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Agenda

Item No. C1

Joint Meeting of the Executive Committee for
Metropolitan Transit System,
San Diego Transit Corporation, and
San Diego Trolley, Inc.

FIN 300 (PC 50601)

August 9, 2007

SUBJECT:

MTS: FY 2008 BUDGET AMENDMENTS

RECOMMENDATION:

That the Executive Committee forward the Budget Development Committee's (BDC's) recommendations to the MTS Board of Directors for approval.

Budget Impact

None at this time.

DISCUSSION:

FY 08 Budget Recap

The fiscal year 2008 MTS budgetary process commenced in January as staff began developing revenue and expense assumptions for the fiscal year and identifying significant policy issues. Subsidy revenue projections were provided by the San Diego Association of Governments (SANDAG) in late January.

Staff reported the fiscal year 2007 midyear adjustment, fiscal year 2008 projected operating and subsidy revenues, and operations statistical assumptions to the BDC and MTS Board of Directors in February and early March. Staff presented a fiscal year 2007 midyear adjustment to shift \$2.2 million into the MTS contingency reserve, reported a \$3.7 million increase (2.8 percent) in total subsidy funding, and reported an early \$4 million projected shortfall for fiscal year 2008.

Staff addressed the early projected subsidy shortfall and, at the April 12 Board meeting, presented a balanced budget, reviewed position tables, discussed pertinent policy issues, and received guidance from the Board that any additional revenues received



from State Transit Assistance (STA) would be shifted to the fiscal year 2009 Capital Improvement Program.

In mid-May, SANDAG informed MTS that sales tax receipts were lower than anticipated for fiscal year 2007, and the trend would continue through fiscal year 2008. Lower available home equity and declines in the construction, housing, and auto sectors of the economy have contributed to lower-than-anticipated sales tax receipts. This decline impacts MTS's share of TransNet and Transportation Development Act (TDA) revenues that together make up 47 percent of MTS's operating revenue.

Updated projections for fiscal years 2007 and 2008 are as follows:

	Original Budget Projections	5/15/2007 Latest Proj.	Revenue Variance
FY 07 TransNet	17.3	16.3	(1.1)
FY 08 TDA	\$ 82.4	\$ 75.7	\$ (6.6)
FY 08 TransNet	20.0	18.5	(1.5)
FY 08 Subtotal	\$ 102.4	\$ 94.3	\$ (8.1)
Grand Total	119.7	110.5	(9.2)

On June 14, the Board approved a short-term solution to balance both the fiscal year 2007 and 2008 operating budgets:

- The Board added \$1 million to the fiscal year 2008 STA operating revenue projection based upon increases included in the Governor's May Revise of the proposed state budget.
- The Board used fiscal year 2007 operating budgetary savings to assist in balancing MTS's 2007 and 2008 budgets. The midyear budget in February 2007 showed a \$2.2 million surplus, and there were additional savings through April 2007 of approximately \$1.3 million.
- The Board approved using a total of \$5.3 million in federal compressed natural gas (CNG) fuel credits to offset the 2008 shortfall.

The Board directed staff to meet with the BDC to determine long-term solutions for the funding shortfall with the goal of identifying recurring revenues to balance future operating budgets.

Budget Development Committee Meetings – July 2007

Staff reviewed all potential avenues of revenue increases or expense decreases. The outcome of this review can be listed in five categories: nonfare revenue adjustments, nonservice cost adjustments, personnel benefit adjustments, fare adjustments, and service reductions.

The BDC met on July 9 and July 23 to review staff's analysis and to formulate a recommendation to balance the fiscal year 2008 budgetary deficit and ensure future budget balancing with recurring revenues. The final recommendation is detailed in

Attachments A and B. Both attachments provide a five-year forecast in fiscal year 2008 dollars to represent the long-term strategy.

1. NONFARE REVENUE ADJUSTMENTS DETAIL

Increased State Subsidy Levels

As of July 30, 2007, the State of California's budget has not been approved by the Governor. The May revision of the Governor's draft budget included an increase in STA funds with MTS revenue increasing approximately \$1 million compared to the previous version.

Advertising

Several advertising scenarios are being proposed for increasing nonsubsidy revenue. There are approximately 250 older contract bus operations buses operating in South Bay and East County. These buses have old paint schemes yet do not include exterior advertising. These buses will be replaced over time with new buses that include the new MTS-branded paint scheme. Under this recommendation, bus king, queen, and tail advertising would be permitted on these older vehicles until they are replaced. This advertising would generate approximately \$750,000 per year with approximately \$375,000 impacting fiscal year 2008. Staff has assumed within MTS's five-year forecast that this revenue source would drop in fiscal year 2011 to approximately \$438,000 as older vehicles are replaced.

In addition, there is an opportunity to wrap five U-2 light rail vehicles. These five vehicles' exteriors are in need of significant external body work and repainting. The advertising opportunity to wrap these vehicles for a short period of time is anticipated to generate approximately \$600,000 annually and \$300,000 for fiscal year 2008. The wraps would temporarily eliminate the need to restore the vehicle exteriors, the cost of which is estimated to be at least \$60,000 per vehicle.

Another advertising opportunity would be to place advertising on clear panels on the interior of trolley vehicles. This program would require no up-front hardware costs and is projected to generate approximately \$96,000 annually and \$48,000 for fiscal year 2008.

There are ready-made advertising opportunities at the Gaslamp Quarter, Convention Center, and Seaport Village Stations. Current shelters have multiple openings that can be utilized with double-sided advertising to take advantage of high foot traffic, convention traffic, Padres fans, and Harbor Drive vehicular traffic. These openings are high on the structure, and advertising would not substantially obscure the shelter. The revenue potential is projected to be \$42,000 annually with \$21,000 impacting fiscal year 2008. This revenue would increase if the entire shelter is used.

MTS has already invested in pole-banner hardware for 48 poles at the San Ysidro, E Street/Bayfront, and 12th and Imperial locations. Pilot program banners are already being installed to showcase the new advertising opportunity. Expansion to other stations would require the purchase of pole-banner hardware. Income potential for fiscal year 2008 is approximately \$13,000. If the concept proves successful and is expanded to additional trolley stations, the potential revenue could reach \$30,000 per year.

The newly launched MTS Web site does not allow for typical banner advertising but can accommodate one exclusive rotating advertisement in the mix of promotional images on the home page. The market for this has not been tested, but the revenue potential could be as high as \$1,000 per month or \$6,000 for fiscal year 2008 and \$12,000 annually. In addition, retailers could pay up to \$500 per month to have their "Deal of the Month" included on the Web feature that is accessed directly from the MTS home page. This is projected to generate \$3,000 for fiscal year 2008 and \$6,000 annually.

Staff is continuing to explore other advertising and marketing opportunities to create a unique experience within MTS's high-traffic stations. Using electronic advertising for instance would not only serve current riders but would also act to attract new riders specifically to see the station. Since this project is under development, staff has not included it within this budgetary recommendation. Staff will continue to review the advertising potential and report back to the Board with the results and the revenue potential.

Other Revenue Increases (Nonadvertising)

In June, staff presented to the Board a list of properties that have a potential to generate increased revenue in excess of the existing land management revenue. Table 1 includes the properties and potential recurring revenue in the short term, which is estimated to achieve \$172,200 revenue for fiscal year 2008.

TABLE 1: SHORT-TERM REAL PROPERTY REVENUE POTENTIAL

Site	Description	Monthly \$	Exposure	2008 \$	Annual \$	Use	Type
Gillette Street	Vacant Lot	Minimal	6 months	-	-	Little to none	Lease
Euclid Avenue	Vacant Lot	2,000	4 months	16,000	24,000	Industrial	Lease
Front Street	Office Building	3,600	4 months	28,800	43,200	Office/industrial	Revised Lease
Prospect Square	Strip Mall – Retail	2,400	4 months	19,200	28,800	Commercial (Interim) *	Redevelopment
NW Cuyamaca/Prospect	Vacant Lot	1,700	4 months	13,600	20,400	Commercial (Interim) *	Lease
NE Cuyamaca/Prospect	Vacant Lot	Leased				(Interim) *	Lease
NE Buena Vista/Cuyamaca	Vacant Lot	1,700	4 months	13,600	20,400	Commercial (Interim) *	Lease
Grantville Interim Use	Vacant Lot	3,000	4 months	24,000	36,000	Yard Industrial (Interim)	Lease
Baltimore Junction	Partial Vacant Lot	1,500	4 months	12,000	18,000	Yard Industrial (Interim) *	Additional Lease
Palomar Station – South	Partial Vacant Lot	2,000	3 months	18,000	24,000	Railroad Industrial (Interim)	Lease
Intercity Bus Parking	Paved Parking	Leased				*	Lease
Tech Way	Vacant Lot	3,000	3 months	27,000	36,000	Commercial (Interim) *	Lease
				172,200	250,800		

*These properties have potential for longer-term development, which would not be completed in FY 2008

MTS staff is reviewing its right of entry permit process to address third-party use of MTS facilities with the ultimate goal of a formal policy for use. Staff has begun discussions with casino bus operators that currently stage operations at trolley stations (especially El Cajon Transit Center) and the parking lot operator at San Ysidro. As part of its policy, MTS would assess a user fee that is anticipated to generate \$250,000 annually with an impact to fiscal year 2008 of \$125,000.

As SANDAG currently outsources many operations planning activities that directly impact MTS, there is an opportunity for MTS to serve as the consultant in these planning exercises. This interagency relationship would produce savings for both agencies as SANDAG would work directly with MTS in the early consulting phase, and MTS would not have to duplicate work that an outside contractor already completed. The MTS revenue potential derived from MTS staff working with SANDAG is approximately \$150,000 annually.

Within MTS's rail system, there is an opportunity to generate approximately \$58,000 annually from several different avenues. The payphone contract is currently out for bid, and staff projects \$14,000 in additional revenue from this bidding. Approximately \$42,000 could be generated by increasing the price of soft drinks at MTS's Coca-Cola machines.

2. NONSERVICE COST ADJUSTMENTS DETAIL

Transit Services

Due to the growing complexity of all electrical systems on our buses and the success of the apprentice program, the Maintenance Mechanic "C" (MMC) position is no longer required for preventative maintenance work. Staff proposes eliminating the MMC electrical title and reducing the number of positions by three. Two of the three individuals that occupied these positions have retired as of June 2007. The third individual is scheduled to retire in October. This position reduction will produce an annual savings of \$212,000, and the impact to fiscal year 2008 is \$159,000.

Due to the successful preventative maintenance program and aggressive accident reduction program, staff projects savings within outside services (\$38,000), materials (\$50,000), and engines and transmissions (\$40,000) in fiscal year 2008 and beyond. This totals \$128,000 annually.

Multimodal Operations

Economies of scale are continuing to be realized with the consolidation of Multimodal Operations and transit services. Staff projects approximately \$100,000 annually in savings as efficiencies and consolidation continues.

Rail Operations

Rail operations staff has reviewed the budget for the Maintenance Departments of Light Rail Vehicles, Wayside, and Track and Facilities as well as any savings that could be generated by reducing the decorative lighting at stations. This exercise has generated an annual budgetary savings of \$196,000.

3. PERSONNEL BENEFIT ADJUSTMENTS

Benefit Policy Adjustments

As MTS has continued consolidating, many of the benefit plans have remained with each former entity. Staff has been focused on creating a fair and unified benefit package for all employees. The recommended benefit adjustments for nonunion employees focus on a consolidated leave policy and a consolidated overtime pay policy:

- Overtime payments to nonexempt management employees only after 40 hours in a week.

- MTS annual leave policy for all employees, including San Diego Transit Corporation (SDTC) and San Diego Trolley, Inc. (SDTI):
 - 1 to 3 years = 18 days per year
 - 4 to 10 years = 23 days per year
 - 11 and up = 28 days per year
- Vacation, sick, and holiday leave are not to count as hours worked for overtime.

The implementation of this consolidated benefit policy would save MTS approximately \$188,000 for fiscal year 2008 and \$376,000 annually.

Performance Incentive Program

As part of the annual budgetary process, the Board has historically approved a Performance Incentive Program (PIP) that provides an opportunity for nonrepresented employees working as an agency-wide team to be financially rewarded when goals are achieved. The fiscal year 2007 PIP was approved by the Board in June 2006 and is scheduled to be paid in November 2007. The two goals of the fiscal year 2007 PIP were net operating subsidy savings and Comprehensive Operational Analysis (COA) goal achievement. No awards would be distributed unless MTS was favorable compared to budget. These savings would fund the PIP program.

The total potential bonus pool for fiscal year 2007 was \$575,000, and the latest projection is that MTS will achieve a portion of both goals in fiscal year 2007, which will generate approximately \$450,000. Due to the fact that staff has worked diligently toward achieving these goals, the staff recommended to the BDC that only \$100,000 be reduced from the fiscal year 2007 PIP program payout. Staff also recommended to the BDC the elimination of the PIP program for fiscal year 08 and beyond.

Fiscal Year 2008 Positions Frozen

Staff has analyzed the positions that were added to the fiscal year 2008 operating budget and identified positions that could be delayed in hiring until April 2008. This would have an operating budget impact in fiscal year 2008 only. Attachment B details these positions and their respective savings to fiscal year 2008. In total the savings would be \$283,000.

4. FARE ADJUSTMENTS

A significant portion of the BDC discussion focused on fare adjustments. While a task force is reviewing fares on a regional level (with members from SANDAG, MTS, and North County Transit District), current budgetary circumstances warrant consideration of fare adjustments. Table 2 provides a comparison of MTS fare structure versus other larger California properties. The pass-to-cash ratio demonstrates the number of adult cash fare trips needed to equal the purchase price of a monthly pass.

Table 2: Fare Comparison

Property		Adult				Senior				
		Cash	Pass	Pass/Cash	Age	Cash		Pass		
						Rate	% Adult	Rate	Term	% Adult
AC Transit (Oakland)	Local	\$1.75	\$70.00	40.0	65	\$0.85	49%	\$20	31 Days	29%
Los Angeles MTA	Regular	\$1.25	\$62.00	49.6	65	\$0.55	44%	\$14	Month	23%
OCTA	Local	\$1.25	\$45.00	36.0	65	\$0.50	40%	\$15	30 Days	33%
Sacramento RTD	Basic	\$2.00	\$85.00	42.5	62	\$1.00	50%	\$42.50	Month	50%
SF Muni	Regular	\$1.50	\$45.00	30.0	65	\$0.50	33%	\$10	Month	22%
Santa Clara VTA	Regular	\$1.75	\$61.25	35.0	65	\$0.75	43%	\$26	Month	42%
San Diego MTS	Urban	\$2.25	\$60.00	26.7	60	\$1.00	44%	\$15	Month	25%

The following fare adjustments are recommended (detail on budgetary impact can be found in Attachment B).

Cash Fares

The local adult cash fare currently is \$1.75, and the urban adult cash fare is \$2.25. The recommendation would increase the local cash fare to \$2.00 this fiscal year (January 2008) and unify the local adult cash fare and the urban cash fare at \$2.25 in fiscal year 2009 (January 2009). In addition, MTS system transfers would be eliminated. Riders who previously received transfers would be urged to purchase a \$5.00 day pass.

Pass Fares

Under TransNet II, the eligibility age for a senior pass must be 60 years old, the senior and disabled pass can be no more than 25 percent of the regular adult pass, and the youth pass can be no more than 50 percent of the regular adult pass. The current MTS pass fares are \$60.00 for a standard adult pass, \$64.00 for a nonpremium adult express pass, \$84.00 for a premium adult express pass, \$15 for a senior/disabled pass, and \$30 for a youth pass.

The recommendation includes unifying the standard adult pass and the nonpremium adult express pass to \$64.00 this fiscal year (January 2008). This would allow the senior and disabled pass to be adjusted from \$15.00 to \$16.00, and the youth pass from \$30.00 to \$32.00 this year. Additionally, the recommendation is to raise the adult pass fare to \$68.00, the senior pass to \$17.00, and the youth pass to \$34.00 in fiscal year 2009 (January 2009).

The recommendation is to increase the senior and disabled age eligibility to 65 years over a five-year period by increasing the age one year each year. This gradual step increase would ensure that any senior currently eligible for the senior pass would continue to be eligible. Any individual that is not 60 years old by the effective date of this adjustment would not be eligible for the senior pass until the age of 65.

Other Discounted Pass Fares

MTS currently has passes that are discounted again off the already-discounted adult pass fare. The college monthly and semester passes are currently discounted off the adult pass fare by 25 percent and 35 percent, respectively. Amending these discounts to 20 percent for the monthly pass and 30 percent for

the semester pass generates a total of \$138,000 annually (\$42,000 for the monthly pass and \$96,000 for the semester pass).

The recommendation includes eliminating the discount on bulk purchase of tokens. By not discounting these tokens, MTS generates additional revenue totaling approximately \$69,000 per year.

The recommendation includes eliminating both the Social Service Day Tripper and the Convention Pass, which are currently discounted by approximately 16 and 23 percent, respectively. Individuals that historically purchased a Social Service Day Tripper for \$4.18 could purchase a regular day pass for \$5.00, and conventioners who currently purchase a pass for \$11.51 could purchase the four-day pass for \$15. This would generate \$17,000 in annual revenue for MTS.

The ECO Pass is currently discounted by 31 percent off the adult pass fare. Amending this discount to 25 percent generates a total of \$32,000 annually.

5. SERVICE REDUCTIONS

Service reductions are recommended for various routes within the MTS system. While these service reductions would aim to minimize impacts on riders, they would require full public hearings prior to implementation.

- Route 31, which runs along Miramar Road in San Diego, would be reduced to peak-hour service only.
- Route 8/9, which operates between Old Town and the beach communities, would have night service reduced to 20 to 30 minutes.
- Green Line Trolley service would have fewer late-night trips with the discontinuance of the last two round trips between the Old Town and San Diego State University (SDSU) Stations.
- Route 28 B and C segments from Canon Street to the Submarine Base and to Fort Rosecrans/Point Loma Nazarene/Cabrillo National Monument would be discontinued.
- Route 48/49, which serves the University City area of San Diego, would discontinue service on the northern portion of the route after 7 p.m.
- Route 921 segment between the Veterans Administration Medical Center and University Towne Center would be discontinued.
- Route 992, the Airport Flyer, would terminate on the east at Third Avenue and Broadway in Downtown San Diego.
- Routes 701, 709, and 712 in Chula Vista would have reduced service (60-minute frequency) on Sundays.
- Rancho Bernardo and Scripps Ranch DART services would be discontinued.
- The Sorrento Valley Coaster Connection would be reduced by one bus.

- Route 964, which serves Mira Mesa and Scripps Ranch, would be reduced by one bus and service would be discontinued east of Interstate 15.
- Service enhancements originally budgeted to improve system reliability would be removed.

Attachment B provides detail on each route being proposed for adjustment. The annualized operating savings totals \$1.88 million, and the fiscal year 2008 impact totals \$885,000.

FY 08 Budget Summary

Staff and the BDC looked at all potential aspects of the organization to bridge a \$9.2 million budgetary deficit. The final recommendation includes adjustments in all areas of the organization: nonfare revenue, expense savings, benefits, fares, and service.

While the need in fiscal year 2008 totals \$8.1 million, \$5.7 million in savings has been identified primarily due to the timing of implementation of these recommendations. One-time dollars (CNG rebates or fiscal year 2007 savings) totaling approximately \$2.4 million will be needed to balance the fiscal year 2008 budget.

The ultimate outcome of the recommended actions would be to match recurring revenues to recurring expenses beginning in fiscal year 2009. This recommendation brings our budget much more in line going into that fiscal year with only \$679,000 as a projected shortfall. This difference will be addressed during next year's budget process. Looking into the following three fiscal years (2010 – 2012), the recommendation achieves the goal of bridging the budget gap.

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Chief Executive Officer

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Attachments: A. FY 08 – FY 12 Operating Budget – Summary Recommendation
B. FY 08 – FY 12 Operating Budget – Detail Recommendation