Metropolitan Transit System
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
619.231.1466 FAX 619.234.3407

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE

March 26, 2018
9:00 AM

James R. Mills Building
Executive Conference Room
1255 Imperial Avenue, San Diego

This information will be made available in alternative formats upon request. To request an agenda in an alternative format, please call the Clerk of the Board at least two working days prior to the meeting to ensure availability. Assistive Listening Devices (ALDs) are available from the Clerk of the Board/Assistant Clerk of the Board prior to the meeting and are to be returned at the end of the meeting.

		ACTION RECOMMENDED
1.	ROLL CALL	
2.	APPROVAL OF MINUTES - February 22, 2018	Approve
3.	PUBLIC COMMENTS	
4.	COMMITTEE DISCUSSION ITEMS	
	a. MTS Energy Programs (Mike Thompson) Action would receive a report regarding the status of the MTS Energy program and provide guidance on budgetary issues.	Possible Action
	b. Fiscal Year 2019 Operating Budget Discussion (Mike Thompson) Action would receive a report regarding fiscal year (FY) 2019 operating budget development and provide guidance on budgetary issues.	Receive
5.	ADJOURNMENT	

Please SILENCE electronics during the meeting

DRAFT

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

February 22, 2018

MINUTES

1. ROLL CALL

Chairman Roberts called the Budget Development Committee (BDC) meeting to order at 9:02 a.m. A roll call sheet listing BDC member attendance is attached.

2. APPROVAL OF MINUTES

Ms. Gomez moved to approve the minutes of the May 2, 2017 San Diego Metropolitan Transit System (MTS) BDC meeting. Mr. McClellan seconded the motion, and the vote was 5-0 in favor, with no one absent.

3. PUBLIC COMMENTS

There were no public comments.

4.a. Appointment of Committee Chairman and Vice Chairman

Ms. Gomez moved to nominate Mayor Salas as Committee Chair and Mayor Salas nominated Mr. Roberts as Vice Chairman.

Action Taken

The vote for Mayor Salas as Committee Chair was 4-0 in favor with Chair Salas abstaining. The vote for Mr. Roberts as Vice Chairman was 4-0 in favor with Mr. Roberts abstaining.

4.b. Fiscal Year (FY) 2018 Midyear Adjustment (Mike Thompson)

Paul Jablonski, Chief Executive Officer summarized the agenda for the meeting. He stated that an overview of the fiscal projections would be provided, then the capital budget would be discussed, with the fare study discussion following after, and then ending with the ballot measure.

Mike Thompson, Director of Financial Planning and Analysis, spoke about the revenue assumptions involving passenger levels. He said that ridership peaked at 96.7 million in FY15, followed by three years of decline. He said that the revenue was $3.2 million unfavorable in December year-to-date, and that they were projecting $5.2 million unfavorable for the full fiscal year, assuming that the decline would continue. Mr. Thompson spoke about other operating revenue, including energy credit revenues, which were expected to increase by $1.7 million, and a total increase of other operating revenue by $2.6 million at midyear. He stated that State Transit Assistance was projected to increase by $1 million for the Transit Optimization Plan (TOP). He said that the total revenue was favorable by $1.2 million in the amended budget.

Mr. Thompson spoke about the FY 18 midyear expenses assumption summary. He stated that personnel costs were unfavorable by $635,000, due to unfavorable variances in both wages and fringe benefits. He said that the total expenses were unfavorable by $1.2 million. Mr. Thompson noted that $5 million of TDA (Transportation Development Act) funds from Capital were still being used to balance the FY18 budget.

Mr. Alvarez suggested that the presentation slides consistently state the dollar amount, if it is unfavorable or favorable, and what it is unfavorable or favorable in.

Action Taken

Mr. Alvarez moved to forward the following recommendation to the MTS Board of Directors: approve the Combined MTS FY 2018 Midyear Budget Amendment. Vice Chairman Roberts seconded the motion, and the vote was 5-0 in favor.

4.c. Fiscal Year 2019 Operating Budget Discussion (Mike Thompson)

Mr. Thompson said that he would be presenting a high level projection and assumptions. He said that they are seeing slowing growth in sales tax receipts revenue (TDA/TransNet). He said that they were not projecting any organic ridership growth and not projecting any fare increases. Mr. Thompson stated that there would be an additional $300,000 in other operating revenue for Green Line Naming Rights. On the expense side, Mr. Thompson said service levels would be increasing by 1.7% per the TOP.

A discussion regarding Uber and private ridesharing services ensued. Mr. Jablonski said it was something to think about. Sharon Cooney, Chief of Staff, said the services are similar to MTS's former demand-and-respond services, which were not cost-effective and difficult to manage. Ms. Cooney said they have been trying to see how they can fit micro-transit into MTS's services in a cost-effective way.

Mr. Thompson stated that a preliminary diesel/gasoline/propane commodity prices increase of 4-5% year over year were built into the forecast. He said that the risk budget should return down to normal levels in FY19, and assumptions of a 3% increase in other expense categories for general inflation were included in the projection. He said that the revenues less expenses resulted in a deficit of $4.4 million, and including the $5 million that was proposed to be shifted from Capital, that resulted in a $9.4 million structural deficit projection. Mr. Thompson presented the proposed calendar for the Budget Development meetings in FY 19.

Mr. Alvarez recommended including a minimum level of projected ridership growth increase due to TOP, instead of projecting no increase.

4d. Fiscal Year 2019 Capital Improvement Program (Mike Thompson)

Mr. Thompson started with the goals and philosophy of the Capital Improvement Program (CIP). He discussed the recurring revenues, including federal funding and TDA funding. He said that they were projecting $78.3 million in federal funding for FY 19 (with $19.6 million for CIP), and projecting $34.4

million in TDA funding for CIP. He discussed non-recurring revenues, including Cap-and-Trade Low Carbon Transit Operations Program (LCTOP) funding, for which $3 million was programmed. He said that almost $82 million of funding was available for CIP.

Mr. Thompson explained that the CIP was developed beginning October with the request for projects. He said the Capital Projects Review Committee (CPRC) met to discuss the priority project list, and the Chief Executive Officer (CEO) approved the prioritization of the capital requests. Mr. Thompson went over the CIP project highlights, including replacement of bus revenue vehicles at the end of their useful lives, for $25 million.

Mr. Thompson said that $5.8 million of funding was proposed in FY 19 for a new bus maintenance facility. Mr. Jablonski spoke about the pressures to move Imperial Avenue Division (IAD) bus yard, and looking at land for sale. Ms. Gomez asked about doing a land swap, and Karen Landers, general counsel, responded that they would have to identify a specific property and then determine if the owner was willing to swap. Vice Chairman Roberts and Mr. Alvarez agreed that condemnation should be considered if needed.

Mr. Alvarez suggested having the Capital Improvements projects all together on one list, and including the prioritization information.

Action Taken

Chair Salas moved to forward the following recommendation to the MTS Board of Directors:

1. Approve the fiscal year 2019 Capital Improvement Program (CIP) with the estimated federal and nonfederal funding levels (Attachments A and B). As the federal appropriation figures are finalized and/or other project funding sources become available, allow the Chief Executive Officer (CEO) to identify and adjust projects for the adjusted funding levels;
2. Recommend that the San Diego Association of Governments (SANDAG) Board of Directors approve the submittal of Federal Section 5307, 5337 and 5339 applications for the MTS fiscal year 2019 CIP (shown in Attachment A);
3. Recommend that the SANDAG Board of Directors approve amendment number 12 of the 2016 Regional Transportation Improvement Program (RTIP) in accordance with the fiscal year 2019 CIP recommendations.

Mr. Alvarez seconded the motion, and the vote was 5-0 in favor.

4e. Fare Study (Sharon Cooney and Israel Maldonado)

Sharon Cooney, Chief of Staff, spoke about the goals of the Regional Fare Study. Ms. Cooney said the package proposals will ultimately be taken to the public, the MTS Board, as well as the SANDAG Board. She said that these goals included simplifying the fare structure and minimizing ridership loss. Israel Maldonado, Fare Systems Administrator, explained that MTS fares were lower than other transit agencies' fares, on average. He explained the 5 new proposed package options. He said that all packages included removing the 2, 3, 4 and 14 day passes, removing the MTS rural 2 zone, removing the trolley transfer, and adding a $3 regional SDM (senior/Medicare/disabled) day pass. He also mentioned a prospective new 3-hour $3 pass, but said the fare study consultant did not recommend it. Chair Salas added that the 3 hour ticket did not seem practical. Ms. Cooney explained the proposed changes in packages 3 and 4 were suggested by MTS, which included a combined discount for SDM and youth to 66% for both, as well as raising the senior age from 60 to 65 years old.

Mr. Alvarez voiced his concern about the elimination of trolley transfers. Mr. Jablonski said this is to promote the purchase of day passes. Mr. Alvarez said he agreed that the senior age should be moved up, and liked the idea of the senior and youth discount. Ms. Gomez stated that she is cautious about the trolley transfer removals. Ms. Cooney said this would mostly just affect people who are not taking a round trip on the trolley. Ms. Gomez asked about lowering fees during holidays. Ms. Cooney responded that it would be very challenging to change the fares for one day. Chair Salas said that it would be impractical to change the fare prices for a short amount of time. Ms. Cooney stated they would like to bring these changes to the public in April.

4f. AB 805: Ballot Measure (Sharon Cooney)

Mr. Jablonski explained that the MTS Board sought the ability to levy a sales tax, and AB 805 gave MTS that ability. Mr. Jablonski said that the process includes creating a Board ad hoc committee, and hiring consultants. Mr. Alvarez suggested researching how the ad hoc committee will be formed, and then Ms. Gomez would put together the ad hoc committee.

5. Adjournment

Chair Salas adjourned the meeting at 11:27 a.m.

____
Chair of the Budget Development Committee

____
Clerk of the Budget Development Committee

Attachment: A. Roll Call Sheet

BUDGET DEVELOPMENT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) 2/22/18 CALL TO ORDER (TIME) 9:02 AM

RECESS ______ RECONVENE ______

CLOSED SESSION ______ RECONVENE ______

ADJOURN 11:27 AM

BOARD MEMBER		(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ALVAREZ	☒		9:02 AM	11:27 AM
GOMEZ	☒		9:02 AM	11:27 AM
McCLELLAN	☒		9:02 AM	11:27 AM
ROBERTS	☒		9:02 AM	11:27 AM
SALAS	☒		9:02 AM	11:27 AM

SIGNED BY THE CLERK OF THE BUDGET DEVELOPMENT COMMITTEE: /s/ Iris Chen

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: /s/ Karen Landers

c: Clerk of the Board
Accounts Payable
Attachment to Original and Draft Minutes

1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
619.231.1466 FAX 619.234.3407

Agenda Item No. 4a

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE

March 26, 2018

SUBJECT:

MTS ENERGY PROGRAMS (MIKE THOMPSON)

RECOMMENDATION:

That the Budget Development Committee receive a report regarding the status of the MTS energy program and provide guidance on budgetary issues.

Budget Impact

None at this time.

DISCUSSION:

The MTS energy program primarily addresses the management of natural gas and electricity commodities and is administered under MTS Board Policy No. 59, “Natural Gas and Energy Commodity Hedge Policy”. This program enables MTS to purchase these commodities via a competitive-bidding process, directly from the market through a third party service provider rather than through San Diego Gas and Electric (SDG&E), resulting in substantial cost reductions.

For natural gas, any entity can opt into the core aggregate transfer program and purchase their gas from a third party. MTS opted into this program in 2009. For electricity, the program is called Direct Access, and there were specific opt-in periods in 2010, 2011 and 2012, with limited volumes available to participate in the program. MTS gained access in 2011. In either case, the commodity is still delivered by SDG&E, so there are no operational impacts as a result of this program. The actual commodity usages are reconciled with SDG&E, and the cost of the commodity is billed through the service provider.

Natural Gas

MTS conducted a competitive-bid process in 2009 and 2010 to select its GSP, and BP was the low bidder in each case. The 2010 agreement was for one year with 2 one-year options—the last of which was set to expire on June 30, 2013. That agreement was extended to June 30, 2018 by the Board in February 2013 with option years that would cover through June 30, 2020. The 2013 extension also included the purchase and utilization of biogas, gas that is produced naturally from landfills and from the processing of animal waste, sewage, crop waste, and cellulosic crops. The utilization of such a renewable fuel allows MTS to generate federal and state energy credits.

On the state side, the California Air Resources Board (CARB) administers the Low Carbon Fuel Standard (LCFS) with the goal of reducing greenhouse gas emissions. Each type of fuel has been assessed a carbon intensity (CI) score. Fuel providers are required to ensure their overall CI score meets the annual CI target. The LCFS program has incentives in the form of credits that are generated, tracked, then can be traded or sold to other obligated entities. Credits generated by MTS after June 30, 2013 are sold to BP as part of the current contract for gas procurement. In FY17, LCFS revenues to MTS from BP were $1.7 million.

There is a similar program on the federal side called the Renewable Fuel Standard, which mandates the production and sale of renewable fuel by obligated parties. This applies to fuels such as the renewable natural gas utilized by MTS, and also advanced biofuels, biomass-based diesel, and certain cellulosic biofuels, with these mandated requirements growing to 36 billion gallons annually by 2022. Renewable Identification Numbers (RINs) are the mechanism used to make sure each of the obligated parties meet its share of all the mandates. These RINs generated as renewable fuels are sold and can be traded like any other commodity. This allows obligated parties to purchase RINs from outside sources in order to meet their obligation. In FY17, RIN revenues to MTS were $1.8 million.

<u>Electricity</u>

In late 2009, the California legislature opened the Direct Access program for a limited time and limited volume for electric customers. MTS conducted a negotiated procurement process in 2010 to select an electricity service provider (ESP) in order to attempt to gain entry into the Direct Access Program, and Calpine Energy Solutions (formerly Noble Americas) was selected as a result of that process. MTS gained entry to the Direct Access program in 2011 and finally began participating in January 2012. MTS conducted another negotiated procurement process in 2014 and again Calpine was selected as a result of that process. MTS exercised the option years of the contract to extend through December 2020.

In FY17, MTS spent $3.1 million on the electricity commodity while participating in the Direct Access program. Staff estimates MTS savings of $2.7 million in FY17 with Direct Access versus purchasing the commodity through SDG&E.

The State's LCFS program was extended to include electric light rail vehicles on January 1, 2016. Staff has registered and reported the appropriate activity to CARB and through December 2017 has generated 26,000 credits. Once credits are generated, staff utilizes a licensed broker to monetize these credits on the open market as MTS sees fit. As part of the latest sale in February 2018, 2,850 credits were sold for $427,500.

Fixed Price Hedging

The current policy also enables staff to utilize a financial hedge in order to fix the commodity rates for natural gas and electricity. Fixed costs for volatile commodities provided MTS budget certainty for those costs at the beginning of a fiscal year. MTS has not utilized a hedge since FY12, as natural gas commodity prices have been relatively stable and the expected cost of a fixed position exceed the expected benefit of budget certainty. Staff will review the current market for both natural gas and electricity.

/s/ Paul C. Jablonski
Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Mike Thompson, 619.557.4557, mike.thompson@sdmts.com
Attachment: A. Board Policy No. 59 - Natural Gas and Energy Commodity Hedge Policy

1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
(619) 231-1466 • FAX (619) 234-3407

Policies and Procedures No. 59

SUBJECT: **Board Approval:** 11/10/2016

Natural Gas and Energy Commodity Hedge Policy

PURPOSE

The purpose of this policy (the "Policy") is to establish guidelines for the execution and management of the Metropolitan Transit System's ("MTS") use of hedging instruments and related transactions in connection with the purchase of natural gas and electrical energy for MTS's transit operations.

Specific objectives of the Policy are as follows:

1. Achieve a high degree of budget certainty in the purchase of natural gas and energy commodities.
2. Maintain a high degree of fuel and energy supply reliability.
3. Ensure no adverse operational impacts.
4. Ensure no adverse impacts on MTS's credit rating.
5. Ensure that all hedging instruments are acquired through competitive bidding with credit-worthy counterparties.

This policy confirms the commitment of MTS management to adhere to sound financial and risk management practices. The Policy shall govern the execution and management of all hedging instruments and activities carried out in connection with natural gas and energy purchases for MTS's transit operations.

59.1 AUTHORIZATIONS AND APPROVALS

The Chief Executive Officer and Chief Financial Officer are the designated administrators of the Policy ("Hedge Administrators") and are authorized to execute hedges in accordance with this Policy without further approval of the Board.

59.2 CONDITIONS FOR THE USE OF HEDGING PRODUCTS

59.2.1 General Usage

Financial commodity swaps may be used to lock in a fixed price for natural gas and energy commodities in accordance with the conditions and restrictions set forth below. Should MTS elect to purchase gas or electricity from a qualified energy services provider (“ESP”), MTS may accomplish its commodity hedging objectives by converting the price of an ESP-provided energy supply from a variable market price to a fixed price so long as the competitive bidding and other provisions of this Policy are met.

59.2.2 Maximum Transaction Volume

The maximum aggregate transaction volume for all financial commodity swaps entered into for any budget year shall be equal to the volume of natural gas or energy forecast to be used in connection with the transit fleet during that year. If, at any time prior to or during the fiscal year being hedged, the projected volumes change by more than 10% below or above the amount hedged, additional hedges may be entered into, or termination of existing hedges may be executed in order to account for the change in projected volume.

59.2.3 Hedge Frequency

The number of hedge transactions for any fiscal year shall be no greater than four as determined by the Hedge Administrators except as may be required in response to a change in the volume of fuel or energy projected as provided in Section 59.1 above.

59.2.4 Hedge Timing

Hedging instruments shall be entered into no sooner than 30 months in advance of the first business day of the fiscal year being hedged. All hedges for any fiscal year will be in place in advance of the annual budget submission to the Board of Directors for that fiscal year.

59.2.5 Hedge Termination

The Hedge Administrators may terminate any and all hedges in whole or in part in response to changes in the projected volume of fuel or energy in any fiscal year as provided in Section 59.1 above or if required due to any action by the California Public Utilities Commission or the San Diego Gas and Electric Company, which impacts the effectiveness of the hedge. Under no circumstance will hedges be terminated for the sole purpose of generating a profit.

59.2.6 Hedge Term

All hedging instruments will be limited in term to 24 months.

59.2.7 Prohibited Commodity Swap Features

The MTS will not use commodity swaps that: (i) involve any purpose other than hedging natural gas or energy commodity prices as set forth in this Policy; (ii) lack adequate liquidity to terminate without incurring a significant bid/ask spread; (iii) provide insufficient price transparency to allow reasonable valuation; or (iv) are used as investments.

59.3 HEDGE INSTRUMENT FEATURES

59.3.1 Hedge Agreement

The International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement shall be used as the basis for the documentation of commodity swaps. The swap agreement between the MTS and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as MTS, in consultation with its legal counsel, and/or hedge advisor deems necessary or desirable.

If MTS takes part in SDG&E's CAT Program for natural gas purchases, or becomes a Direct Access customer for electric energy purchases, the hedging objectives of this policy may be met by execution of an appropriate amendment to the relevant Purchase and Sale Agreement entered into with a qualified ESP.

59.3.2 Commodity Swap Counterparty Credit Criteria

Qualified commodity swap counterparties will be those having, at the time of execution, a general credit rating not lower than "A3" or "A-" by at least two of the nationally recognized rating agencies, unless such party provides a guaranty from a parent or other guarantor rated "A3"or "A-". The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard and Poor's, and Fitch Ratings.

59.3.3 Collateral Requirements

Threshold collateral amounts shall generally be established in accordance with the guidelines set forth below.

Counterparty Credit Rating	Threshold
Aa3/AA- or better	Unlimited
A3/A- to A1/A+	$25 million
Baa1/BBB+	$15 million
Baa2/BBB	$10 million
Baa3/BBB-	$2.5 million

Collateral shall be deposited with a third-party custodian or as mutually agreed upon between MTS and the counterparty. A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty. Once collateral has been posted, the market value of the collateral shall be determined at least weekly.

59.3.4 Security and Source of Repayment

Commodity swaps will be payable from any lawfully available funds of MTS. Whenever possible, language will be included in the swap agreement specifying that with respect to farebox revenues, swap obligations of the MTS are payable on a basis subordinate to the payment of MTS taxable pension obligation bonds, certificates of participation, or any other obligation secured on a parity therewith.

59.4 SELECTING AND PROCURING COMMODITY SWAPS

59.4.1 Counterparty Selection

Commodity swap counterparties will be selected by the Hedge Administrators consistent with the credit and performance criteria set forth in this Policy.

59.4.2 Competitive Bidding

All hedge instruments will be procured through a competitive bidding process that will provide the lowest commodity price. The nature and timing of the bidding process will be determined by the Hedge Administrators.

59.5 SALE OF ENERGY CREDITS

59.5.1 Energy Credit Sales on Open Market

MTS's use of energy sometimes results in the generation of energy credits such as California Air Resources Board (CARB) Low Carbon Fuel Standard (LCFS) credits, federal Renewable Fuel Standards credits and other existing or future credit programs. The disposition and sale of such credits is often the subject of a formal contract for the purchase of energy commodities (e.g., electric, diesel, gas). However, from time to time, MTS may be in possession of credits that are not the subject of an existing agreement. The market for energy credits fluctuates substantially on a day-to-day, month-to-month and year-to-year basis.

In order to capture the best price in a fluctuating market, the CEO has the authority and discretion to sell unallocated energy credits on the open market.

59.6 MONITORING, REPORTING, AND DISCLOSURE

59.6.1 Quarterly Reporting

The hedge program will be monitored to ensure consistency with this Policy. Annual and quarterly reports will be provided to the MTS Board of Directors in written form which shall include, but not be limited to, the following:

(a) A description of all outstanding commodity swaps, including terms, rates paid and received, and current termination value.

(b) Current counterparty credit ratings.

(c) Collateral required and posted by MTS and each commodity swap counterparty, if any.

(d) Any material event involving outstanding swap agreements, including a default by a commodity swap counterparty, counterparty downgrade, or termination.

(e) Updated projection of the volume of fuel or energy expected to be required for operational purposes and compared to the volume hedged.

(f) Description of any regulatory changes, including changes in the energy-pricing methodology of the California Independent Systems Operator (CAISO) or changes to San Diego Gas and Electric's hedging practices, which may impact the hedge program.

59.6.2 <u>Disclosure and Financial Reporting</u>

Steps will be taken to ensure that there is full and complete disclosure of all commodity swaps to the Board. With respect to its financial statements, MTS adheres to the guidelines for the financial reporting of commodity swaps as set forth by the Government Accounting Standards Board.

59.6.3 <u>Disclosure of Energy Credit Sales</u>

Any sale of energy credits by the CEO under the authority granted in Section 59.5 shall be reported as part of the monthly Operations Budget Status Report at the next applicable Board of Directors meeting.

REVISED: 11/10/1016
ADOPTED: 2/18/2010

Metropolitan Transit System Energy Program

MTS Board of Directors

Budget Development Committee

March 26, 2018

Energy Program

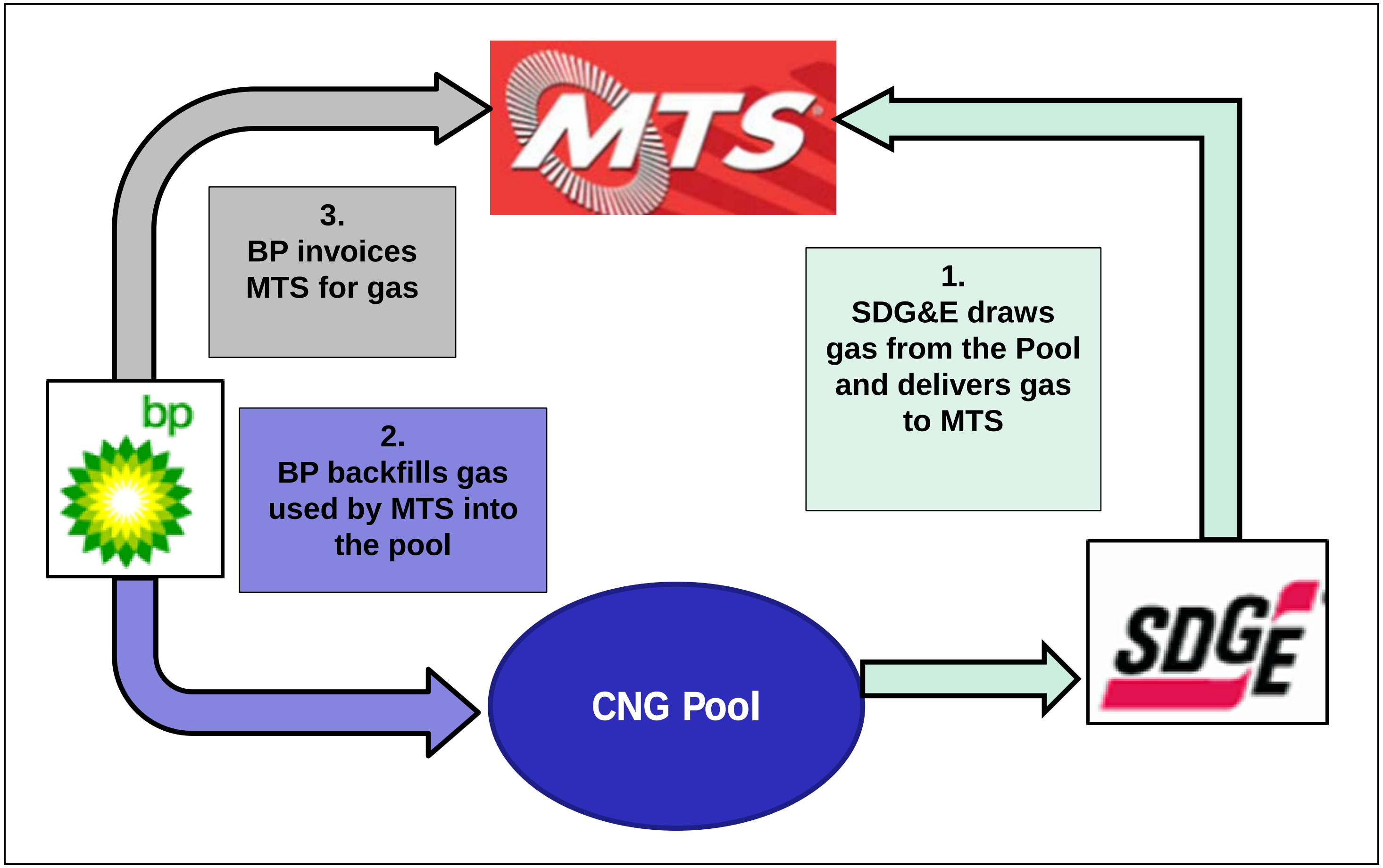
- Overview
  - $26.4M overall budget in FY18
    - Electricity: $13.5M (LRVs and facilities)
    - Natural Gas: $9.0M (Fixed Route buses)
    - Gas/Diesel: $2.6M (Paratransit, Commuter Express, Non-revenue vehicles)
    - Propane: $1.3M (Paratransit, Minibus)
  - Multiple cost components for each fuel type:

	Electricity	Natural Gas	Diesel/Gas	Propane
Commodity	X	X	X	X
Transportation	X	X	X	X
Demand	X			
Station Maintenance		X		
Station Utilities		X		

Energy Program - Policy

- Policy Overview
  - Board Policies and Procedures No. 59 – Energy Commodity Hedging
  - Enables MTS to purchase natural gas and electricity commodities directly from a third party service provider instead of SDG&E
    - Pay market index rates for these commodities
    - Significant savings versus SDG&E
    - BP is current service provider for natural gas
    - Calpine Energy Solutions is the current service provider for electricity
  - No impact to operations
    - Gas and electricity still delivered by SDG&E
    - Billing reconciliations outside the true supply system

Energy Program - Service Provider



- Service providers have no physical connection to MTS, basically plug and play
- Same for electricity, substitute CALISO for CNG Pool, Calpine for BP

Energy Program - Service Provider

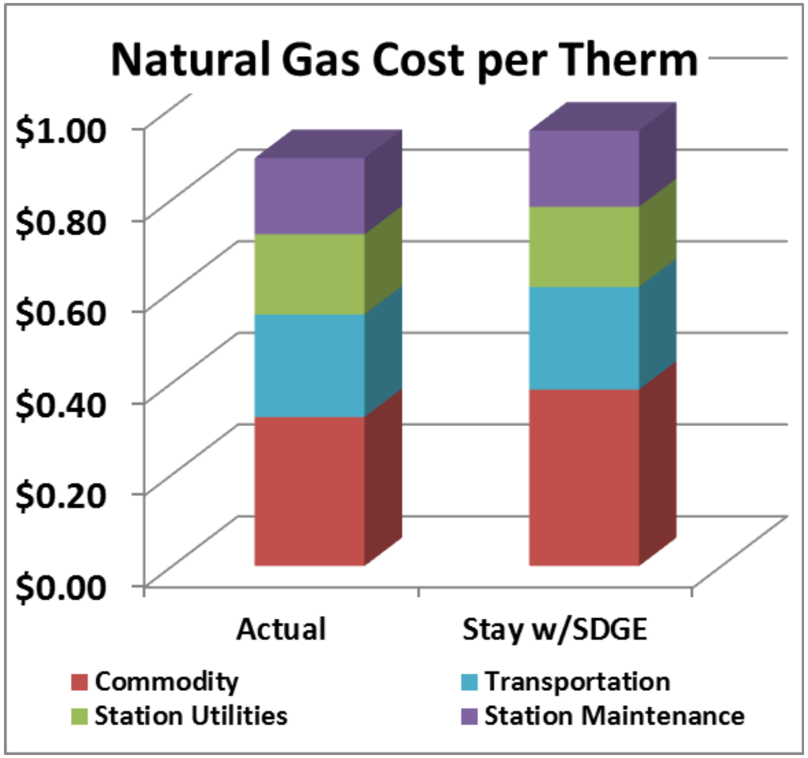
- Commodities Overview
  - Market index rates versus SDG&E commodity rates
  - Savings continue to grow, even after Opt-out fees and third party management fees

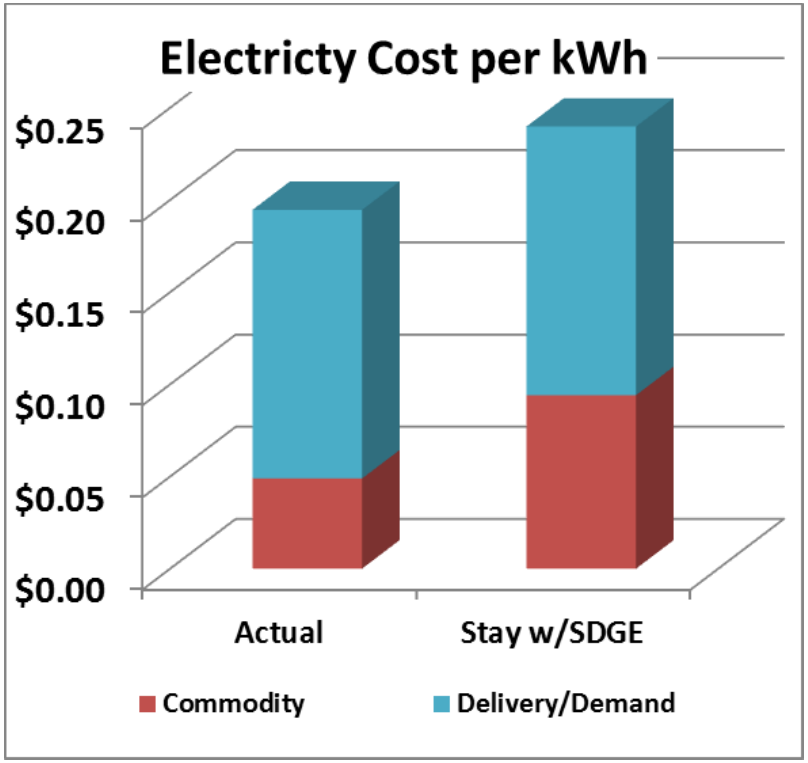
	FY12	FY13	FY14	FY15	FY16	FY17
Natural Gas						
Rate Variance-BP vs SDG&E	(147)	(146)	(364)	(471)	(477)	(730)
SDG&E Opt out fees	64	67	67	81	85	89
Third party management fees	19	20	16	19	20	21
Net Savings	**$ (64)**	**$ (59)**	**$ (280)**	**$ (371)**	**$ (373)**	**$ (620)**
Electricity						
Rate Variance-Calpine vs SDG&E	(593)	(1,200)	(1,378)	(3,554)	(4,029)	(3,632)
SDG&E Opt out fees	215	567	502	928	891	875
Third party management fees	53	135	144	92	25	25
Net Savings	**$ (325)**	**$ (498)**	**$ (733)**	**$ (2,534)**	**$ (3,114)**	**$ (2,732)**
Total Program Savings	**$ (389)**	**$ (557)**	**$ (1,013)**	**$ (2,905)**	**$ (3,486)**	**$ (3,352)**

In FY17, commodity rates were 18% cheaper for natural gas, and 55% cheaper for electricity

Energy Program - Service Provider

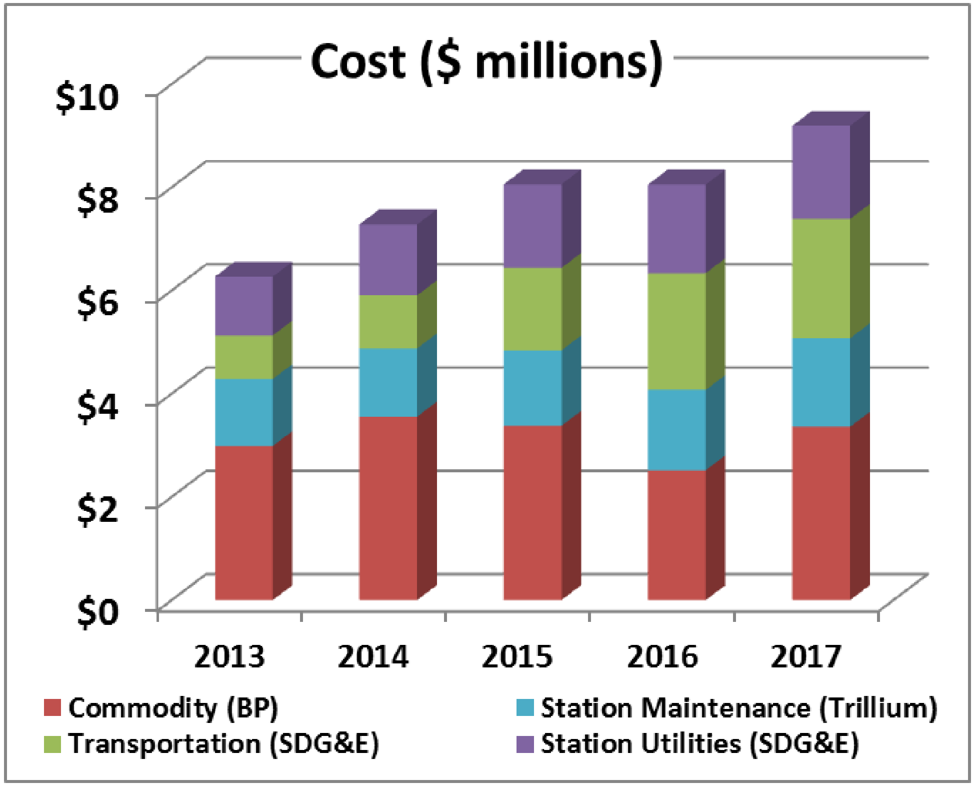
- Commodities Overview
  - Comparison of overall rates versus rates without an energy service provider (commodity with SDG&E)
    - 6 cent increase for Natural Gas, 4.5 cents for Electricity





Energy Program - Natural Gas

- Natural Gas Overview
  - Chart details the breakdown by component
  - Costs rising, partially due to increased utilization
  - Low commodity costs continue to be offset by SDG&E increases
  - Comparing FY13 & FY17, SDG&E costs have risen from 32% of the overall cost to 45%
    - $4.1M in total in FY17 vs $2.0M in FY13
    - $2.1M increase

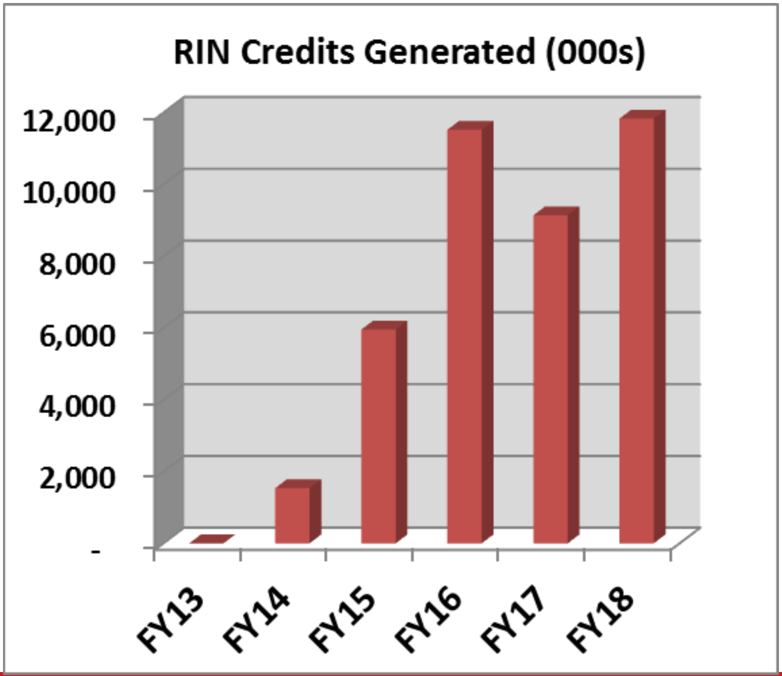


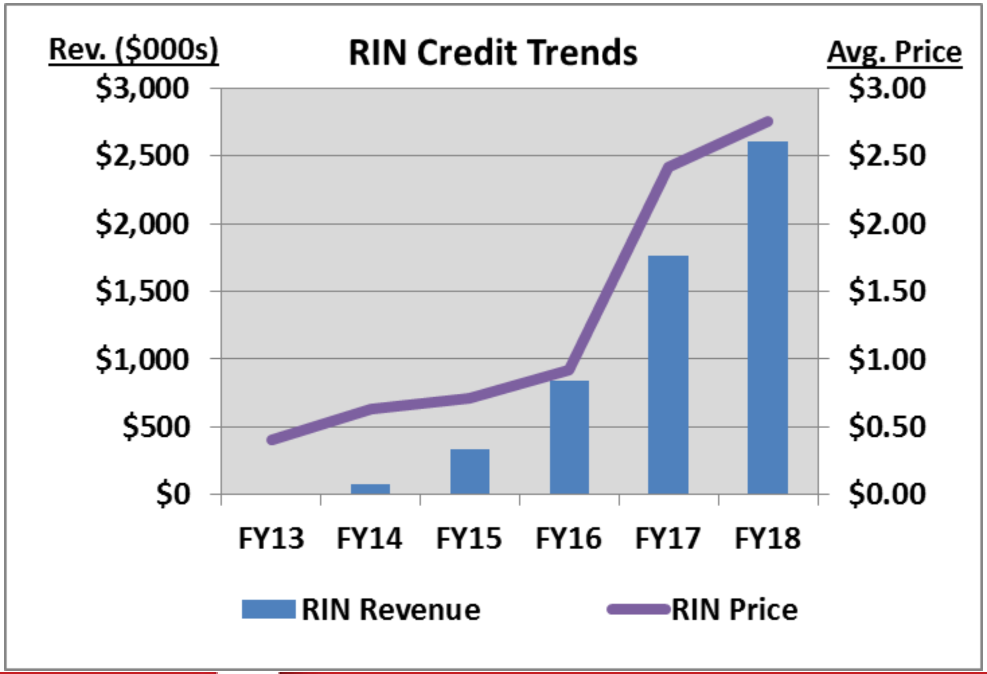
Energy Program - Natural Gas

- Biogas and Energy Credits
  - Biogas is natural gas extracted from a renewable source, such as a landfill, rather than a fossil fuel
  - By MTS utilizing biogas, Federal and State energy credits are generated
    - Federal: Renewable Fuels Standard, uses Renewable Identification Numbers (RINs) as the compliance mechanism
    - State: CA Air Resources Board (CARB) uses Low Carbon Fuel Standard (LCFS) credits as the compliance mechanism
  - BP is an obligated party in both Federal and State programs and requires these credits
    - Per our contract with BP, MTS sells these credits to BP at index rates
    - Proceeds included in the operating budget

Energy Program - Natural Gas

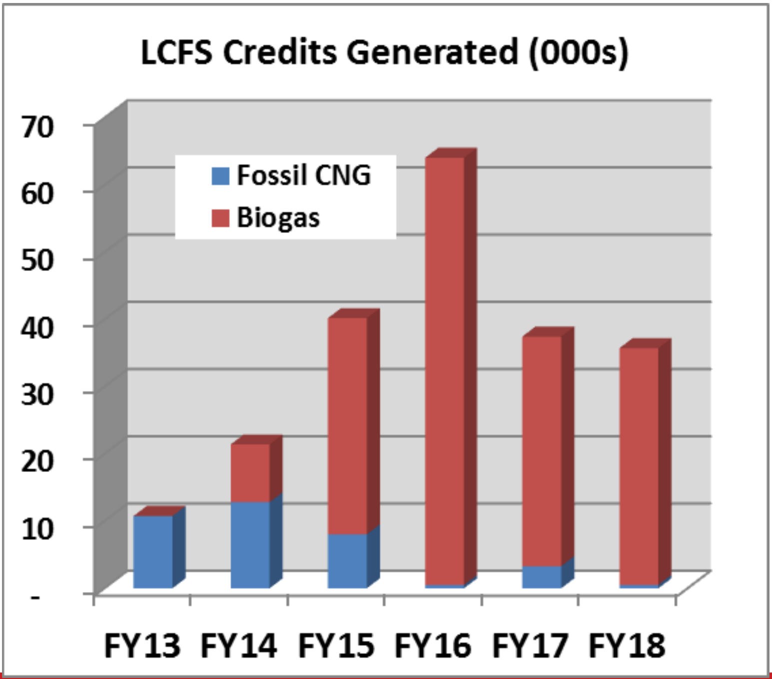
- Energy Credits Trend - Federal RINs
  - Federal program is entirely dependent on biogas
    - Biogas % was 98% FY16 but dropped to 76% in FY17
    - Projecting to be back to 99% for FY18
  - Dramatic change in price during FY17

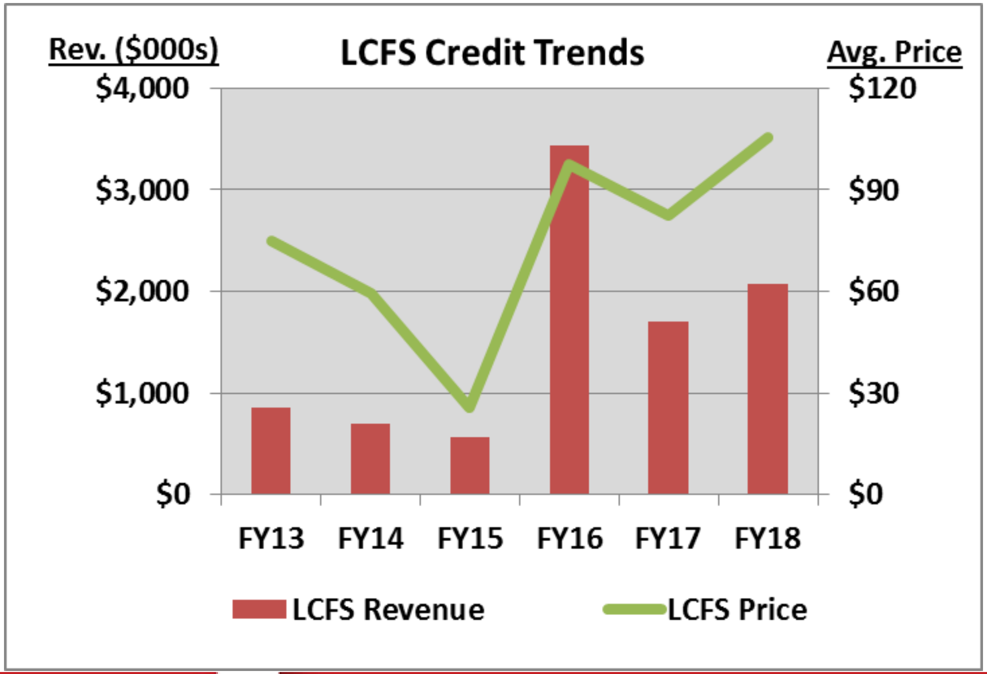




Energy Program - Natural Gas

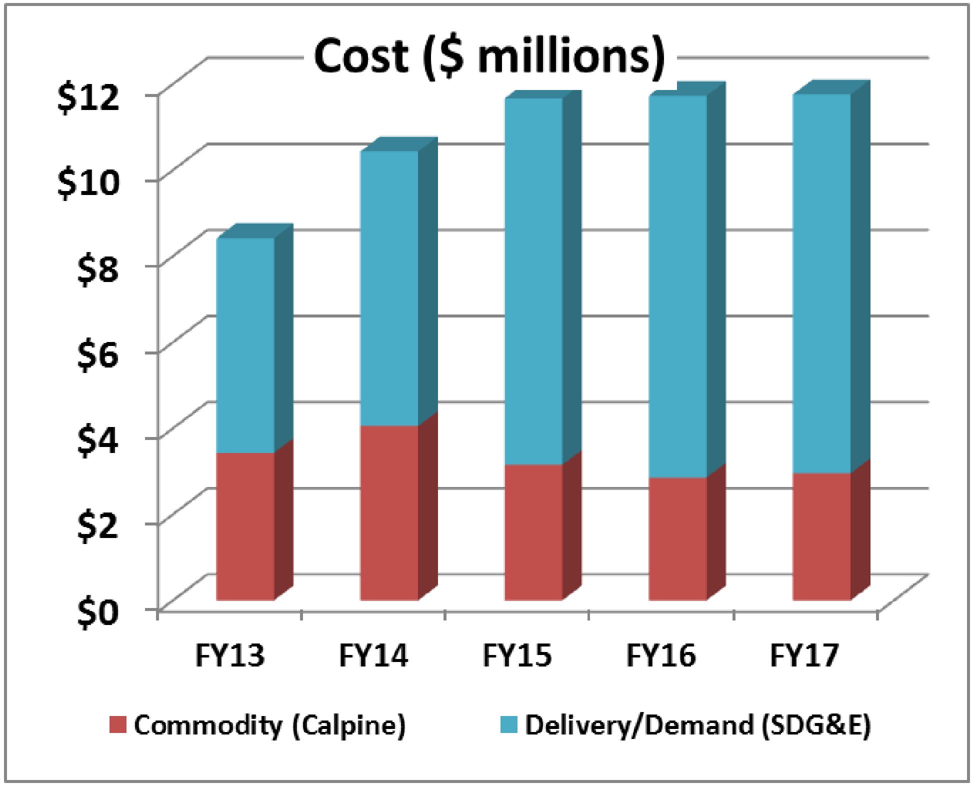
- Energy Credits Trend - State LCFS
  - Biogas generates about 4 times as many credits
    - CARB adjusts the credit generating calculations each year
  - Prices have fluctuated dramatically
    - Hit $150 in February before dropping back to $125





Energy Program - Electricity

- Electricity Overview
  - Chart details the breakdown by component
  - Costs continue to rise
  - Commodity stable
    - Electricity and CNG rates typically move in the same direction
  - Savings being offset by SDG&E
    - Comparing FY13 & FY17, SDG&E cost per kilowatt hour (kWh) has risen by 55%



Energy Program - Electricity

- LCFS program for fixed guideway
  - Effective January 1, 2016, MTS light rail vehicles are eligible to generate credits
  - Credits owned by MTS to sell
    - Not trying to time the market
    - Credits are generated and sold each quarter through a broker
  - Generates 12,000 credits per year
    - At $100 a credit, that is $1.2M annually
    - Also included in the operating budget

Energy Program - Electric Buses

- Cost per mile comparison
  - FY17 actual experience for rates and revenues
  - Assumes Energy Credit Revenue continues under today's legislation
    - No Federal RINs or IRS alternative fuel credits for electricity

	Natural Gas	Electricity
Commodity	$ 0.16	$ 0.11
Delivery/Demand	0.11	0.34
Station	0.17	-
LCFS Credits	(0.08)	(0.15)
RIN Credits	(0.09)	-
IRS Credits	(0.20)	-
Total	**$ 0.08**	**$ 0.30**

Energy Program - Propane

- Propane fueled minibuses
  - 209 total fixed route and paratransit minibuses
    - 97 vehicles already transitioned to propane
    - Additional 41 replacements arriving through FY19
  - Cost savings versus using gasoline
    - Initially projected a fuel savings of $10K per year per vehicle
    - Continue to review fueling infrastructure in order to achieve even greater savings
    - Installed a 2,000 gallon tank, more competitive rates
    - Reviewing cost benefit analysis of going to a 15,000 gallon tank
      - Regulatory approvals (Air Pollution Control District, Fire Marshall)

Energy Program - Fixed Prices

- Hedging Overview
  - Hedging commodity rates to achieve budget certainty
    - Policy allows for fixed positions up to 24 months in duration
    - Allows for physical or financial transactions to fix the price
  - MTS has not hedged since FY12 Natural Gas
    - Basically you are trying to play the market
    - Review it each year
      - $6M in Electricity and NG commodities
      - Prices fluctuations could swing this $1M up or down
    - Fixed pricing for one to two years has not been attractive
      - 15-20% premium over futures market forecasts
    - Fixed prices for three to five years have been attractive
      - Prices flat or even lower than today's prices for a 3-5 year term
      - Update to policy required for a transaction of this length

1255 Imperial Avenue, Suite 1000
San Diego, CA 92101-7490
(619) 231-1466 • FAX (619) 234-3407

Agenda Item No. 4b

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE

March 26, 2018

SUBJECT:

FISCAL YEAR 2019 OPERATING BUDGET DISCUSSION (MIKE THOMPSON)

RECOMMENDATION:

That the Budget Development Committee (BDC) receive a report regarding fiscal year (FY) 2019 operating budget development and provide guidance on budgetary issues.

Budget Impact

None at this time.

DISCUSSION:

MTS staff has completed the zero-based budgeting process used to build the operating budget for fiscal year 2019. In MTS's process, every line item budget is approved each year. Department managers complete budget templates in which they propose amounts for each line item, submitted with the appropriate supporting details for each assumption. (In contrast, with a traditional historic budgeting process, managers only justify variances versus prior year budget; the assumption is that the baseline is automatically approved.)

Meetings are held with each department to validate their assumptions, review proposals versus existing spending trends, and review any new initiatives. This collaborative process results in the assumptions that are then presented to and reviewed by senior management at MTS.

In this meeting, staff will review the major revenue and expense assumptions in the current draft of the operating budget, including subsidy revenue, passenger levels, other operating revenue, personnel assumptions, energy rates and other expense assumptions. Overall MTS consolidated revenues and expenses are presented in attachment A.

This latest projection shows overall expense growth of $9.0 million (3.2%), which includes approximately $4.6 million in additional service for the implementation of the South Bay Bus Rapid Transit as well as the Transit Optimization Plan. This is partially offset by revenue growth of $6.1 million (2.2%), resulting in a deficit of $2.9 million.

/s/ Paul C. Jablonski
Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Mike Thompson, 619.557.4557, mike.thompson@sdmts.com

Attachments: A. FY19 Operating Budget – Consolidated MTS
B. FY19 Operating Budget – Consolidated Operations
C. FY19 Operating Budget – Consolidated Administration
D. FY19 Operating Budget – Consolidated Other Activities

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
OPERATING BUDGET SUMMARY
FISCAL YEAR 2019
SECTION 2.01

	ACTUAL FY17	AMENDED BUDGET FY18	PROPOSED BUDGET FY19	$ CHANGE BUDGET/ AMENDED	% CHANGE BUDGET/ AMENDED
OPERATING REVENUE					
PASSENGER REVENUE	93,279,455	90,631,033	92,031,033	1,400,000	1.5%
OTHER OPERATING REVENUE	15,296,095	17,033,028	16,735,928	(297,100)	-1.7%
TOTAL OPERATING REVENUES	**108,575,550**	**107,664,061**	**108,766,961**	**1,102,900**	**1.0%**
NON OPERATING REVENUE					
TOTAL SUBSIDY REVENUE	164,835,864	171,329,541	176,316,642	4,987,101	2.9%
OTHER NON OPERATING REVENUE					
RESERVE REVENUE	443,554	379,747	379,747	-	0.0%
OTHER INCOME	-	-	-	-	-
TOTAL OTHER NON OPERATING REVENUE	443,554	379,747	379,747	-	0.0%
TOTAL NON OPERATING REVENUE	**165,279,418**	**171,709,288**	**176,696,389**	**4,987,101**	**2.9%**
TOTAL COMBINED REVENUES	**273,854,968**	**279,373,349**	**285,463,350**	**6,090,001**	**2.2%**
OPERATING EXPENSES					
LABOR EXPENSES	75,564,535	77,549,406	78,882,052	1,332,646	1.7%
FRINGE EXPENSES	51,569,806	53,699,923	55,338,369	1,638,446	3.1%
TOTAL PERSONNEL EXPENSES	**127,134,341**	**131,249,329**	**134,220,421**	**2,971,092**	**2.3%**
SECURITY EXPENSES	8,100,058	6,379,000	6,637,000	258,000	4.0%
REPAIR/MAINTENANCE SERVICES	4,636,421	5,387,763	5,440,454	52,691	1.0%
ENGINE AND TRANSMISSION REBUILD	2,568,709	1,172,864	1,120,000	(52,864)	-4.5%
OTHER OUTSIDE SERVICES	10,602,631	12,142,262	12,236,493	94,231	0.8%
PURCHASED TRANSPORTATION	68,697,009	69,878,722	76,031,139	6,152,417	8.8%
TOTAL OUTSIDE SERVICES	**94,604,827**	**94,960,611**	**101,465,086**	**6,504,475**	**6.8%**
LUBRICANTS	534,808	557,050	585,550	28,500	5.1%
TIRES	1,207,827	1,205,396	1,470,900	265,504	22.0%
OTHER MATERIALS AND SUPPLIES	9,006,965	10,074,844	10,548,377	473,533	4.7%
TOTAL MATERIALS AND SUPPLIES	**10,749,600**	**11,837,290**	**12,604,827**	**767,537**	**6.5%**
GAS/DIESEL/PROPANE	4,006,064	3,953,863	3,809,763	(144,100)	-3.6%
CNG	9,208,626	9,037,467	9,600,000	562,533	6.2%
TRACTION POWER	9,269,751	10,700,000	10,900,000	200,000	1.9%
UTILITIES	4,053,849	3,815,019	3,866,707	51,688	1.4%
TOTAL ENERGY	**26,538,291**	**27,506,349**	**28,176,470**	**670,121**	**2.4%**
RISK MANAGEMENT	**3,922,111**	**6,613,400**	**4,695,700**	**(1,917,700)**	**-29.0%**
GENERAL AND ADMINISTRATIVE	**4,525,784**	**4,551,222**	**4,603,879**	**52,657**	**1.2%**
DEBT SERVICE	**1,700,686**	**1,595,248**	**1,480,937**	**(114,311)**	**-7.2%**
VEHICLE / FACILITY LEASE	**1,164,749**	**1,059,900**	**1,164,900**	**105,000**	**9.9%**
TOTAL OPERATING EXPENSES	**270,340,388**	**279,373,349**	**288,412,220**	**9,038,871**	**3.2%**
NET OPERATING SUBSIDY	**(161,764,838)**	**(171,709,288)**	**(179,645,259)**	**7,935,971**	**4.6%**
OVERHEAD ALLOCATION	**-**	**(1)**	**(0)**	**-**	**0.0%**
ADJUSTED NET OPERATING SUBSIDY	**(161,764,838)**	**(171,709,289)**	**(179,645,259)**	**7,935,970**	**4.6%**
TOTAL REVENUES LESS TOTAL EXPENSES	**3,514,580**	**(1)**	**(2,948,870)**	**2,948,869**	**0.0%**

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
OPERATIONS BUDGET
FISCAL YEAR 2019
SECTION 2.02

	ACTUAL FY17	AMENDED BUDGET FY18	PROPOSED BUDGET FY19	$ CHANGE BUDGET/ AMENDED	% CHANGE BUDGET/ AMENDED
OPERATING REVENUE					
PASSENGER REVENUE	93,279,455	90,631,033	92,031,033	1,400,000	1.5%
OTHER OPERATING REVENUE	877,979	900,000	735,000	(165,000)	-18.3%
TOTAL OPERATING REVENUES	**94,157,434**	**91,531,033**	**92,766,033**	**1,235,000**	**1.3%**
NON OPERATING REVENUE					
TOTAL SUBSIDY REVENUE	161,677,393	171,189,541	176,176,642	4,987,101	2.9%
OTHER NON OPERATING REVENUE					
RESERVE REVENUE	-	-	-	-	-
OTHER INCOME	-	-	-	-	-
TOTAL OTHER NON OPERATING REVENUE	-	-	-	-	-
TOTAL NON OPERATING REVENUE	**161,677,393**	**171,189,541**	**176,176,642**	**4,987,101**	**2.9%**
TOTAL COMBINED REVENUES	**255,834,826**	**262,720,574**	**268,942,675**	**6,222,101**	**2.4%**
OPERATING EXPENSES					
LABOR EXPENSES	62,004,862	63,110,632	64,127,516	1,016,884	1.6%
FRINGE EXPENSES	45,499,298	47,506,129	49,151,514	1,645,385	3.5%
TOTAL PERSONNEL EXPENSES	**107,504,161**	**110,616,761**	**113,279,030**	**2,662,269**	**2.4%**
SECURITY EXPENSES	250,229	190,000	245,000	55,000	28.9%
REPAIR/MAINTENANCE SERVICES	4,474,485	5,214,263	5,274,954	60,691	1.2%
ENGINE AND TRANSMISSION REBUILD	2,568,709	1,172,864	1,120,000	(52,864)	-4.5%
OTHER OUTSIDE SERVICES	2,730,155	3,439,660	3,124,012	(315,648)	-9.2%
PURCHASED TRANSPORTATION	68,697,009	69,878,722	76,031,139	6,152,417	8.8%
TOTAL OUTSIDE SERVICES	**78,720,587**	**79,895,509**	**85,795,105**	**5,899,596**	**7.4%**
LUBRICANTS	534,808	557,050	585,550	28,500	5.1%
TIRES	1,207,426	1,202,396	1,467,400	265,004	22.0%
OTHER MATERIALS AND SUPPLIES	9,010,386	9,951,410	10,538,502	587,092	5.9%
TOTAL MATERIALS AND SUPPLIES	**10,752,620**	**11,710,856**	**12,591,452**	**880,596**	**7.5%**
GAS/DIESEL/PROPANE	3,916,455	3,855,113	3,701,013	(154,100)	-4.0%
CNG	9,208,626	9,037,467	9,600,000	562,533	6.2%
TRACTION POWER	9,269,751	10,700,000	10,900,000	200,000	1.9%
UTILITIES	3,389,817	3,165,214	3,206,870	41,656	1.3%
TOTAL ENERGY	**25,784,650**	**26,757,794**	**27,407,883**	**650,089**	**2.4%**
RISK MANAGEMENT	**3,572,837**	**6,145,300**	**4,132,300**	**(2,013,000)**	**-32.8%**
GENERAL AND ADMINISTRATIVE	**820,303**	**981,207**	**755,174**	**(226,033)**	**-23.0%**
DEBT SERVICE	**961,069**	**851,711**	**736,882**	**(114,829)**	**-13.5%**
VEHICLE / FACILITY LEASE	**996,871**	**889,900**	**979,900**	**90,000**	**10.1%**
TOTAL OPERATING EXPENSES	**229,113,099**	**237,849,038**	**245,677,726**	**7,828,688**	**3.3%**
NET OPERATING SUBSIDY	**(134,955,665)**	**(146,318,005)**	**(152,911,693)**	**6,593,688**	**4.5%**
OVERHEAD ALLOCATION	**(26,568,291)**	**(24,871,537)**	**(26,310,957)**	**(1,439,420)**	**5.8%**
ADJUSTED NET OPERATING SUBSIDY	**(161,523,956)**	**(171,189,542)**	**(179,222,650)**	**8,033,108**	**4.7%**
TOTAL REVENUES LESS TOTAL EXPENSES	**153,437**	**(1)**	**(3,046,008)**	**3,046,007**	**###########**

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
ADMINISTRATIVE BUDGET
FISCAL YEAR 2019
SECTION 2.03

	ACTUAL FY17	AMENDED BUDGET FY18	PROPOSED BUDGET FY19	$ CHANGE BUDGET/ AMENDED	% CHANGE BUDGET/ AMENDED
OPERATING REVENUE					
PASSENGER REVENUE	-	-	-	-	-
OTHER OPERATING REVENUE	13,510,097	14,939,428	14,690,928	(248,500)	-1.7%
TOTAL OPERATING REVENUES	**13,510,097**	**14,939,428**	**14,690,928**	**(248,500)**	**-1.7%**
NON OPERATING REVENUE					
TOTAL SUBSIDY REVENUE	3,005,902	140,000	140,000	-	0.0%
OTHER NON OPERATING REVENUE					
RESERVE REVENUE	-	-	-	-	-
OTHER INCOME	-	-	-	-	-
TOTAL OTHER NON OPERATING REVENUE	-	-	-	-	-
TOTAL NON OPERATING REVENUE	**3,005,902**	**140,000**	**140,000**	**-**	**0.0%**
TOTAL COMBINED REVENUES	**16,516,000**	**15,079,428**	**14,830,928**	**(248,500)**	**-1.6%**
OPERATING EXPENSES					
LABOR EXPENSES	12,939,044	13,801,229	14,149,536	348,307	2.5%
FRINGE EXPENSES	5,771,562	5,908,805	5,929,386	20,581	0.3%
TOTAL PERSONNEL EXPENSES	**18,710,605**	**19,710,034**	**20,078,922**	**368,888**	**1.9%**
SECURITY EXPENSES	7,849,829	6,189,000	6,392,000	203,000	3.3%
REPAIR/MAINTENANCE SERVICES	157,362	164,500	156,500	(8,000)	-4.9%
ENGINE AND TRANSMISSION REBUILD	-	-	-	-	-
OTHER OUTSIDE SERVICES	7,668,625	8,405,492	8,807,231	401,739	4.8%
PURCHASED TRANSPORTATION	-	-	-	-	-
TOTAL OUTSIDE SERVICES	**15,675,816**	**14,758,992**	**15,355,731**	**596,739**	**4.0%**
LUBRICANTS	-	-	-	-	-
TIRES	-	3,000	3,500	500	16.7%
OTHER MATERIALS AND SUPPLIES	(5,022)	115,434	1,875	(113,559)	-98.4%
TOTAL MATERIALS AND SUPPLIES	**(5,022)**	**118,434**	**5,375**	**(113,059)**	**-95.5%**
GAS/DIESEL/PROPANE	85,894	92,750	102,750	10,000	10.8%
CNG	-	-	-	-	-
TRACTION POWER	-	-	-	-	-
UTILITIES	659,781	639,805	649,172	9,367	1.5%
TOTAL ENERGY	**745,675**	**732,555**	**751,922**	**19,367**	**2.6%**
RISK MANAGEMENT	**328,445**	**392,800**	**435,100**	**42,300**	**10.8%**
GENERAL AND ADMINISTRATIVE	**3,510,192**	**3,435,095**	**3,709,710**	**274,615**	**8.0%**
DEBT SERVICE	**739,617**	**743,537**	**744,055**	**518**	**0.1%**
VEHICLE / FACILITY LEASE	**144,944**	**145,000**	**160,000**	**15,000**	**10.3%**
TOTAL OPERATING EXPENSES	**39,850,273**	**40,036,447**	**41,240,815**	**1,204,368**	**3.0%**
NET OPERATING SUBSIDY	**(26,340,175)**	**(25,097,019)**	**(26,549,887)**	**1,452,868**	**5.8%**
OVERHEAD ALLOCATION	**26,695,416**	**24,957,019**	**26,409,887**	**1,452,868**	**5.8%**
ADJUSTED NET OPERATING SUBSIDY	**355,241**	**(140,000)**	**(140,000)**	**-**	**0.0%**
TOTAL REVENUES LESS TOTAL EXPENSES	**3,361,143**	**-**	**-**	**-**	**-**

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
OTHER ACTIVITIES BUDGET
FISCAL YEAR 2019
SECTION 2.04

	ACTUAL FY17	AMENDED BUDGET FY18	PROPOSED BUDGET FY19	$ CHANGE BUDGET/ AMENDED	% CHANGE BUDGET/ AMENDED
OPERATING REVENUE					
PASSENGER REVENUE	-	-	-	-	-
OTHER OPERATING REVENUE	908,019	1,193,600	1,310,000	116,400	9.8%
TOTAL OPERATING REVENUES	**908,019**	**1,193,600**	**1,310,000**	**116,400**	**9.8%**
NON OPERATING REVENUE					
TOTAL SUBSIDY REVENUE	152,569	-	-	-	-
OTHER NON OPERATING REVENUE					
RESERVE REVENUE	443,554	379,747	379,747	-	0.0%
OTHER INCOME	-	-	-	-	-
TOTAL OTHER NON OPERATING REVENUE	443,554	379,747	379,747	-	0.0%
TOTAL NON OPERATING REVENUE	**596,123**	**379,747**	**379,747**	**-**	**0.0%**
TOTAL COMBINED REVENUES	**1,504,142**	**1,573,347**	**1,689,747**	**116,400**	**7.4%**
OPERATING EXPENSES					
LABOR EXPENSES	620,629	637,545	605,000	(32,545)	-5.1%
FRINGE EXPENSES	298,945	284,989	257,469	(27,520)	-9.7%
TOTAL PERSONNEL EXPENSES	**919,574**	**922,534**	**862,469**	**(60,065)**	**-6.5%**
SECURITY EXPENSES	-	-	-	-	-
REPAIR/MAINTENANCE SERVICES	4,573	9,000	9,000	-	0.0%
ENGINE AND TRANSMISSION REBUILD	-	-	-	-	-
OTHER OUTSIDE SERVICES	203,851	297,110	305,250	8,140	2.7%
PURCHASED TRANSPORTATION	-	-	-	-	-
TOTAL OUTSIDE SERVICES	**208,423**	**306,110**	**314,250**	**8,140**	**2.7%**
LUBRICANTS	-	-	-	-	-
TIRES	401	-	-	-	-
OTHER MATERIALS AND SUPPLIES	1,601	8,000	8,000	-	0.0%
TOTAL MATERIALS AND SUPPLIES	**2,003**	**8,000**	**8,000**	**-**	**0.0%**
GAS/DIESEL/PROPANE	3,714	6,000	6,000	-	0.0%
CNG	-	-	-	-	-
TRACTION POWER	-	-	-	-	-
UTILITIES	4,251	10,000	10,665	665	6.7%
TOTAL ENERGY	**7,966**	**16,000**	**16,665**	**665**	**4.2%**
RISK MANAGEMENT	**20,829**	**75,300**	**128,300**	**53,000**	**70.4%**
GENERAL AND ADMINISTRATIVE	**195,289**	**134,920**	**138,995**	**4,075**	**3.0%**
DEBT SERVICE	**-**	**-**	**-**	**-**	**-**
VEHICLE / FACILITY LEASE	**22,934**	**25,000**	**25,000**	**-**	**0.0%**
TOTAL OPERATING EXPENSES	**1,377,017**	**1,487,864**	**1,493,679**	**5,815**	**0.4%**
NET OPERATING SUBSIDY	**(468,998)**	**(294,264)**	**(183,679)**	**(110,585)**	**-37.6%**
OVERHEAD ALLOCATION	**(127,125)**	**(85,483)**	**(98,930)**		**15.7%**
ADJUSTED NET OPERATING SUBSIDY	**(596,123)**	**(379,747)**	**(282,609)**	**(97,138)**	**-25.6%**
TOTAL REVENUES LESS TOTAL EXPENSES	**-**	**0**	**97,138**	**(97,138)**	**0.0%**

Metropolitan Transit System
FY 2019
Operating Budget Update

MTS Board of Directors

Budget Development Committee

March 26, 2018

Fiscal Year 2019 Operating Budget
Budget Development Process

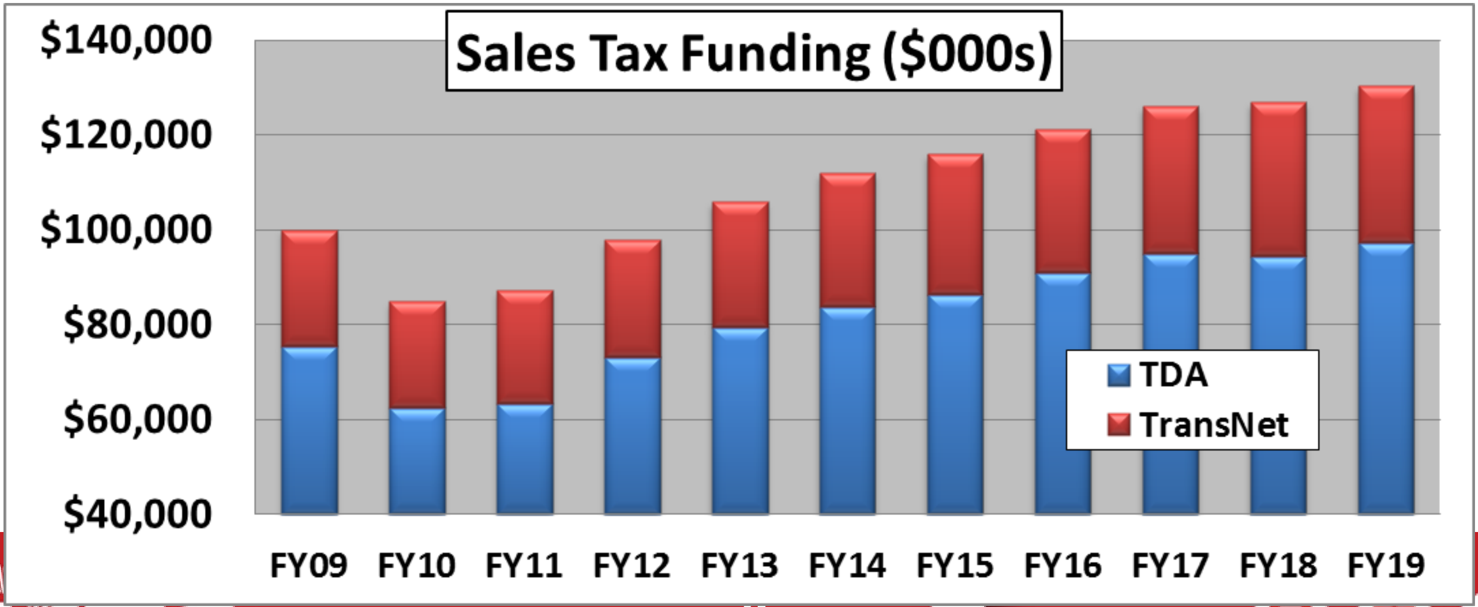
- MTS uses a zero based budgeting process
  - In traditional historic budgeting, managers only justify variances versus prior year budget
    - The assumption is that the baseline is automatically approved
  - By contrast, in zero-based budgeting, every line item of the budget must be approved
- Process started in January
  - Managers propose amounts for each line item
    - Online submissions include the details behind each assumption
  - Meetings with each department to validate their assumptions
    - Reviewed versus existing spending trends
    - New initiatives are highlighted and discussed
    - Collaborate on final assumptions before presented to Senior Management and the Board

Fiscal Year 2019 Operating Budget
Revenue Assumptions – Subsidy

- Federal
  - Surface Transportation Reauthorization
    - Fixing America's Surface Transportation (FAST)
      - Legislation in place through Federal Fiscal Year (FFY) 2020
      - 5307: Urban Area formula funding
      - 5337: State of Good Repair formula funding
      - 5339: Bus and Bus Facilities formula funding
  - Preventive Maintenance(PM)
    - Maximize use of Federal for PM for cash flow
      - Federal funding received on a reimbursement basis
      - Swap with TDA to preserve Capital share
      - Increase in Operating Budget of $2.0M

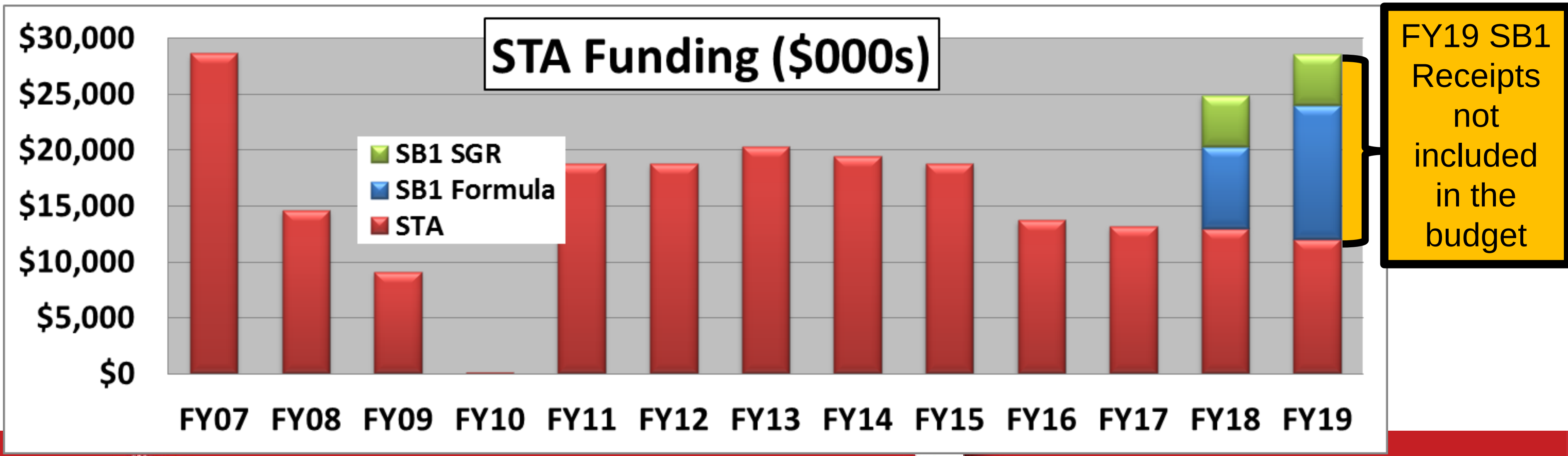
Fiscal Year 2019 Operating Budget Revenue Assumptions – Subsidy

- TDA and TransNet formula funding
  - Projected to grow for the 9th straight year
    - Sales tax generated, projected by SANDAG
    - FY18 YTD Actual through Q3: 3.3%
  - FY19: 2.0% growth for TDA, 3.0% for Transnet
    - Transnet - $764K increase in formula funds
    - TDA - After swap with CIP, share to Operating budget decreases by $1.1M



Fiscal Year 2019 Operating Budget Revenue Assumptions – Subsidy

- State Transit Assistance
  - Projected by the State Controller's Office
    - Sales tax on Diesel fuels
    - Augmented by Senate Bill 1 (SB1)
  - $5.6M is included in Operating Budget, remainder in Capital
    - Sunday service since FY13 - $3.6M
    - Transit Optimization Plan (TOP) - $2.0M, FY17-18 SB1 funding



Fiscal Year 2019 Operating Budget Revenue Assumptions – Passenger Levels

- Passenger Revenue/Ridership
  - Peak of 96.7M in FY15 followed by 3 years of declines
  - FY18 projected at 85.4M, 11.7% less than the peak
  - FY19 projecting 1.4M additional riders
    - TOP service adjustments in January, June and September
      - Investment in overall service network
      - Full impact of TOP projected to be 1.7 - 2.6 million riders once it matures
        - » This process should take up to three years
      - In this first year of implementation, projecting an additional 800K riders
    - South Bay BRT projected to go live in Jan 2019
      - Additional 600K riders for FY19
    - Assumes the general decline in ridership does not continue in FY19
  - No additional revenue from a fare increases included
  - Results in a $1.4M increase in Passenger Revenue

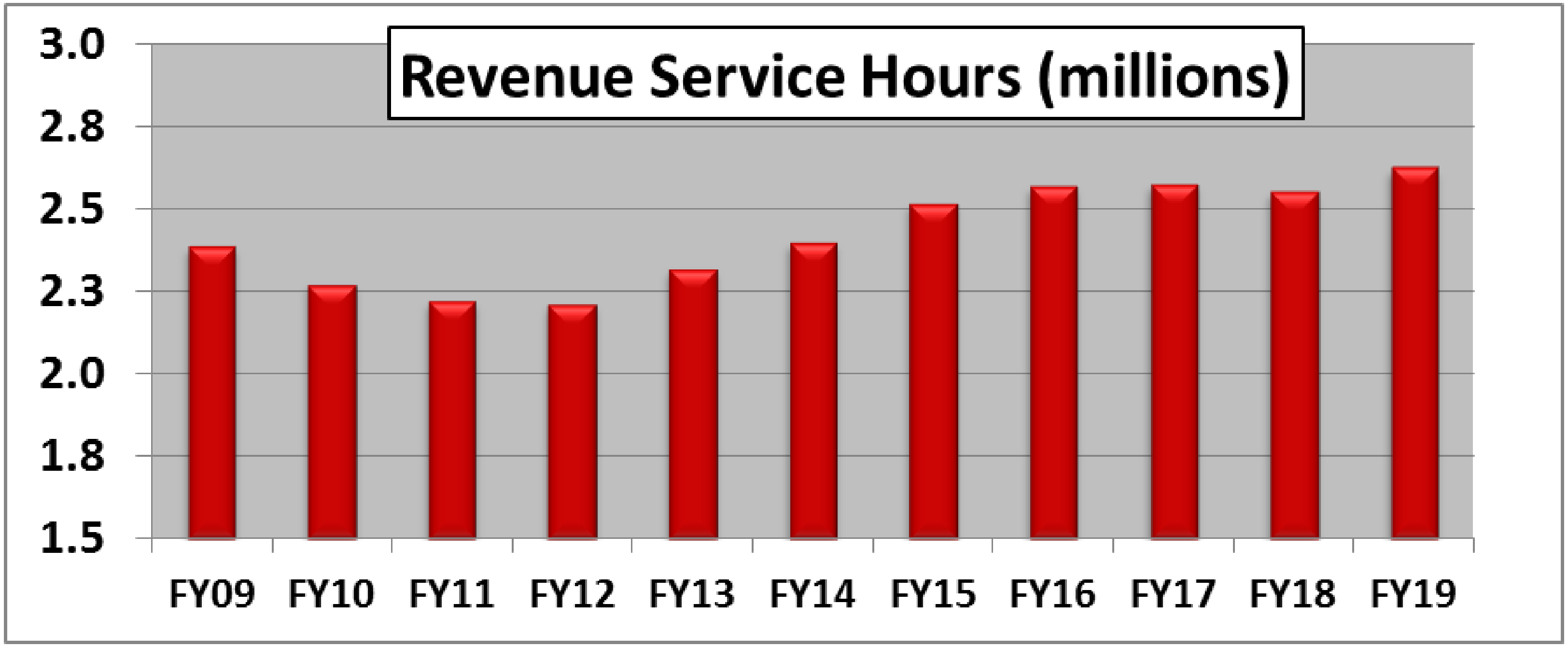
Fiscal Year 2019 Budget
Revenue Projection ($000s)

	FY 2018 Amended	FY 2019 Draft	Var.	Var. %
Passenger Revenue	$ 90,631	$ 92,031	$ 1,400	1.5%
Other Operating Revenue	17,033	16,736	(297)	-1.7%
Total Operating Revenue	**$ 107,664**	**$ 108,767**	**$ 1,103**	**1.0%**
Federal	58,992	61,260	2,268	3.8%
TDA	64,096	63,041	(1,055)	-1.6%
TransNet Formula	26,823	27,587	764	2.8%
TransNet Operating	12,363	14,373	2,011	16.3%
STA	4,600	5,600	1,000	21.7%
Other	4,456	4,456	(0)	0.0%
Total Subsidy	**$ 171,330**	**$ 176,317**	**$ 4,987**	**2.9%**
Reserves	380	380	-	-
Total Revenue	**$ 279,373**	**$ 285,463**	**$ 6,090**	**2.2%**

- **Reserves relate to SD&AE and Taxicab Admin self funded activities**

Fiscal Year 2019 Operating Budget Assumptions – Service Levels

- Increases to fixed route service levels
  - TOP Implementation
  - South Bay BRT January 2019
- ADA Paratransit service levels not projected to grow in FY19



Fiscal Year 2019 Operating Budget Expense Assumptions - Personnel

- Labor Expenses increasing by $1.5M (2.0%)
  - No changes to headcount
  - Regular wage costs increasing by $2.0M (2.8%)
    - Management Employees
      - Merit pool assumed at 2.5%
      - Performance Improvement Program, 0.75% pool, at CEO's discretion
    - Bargaining units contractual rate obligations
      - Increases range from 1.5 - 3.0%
  - Overtime costs decreasing by $472K (-7.8%)
    - Increased FY18 Midyear for current year experience
    - Expect FY19 to be more in line with normal operations
  - Minimum wage will increase from $11.50 to $12.00 on January 1, 2019

Fiscal Year 2019 Operating Budget Expense Assumptions – Personnel continued

- Fringe Expenses increasing by $1.4M (2.7%)
  - Total pension plan costs increasing by $959K (5.0%)
    - Per actuary reports, gross plan costs increasing by $1.0M
      - SDTC self funded plan - $527K increase (3.5%)
      - CalPERS plans - $490K increase in total (5.8%)
    - Employee pension contributions increasing by $92K
      - $5.0M of gross pension costs in FY19 (20.5% of gross costs)
  - Healthcare costs decreasing by $484K (-3.3%)
    - Replaced Anthem HMO/PPO with NextGen EPO/PPO in January
      - $1M annual decrease in net cost to MTS
      - $500K savings in FY19
    - Kaiser plans blended rate increase of 2.5%
    - Bargaining units contractual obligations range from 1.0-2.5%
  - All other fringe benefit costs increasing by $964K (4.8%)
    - Paid absences, Workers Compensation, Taxes, etc.

Fiscal Year 2019 Operating Budget
Expense Assumptions – Purchased Transportation

- Purchased Transportation increasing by $6.2M
  - Fixed Route Contract - Transdev
    - Operates the South Bay and East County Divisions
    - $1.1M increase due to contractual rate increase of 2.1%
    - $4.0M increase due to additional service
  - ADA Paratransit Contract - First Transit
    - Operates out of the Copley Park Division
    - $400K increase due to contractual rate increase of 3.0%
    - No change in budgeted service levels
    - Contract expires in June 2019
  - Minibus Contract - First Transit
    - Operates out of the Copley Park Division
    - $105K increase due to contractual rate increase of 2.6%
    - $150K increase due to additional service

Fiscal Year 2019 Operating Budget Expense Assumptions – Energy

- Electricity Costs – Increasing by $323K
  - Traction power and facility electric
  - Three components
    - Transmission/demand - SDG&E rates
    - Electricity commodity - Market index rates - Calpine Energy Solutions is MTS's Direct Access service provider
    - Electricity Usage (Kilowatt hours or kWh)

(Rail Only)	FY17	FY18	FY19	Var.
Rate ($/kWh)				
SDG&E	0.146	0.154	0.163	5.5%
Calpine	0.049	0.055	0.052	-6.1%
Total per kWh	**0.195**	**0.209**	**0.215**	**2.5%**
kWh (000s)	60,435	60,149	60,108	-0.1%
Cost	**$ 11,800**	**$ 12,600**	**$ 12,900**	**2.4%**

Fiscal Year 2019 Operating Budget Expense Assumptions – Energy

- Compressed Natural Gas – Increasing by $663K
  - Increased volumes by 3.3% due to added service
  - Overall rate increasing by 3.0%
    - Commodity prices projected the same as FY18
    - SDG&E costs (transmission/CNG facility utility) continue to increase

- Gas/Diesel/Propane – Decreasing by $144k in total
  - Crude oil prices increasing by 10%
  - 25 Diesel buses left in the system (Commuter over the road coaches)
  - Continuing shift from Gasoline to Propane
    - Net annual savings of approximately $10K per bus depending gas/propane prices
    - 97 propane buses now
    - By the end of next year, 138 buses of the 209 buses will have been switched

Fiscal Year 2019 Operating Budget Expense Projection ($000s)

	FY 2018 Amended	FY 2019 Draft	Var.	Var. %
Personnel Expenses	$ 131,249	$ 134,220	$ 2,971	2.3%
Purchased Transportation	69,879	76,031	6,152	8.8%
Outside Services	25,082	25,434	352	1.4%
Materials and Supplies	11,837	12,605	768	6.5%
Energy	27,506	28,176	670	2.4%
Risk Management	6,613	4,696	(1,918)	-29.0%
Other	7,206	7,250	43	0.6%
Total Expenses	**$ 279,373**	**$ 288,412**	**$ 9,039**	**3.2%**

- Year over year increase figures are misleading
  - $4.6M in expenses related to additional service in FY19
  - $1.0M in expenses related to the Sales Tax Ballot Measure
  - Anticipating $2.0M Risk Management claim settlement in FY18
- Adjusting for these items, expenses are growing by $5.4M or 1.9%

Fiscal Year 2019 Operating Budget
Consolidated Revenues less Expenses ($000s)

	FY 2018 Amended	FY 2019 Draft	Var.	Var. %
Operating Revenues	$ 107,664	$ 108,767	$ 1,103	1.0%
Subsidy Revenues	171,330	176,317	4,987	2.9%
Reserve Revenues	380	380	-	-
Total Revenues	**$ 279,373**	**$ 285,463**	**$ 6,090**	**2.2%**
Total Expenses	**279,373**	**288,412**	**9,039**	**3.2%**
Revenues Less Expenses	**$ 0**	**$ (2,949)**	**$ (2,949)**	**-**

- Operating budget includes $5M from Capital in both FY18 and FY19
- $2.0M of SB1 for TOP service
- $9.9M deficit without these one time funds

Fiscal Year 2019 Operating Budget Plan of Action

- $9.9M deficit
  - Already included in this projection:
    - $5.0M from Capital
    - $2.0M of SB1 revenue for additional TOP service
  - Need an additional $2.9M to balance FY19
    - Utilize reserves to pay for Sales Tax Ballot Measure
      - $1.0M in FY19
    - For the remaining $1.9M:
      - Refinement of the revenue and expense budgets
      - Project additional passenger revenue growth based on TOP if it is warranted over the next month
      - SB1 for the balance ($4M of SB1 formula funding expected Jul-Oct 2018)
  - Long term strategy
    - Passenger growth
    - Plan for fare increase - $4-5M/year potentially
    - SB1 revenue (if not repealed)