

Metropolitan Transit System

10-21-16A10:52 RCVD

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San Diego, CA 92101-7490
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MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE

October 27, 2016
9:00 AM

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

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**ACTION
RECOMMENDED**

1. ROLL CALL
2. APPROVAL OF MINUTES - April 25, 2016 Approve
3. PUBLIC COMMENTS
4. COMMITTEE DISCUSSION ITEMS
 - a. Appointment of Committee Chairman and Vice Chairman Elect
Action would take nominations from the floor and elect the budget development committee chairman and vice chairman for the 2016 calendar year.
 - b. Security Services Agreement-Contract Amendment (Manny Guaderrama and Larry Marinesi) Possible Action
Action would receive a report on the required contract amendment with Universal Protection Services (UPS) and provide direction to staff for these negotiations with UPS.

Please SILENCE electronics
during the meeting

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Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc. and San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations). MTS is the taxicab administrator for seven cities.

MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego.



4 COMMITTEE DISCUSSION ITEMS - Continued

- | | | |
|----|--|-----------------|
| c. | <u>MTS Energy Programs (Mike Thompson)</u>
Action would receive a report regarding the status of the MTS Energy program and provide guidance on budgetary issues. | Possible Action |
| d. | <u>Operating Budget Discussion (Mike Thompson)</u>
Action would receive a report regarding the status of the operating budget and provide guidance on budgetary issues. | Possible Action |

5. ADJOURNMENT

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

April 25, 2016

MINUTES

1. ROLL CALL

Mr. McClellan called the Budget Development Committee (BDC) meeting to order at 2:10 p.m. A roll call sheet listing BDC member attendance is attached.

2. APPROVAL OF MINUTES

Mr. McClellan moved to approve the minutes of the March 3, 2016 MTS BDC meeting. Chairman Roberts seconded the motion, and the vote was 3-0 in favor, with Mr. Minto and Ms. Cole absent.

3. PUBLIC COMMENTS

There were no public comments.

4.a. Appointment of Committee Chairman and Vice Chairman

The appointment of Committee Chairman and Vice Chairman was deferred to the next meeting.

4 b. SDTC Retirement Plan Experience Study (Bob McCrory and Ann Harper)

Mr. McCrory from Cheiron presented on the San Diego Transit Corporation (SDTC) Retirement Experience Study. He explained that one of the key findings was that mortality in the United States has improved faster than expected and people are living longer. He stated that there are generational mortality improvements; people who are 65 years old now are not expected to live as long as people who turn 65 in ten years. Mr. McCrory said that future expectations for investment returns are lower.

Ms. Harper from Cheiron stated that the experience study is performed every four to five years. She said that Cheiron is considering lowering the assumed rate of return on investments from 7.5% to 7%. She gave an overview of the mortality assumption, and recommended updating the base tables as well as applying the most recent generational mortality improvement scales to the base tables. She then summarized the economic assumptions, which are based on inflation. She recommended reducing the inflation assumption from 3% to 2.75%. She emphasized that the most powerful single assumption is that the higher expected return is, the lower expected contributions will be, and vice versa. Ms. Harper summarized the other assumptions and recommendations.

Action Taken

Mr. McClellan moved to forward the following recommendation to the MTS Board of Directors: (1) adopt the Actuarial Experience Study of the SDTC's retirement plan; (2) approve the revised actuarial assumptions; and (3) direct staff to incorporate the revised contribution amount in the fiscal year 2017

(FY17) operating budget. Chairman Roberts seconded the motion, and the vote was 3-0 in favor, with Mr. Minto and Ms. Cole absent.

4 c. MTS: FY 2017 Proposed Operating Budget (Mike Thompson)

Mr. Thompson gave the Committee a report on the FY17 operating budget assumptions. He discussed the subsidy revenue assumptions on the Federal side and stated that the funding from Fixing America's Surface Transportation (FAST) is projected to increase 1.5% for federal FY17. He also explained that MTS maximizes use of federal dollars for preventive maintenance for cash flow, and proposed an increase for federal revenue in operating budget of \$4 million.

Mr. Thompson discussed the projected growth of regional sales tax receipts, resulting in additional formula TransNet and Transportation Development Act (TDA) revenues for MTS. He stated that the FY16 projection was reduced from 5.0% to 3.5% growth. He explained that the State Transit Assistance, on the other hand, has been declining over the last four years but FY17s funding should be relatively similar to FY16s.

Mr. Thompson discussed the passenger level revenue assumptions, stating that bus ridership has been declining and attributed it to the declining gas prices. He stated that FY16 ridership was adjusted down at midyear. Mr. Thompson said there is no projected growth in passengers for FY17, no change to the fare structure, which results in no passenger revenue growth.

Ms. Cooney added that besides the low gas prices, other factors are being analyzed as well for their effects on ridership. She explained that two possible factors are that the disability bus fares have been enforced more strictly than in the past, and that cash sales at the border have been continuously declining, both of which are being investigated.

Mr. Thompson summarized the expense assumptions, including personnel costs, which will be increasing by \$6.8 million. He discussed the pension plan costs, which will be increasing by \$2.9 million. He noted that the CalPERS pension plan costs will be increasing by \$208,000 and that the CalPERS plan will be undergoing an experience study in the near future similar to the experience study done for the San Diego Transit plan. Mr. Thompson highlighted a few of the projects in the operating budget, including the LRV Overhaul Project, track rail grinding, rail and paratransit facility projects, and new outreach campaigns.

Mr. Thompson reviewed the FY17 consolidated revenue less expenses. He stated that total revenues proposed for FY17 are \$276 million, a 2.4% variance to the FY16 amended budget, offset by \$276 million in expenses, resulting in a draft balance budget.

Mr. Thompson explained the economy, state and local laws impacting operating expenses, energy costs and ADA paratransit service levels as ongoing concerns for the FY17 budget.

Action Taken

Mr. McClellan moved to forward the following recommendation to the MTS Board of Directors: (1) Receive the report on the proposed combined MTS fiscal year 2017 operating budget; and (2) forward a recommendation to the Board of Directors to recommend staff hold a public hearing on May 12, 2016

with the purpose of reviewing the proposed combined MTS fiscal year 2017 operating budget. Mr. Mathis seconded the motion, and the vote was 3-0 in favor, with Mr. Minto and Ms. Cole absent.

5. Adjournment

Chairman Roberts adjourned the meeting at 3:15 p.m.

A handwritten signature in cursive script, appearing to read "Mr. Roberts", written over a horizontal line.

Chairman of the Budget Development Committee

A handwritten signature in cursive script, appearing to read "Chris Chen", written over a horizontal line.

Clerk of the Budget Development Committee

Attachment: A. Roll Call Sheet

BUDGET DEVELOPMENT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) 4/25/16

CALL TO ORDER (TIME) 2:10 PM

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 3:15 PM

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
COLE	<input type="checkbox"/>		
MATHIS	<input checked="" type="checkbox"/>	2:10	3:15
McCLELLAN	<input checked="" type="checkbox"/>	2:10	3:15
MINTO	<input type="checkbox"/>		
ROBERTS	<input checked="" type="checkbox"/>	2:10	3:15

SIGNED BY THE CLERK OF THE BUDGET DEVELOPMENT COMMITTEE: 

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: 

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



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Agenda Item No. 4a

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM BUDGET DEVELOPMENT COMMITTEE

October 27, 2016

SUBJECT:

APPOINTMENT OF COMMITTEE CHAIRMAN AND VICE CHAIRMAN

RECOMMENDATION:

That the San Diego Metropolitan Transit System (MTS) Budget Development Committee:

Action would take nominations from the floor and elect the Budget Development Committee Chairman and Vice Chairman for the 2016 calendar year.

Budget Impact

None.

DISCUSSION:

Budget Development Committee and MTS Board of Directors' Finance Workshops are led by a Budget Development Committee appointed Chair, or Vice Chair in the Chair's absence.

The Chairman and Vice Chairman of the Budget Development Committee nomination procedures pursuant to Robert's Rules of Order are as follows:

1. The past Vice-Chairman opens the agenda item.
2. The past Vice-Chairman requests nominations from the floor. Nominations do not require a second.
3. The past Vice-Chairman closes the nominations.
4. The past Vice-Chairman invites the candidate(s) to address the Committee for 3 minutes.



5. The past Vice-Chairman asks for any Committee discussion.
6. The past Vice-Chairman calls for the vote on each motion for each candidate.
7. The vote is taken on the motion(s) for each candidate based upon the order in which they were nominated. The vote continues until a candidate is elected.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Mike Thompson, 619-557-4557, mike.thompson@sdmts.com



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Agenda Item No. 4b

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM BUDGET DEVELOPMENT COMMITTEE

October 27, 2016

SUBJECT:

SECURITY SERVICES AGREEMENT – CONTRACT AMENDMENT (MANNY
GUADERRAMA AND LARRY MARINESI)

RECOMMENDATION:

That the San Diego Metropolitan Transit System (MTS) Budget Development Committee receive a report on the required contract amendment with Universal Protection Services (UPS) and provide direction to staff for these negotiations with UPS.

Budget Impact

This amendment will increase the previously authorized contract limit from the original \$39,037,552. The revised amount will be dependent on the assumptions used. Funding for the current year is included in the Security Department's Fiscal Year (FY) 2017 operating budget 420010-535100, although a budget adjustment will be proposed during the FY17 midyear operating budget amendment process. Funding for future years will be included in the Security Department's operating budget for each respective fiscal year.

DISCUSSION:

MTS requires uniformed security officers at various locations throughout its service area to provide a safe environment for patrons and employees alike. Security officers have the capability to respond to disturbances and emergencies affecting both trolley and bus services.

On February 11, 2016, the MTS Board of Directors (Board) approved MTS Doc. No. G1828.0-15 with UPS to provide security services for three (3) base years from July 1, 2016 to June 30, 2019, with an option to extend for an additional two (2) years, from July 1, 2019 to June 30, 2021, for \$39,037,552. The originally contracted hourly rates considered the California minimum wage rate of \$10.00 per hour in effect at that time. During negotiations, UPS and MTS agreed that with any federal, state or local legislative minimum wage changes regarding minimum wage, MTS and UPS would renegotiate and modify the contract for the respective minimum wage impacts.

In April 2016, the California State Legislature passed the California \$15 Minimum Wage Initiative raising California's minimum wage over time. The first incremental increase, to



\$10.50 per hour, starts on January 1, 2017. To ensure compliance, MTS and UPS worked on an amendment to the contract to update any affected rates to meet these recent requirements. Details are as shown below:

For any employer who employs 26 or more employees, the minimum wage shall be as follows:

- (A) From January 1, 2017, to December 31, 2017, inclusive, - ten dollars and fifty cents (\$10.50) per hour.
- (B) From January 1, 2018, to December 31, 2018, inclusive, - eleven dollars (\$11) per hour.
- (C) From January 1, 2019, to December 31, 2019, inclusive, - twelve dollars (\$12) per hour.
- (D) From January 1, 2020, to December 31, 2020, inclusive, - thirteen dollars (\$13) per hour.
- (E) From January 1, 2021, to December 31, 2021, inclusive, - fourteen dollars (\$14) per hour.
- (F) From January 1, 2022, to December 31, 2022, inclusive, - fifteen dollars (\$15) per hour.

On June 7, 2016, the voters of the City of San Diego approved Proposition I: San Diego Minimum Wage Increase, which raised the local minimum wage from \$10.00 per hour to \$10.50 per hour effective July 11, 2016. In addition, Proposition I also approved five days of sick leave per year for every covered employee. The chart below illustrates the City of San Diego's minimum wage rates:

\$10.50 per hour on July 11, 2016

\$11.50 per hour on January 1, 2017

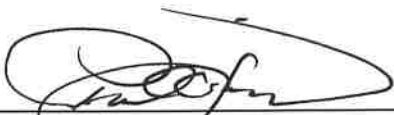
\$11.50 per hour on January 1, 2018

*Wage attached to inflation beginning on January 1, 2019

When there is a conflict in regulations, an employer must follow the ordinance that benefits employees the most. Therefore MTS asked UPS to submit a revised cost proposal that meets the higher of the two requirements (City vs State), for all contract years starting in July 2016. The UPS proposal made two key assumptions:

- Preserve the differentiation between the various classes of employees (Part-time Ambassadors, Unarmed, Armed, etc.)
- Keep differentiation in progression tiers for years and experience

The result of these negotiations was a proposed \$5.9 million amendment to the contract, which was brought to the Board in July 2016 for approval. At that Board meeting, staff was directed to review these assumptions with the Budget Development Committee and present more cost effective options that would still be in compliance with the state and local minimum wages laws.



Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Mike Thompson, 619-557-4557, mike.thompson@sdmts.com

Minimum Wage Presentation / Security Services Contract

MTS Budget Development Committee

October 27, 2016



Minimum Wage: Timeline of Political Process

- The City's Minimum Wage Ordinance was approved by Council in August 2014 after Mayoral veto
- Campaign to gather enough signatures to place the issue on the ballot
 - In February 2016, Council confirmed the measure for the June 2016 ballot.
- Voters approved San Diego measure in June 2016
- Governor Brown signed State legislation in April 2016



Minimum Wage Rates

	City of San Diego \$/Hour		State of California \$/Hour
7/7/2016	\$10.50		\$10.00
1/1/2017	\$11.50		\$10.50
1/1/2018	\$11.50		\$11.00
1/1/2019	\$11.79 *		\$12.00
1/1/2020	\$12.08 *		\$13.00
1/1/2021	\$12.38 *		\$14.00
1/1/2022	\$12.69 *		\$15.00

* Wages for City of San Diego attached to inflation beginning January 2019.
Chart reflects a projection of 2.5%.

Must comply with rate most favorable to employees (rates in bold above)



Minimum Wage: Security Procurement

- Issued Request for Proposals on 08/10/2015
- Staff recommended and Board of Directors approved contract with Universal Protection Service (UPS) on February 11, 2016
 - Total Contract \$39.0M (Base \$23.3M and Options \$15.7M)
 - Base Period: July 2016 - June 2019
 - Option Periods: July 2019 - June 2021
- Due to potential minimum wage increases discussions at State and Local level, language included in contract:
 - Addressing potential Minimum Wage Legislation



Minimum Wage: Security Procurement

- Next highest ranked contractor in Security procurement total bid = \$44.0M
 - Proposal also did not meet minimum wage levels that were passed
 - Projected bid including minimum wage changes = \$48.0M



UPS Original Cost Breakdown

- UPS's proposal included different employee types and structured pay grades (progression)
 - Rewards employees for longevity and growing within the organization
 - Goal to increase employee retention

<i>Position</i>	<i>Progression Steps</i>	<i># of FTE</i>	<i>Range of Pay Year 1</i>	<i>Total Costs By Category</i>
Special Events Officers	1	7	\$10.00	\$ 1,055,600
Unarmed Officers	11	83	\$10.50 - \$11.60	13,699,104
Armed Officers	7	85	\$11.00 - \$13.58	16,177,016
Armed Courier Service	1	1	\$11.00	160,160
Armed Sergeant (Supervisors)	13	14	\$14.26 - \$17.60	3,176,461
Armed Lieutenant (Managers)	1	2	\$18.00	505,440
Dispatch / CCTV Officer	1	1	\$18.00	252,720
Armed Captain	1	1	\$34.61	485,924
Other Contract costs				3,525,127

Total FTE

194

\$ 39,037,552

*Reflects beginning of fiscal year rates as chart is broken out by fiscal year and increases are on January of each year. Calculations incorporate mid-fiscal year increases.



Minimum Wage: Security Procurement

- Example for Unarmed Officers below
 - Similar progressions for Armed Officers and Armed Sergeants (see handout)

	Year 1	Year 2	Year 3	Year 4	Year 5
Unarmed Officer - Probationary	10.50	10.50	10.50	10.50	10.50
Unarmed Officer - Step A	10.75	10.75	10.75	10.75	10.75
Unarmed Officer - Step B	11.00	11.00	11.00	11.00	11.00
Unarmed Officer - Step C	11.10	11.10	11.10	11.10	11.10
Unarmed Officer - Step D	11.15	11.15	11.15	11.15	11.15
Unarmed Officer - Step E	11.20	11.20	11.20	11.20	11.20
Unarmed Officer - Step F	11.25	11.25	11.25	11.25	11.25
Unarmed Officer - Step G	11.30	11.30	11.30	11.30	11.30
Unarmed Officer - Step H	11.35	11.35	11.35	11.35	11.35
Unarmed Officer - Step I	11.40	11.40	11.40	11.40	11.40
Unarmed Officer - Step J	11.45	11.45	11.45	11.45	11.45
Unarmed Officer - Step K	11.50	11.50	11.50	11.50	11.50
Unarmed Officer - Step L	11.60	11.60	11.60	11.60	11.60



Minimum Wage: Security Procurement

- After the passage of the City of San Diego minimum wage measure, staff completed an Independent Cost Estimate (ICE) and entered into negotiations regarding new local and State laws.
- Goals / Approach:
 - Bring contract in compliance with State and Local rates
 - Keep differentiation in progression tiers for different employee types to address retention
 - Preserve continued progression format for years of service and experience



Minimum Wage: Security Procurement

- UPS's revised proposal for minimum wage
 - Preserved differentiation between employee types
 - For Example: Unarmed officers earning \$0.50 more than Special Events Officers
 - Increased progression wage rates after adjusting the entry levels
 - Overall resulted in a contract totaling \$44.9M (\$5.9M increase)

Minimum Wage	10.50	11.50	11.50	12.00	13.00	14.00
	Jul-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21
Unarmed Officer - Probationary	11.00	12.00	12.00	12.50	13.50	14.50
Unarmed Officer - Step A	11.25	12.25	12.25	12.75	13.75	14.75
Unarmed Officer - Step B	11.50	12.50	12.50	13.00	14.00	15.00
Unarmed Officer - Step C	11.60	12.60	12.60	13.10	14.10	15.10
Unarmed Officer - Step D	11.65	12.65	12.65	13.15	14.15	15.15
Unarmed Officer - Step E	11.70	12.70	12.70	13.20	14.20	15.20
Unarmed Officer - Step F	11.75	12.75	12.75	13.25	14.25	15.25
Unarmed Officer - Step G	11.80	12.80	12.80	13.30	14.30	15.30
Unarmed Officer - Step H	11.85	12.85	12.85	13.35	14.35	15.35
Unarmed Officer - Step I	11.90	12.90	12.90	13.40	14.90	15.90
Unarmed Officer - Step J	11.95	12.95	12.95	13.45	14.45	15.45
Unarmed Officer - Step K	12.00	13.00	13.00	13.50	14.50	15.50
Unarmed Officer - Step L	12.10	13.10	13.10	13.60	14.60	15.60



Minimum Wage: Security Procurement

- Presented to MTS Board of Directors July 2016
- Board direction
 - Provide clarity on contract structure including progression
 - Revisit current methodology for more cost effective options
 - Update Budget Development Committee with options and strategy
- More aggressive approach in order to control costs yet comply with minimum wage laws
 - Eliminates the progression structure within the contract period
 - Salary rates currently above the minimum wage rates are frozen
 - The upper portions of the progression and certain employee types
- Result: Requires an increase in contract authority of \$2.8 million, versus \$5.9 million UPS amended proposal



Minimum Wage: Security Procurement

- Updated Methodology

- Bring Special Events Officers and Unarmed Officers to the minimum rate
- \$0.50 per hour premium for Armed Officers above minimum rate
- Effectively eliminates contractual progression for Armed and Unarmed
 - Replaced by the Local and State Minimum Wage legislation
- No adjustments to any other employee types

Minimum Wage	10.50	11.50	11.50	12.00	13.00	14.00
	Jul-16	Jan-17	Jan-18	Jan-19	Jan-20	Jan-21
Unarmed Officer - Probationary	10.50	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step A	10.75	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step B	11.00	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step C	11.10	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step D	11.15	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step E	11.20	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step F	11.25	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step G	11.30	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step H	11.35	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step I	11.40	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step J	11.45	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step K	11.50	11.50	11.50	12.00	13.00	14.00
Unarmed Officer - Step L	11.60	11.60	11.60	12.00	13.00	14.00



Minimum Wage: Security Procurement

- Resulting Analysis for aggressive strategy

<i>Position</i>	<i>Progression Steps</i>	<i># of FTE</i>	<i>Range of Pay Year 1</i>	<i>Total Costs By Category</i>
Special Events Officers	1	7	\$10.50	\$ 1,271,998
Unarmed Officers	11 to 1 by Jan 2019	83	\$10.50 - \$11.60	15,499,606
Armed Officers	7 to 1 by 2021	85	\$11.00 - \$13.58	16,938,885
Armed Courier Service	1	1	\$11.00	186,535
Armed Sergeant (Supervisors)	13	14	\$14.26 - \$17.60	3,136,822
Armed Lieutenant (Managers)	1	2	\$18.00	510,869
Dispatch / CCTV Officer	1	1	\$18.00	255,434
Armed Captain	1	1	\$34.61	491,144
Other Contract costs				3,525,127

Total FTE

194

\$ 41,816,420

*Reflects beginning of fiscal year rates as chart is broken out by fiscal year and increases are on January of each year. Calculations incorporate mid-fiscal year increases.



Advantages / Disadvantages

- Advantages:
 - Savings of approximately \$3.0 million with holding top portions of progression scale and no increases for 5 years for Sergeant, Lieutenant and Captain
- Disadvantages:
 - Wage increases relate to increasing minimum wage
 - 90 of 194 FTEs at minimum wage in two years
 - Another 85 FTEs at \$0.50 above minimum wage
 - No incentives for Special Events Officers and Unarmed Officers to move through progression to earn higher wage
 - Potential higher turnover in those ranks?
 - No increases in wage for supervisory and managerial positions means they are closer to minimum wage levels



Minimum Wage - Other Impacts

- Janitorial:
 - Recent multi-year RFP yielded very little increases to current costs
 - Minimum wage laws incorporated
 - Contractor understood the impacts of mandated minimum wages and held to bid
- Contracted Services Operations:
 - ADA Paratransit CBA in excess of minimum wage
 - Current contract charges cost per revenue hour
 - Contract expires in fiscal year 2019
 - Fixed Route contract
 - Current contract charges cost per revenue mile
 - Contract expires in fiscal year 2027



Minimum Wage Presentation / Security Services Contract

MTS Budget Development Committee

October 27, 2016



15





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Agenda Item No. 4C

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM BUDGET DEVELOPMENT COMMITTEE

October 27, 2016

SUBJECT:

MTS ENERGY PROGRAMS (MIKE THOMPSON)

RECOMMENDATION:

That the San Diego Metropolitan Transit System (MTS) 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. 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 FY16, LCFS revenues to MTS were \$3.4 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 FY16, RIN revenues to MTS were \$844,000.

Electricity

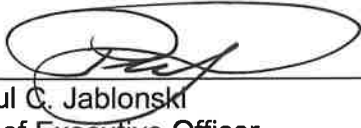
In late 2009, the California legislature opened the Direct Access program for a limited time and limited volume for electric customers. MTS conducted a negotiated procurement process in 2010 to select an electricity service provider (ESP) in order to attempt to gain entry into the Direct Access Program, and Noble 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 Noble was selected as a result of that process. The current base contract is set to expire in December 2017, and contains three option years through December 2020.

In FY16, MTS spent \$2.9 million on the electricity commodity while participating in the Direct Access program. Staff estimates MTS saved \$3.1 million in FY16 on Direct Access versus staying with SDG&E.

The State's LCFS program was extended to include electric light rail vehicles on January 1, 2016. Staff has begun the process of reporting the appropriate activity to CARB, and through June 2016 has generated almost 11,000 credits. These credits can be sold on the open market as MTS sees fit.

Transportation/Demand Charges

These current programs have been very successful in managing the agencies commodity costs for natural gas and electricity. However, these commodities are still delivered to MTS through SDG&E. MTS is subject to SDG&E transportation charges on the natural gas side, and to demand charges on the electricity side. These rates continue to increase dramatically, and staff continues to look for solutions to address these costs as well.

A handwritten signature in black ink, appearing to read 'Paul', is written over a horizontal line.

Paul C. Jablonski
Chief Executive Officer

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

Metropolitan Transit System Energy Program

MTS Board of Directors
Budget Development Committee
October 27, 2016



1



Energy Program

- Overview

- \$27.6M overall budget in FY17
 - Electricity: \$13.6M (LRVs and facilities)
 - Natural Gas: \$8.7M (Fixed Route buses)
 - Gas/Diesel: \$5.3M (Paratransit, Minibus, Superloop, Commuter Express, Non-revenue vehicles)
- The budget for each type of fuel is made up of multiple components:

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

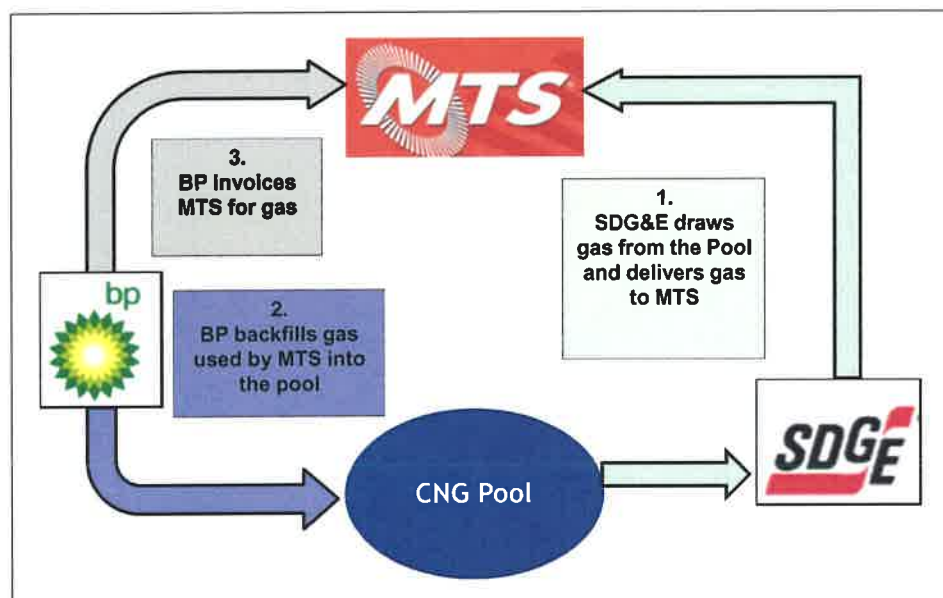


Energy Program

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



Energy Program

- 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
<u>Natural Gas</u>					
Rate Variance-BP vs SDG&E	(147)	(146)	(364)	(471)	(477)
SDG&E Opt out fees	64	67	67	81	85
Third party management fees	19	20	16	19	20
Net Savings	\$ (64)	\$ (59)	\$ (280)	\$ (371)	\$ (373)
<u>Electricity</u>					
Rate Variance-Noble vs SDG&E	(593)	(1,200)	(1,378)	(3,554)	(4,029)
SDG&E Opt out fees	215	567	502	928	891
Third party management fees	53	135	144	92	25
Net Savings	\$ (325)	\$ (498)	\$ (733)	\$ (2,534)	\$ (3,114)
Total Program Savings	\$ (389)	\$ (557)	\$ (1,013)	\$ (2,905)	\$ (3,486)

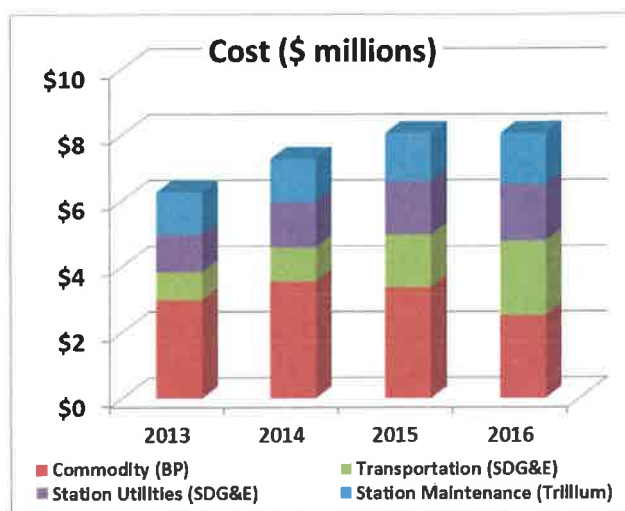
In FY16,
commodity
rates were
16%
cheaper for
natural
gas,
and
59%
cheaper for
electricity



Energy Program

- Natural Gas Overview

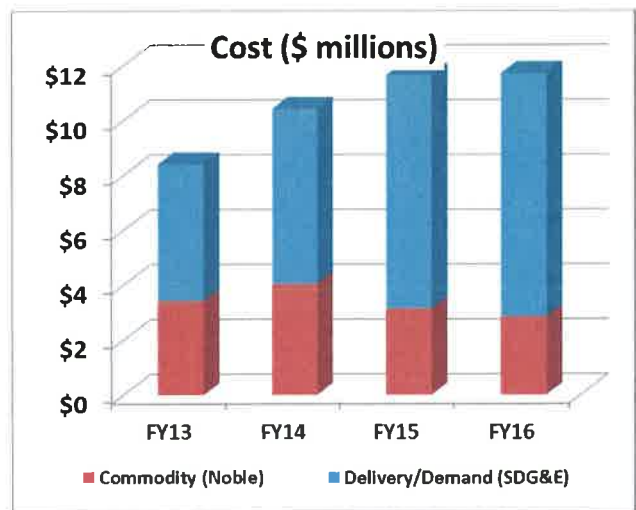
- Chart details the breakdown by component
- Costs rising, partially due to increased utilization
- Commodity savings being offset by SDG&E
- Comparing FY13 & FY16, SDG&E costs have risen from 32% of the overall cost to 49%
 - Transportation rates from \$0.10 to \$0.23
 - \$1.4M increase



Energy Program

- Electricity Overview

- Chart details the breakdown by component
- Costs rising, partially due to increased utilization
- Commodity savings here as well
 - Electricity and CNG rates typically move in the same direction
- Savings being offset by SDG&E
 - Comparing FY13 & FY16, SDG&E cost per kilowatt hour (kWh) has risen by 55%



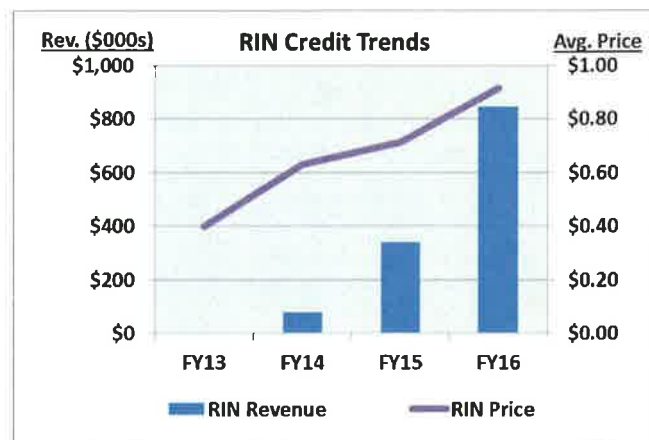
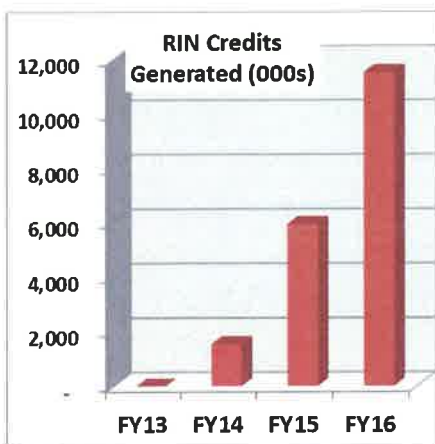
Energy Program

- 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



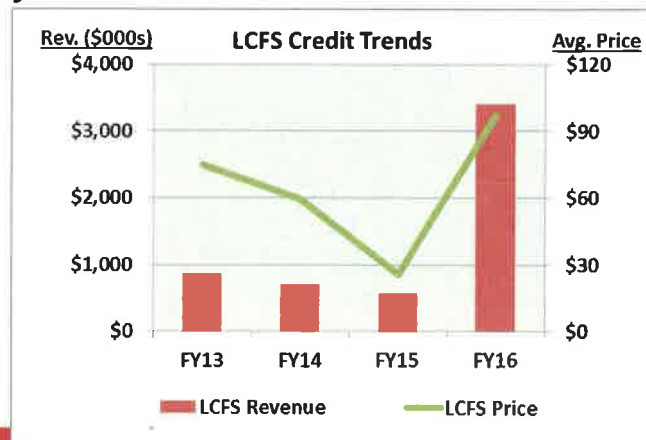
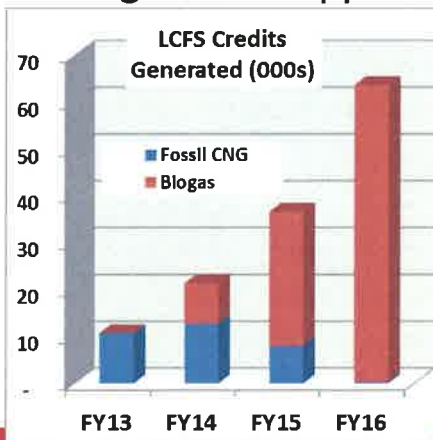
Energy Program

- Energy Credits Trend - Federal RINs
 - Federal program is entirely dependent on biogas
 - 98% Biogas for FY16 versus 54% in FY15



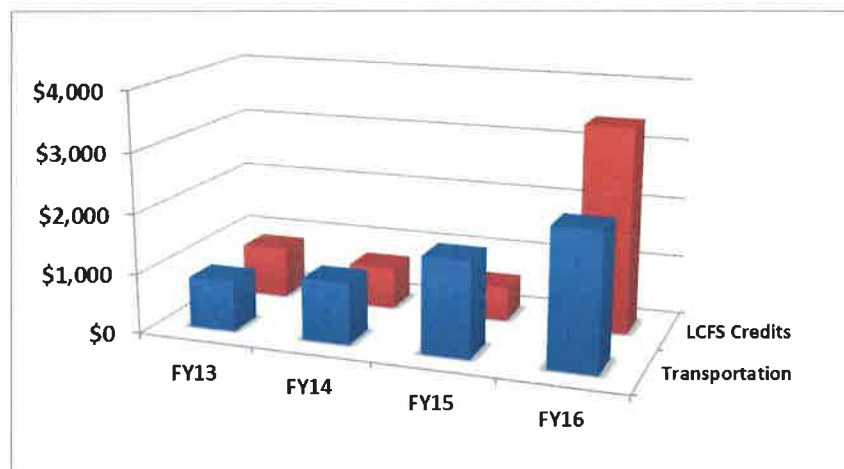
Energy Program

- Energy Credits Trend - State LCFS
 - Biogas generates about 4 times as many credits
 - Prices have fluctuated dramatically
 - CARB recently adjusted their calculations, MTS will generate approximately 25% less credits in FY17



Energy Program

- Energy Credits Trend - State LCFS
 - Since SDG&E is regulated under the state program, costs of their compliance is passed onto to rate payers
 - Comparison: CNG Transportation costs vs LCFS revenues



Energy Program

- New LCFS program for fixed guideway
 - Starting January 1, 2016, MTS light rail vehicles are eligible to generate credits
 - MTS opted in and generated 7,800 credits in Q1
 - Only generated 2,600 credits in Q2
 - In May, the rules changed already. Pre-2010 projects do not generate as many credits as newly installed projects
 - Should generate at least 10,000 credits per year
 - At \$100 a credit, that is \$1M annually
 - Wholly owned by MTS to sell as we see fit
 - Time market and sell at target price? \$100/credit
 - Conduct a bidding process to have fixed buyer of the credits on a quarterly basis at index rates?



Energy Program

- Other projects
 - Gasoline: Pilot of propane fueled minibuses
 - 212 total minibuses, 83 replacements arriving in FY17 will be fueled by Propane
 - Fuel savings of \$10K per year per vehicle
 - Natural gas: Transportation rates
 - Core customer guaranteed supply, but pay higher rate for this
 - Non-core customer could be subject to supply restrictions (last curtailment notice was in 2011), but rate savings of \$0.13 per therm
 - Would save \$700K annually for two meters
 - Still have one core meter at each facility in case of curtailment notice
 - SDG&E says MTS not eligible, may need to take this to the CPUC





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Agenda Item No. 4d

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM BUDGET DEVELOPMENT COMMITTEE

October 27, 2016

SUBJECT:

OPERATING BUDGET DISCUSSION (MIKE THOMPSON)

RECOMMENDATION:

That the San Diego Metropolitan Transit System (MTS) Budget Development Committee receive a report regarding the status of the operating budget and provide guidance on budgetary issues.

Budget Impact

None at this time.

DISCUSSION:

With the closing of fiscal year 2016 (FY16) and a couple of months of results in fiscal year 2017 (FY17), staff will review key assumptions in the operating budget, particularly sales tax receipt trends and passenger fare revenue trends. Staff will also review overall expense assumptions and give a high level, preliminary projection for FY17.

In FY16, total revenues less expenses exceeded the amended budget by \$5.3 million. Staff will seek direction from the Budget Development Committee on how to utilize this surplus.

A handwritten signature in black ink, appearing to read 'Paul C. Jablonski', is written over a horizontal line.

Paul C. Jablonski
Chief Executive Officer

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



Metropolitan Transit System Operating Budget Update

MTS Board of Directors
Budget Development Committee
October 27, 2016



1



FY16 Results

- What went right
 - Energy Credits favorable by \$900K
 - Rates spiked in November and stayed at that level until July
 - Personnel
 - Wages favorable by \$1M, 1.4%
 - Workers comp medical payments favorable by \$930K, down \$700K vs average year
 - Healthcare favorable \$600K due to favorable rates and delay in IBEW Rail agreement
 - Purchased Transportation
 - Paratransit volumes favorable by \$400K
 - Fixed Route performance standards saved \$380K



FY16 Results

- What went right (cont'd)
 - Energy
 - Electricity overbilling credit from SDG&E \$900K
 - Facility utility costs decreased
 - Low commodity costs
 - Lower usage of Gasoline and Diesel due to Paratransit volumes and CNG in East County
- What went wrong
 - SDG&E demand/transportation costs, masked by low commodity costs
 - Passenger revenue unfavorable by \$2.8M, -2.7%
 - Sales tax receipts unfavorable, but only a \$320K impact in FY16



FY16 Revenues Less Expenses

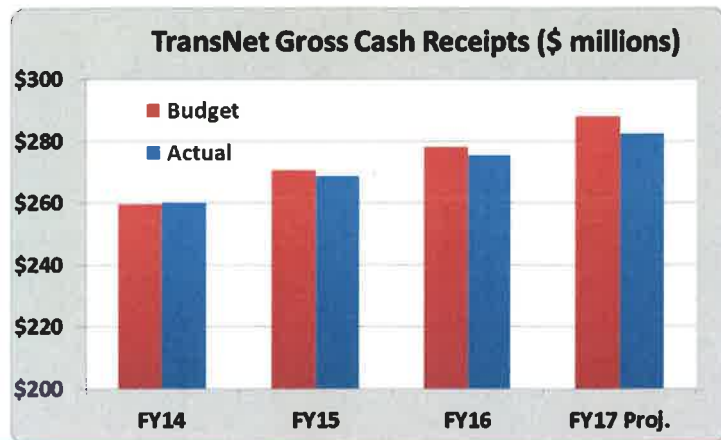
	ACTUAL	BUDGET	VARIANCE	VAR %
Operating Revenues	\$ 113,682	\$ 115,640	\$ (1,958)	-1.7%
Operating Expenses	258,635	264,988	6,353	2.4%
Net Operating Loss	\$ (144,953)	\$ (149,348)	\$ 4,395	2.9%
Non-Operating Revenues	173,086	172,153	933	0.5%
Net Debt Service Expenses	19,884	19,892	8	0.0%
Revenues Less Expenses	\$ 8,249	\$ 2,913	\$ 5,336	

- \$8.2M total revenues less expenses
 - Budgeted \$2.9M
 - For contingency reserves towards 12.5% target
 - Based on FY17 budget, need a total of \$4.3M to get to 12.5% target
 - Would leave a remainder of \$3.9M



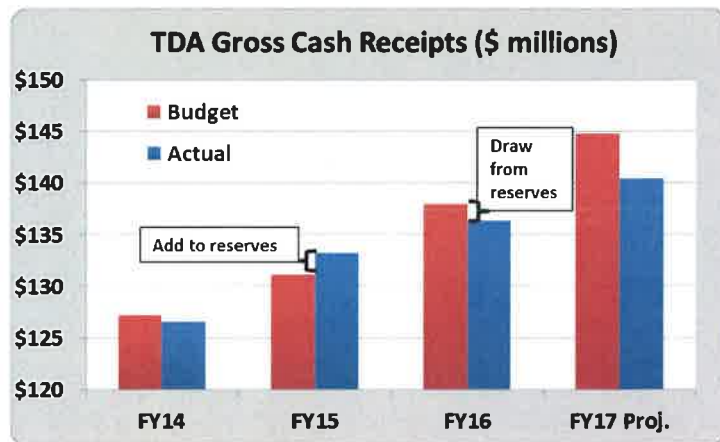
FY17 Sales Tax Receipts

- TransNet
 - FY17 Budget based on 3.5% growth on FY16 Budget
 - FY16 actual was 2.5% year over year growth
 - To hit target revenue figure, need 4.5% growth in FY17
 - For projection, assuming same 2.5% year over year growth
 - \$635K variance in MTS formula revenue



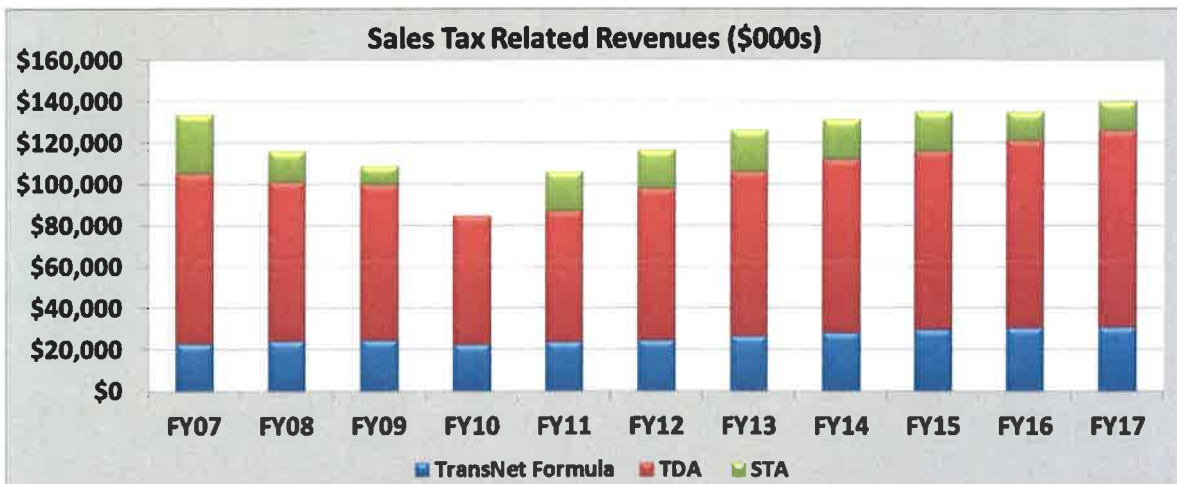
FY17 Sales Tax Receipts

- Transportation Development Act (TDA)
 - FY17 Budget based on 5.0% growth on FY16 Budget
 - FY16 actual was 2.3% year over year growth
 - To hit target revenue figure, need 6.2% growth in FY17
 - Reserve at County level used to balance funding for MTS/NCTD
 - \$14M balance
 - If 2.5%, can cover shortfall FY17
 - No reserves for FY18, re-align



FY17 Sales Tax Receipts

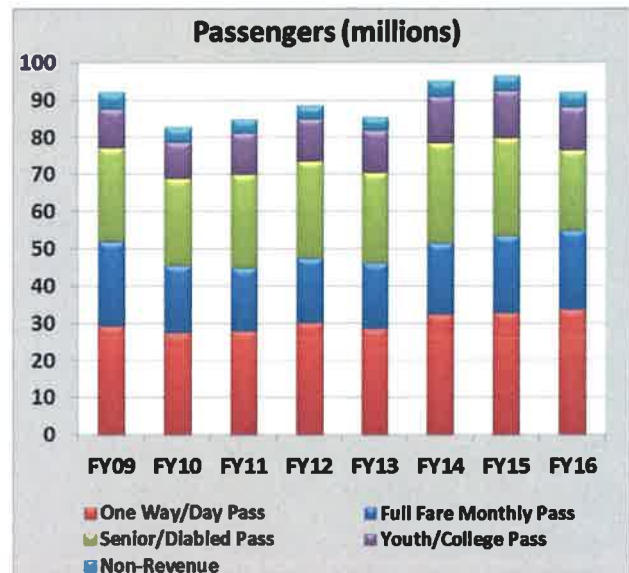
- Combined Sales Tax Revenue Trend
 - FY17 with 2.5% growth plus STA
 - Recession on average every 7 to 10 years



FY17 Passenger Revenue

- Passenger Levels

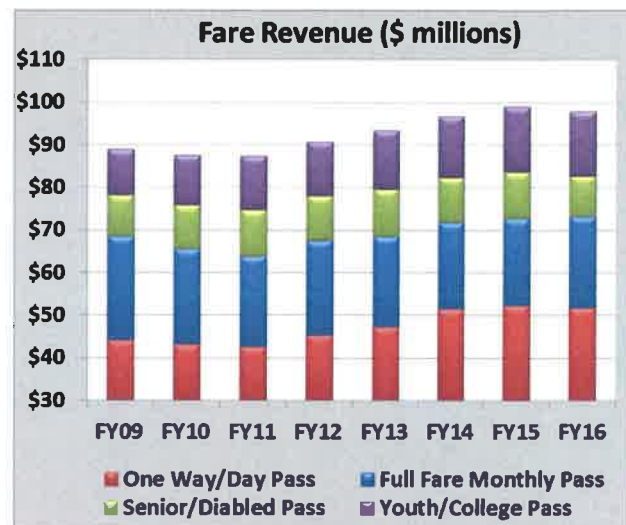
- Passenger levels down year over year by 4.5M or -4.7%
- Same trends in revenue
- Discounted pass passengers decreased by 5.8M or -15%
- One Way, Day Pass and Full Fare Pass passengers up year over year by 1.3M or 2.5%
- Non-revenue passengers grew slightly to 4.4%



FY17 Passenger Revenue

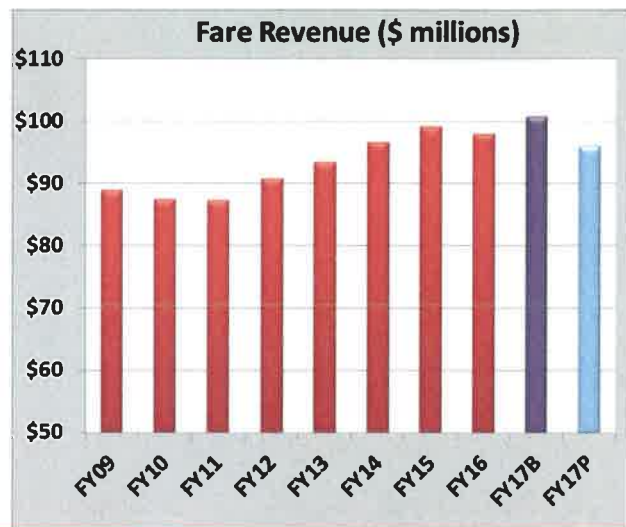
- Passenger Fare Revenues

- Missed overall budget by \$2.8M or -2.7%
- Year over year down 1.2M or -1.2%
- One Way, Day Pass and Full Fare Pass revenues up year over year by \$400K or 0.5%
- Discounted pass revenue decreased by \$1.6M, or -6.0%
- Overall average fare increased from \$1.03 to \$1.06 (3.6%)



FY17 Passenger Revenue

- Passenger Fare Revenues Forecast
 - FY17 Budget was flat with FY16 amended budget
 - Now need 2.9% growth to hit FY17 target, \$2.9M
 - August YTD down Y/Y by \$844K or -4.8%
 - Variance primarily in One Way, Day Pass and Full Fare Pass
 - Annualizes to \$5M decrease, a negative variance to budget of \$8M
 - Forecasting \$96M, -\$4.8M to budget
 - -\$2.0M Y/Y



FY17 Expenses

- Chargebacks on credit card transactions
 - Visa requires merchants to have chargeback volumes of less than 1%, since July over 3%
 - Industry wide spike
 - MTS on notice in July
 - 5 months to fix
 - \$25K/month fine
 - Options
 - Getting quote from Cubic to implement additional security features
 - Shut down Webtix?

	Count	Amounts
Baseline avg.	55	\$ 2,840
May	128	5,280
Jun	94	6,539
Jul	180	12,723
Aug	245	18,471
Sept	165	15,771



FY17 Expenses

- High level expense items
 - Anticipate savings in:
 - Personnel: wages, healthcare and pension
 - Purchased Transportation: Paratransit certification, Fixed Route performance standards
 - Energy: Propane fuel vs gas, facility electrical costs
 - Anticipate additional costs for:
 - Storm water drainage assessments, monitoring and remediation



FY17 Preliminary Forecast

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>VAR %</u>
Operating Revenues	\$ 110,443	\$ 115,068	\$ (4,625)	-4.0%
Operating Expenses	270,811	274,461	3,650	1.3%
Net Operating Loss	\$ (160,368)	\$ (159,393)	\$ (975)	-0.6%
Non-Operating Revenues	159,981	161,081	(1,100)	-0.7%
Net Debt Service Expenses	1,688	1,688	-	0.0%
Revenues Less Expenses	\$ (2,075)	\$ 0	\$ (2,075)	

- From a high level:
 - Passenger revenue is the primary concern
 - Could be partially offset by savings within expenses
 - Non-operating revenues: TransNet formula and Fastrak
- Deficit strategy:
 - \$2.1M very preliminary, wait and see?



Wrap Up

- FY16 excess revenues of \$3.9M
 - Direct it to FY18 CIP? SD100s or New Facility projects
 - Roll it over to FY17 Operating budget for now?
- On going concerns
 - Passenger levels
 - Sales tax receipts
 - Energy costs
 - Credit card processing fees/Charge backs
 - Zero emission buses

