

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

February 23, 2017

MINUTES

1. ROLL CALL

Chairman Roberts called the Budget Development Committee (BDC) meeting to order at 2:09 p.m. A roll call sheet listing BDC member attendance is attached.

2. APPROVAL OF MINUTES

Mr. Mathis moved to approve the minutes of the January 31, 2017 San Diego Metropolitan Transit System (MTS) BDC meeting. Mr. McClellan seconded the motion, and the vote was 3-0 in favor, with Mr. Minto and Ms. Zapf absent.

3. PUBLIC COMMENTS

There were no public comments.

4.a. Fiscal Year 2017 Midyear Adjustment (Mike Thompson)

Mike Thompson, Director of Financial Planning and Analysis, presented the Fiscal Year (FY) 2017 Midyear Adjustment. He stated that the drop in passenger fare revenue started in the second half of FY 2016, and this level was used as the new baseline. He said that the forecasted passenger levels were 89.3 million, which was a 3.1% drop year over year and this resulted in a revenue forecast of \$94.9 million, which was \$5.9 million unfavorable to budget. He explained that on the non-operating revenue side, sales tax receipts were lower than projected, including a \$1.1 million drop in TransNet revenue and that Fastrak revenue was decreasing by \$500,000. Mr. Thompson said that total operating income was 5% lower than the original budget, total subsidy was 1% lower than the original budget, resulting in overall revenues decreasing by 1.7%.

Mr. Thompson summarized the midyear expenses assumptions. He said that personnel costs were favorable by 2.9%, outside services were unfavorable by 0.2%, and energy was favorable by 4.6%. In total, expenses were decreasing by 1.7%. He explained that total revenues and expenses FY 2017 were both \$271 million each, and \$2 million of funds from FY 2016 were carried over to balance the budget.

Action Taken

Mr. McClellan moved to forward the recommendation that the Budget Development Committee forward a recommendation to the MTS Board of Directors to approve the Combined MTS FY 2017 Midyear Budget Amendment. Mr. Mathis seconded the motion, and the vote was 4-0 in favor, with Mr. Minto absent.

4.b. Fiscal Year 2018 Operating Budget Discussion (Mike Thompson)

Mr. Thompson discussed the revenue and expense assumptions for the FY 2018 operating budget. He said that Transportation Development Act (TDA) revenue allocation included reserves in FY17, which would not recur in FY18. He also said that for the service level assumptions, fixed route and Americans with Disabilities Act (ADA) Paratransit service levels were expected to stay the same. He added that a \$2 million settlement is expected within FY 2018. Mr. Thompson said that overall, total revenue was expected to grow 0.3% and excluding the \$2 million settlement, expense growth of 2.3% was expected, resulting in a projected deficit of \$7.3 million.

Mr. Thompson listed several options to address this deficit for FY 2018, including: reserve utilization, adjust the revenue sharing between Capital and Operations, raise fares, and adjust service. He described potential new revenue sources at the state level, including Cap-and-Trade and Senate Bill 1 as well as Assembly Bill 1. Mr. Thompson explained the 15 year projected numbers for Capital, which totaled \$1.2 billion needed. He added that \$970 million would be generated with recurring revenue over the next 15 years, so shifting \$5 million from capital for a short period of time would be a safe option. He described possible scenarios for implementing fare increases, and explained that the last fare increase was in July 2009. A discussion ensued regarding passenger fare and Senior Disabled Medicare (SDM) passes. Ms. Zapf suggested gradually phasing in the fare increases. Paul Jablonski, Chief Executive Officer (CEO), discussed the fare study. The Committee decided to ask SANDAG to include changes to fares and change to the senior qualification age, in the fare study, as well as look at the other types of passes.

Mr. Thompson discussed the action plan for addressing the deficit of \$7-8 million. He suggested shifting the \$5 million from capital, a zero based budgeting process to review all revenues and expenses, waiting before making drastic service cuts and realigning based on the Transit Optimization Plan, projecting additional passenger revenue growth based on TOP, and pursuing fare increases. He presented the BDC calendar for FY 2018.

4.c. Fiscal Year 2018 Capital Improvement Program (Mike Thompson)

Mr. Thompson gave an update on the FY 2018 Capital Improvement Program. He explained the process of choosing and approving the Capital Improvement Program project requests. He highlighted several projects, including bus revenue vehicles, SD100 replacement, courthouse station, and fare system upgrades. He stated that in total, 46 projects were proposed, requiring over \$69 million. Mr. Thompson said that 87% of the funding needs for the projects over the years 2018-2022 were met.

Action Taken

Mr. McClellan moved to forward the following recommendation to the MTS Board of Directors:

1. Approve the fiscal year 2018 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 2018 CIP (shown in Attachment A);

3. Recommend that the SANDAG Board of Directors approve amendment number 3 of the 2016 Regional Transportation Improvement Program (RTIP) in accordance with the fiscal year 2018 CIP recommendations.

Mr. Mathis seconded the motion, and the vote was 4-0 in favor, with Mr. Minto absent.

- 4d. San Diego Transit Corporation Pension Plan (SDTC) Investment Portfolio (Jeremy Miller, Representative from RVK, and Larry Marinesi)

Jeremy Miller, Representative from RVK, and Larry Marinesi, Chief Financial Officer, gave the Committee a presentation on the SDTC Investment Portfolio. Mr. Marinesi introduced Mr. Miller, and briefly introduced MTS's closed plan. Mr. Miller gave an overview of RVK, RVK's services provided to San Diego Trolley Corporation (SDTC), and the SDTC pension plan timeline.

Mr. Miller discussed the plan's changing liability structure. He stated that the majority of the participants are retirees, and that this liability shift warrants an asset shift. He explained the target asset allocation, and said the portfolio is diversified across five broad asset class categories to reduce risk and align assets with future liabilities. He stated that over the past 10 years, the SDTC portfolio has reduced risk, as measured by standard deviation, as well as reduced equity beta, compared to that of peers. He displayed a comparison of SDTC versus San Diego peers, and said that in the short-term SDTC has underperformed compared to the San Diego Public Plans, but over the long-term, SDTC returns are similar to San Diego Public Plan returns. He clarified that the SDTC plan has significantly less assets than the other San Diego Public Plans, so each plan has different liability structures and large, multi-billion dollar plans typically access top-tier illiquid funds not available to smaller plans. He stated that the target investment return was reduced to 7.0% from 7.5% and recommended continuation of the current lower risk approach. Mr. Marinesi said that the Actuarial Experience Study, which provides further insight into the target investment return number, will continue to be presented to the Board every winter.

5. Adjournment

Chairman Roberts adjourned the meeting at 3:47 p.m.



Chairman 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) 2/23/17

CALL TO ORDER (TIME) 2:09 PM

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 3:47 PM

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ZAPF	<input checked="" type="checkbox"/>	2:10	3:47
MATHIS	<input checked="" type="checkbox"/>	2:09	3:47
McCLELLAN	<input checked="" type="checkbox"/>	2:09	3:47
MINTO	<input type="checkbox"/>		
ROBERTS	<input checked="" type="checkbox"/>	2:09	3:47

SIGNED BY THE CLERK OF THE BUDGET DEVELOPMENT COMMITTEE: *Luis Chen*

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: N/A

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