monthly pass (to \$72) which triggers adjustments in other monthly passes: Senior and Disabled (up \$1 to \$18), Youth (up \$2 to \$36). Premium Express pass was also raised \$10 per month to \$100.
- Increase the special circular route rate of \$1 one-way adult cash fare on four routes to match the \$2.25 one-way adult cash fare for the rest of the system.
- Eliminate the \$1.25 downtown trolley fare.
- Increase the senior age eligibility to 65 years over a five year period by increasing the age one year each year. The reason for the progression of the age is to allow anyone who currently is included within the program would not be affected by the change.

Service Changes

A total of \$4.7 million in service adjustments were approved by the MTS Board of Directors on March 12, 2009. These adjustments were primarily focused on unproductive weekend routes as only 1 weekday route was proposed to be eliminated. Most of the weekend service changes pertained to frequency reductions with only four routes being eliminated. MTS staff projects approximately 3.7 million trips impacted (3.7% of the total) and only 644,000 annual trips lost (0.7% of the total).

Energy

Energy prices over this past fiscal year have fallen substantially. The original 2009 fiscal year budget rates for CNG and diesel for the MTS system were \$1.47 per therm and \$3.29 per gallon, respectively. Staff now projects that the actual fiscal year 2009 rates will be \$1.30 per therm and \$2.69 per gallon, respectively. In staff's proposed fiscal year 2010 operating budget, the MTS system budgeted rates are \$1.35 per therm for CNG and \$2.30 per gallon for diesel. Total MTS energy expenses for fiscal year 2010 are budgeted at \$26,971,000, compared to midyear-adjusted fiscal year 2009 at \$28,520,000, a decrease of \$1,549,000 (-5.4%).

For reference, an increase of \$0.01 per gallon of diesel has an operating impact of approximately \$13,000. An increase of \$0.01 per therm of CNG has an operating impact of approximately \$84,000. Approximately 80% of all MTS fixed route operations are operated using CNG.

FY 2010 Overview

As indicated within Attachment B, the fiscal year 2010 total budgeted revenues are projected at \$225,106,000, and total projected expenses are budgeted at \$225,106,000, resulting in a balanced budget for fiscal year 2010.

- FY 2010 Revenue

Please refer to Attachment A for a summary of fiscal year 2010 budgeted revenues.

- FY 2010 Operating Revenues

Combined passenger revenue for fiscal year 2010 is projected to increase \$6,269,000 (7.2%) compared to midyear-adjusted fiscal year 2009 levels and is primarily due to fare changes. Phase two of fiscal year 2009's fare adjustments were implemented in January 2009, as well as

the additional monthly pass fare adjustments scheduled for July 2009, which are expected to generate additional passenger revenues.

- FY 2010 Other Revenues

Total other revenue is budgeted to decrease by \$787,000 (-10.1%). This is primarily due to reduced advertising revenues projected within the fiscal year, as well as a decrease in the projected interest income.

- FY 2010 Subsidy Revenues

Subsidy revenues are currently budgeted to decrease by \$7,607,000 (-6.2%). As indicated within Attachment A, this fiscal year utilizes carry-forward revenue of \$1,750,000, as well as additional reserve revenues for San Diego and Arizona Eastern Railway Company and Taxicab Administration, as they are self-funded operations.

- FY 2010 Expenses

Please refer to Attachment B for functional related fiscal year 2010 budgeted expenses and Attachment C for an operational look at fiscal year 2010 budgeted expenses.

- FY 2010 Combined Expenses

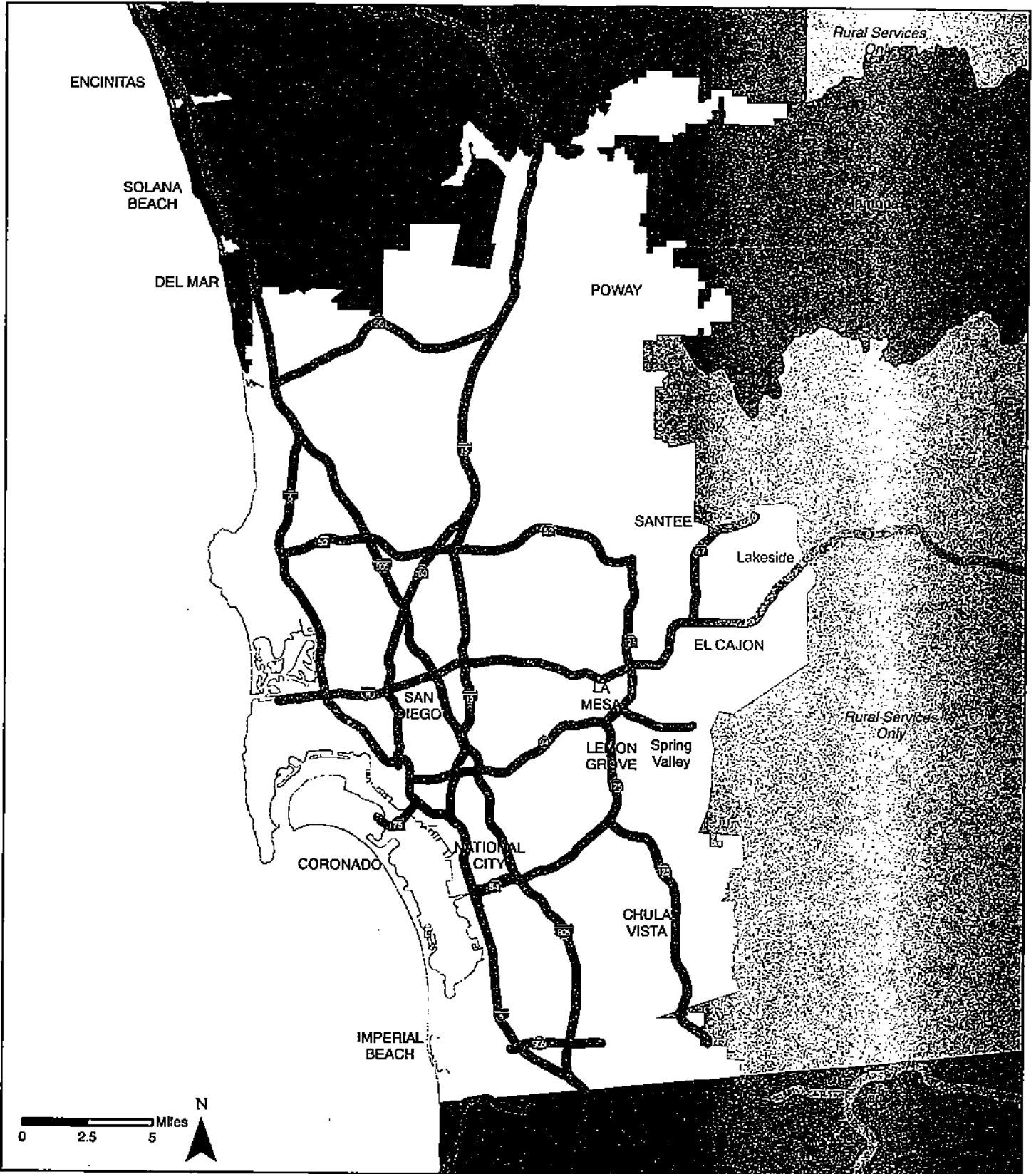
Fiscal year 2010 combined expenses total \$225,106,000, which is an increase from midyear-amended fiscal year 2009 of \$1,452,000 (0.6%). This increase includes \$2.2 million (2.2%) in additional personnel expenses.

Five-Year Forecast

Attachment D provides a look at MTS operations through FY 14. Passenger revenues are projected to increase by approximately 2.7% over the next four years. Early sales tax projections for FY 11 show a slight increase of approximately 1.0%, which impacts MTS's TDA and TransNet subsidy revenue. Expenses are projected to increase by approximately 2.8% over the following four fiscal years, primarily due to expected continued operating expense increases including energy costs.

Summary

Despite the significant challenge of a continuing funding shortfall in TDA and TransNet over the past two fiscal years, coupled with the complete elimination of STA due to the latest State of California's budget proposal, MTS has balanced the operating budget for fiscal year 2010.



**Metropolitan Transit System
AREA OF JURISDICTION**

January, 2007

