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Agenda

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 1, 2018

9:00 a.m.

James R. Mills Building
Executive Conference Room, 10th Floor
1255 Imperial Avenue, San Diego

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ACTION RECOMMENDED

- | | | |
|----|---|---------|
| A. | 1. Roll Call | |
| | 2. Approval of the Minutes of May 3, 2018 | Approve |
| B. | COMMITTEE DISCUSSION ITEMS | |
| | 1. Draft of Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR) (Erin Dunn with Ken Pun and Gary Caporicci of The Pun Group) Action would receive a draft of the Fiscal Year (FY) 2018 CAFR for review and discussion. | Receive |
| | 2. Internal Audit Activity Update Report (Toufic Tabshouri) Action would receive the internal audit activity update report. | Receive |
| C. | COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS | |
| D. | PUBLIC COMMENTS | |
| E. | NEXT MEETING DATE: To be determined. | |
| F. | ADJOURNMENT | |

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.



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

DRAFT MINUTES

May 3, 2018

A. ROLL CALL

1. Chairman Ewin called the meeting to order at 9:00 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.
2. APPROVAL OF MINUTES

Chairman Ewin asked for the minutes to reflect that he took over direction of the November 2, 2017 Audit Oversight Committee meeting as Chair after the meeting was called to order.

Mr. McWhirter moved for approval of the minutes of the November 2, 2017 Audit Oversight Committee meeting, including the amended change recommended by Chairman Ewin. Ms. Rios seconded the motion, and the vote was 4 to 0 in favor with Ms. Cole, Ms. Gomez, and Mr. Roberts absent.

B. AUDIT OVERSIGHT COMMITTEE DISCUSSION ITEMS

1. The Pun Group Engagement Letter for the Fiscal Year (FY) 2018 Audit (Erin Dunn)

Erin Dunn, Controller, introduced Ken Pun, with The Pun Group, LLP. Mr. Pun provided a presentation on the engagement letter and discussed the details of the audit team, scope of work, management responsibilities, and auditors' responsibilities.

Action Taken

No action taken.

2. Interim Audit (Erin Dunn and Ken Pun of The Pun Group, LLP)

Mr. Pun provided a presentation on the interim audit. He reviewed the details and phases of the approach to the audit including detailed planning; risk based review of systems and compliance; validation of account balances and test of compliance; and review of financial statements and issue opinions. Chairman Ewin asked if there were any items from last year's audit that required additional review during this year's audit. Mr. Pun replied no. He stated that MTS has very strong internal controls.

Action Taken

No action taken.

3. Update on GASB 75 and GASB 85 (Ken Pun of The Pun Group, LLP)

Mr. Pun provided a presentation on the implementation of new Governmental Accounting Standards Board (GASB) pronouncements. He reviewed details of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Ms. Dunn explained the details of MTS retiree health benefits to the committee. Lastly, Mr. Pun reviewed the details of GASB 85, Omnibus 2017.

Chairman Ewin asked for Ms. Dunn to explain the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting award. Ms. Dunn stated that this award is the highest award you can receive for a financial report in the government industry. She stated that MTS has received this award for twelve consecutive years.

Action Taken

No action taken.

4. Internal Audit Activity Update Report (Toufic Tabshouri)

Toufic Tabshouri, Internal Auditor, provided a presentation on internal audit activity. He reviewed the internal audit budget; risk assessments and audit selection methodology; planned audits for fiscal year 2018-2019; completed audit reports from fiscal year 2017; and other activities.

Mr. Arambula inquired about inventory audits. Mr. Tabshouri responded that the financial statement reporting audit for inventory is conducted by external auditors. He stated that his internal audits of inventory involve the management of inventory and amounts of inventory held. Mr. Arambula asked about his reporting lines in the agency. Mr. Tabshouri stated that his reporting lines are to Karen Landers, General Counsel, and the Audit Oversight Committee. He stated that he does not have any employees that report directly to him. Mr. Arambula inquired how he reports concerns related to specific department issues. Mr. Tabshouri responded that he will generally create a report or a memo related to the concern and provide it to the department manager and Ms. Landers. He stated that he also keeps a tracking list of concerns to follow up at a later date to ensure those concerns have been addressed. Mr. Arambula asked about issues related to potential fraud or abuse. Mr. Tabshouri stated that he oversees the MTS Fraud Waste and Abuse Hotline. He said that most of the calls he receives are not related to fraud or abuse. He noted that if he does receive a valid fraud or abuse notification, he will forward the concerns to either our Customer Service or Security departments. Mr. Arambula asked what risks he is not currently assessing. Mr. Tabshouri responded that he is always looking at areas that could be a potential risk area; however it is hard to determine risk areas that are not common and are unexpected. He stated that he does monitor all areas of the agency for this purpose.

Mr. Jablonski noted that MTS is also currently undergoing the Federal Transit Administration (FTA) Triennial Audit.

Action Taken

Mr. Arambula moved to receive the Internal Audit Activity Update Report. Ms. Rios seconded the motion and the vote was 4 to 0 with Ms. Cole, Ms. Gomez and Mr. Roberts absent.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no committee member communications.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 10:23 a.m.

Chairman

Attachment: Roll Call Sheet

AUDIT OVERSIGHT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) May 3, 2018

CALL TO ORDER (TIME) 9:05 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 10:23 a.m.

| BOARD MEMBER | (Alternate) | PRESENT (TIME ARRIVED) | ABSENT (TIME LEFT) |
|---|---|---------------------------|-----------------------|
| EWIN (Chair) | <input checked="" type="checkbox"/> | 9:00am | 10:23am |
| ARAMBULA Transportation Committee Rep. | <input checked="" type="checkbox"/> | 9:05am | 10:23am |
| COLE | <input type="checkbox"/> (Gomez) <input type="checkbox"/> | | |
| GOMEZ | <input type="checkbox"/> | | |
| MCWHIRTER | <input checked="" type="checkbox"/> (Arambula) <input type="checkbox"/> | 9:00am | 10:23am |
| RIOS | <input checked="" type="checkbox"/> (Salas) <input type="checkbox"/> | 9:00am | 10:23am |
| ROBERTS | <input type="checkbox"/> (Cox) <input type="checkbox"/> | | |

SIGNED BY THE CLERK OF THE BOARD:

Julia Turner

CONFIRMED BY THE GENERAL COUNSEL:

Fran Cord



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Agenda Item No. B1

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 1, 2018

SUBJECT:

DRAFT OF FISCAL YEAR 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT
(CAFR) (ERIN DUNN WITH KEN PUN AND GARY CAPORICCI OF THE PUN GROUP)

RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the Fiscal Year (FY) 2018 CAFR for review and discussion.

Budget Impact

None.

DISCUSSION:

The Finance Department presents for review and discussion the FY 2018 CAFR.

As of this distribution date, staff expects no material changes to the financial report with the following exceptions:

1. Formatting and final proofreading;
2. Note 14, Subsequent Events, is subject to change until the report is published.

Key financial highlights for the year can be found in the Management's Discussion and Analysis included in the CAFR. In FY 2018, MTS implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions which required a restatement to the beginning net position.



Ken Pun and Gary Carporicci from The Pun Group will be present to provide comments regarding the external audit and draft financial report.

/s/ Paul C. Jablonski

Paul C. Jablonski
Chief Executive Officer

Key Staff Contact: Sharon Cooney, 619.557.4513, Sharon.Cooney@sdmts.com

Attachment: A. FY 2018 CAFR Draft



COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the Fiscal Year Ended
June 30, 2018

San Diego, California



San Diego Metropolitan Transit System

DRAFT 10-23-2018

San Diego Metropolitan Transit System

San Diego, California

***Comprehensive Annual Financial Report
and Independent Auditors' Report***

For the Year Ended June 30, 2018

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM
FINANCE DEPARTMENT

DRAFT 10-23-2018

San Diego Metropolitan Transit System

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San Diego Metropolitan Transit System

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INTRODUCTORY SECTION

DRAFT 10-23-2018

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Board of Directors and Transit Riders
San Diego Metropolitan Transit System

The comprehensive annual financial report of the San Diego Metropolitan Transit System (MTS) for the fiscal year ended June 30, 2018 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. The MTS Board of Directors has established an Audit Oversight Committee to provide an additional level of scrutiny to the preparation of the comprehensive annual financial report. Management of MTS is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of MTS are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit by independent certified public accountants. The Pun Group LLP, Accountants and Advisors, has been retained to meet this requirement. The goal of the independent audit was to provide reasonable assurance that the financial statements of MTS for the fiscal year ended June 30, 2018 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MTS's financial statements for the fiscal year ended June 30, 2018 are fairly presented, in all material respects, in conformity with U.S. GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit was also designed to meet the requirements of a broader, federally mandated "Single Audit" and to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements required the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The reports related specifically to the Single Audit are issued under separate cover.

U.S. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

REPORTING ENTITY

The San Diego Metropolitan Transit System was created effective January 26, 1976 to provide the policy setting and overall management coordination of the public transportation system in the San Diego metropolitan service area. This service area encompasses approximately 3 million people residing in a 570 square mile area of San Diego County, including the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, Santee, and San Diego and the unincorporated area of the County of San Diego.

MTS's mission statement, adopted by the Board of Directors, is to enhance the personal mobility of San Diego metropolitan area residents and visitors by:

- Obtaining maximum benefit for every dollar spent.
- Being the community's major public transportation advocate.
- Increasing public transportation usage per capita.
- Taking a customer-oriented approach.
- Implementing capital projects on schedule and within budget.
- Offering high-quality public transportation services.
- Responding to the community's socioeconomic interests.

California law establishes the San Diego Association of Governments (SANDAG) as the planning agency for San Diego County. The responsibility and decision-making for all transportation-related planning, programming and development activities occurs within SANDAG's ten member Transportation Committee. Approved transportation plans and programs are subsequently executed by SANDAG staff. Within this structure, MTS and the North County Transit District (NCTD) focus primarily on operating activities.

MTS is effectively an umbrella agency. MTS owns the assets of San Diego Trolley, Inc. (SDTI) and San Diego Transit Corporation (SDTC), the area's two largest transit operators. These two transit units were formed under California law as not-for-profit public corporations and function as operating subsidiaries of MTS. SDTI and SDTC are considered component units and are blended component units for financial reporting purposes. SDTI operates three Light Rail Transit (LRT) routes: the UC San Diego Blue Line from the America Plaza Station to San Ysidro at the International Border, the Orange Line from the Courthouse station through Centre City and then east to El Cajon, and the Sycuan Green Line from the 12th and Imperial Transit Center Bayside platform to Santee. SDTI operates on a total of 54.3 miles of track. SDTC operates 27 routes with an active fleet of 270 buses.

The relationship between MTS and the transit operating subsidiaries, SDTI and SDTC, is formally established through operating agreements and MTS-adopted corporate policies. These agreements and corporate policies specify the roles and responsibilities of each of the organizations and outline the procedures in numerous functional areas including accounting and budgeting, fare setting, marketing and public information, revenue-producing advertising, service contracts, and programming of federal, state and local subsidies. The MTS Board of Directors has the policy-setting responsibility for the operation and development of MTS's transit operating subsidiaries as well as for the planning and approval of capital expenditures by or on behalf of these entities. The day-to-day operating functions, labor matters and maintenance of facilities are managed by the individual transit operators. MTS has centralized and consolidated Security, Planning, Human Resources, Finance, Information Technology, Stores, and Purchasing for MTS and all subsidiaries.

In addition to the bus routes operated by SDTC, MTS is financially accountable for the operation of certain additional bus routes. MTS contracts with outside parties for the operation of 74 fixed-route bus lines and paratransit services with an active fleet of 527 buses. The contracts require full operation and maintenance of the bus services. Contract services are accounted for in the MTS - Contracted Services Fund for financial reporting purposes.

MTS owns the San Diego and Arizona Eastern Railway Company (SD&AE), a not-for-profit railroad holding company entrusted with assets which include 108 miles of rail line and over 2,000 acres of property. MTS has a contract with the San Diego and Imperial Valley Railway Co. (SDIV) for the operation of freight rail services over the UC San Diego Blue Line (downtown San Diego south to San Ysidro) and Orange Line (downtown San Diego east to El Cajon) trolley segments. MTS provides no subsidy to SDIV, but does receive a portion of its gross revenue. SD&AE is considered a blended component unit for financial reporting purposes.

In December 2012, SD&AE entered into a 99-year lease and operating agreement with Pacific Imperial Railroad, Inc. (PIR) over the 70-mile Desert Line freight right of way in East San Diego County. PIR filed for bankruptcy in September 2016 and the lease was transferred to Baja California Rail Road, Inc. (BJRR) as part of the bankruptcy process. In September 2017, MTS executed an amended and restated Desert Line lease agreement with BJRR. The BJRR agreement provides specific performance milestones which begin after the US and Mexico governments formally approve construction and operation of a customs inspection facility serving the Desert Line, with a minimum of \$1 million in annual revenue required. The agreement may be terminated if BJRR fails to meet the specified milestones, or at BJRR's election with six months' notice. If BJRR meets all milestones and commences freight operations along the Desert Line, MTS's revenue will increase to 7% of gross freight revenue.

MTS is financially accountable for the operation of Taxicab Administration and currently has contracts with the following cities through June 30, 2019: San Diego, National City, El Cajon, Imperial Beach, La Mesa, Lemon Grove, Poway, and Santee. The agreements include licensing and regulating taxicabs, jitneys, nonemergency medical, charter, low speed vehicle, and sightseeing for-hire vehicles.

The MTS Board of Directors is comprised of 15 members with four appointed from the City of San Diego (the Mayor of San Diego and three San Diego City Council Members), two appointed from the City of Chula Vista (the Mayor of Chula Vista and a Chula Vista City Council Member), one appointed from each City Council of Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee, and one appointed from the San Diego County Board of Supervisors.

ECONOMIC CONDITION AND OUTLOOK

San Diego region's economy is geared toward continued prosperity in 2018. Industries projected to lead the region's growth are PST Services, Manufacturing and Construction. San Diego's gross domestic product (GDP), the total value of the region's economy, soared to \$223.0 billion in 2016 compared to the \$211.8 billion earned in 2015, and is forecasted to grow 2.8 percent in 2018. Unemployment is projected to remain between 3.0 and 3.5 percent during most of the year, and compares favorably to the unemployment rate in California and the national average.

Long-term financial planning

The long-term goal of MTS is to fund operations solely with recurring revenues. While sales tax receipts throughout California, which impacts subsidy revenue available to MTS from both TDA and TransNet funds, increased again for the eighth consecutive year, MTS is currently in the third year of ridership declines, with overall passenger levels down by almost 12% compared to the FY15 peaks. This had a similar impact on passenger revenue levels, and to compensate, MTS utilized one-time funding to balance both the FY18 amended budget and the FY19 operating budget. MTS still has a contingency reserve balance of 12.5% of the operating budget at its disposal.

Major Initiatives

MTS has been addressing this ridership decline in a number of different ways. In Fall 2016, MTS launched its Transit Optimization Plan (TOP) to evaluate MTS' current network of services and ensure that it is efficient and effective for the region's travel needs. MTS collected nearly 4,000 online surveys, as well as valuable feedback at 15 outreach events. MTS then analyzed the findings in conjunction with system performance data, route segments and ridership patterns. MTS hosted more than 20 open house events at transit centers/stations across the county, asking the public for feedback on the proposed route and schedule changes that are aimed at realigning current transit services to meet market needs. The proposed system adjustments were approved by the Board in September 2017. The changes are intended to attract new riders to the system by optimizing and reallocating services to areas of the greatest need. The changes will include an additional \$2 million of funding to provide more efficient and effective service, and have been implemented throughout calendar year 2018.

As part of this ridership review and ease of use of the system, MTS had undertaken an initiative upgrading the region's current fare collection system. A fare collection working group was established in 2016 to spearhead the creation of a set of preliminary requirements for the future electronic fare collection system. The working group developed a Concept of Operations (ConOps), completed in summer of 2017, which reviewed the current system components and contract terms, produced detailed system requirements for the new system (E.g. design of equipment, reporting system, sales channel review), provided direction for the procurement strategy and provided an updated cost estimate. The ConOps also generated plans for Mobile ticketing integration, implementation and transition to the new system. In January 2018, MTS received responses from eight firms about their abilities to build the new fare system based on the ConOps. MTS staff, along with our consultant CH2M, then deemed seven of these firms qualified to build the system MTS envisions. Staff issued a Request for Proposals in March 2018, and upon review of these proposals this summer and negotiations of scope and price shortly after, staff anticipates a contract to be awarded in November 2018 to build our next fare system.

While the replacement of the current fare collection system is being reviewed, enhancements to the existing system are being rolled out to give added functionality to the system. Beginning in May 2018, discounted fares for Senior, Disabled, and Medicare recipients (collectively called S/D/M) and Youth (ages 6-18) were made available on the Compass Cloud mobile ticketing app. Introduced in March 2017, Compass Cloud is the region's anytime, anywhere, mobile ticketing solution for San Diego transit riders. There are now more than 100,000 account holders. MTS also conducted a successful pilot with UC San Diego (UCSD) to put the student U-Pass on the Compass Cloud mobile ticketing app. This "portal" functionality allows MTS to make available this mobile functionality to all UCSD students. Additionally, in April 2018, UCSD students approved a referendum to extend the U-Pass agreement with MTS for an additional six years through 2025. The referendum achieved a 72% approval. The fee was increased to an average of \$45.69 per quarter (from \$37.50) to cover anticipated ridership increases induced by the completion of the Mid-Coast Trolley extension and enrollment increases.

MTS has also expanded the customer facilities in its service area. MTS opened its first new Trolley station since 2005 – the Courthouse Station in downtown San Diego. The Courthouse Station will be the new downtown terminus for the Orange Line, which runs from El Cajon to downtown San Diego and serves approximately nine million passengers annually. The Courthouse Station is located on the south side of C Street, between State and Union streets. It will provide convenient Trolley access for downtown's growing community, and is adjacent to the new State Superior Court Building that will have 1.2 million people passing through its doors each year. To help pay for construction, MTS was awarded a TIRCP competitive grant. MTS's application was one of only 14 projects in the state funded by the State of California's 2015 and 2016 cap-and-trade budget and will also help fund the purchase of eight new light rail vehicles to increase capacity on the Trolley system. MTS's first-ever freeway-level transit stations, the Mid-City Centerline Rapid Transit Stations, were built by SANDAG and Caltrans to serve Rapid 235 along State Route 15 at University Avenue and El Cajon Boulevard. In addition to the stations, a new 2.5-mile segment of transit-only lanes (MTS bus only dedicated lanes) were built within the existing SR-15 median from just north of Interstate 805 to just south of Interstate 8.

To help offset the declining passenger fare revenues, MTS continues to maximize non-fare operating revenues. MTS reached an agreement with Sycuan Casino that will generate up to \$25.5 million in non-fare revenue for MTS operations over a 30-year term. The 24-mile Green Line serves as an attractive area for Sycuan to promote their brand along the high visibility assets of Interstate 8. The MTS Marketing Department will incorporate the Sycuan Green Line name to all MTS materials. This is in addition to the UC San Diego Blue Line naming rights partnership that will generate about \$36 million over its 30-year term. MTS is in the third year of that partnership. MTS continues to seek naming rights for its other assets, including the Orange Line, Rapid services and Trolley Stations. MTS also entered a new agreement with Clear Channel Outdoor to install, at no cost to MTS, digital advertising panels at up to 30 locations in the City of San Diego that will enable electronic advertising to be pushed out remotely. The new contract calls for an increase in the minimum annual guarantee paid to MTS from \$9.5 million to \$11.75 million over the 10-year extension. Clear Channel Outdoor was selected as the vendor for management of vehicle advertising on MTS's fleet of buses and trolleys. Clear Channel Outdoor will generate a minimum of \$9.8 million of non-fare revenue for MTS over the next 10 years, which could grow to as much as \$15 million based on projected sales volumes.

Over the last decade, MTS has made funding the Capital Improvement Plan (CIP) a priority to bring the system up to a state of good repair, with over \$900 million of funding spent on Capital. MTS and SANDAG completed the rehabilitation of the UC San Diego Blue Line and also replaced both the East County and South Bay Bus facilities. The bus fleet replacement plan has been adjusted to keep the number of buses replaced to a manageable figure each year. The U2 light rail vehicle (LRV) fleet has been replaced and \$61M has already been saved towards SD100 LRVs as they approach the end of their useful lives. MTS has committed \$82 million for CIP in FY19, funding 40 projects focused on fleet replacement, maintaining a state of good repair, and a number of rehabilitation projects along the Orange Line.

MTS conducted an agency-wide review of its capital needs for the next 20-years. Each department reviewed the assets for their areas and submitted projects to address the anticipated investment required to keep all MTS infrastructure in a state of good repair. The total project needs over the twenty-year term are projected to be just under \$2 billion, with recurring funding expected to total \$1.4 billion, resulting in a \$632 million funding deficit. Efforts to minimize the funding deficit will be a top priority of staff in the coming years.

Finally, a major service enhancement is now underway. The Federal Transit Administration (FTA) signed a Full Funding Grant Agreement between SANDAG and the FTA to pay for half the cost of the Mid-Coast Trolley extension. The Mid-Coast Trolley extension is the largest public transit project in the history of the San Diego region. It will cost \$2.1 billion to build, and MTS rail operations are expected to commence in 2021. The extension will extend the UC San Diego Blue Line from Santa Fe Depot to the University City community, serving major activity centers such as Old Town, UC San Diego, the VA Hospital and the Westfield UTC mall. MTS will have 11 more miles of track to serve, nine new stations, more trains to operate, and up to 20,000 more daily riders as a result of this project. In November 2016, MTS submitted an order to Siemens to build 45 new S70 light rail vehicles, of which the first 4 have been received. These new vehicles have a redesigned middle section to improve passenger flow, greater wheelchair accessibility and bicycle storage. MTS will utilize 36 of the 45 new LRVs on the Mid-Coast Trolley expansion. The additional nine vehicles will be used to increase frequency on the UC San Diego Blue and Orange lines.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MTS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the twelfth consecutive year and the twenty second year overall that MTS has achieved this prestigious award. To be awarded a Certificate of Achievement, MTS must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The staff of the finance department is to be commended for their efficient and dedicated service to the production of this report. In addition, we express our appreciation for the assistance and cooperation provided by management and staff in all departments throughout the organization.

Paul Jablonski
Chief Executive Officer

Larry Marinesi
Chief Financial Officer

November XX, 2018

DRAFT 10-23-2018

San Diego Metropolitan Transit System

Listing of Board of Directors and Management

BOARD OF DIRECTORS

| Members | Board position (elected position) |
|-----------------|--|
| Georgette Gómez | Chair, since 1/18; Board Member since 1/17 |
| Mona Rios | Vice Chair since 1/18; Board Member since 9/11 (Councilmember, National City) |
| David Alvarez | Board Member, since 1/12 (Councilmember, City of San Diego) |
| David Arambula | Board Member, since 1/17 (Councilmember, City of Lemon Grove) |
| Lorie Bragg | Board Member, since 1/12 (Councilmember, Imperial Beach) |
| Myrtle Cole | Board Member, since 9/13 (Councilmember, City of San Diego) |
| Mike Diaz | Board Member, since 1/18 (Councilmember, City of Chula Vista) |
| Kevin Faulconer | Board Member, since 1/18 (Mayor, City of San Diego) |
| Ronn Hall | Board Member, since 5/17 (Councilmember, City of Santee) |
| Bob McClellan | Board Member, since 4/08 (Councilmember, City of El Cajon) |
| Guy McWhirter | Board Member, since 1/15 (Councilmember, City of La Mesa) |
| John Mullin | Board Member, since 5/18 (Councilmember, City of Poway) |
| Ron Roberts | Board Member since 11/89 (Supervisor, County Board of Supervisors) |
| Mary Salas | Chair Pro Tem, since 1/17, Board Member, since 2/13 (Mayor, City of Chula Vista) |
| Bill Sandke | Board Member, since 1/17 (Councilmember, City of Coronado) |

BOARD COMMITTEE MEMBERSHIP

| Executive Committee | Accessible Services Advisory Committee | Airport Authority Advisory Committee | Public Security Committee |
|--------------------------------------|---|---|---------------------------------------|
| Georgette Gómez, Chair | Lorie Bragg, Chair | Bill Sandke | Myrtle Cole |
| David Arambula | | | Mike Diaz |
| Myrtle Cole | | | Ron Hall |
| Guy McWhirter | | | Guy McWhirter |
| Mona Rios | | | Bill Sandke |
| Ron Roberts | | | |
| Audit Oversight Committee | Budget Development Committee | Los Angeles-San Diego Rail Corridor Agency | Taxicab Advisory Committee |
| Ernie Ewin, Chair | Mary Salas, Chair | Lorie Bragg | Lorie Zapf |
| David Arambula | David Alvarez | | |
| Myrtle Cole | Georgette Gómez | | |
| Georgette Gómez | Bob McClellan | | |
| Guy McWhirter | Ron Roberts | | |
| Mona Rios | | | |
| Ron Roberts | | | |
| SANDAG Board | SANDAG Regional Planning Committee | SANDAG Transportation Committee | |
| Mona Rios | Ronn Hall | David Arambula | |

San Diego Metropolitan Transit System**Listing of Board of Directors and Management**

MTS MANAGEMENT**Staff**

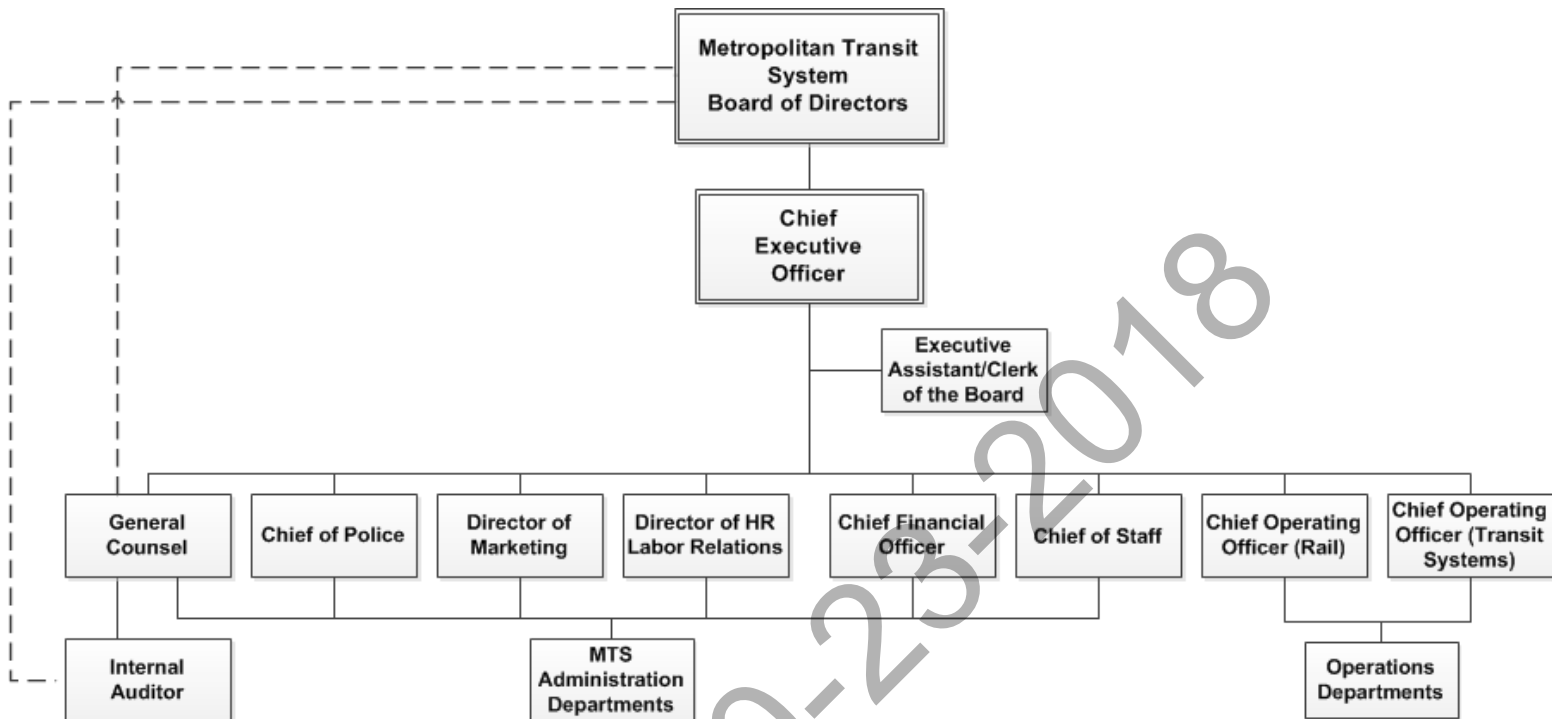
Position

| | |
|-------------------|---|
| Paul Jablonski | Chief Executive Officer |
| Sharon Cooney | Chief of Staff |
| Karen Landers | General Counsel |
| Larry Marinesi | Chief Financial Officer |
| William Spraul | Chief Operating Officer, Transit Systems |
| E. Wayne Terry | Chief Operating Officer, Rail |
| Robert Schupp | Director, Marketing and Communications |
| Jeff Stumbo | Director, Human Resources and Labor Relations |
| Manuel Guaderrama | Chief of Police |

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San Diego Metropolitan Transit System

Executive Level Organization Chart



San Diego Metropolitan Transit System

Certificate of Achievement for Excellence in Financial Reporting – GFOA



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Diego Metropolitan Transit System
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrell

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Diego Metropolitan Transit System
San Diego, California

Report on Financial Statements

We have audited the accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS), which comprise the statement of net position as of June 30, 2018 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MTS, as of June 30, 2018, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
San Diego Metropolitan Transit System
San Diego, California
Page 2

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 12 to the financial statements, in 2018, MTS adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of this statement requires retrospective application of previously reported net position at July 1, 2017 as described in Note 14 to the basic financial statements. In addition, Total OPEB Liability is reported in the Statement of Net Position in the amount of \$45,396,829 as of June 30, 2017, the measurement date. This Total OPEB Liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Proportionate Share of the Net Pension Liability and Related Ratio, Schedules of Changes in Net Pension Liability and Related Ratios, Schedules of Contributions – Pension Plans, and Schedules of Changes in Total OPEB Liability and Related Ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MTS's basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

To the Board of Directors
San Diego Metropolitan Transit System
San Diego, California
Page 3

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November XX, 2018, on our consideration of MTS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MTS's internal control over financial reporting and compliance.

San Diego, California
November XX, 2018

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San Diego Metropolitan Transit System Management's Discussion and Analysis June 30, 2018

The following discussion and analysis of the financial performance of the San Diego Metropolitan Transit System (MTS) is intended to provide an overview of MTS's financial activities for the fiscal year ended June 30, 2018. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- Net position, as reported in the statement of net position, totaled \$1,735 million as of June 30, 2018 and \$1,724 million as of June 30, 2017. Of this amount, \$(65) million was the unrestricted deficit as of June 30, 2018 and \$(20) million was the unrestricted deficit as of June 30, 2017. Total net position increased by \$11 million in the current year. The current year increase is attributable to an increase in federal revenue, State Transit Assistance (STA) funding and contributed capital, partially offset by increased operating expenses and decreases in other state revenue funding.
- For the year ended June 30, 2018, the combined farebox recovery ratio (the measure of the ability to recover operating costs through fare revenue) for San Diego Trolley, Inc., San Diego Transit Corporation, and MTS - Contracted Services was 33.33% compared to 36.14% for the year ended June 30, 2017. The current year decrease is primarily due to an increase in personnel costs and a decrease in passenger revenue.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MTS's financial statements. The financial statements are comprised of two components: 1) financial statements and, 2) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Financial statements. The financial statements are designed to provide readers with a broad overview of MTS's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of MTS's assets, deferred outflow of resources, liabilities, and deferred inflow of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of MTS is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

Since MTS's primary function is to provide transportation services to the region's citizens and recover costs through user fees and charges, the financial statements include business-type activities. In addition, the financial statements include not only MTS itself (*known as the primary government*), but also two legally separate transit operators and one legally separate freight railway, for which MTS is financially accountable: San Diego and Arizona Eastern Railway Company (SD&AE).

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2018

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning MTS's net pension liability and net other post-employment benefits liability for its employees.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an entity's financial stability. In the case of MTS, net position was \$1,735 million at the close of the most recent fiscal year and \$1,724 million at the end of FY2017.

The largest portion of MTS's net position reflects the investment in capital assets, net of accumulated depreciation and reduced by any outstanding bonds or other borrowings and deferred inflows and outflows of resources (Net Investment in Capital Asset). Most of the investment in capital assets is comprised of trolley system assets, buses, and construction-in-progress totaling \$53 million, of which the largest projects are the procurement of 45 new Siemens SD8 Light Rail Vehicles (LRVs) and the Courthouse trolley station, at \$12.8 and \$12.4 million respectively. Prior year construction-in-progress totaled \$36 million, of which the largest projects were the Enterprise Resource Planning (ERP) and Transit Asset Management System (TAM) and the procurement of new Siemens SD8 Light Rail Vehicles (LRVs), at \$9.5 and \$9.2 million respectively. The capital assets that are represented by construction-in-progress will be used to provide services to citizens; consequently, these assets are not available for future spending. In FY2018, MTS transferred completed projects worth \$51 million to SDTC, SDTI and Other MTS - Contracted Services compared to \$59 million in FY2017.

The balance in the unrestricted component of net position decreased by \$(45.7) million during the current year and increased \$12 million in the prior year. Total assets increased by \$49 million primarily due to capital assets increasing by \$46 million. In FY2017, total assets decreased by \$13 million. In the current fiscal year, total liabilities increased by \$26 million primarily due to the increase in total OPEB liability of \$27 million. In the previous year, total liabilities increased by \$38 million.

| | 2018 | 2017 | \$ Change |
|-----------------------------------|------------------|------------------|---------------|
| Current and other assets | \$ 215,737,517 | \$ 212,694,682 | \$ 3,042,835 |
| Capital assets | 1,787,009,020 | 1,741,107,404 | 45,901,616 |
| Total assets | 2,002,746,537 | 1,953,802,086 | 48,944,451 |
| Deferred outflows of resources | 61,966,235 | 70,889,473 | (8,923,238) |
| Current and other liabilities | 57,240,387 | 58,940,833 | (1,700,446) |
| Long-term liabilities outstanding | 256,544,202 | 228,646,665 | 27,897,537 |
| Total liabilities | 313,784,589 | 287,587,498 | 26,197,091 |
| Deferred inflows of resources | 15,981,871 | 12,919,118 | 3,062,753 |
| Net position: | | | |
| Net investment in capital assets | 1,785,807,650 | 1,739,359,691 | 46,447,959 |
| Restricted | 14,447,013 | 4,440,262 | 10,006,751 |
| Unrestricted (deficit) | (65,308,351) | (19,615,010) | (45,693,341) |
| Total net position | \$ 1,734,946,312 | \$ 1,724,184,943 | \$ 10,761,369 |

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2018

Decreases in operating revenue are attributable to a decrease in passenger revenue of \$3 million, a decrease in Compressed Natural Gas (CNG) credits totaling \$800 thousand, and a real estate transaction in FY2017 for \$900 thousand. Variances between FY2018 and FY2017 nonoperating revenues are attributable to significant increases in Federal and State Transit Assistance revenue, partially offset by a decrease in other state revenues. The current year increase in operating expenses is attributable to an increase in personnel costs and outside services.

| | 2018 | 2017 | \$ Change |
|---|-------------------------|-------------------------|----------------------|
| Revenues: | | | |
| Operating revenues: | | | |
| Passenger revenue | \$ 90,235,809 | \$ 93,279,455 | \$ (3,043,646) |
| Other operating revenue | 18,535,281 | 20,241,852 | (1,706,571) |
| Nonoperating revenues: | | | |
| Federal revenue | 86,930,893 | 72,404,730 | 14,526,163 |
| Transportation Development Act | 94,111,445 | 94,915,733 | (804,288) |
| State Transit Assistance | 21,680,915 | 12,918,834 | 8,762,081 |
| State revenue - other | 4,886,993 | 14,183,196 | (9,296,203) |
| TransNet funds | 40,195,362 | 37,270,235 | 2,925,127 |
| Other nonoperating revenue | 5,623,649 | 2,114,713 | 3,508,936 |
| Total revenues | <u>362,200,347</u> | <u>347,328,748</u> | <u>14,871,599</u> |
| Expenses: | | | |
| Operating expenses | 423,132,790 | 407,991,373 | 15,141,417 |
| Nonoperating expenses | 809,318 | 962,775 | (153,457) |
| Total expenses | <u>423,942,108</u> | <u>408,954,148</u> | <u>14,987,960</u> |
| Increase (Decrease) in net position before capital contributions | (61,741,761) | (61,625,400) | (116,361) |
| Capital contributions | <u>99,550,659</u> | <u>48,301,025</u> | <u>51,249,634</u> |
| Increase (decrease) in net position | 37,808,898 | (13,324,375) | 51,133,273 |
| Net position: | | | |
| Beginning of year, as previously reported | 1,724,184,943 | 1,737,509,318 | (13,324,375) |
| Restatements due to implementation of GASB 75 | (27,047,529) | - | (27,047,529) |
| Beginning of year, as restated | <u>1,697,137,414</u> | <u>1,737,509,318</u> | <u>(40,371,904)</u> |
| End of year | <u>\$ 1,734,946,312</u> | <u>\$ 1,724,184,943</u> | <u>\$ 10,761,369</u> |

San Diego Metropolitan Transit System
Management's Discussion and Analysis (Continued)
June 30, 2018

Capital Asset and Debt Administration

Capital assets. MTS's investment in capital assets net of accumulated depreciation as of June 30, 2018 and 2017 amounted to \$1,787 million and \$1,741 million, respectively. This investment in capital assets includes land, buildings, vehicles, equipment, and construction-in-progress. Major capital asset events during the current fiscal year included the following:

- MTS continues to modernize the bus fleet. In FY2018, 92 buses were placed into service for a total cost of \$52 million.
- MTS completed construction on a new East County Bus Maintenance Facility at a total cost of \$6 million.
- Completed capital projects totaling \$100 million were transferred from SANDAG to MTS and its component units during FY2018.

CAPITAL ASSETS
 (Net of Accumulated Depreciation)

| | 2018 | 2017 |
|--------------------------|-------------------------|-------------------------|
| Land | \$ 256,922,883 | \$ 256,922,883 |
| Buildings | 996,361,733 | 968,444,183 |
| Vehicles | 432,560,716 | 426,479,686 |
| Equipment & other | 48,553,881 | 53,087,922 |
| Construction-in-progress | 52,609,807 | 36,172,730 |
| Total | <u>\$ 1,787,009,020</u> | <u>\$ 1,741,107,404</u> |

Additional information on MTS's capital assets can be found in Note 5 to the financial statements.

Long-term debt. At the end of the current fiscal year, MTS has one capital lease obligation outstanding in the amount of \$1.1 million. In addition, MTS has one finance obligation outstanding relating to Pension Obligation Bonds issued in fiscal year 2005 for a total obligation of \$15.3 million.

Additional information about MTS's long-term debt can be found in Note 8 to the financial statements.

Bond Ratings

Standard & Poor's Ratings Services provided an underlying rating for the Pension Obligation Bonds at "AA-" with a stable outlook in 2018, the same rating that was received in 2016. Additional information on MTS's long-term debt can be found in Note 8 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of MTS's finances for all those with an interest in the government's finances. If you have questions concerning any of the information provided in this report or need additional financial information, visit our website at www.sdmts.com or direct inquiries to the Controller, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

BASIC FINANCIAL STATEMENTS

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San Diego Metropolitan Transit System
Statement of Net Position
June 30, 2018

ASSETS

Current assets:

| | |
|--|--------------------|
| Cash and cash equivalents | \$ 84,588,129 |
| Cash restricted for capital support | 17,246,933 |
| Accounts and other receivables | 9,431,211 |
| Due from other governments | 82,572,920 |
| Inventory | 18,246,303 |
| Prepaid items and other current assets | 3,652,021 |
| Total current assets | <u>215,737,517</u> |

Noncurrent assets:

| | |
|---|----------------------|
| Capital assets, net of accumulated depreciation | 1,787,009,020 |
| Total noncurrent assets | <u>1,787,009,020</u> |
| Total assets | <u>2,002,746,537</u> |

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows of resources

| | |
|--|-------------------|
| Contributions made after measurement date | 18,722,293 |
| Differences between projected and actual investment earnings | 20,179,460 |
| Differences between expected and actual experience | 1,038,158 |
| Changes in employer's proportion | 1,162,548 |
| Differences between employer contributions and proportionate share | 597,880 |
| Changes in assumption | 18,972,003 |
| Total pension related deferred outflows of resources | <u>60,672,342</u> |

OPEB related deferred outflows of resources

| | |
|---|-------------------|
| Contributions made after measurement date | 1,293,893 |
| Total deferred outflows of resources | <u>61,966,235</u> |

San Diego Metropolitan Transit System
Statement of Net Position (Continued)
June 30, 2018

LIABILITIES

Current liabilities:

| | |
|---|-------------------|
| Accounts payable | 18,584,841 |
| Due to other governments | 8,574,860 |
| Unearned revenue | 9,419,707 |
| Accrued expenses | 2,990,766 |
| Retentions payable | 290,779 |
| Retentions payable from restricted assets | 2,799,920 |
| Due within one year | |
| Compensated absences | 6,179,497 |
| Accrued damage, injury, and employee claims | 5,261,820 |
| Long-term debt, current portion | 3,138,197 |
| Total current liabilities | <u>57,240,387</u> |

Noncurrent liabilities:

| | |
|---|--------------------|
| Due in more than one year: | |
| Compensated absences | 4,574,257 |
| Accrued damage, injury, and employee claims | 12,028,332 |
| Long-term debt | 13,273,072 |
| Aggregate net pension liability | 181,271,712 |
| Aggregate total OPEB liability | 45,396,829 |
| Total noncurrent liabilities | <u>256,544,202</u> |
| Total liabilities | <u>313,784,589</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|--|-------------------|
| Deferred gain on debt refunding related to capital assets | <u>130,101</u> |
| Pension related deferred inflows of resources | |
| Differences between projected and actual investment earnings | 7,678,722 |
| Differences between expected and actual experience | 3,480,013 |
| Changes in employer's proportion | 166,559 |
| Changes in assumptions | 1,167,117 |
| Total pension related deferred inflows of resources | <u>12,492,411</u> |
| OPEB related deferred inflows of resources | |
| Changes in assumptions | <u>3,359,359</u> |
| Total deferred inflows of resources | <u>15,981,871</u> |

NET POSITION

| | |
|----------------------------------|-------------------------|
| Net investment in capital assets | 1,785,807,650 |
| Restricted for capital assets | 14,447,013 |
| Unrestricted (deficit) | <u>(65,308,351)</u> |
| Total net position | <u>\$ 1,734,946,312</u> |

San Diego Metropolitan Transit System
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

Operating Revenues:

| | |
|---------------------------------|--------------------|
| Passenger revenue | \$ 90,235,809 |
| Advertising | 1,130,974 |
| Miscellaneous | 17,404,307 |
| Total operating revenues | <u>108,771,090</u> |

Operating Expenses:

| | |
|---------------------------------|--------------------|
| Personnel costs | 146,282,491 |
| Outside services | 101,573,956 |
| Transit operations funding | 487,825 |
| Materials and supplies | 14,918,022 |
| Energy costs | 26,413,555 |
| Risk management | 6,675,072 |
| Miscellaneous | 5,854,008 |
| Depreciation | 120,927,861 |
| Total operating expenses | <u>423,132,790</u> |

Operating (Loss)

(314,361,700)

Public Support and Nonoperating Revenues (Expenses):

| | |
|---|--------------------|
| Federal revenue | 86,930,893 |
| Transportation Development Act (TDA) funds | 94,111,445 |
| State Transit Assistance (STA) funds | 21,680,915 |
| State revenue - other | 4,886,993 |
| TransNet funds | 40,195,362 |
| Other local subsidies | 5,492,305 |
| Investment earnings | 940,538 |
| Interest expenses | (809,318) |
| (Loss) on disposal of assets | (809,194) |
| Total public support and nonoperating revenues (expenses): | <u>252,619,939</u> |

Income (Loss) Before Contributed Capital

(61,741,761)

Contributed capital, net

99,550,659**Changes in Net Position**

37,808,898

Net Position:

| | |
|--|--------------------------------|
| Beginning of year, as restated (Note 14) | 1,697,137,414 |
| End of year | <u><u>\$ 1,734,946,312</u></u> |

San Diego Metropolitan Transit System
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash Flows From Operating Activities:

| | |
|--|-----------------------------|
| Receipts from customers and users | \$ 107,429,785 |
| Payments to suppliers | (151,152,671) |
| Payments to employees | (131,934,361) |
| Payments for damage and injury | <u>(1,541,026)</u> |
| Net cash (used in) operating activities | <u>(177,198,273)</u> |

Cash Flows From Noncapital Financing Activities:

| | |
|---|---------------------------|
| Public support funds received | <u>251,301,566</u> |
| Net cash provided by noncapital financing activities | <u>251,301,566</u> |

Cash Flows From Capital and Related Financing Activities:

| | |
|--|----------------------------|
| Debt service costs | (3,825,507) |
| Property acquisition | (67,493,671) |
| Proceeds from disposal of assets | <u>998,974</u> |
| Net cash (used in) capital and related financing activities | <u>(70,320,204)</u> |

Cash Flows From Investing Activities:

| | |
|--|-----------------------|
| Interest received on investments | <u>965,283</u> |
| Net cash provided by investing activities | <u>965,283</u> |

Net increase in cash and cash equivalents 4,748,372

Cash and Cash Equivalents:

| | |
|-------------------|-------------------------------------|
| Beginning of year | <u>97,086,690</u> |
| End of year | <u><u>\$ 101,835,062</u></u> |

Reconciliation of Cash and Cash Equivalents to Statement of Net Position:

| | |
|--|-------------------------------------|
| Cash and cash equivalents | \$ 84,588,129 |
| Cash restricted for capital support | <u>17,246,933</u> |
| Total cash and cash equivalents | <u><u>\$ 101,835,062</u></u> |

San Diego Metropolitan Transit System
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2018

Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities:

| | |
|---|---------------------------------------|
| Operating (loss) | \$ (314,361,700) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities: | |
| Depreciation | 120,927,861 |
| (Increase) decrease in: | |
| Accounts and other receivables | 420,923 |
| Due from other governments | (1,762,228) |
| Inventory | 1,688,973 |
| Prepaid items and other current assets | (864,219) |
| Increase (decrease) in: | |
| Accounts payable | (1,277,354) |
| Due to other governments | 1,042,817 |
| Accrued expenses | (29,847) |
| Unearned revenue | 3,083,287 |
| Aggregate net pension liability | 12,259,210 |
| Aggregate total OPEB liability | 3,292,972 |
| Compensated absences payable | 36,342 |
| Accrued damage, injury and employee claims | (1,655,310) |
| Total adjustments | <u>137,163,427</u> |
| Net cash (used in) operating activities | <u><u>\$ (177,198,273)</u></u> |

Noncash investing, capital, and financing activities:

| | |
|--|-----------------------------|
| Contributions of capital assets from SANDAG | <u><u>\$ 99,550,659</u></u> |
| Increase (decrease) in fair value of investments | <u><u>\$ (33,508)</u></u> |

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DRAFT 10-23-2018

NOTES TO BASIC FINANCIAL STATEMENTS

DRAFT 10-23-2018

San Diego Metropolitan Transit System
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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San Diego Metropolitan Transit System
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DRAFT 10-23-2018

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

The accompanying basic financial statements of the San Diego Metropolitan Transit System (MTS) have been prepared in conformity with generally accepted accounting principles in the United States (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The more significant of MTS's accounting policies are described below.

A. Reporting Entity

MTS (also known as San Diego Metropolitan Transit Development Board) was formed on January 26, 1976 by passage of California Senate Bill 101 to plan, construct, and operate (or let contracts to operate) exclusive public mass transit guideways in the urbanized south coastal area of San Diego County. MTS has certain responsibilities for near-term transportation planning and administration of federal and state transportation funds within the area under its jurisdiction. The Board of Directors of MTS consists of 15 members composed of four appointees from the City of San Diego (the Mayor and three Council Members), two appointees from the City of Chula Vista (the Mayor and one Council Member), one appointee from the cities of Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee, and one appointee from the San Diego County Board of Supervisors.

On January 1, 2003, California Senate Bill 1703 (SB 1703) became effective. SB 1703 required the consolidation of the planning and programming functions of MTS and the North County Transit District (NCTD) into the San Diego Association of Governments (SANDAG) in an initial transfer to take place prior to July 1, 2003. SB 1703 also required the consolidation of certain project development and construction functions of MTS and NCTD into SANDAG in a subsequent transfer to take place prior to January 30, 2004. The initial transfer occurred on July 1, 2003, and the subsequent transfer occurred on October 13, 2003. With these actions, employees were transferred from MTS and NCTD to SANDAG, and certain planning, development, and construction functions were also transferred. As a result, MTS's activities since the consolidation have been focused on operating public transit systems in the urbanized area identified above. In addition to the consolidation required by SB 1703, MTS dissolved the independent Board of Directors of San Diego Transit Corporation (SDTC) and Board of Directors of San Diego Trolley, Inc. (SDTI). MTS now acts as the Board of Directors for all three agencies: MTS, SDTC, and SDTI. Beginning in FY2004, SDTC and SDTI are presented as blended component units.

These basic financial statements present MTS and its legally separate component units, entities for which MTS is considered to be financially accountable. Because MTS appoints a majority of the component units' boards of directors, the boards are substantively the same, and MTS is able to impose its will on the component units, MTS presents blended component units. Blended component units, although legally separate entities, are, in substance, part of MTS's operations. Included within the reporting entity as blended component units:

San Diego Transit Corporation: On July 1, 1985, MTS purchased the assets used by and acquired sole ownership of San Diego Transit Corporation (SDTC) from the City of San Diego for \$1. SDTC has entered into an operating agreement with MTS to operate a public transportation bus system in the City of San Diego and certain regional routes within MTS's jurisdictions. The current agreement, which was approved in December 2006, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. SDTC continues to provide local service to a number of adjoining cities under pre-existing contracts. Purchases or construction of bus capital items are made by MTS, with whom title remains, and are contributed to SDTC upon completion of a project or when individually purchased by MTS. SDTC's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS's financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

San Diego Trolley, Inc.: San Diego Trolley, Inc. (SDTI) was organized by MTS in August 1980. SDTI was created to operate and maintain the Light Rail Transit (LRT) system pursuant to an operating agreement with MTS. The current agreement, which was approved in December 2006, was renewed on June 23, 2011, as an open-ended agreement terminable upon six months' notice by either party. Purchases or construction of LRT capital items are made by MTS, with whom title remains, and are contributed to SDTI upon completion of a project or when individually purchased by MTS. SDTI's assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS's financial statements as a blended component unit. This agency has the same governing board as MTS and provides services directly to the public.

San Diego and Arizona Eastern Railway Company: MTS purchased the San Diego and Arizona Eastern Railway Company (SD&AE) in 1979. SDTI operates on a portion of the line and private operators provide freight service on a portion of the line. Purchases of capital items are made by MTS, with whom title remains, and are contributed to SD&AE. Since SD&AE provides almost exclusive benefit to MTS, its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses are included in MTS's financial statements as a blended component unit. Separate financial reports are not available.

B. Financial Statements

The Financial Statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the primary government and its component units. The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

MTS receives funding primarily from the following revenue sources:

Passenger Revenue

Passenger fares comprised approximately 32 percent of MTS's \$277.8 million operating budget for FY 2018.

Other Operating Revenues

MTS receives a variety of operating revenues that are not received directly from passenger fares. The sources of these revenues are advertising, naming rights, interest income, energy credits, rental and land management income, income related to Taxicab administration, income from the SD&AE Railway Company, and other miscellaneous income.

Nonoperating Revenues

MTS receives subsidies that are derived from federal, state and local tax revenues. MTS does not levy or collect any tax funds, but receives allocated portions of tax funds through federal, state and local granting agencies.

Federal Transit Administration (FTA)

FTA revenues are funded by a federal gas tax and revenues of the federal general fund. Moving Ahead for Progress in the 21st Century (MAP-21) was reauthorized on a short-term basis multiple times before being replaced by the Fixing America's Surface Transportation (FAST) Act, signed into law on December 4, 2015. The FAST Act reauthorized surface transportation programs through September 30, 2020. Under the FAST Act, MTS receives Section 5307 and Section 5337 grants which are earmarked for capital assistance and preventive maintenance. Under MAP-21, transit agencies were not eligible to be direct recipients of Section 5339 Bus and Bus Facilities Funding. However, under FAST Act, MTS is now an eligible direct recipient of Section 5339 formula funds. In addition, MTS also receives Section 5311 and Section 5311F grants for operations.

Transportation Development Act (TDA)

TDA provides funding for public transit operators. This state fund is one quarter of a percent of the 7.75 percent sales tax assessed in the region. SANDAG is responsible for apportionment of these funds within the San Diego region. As economic conditions improve, sales tax receipts have increased over the prior year, and as a result the TDA funds available for disbursement have increased as well.

State Transit Assistance (STA)

STA funding comes from the Public Transportation Act (PTA) which derives its revenue from the state sales tax on gasoline. These funds are designated as discretionary or formula. The former is appropriated by the legislature. The latter is a formula based upon population and fares generated.

STA State of Good Repair Program (SGR)

The SGR Program is another new revenue source as a result of SB1 and is funded from a portion of a new Transportation Improvement Fee on vehicle registrations due on or after January 1, 2018. The funds are allocated with the same STA Program formula.

**San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018**

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

TransNet

TransNet funds are derived from the Proposition A one-half cent local transportation sales tax that was approved by area voters in November 1987. The original ordinance expired in 2008, but has since been extended to 2048 by subsequent voter approval. The ordinance allocated one-third of the sales tax proceeds for transit purposes, which are further divided between MTS and NCTD based on the proportion of the population within the area of each jurisdiction. The *TransNet* Program also reimburses MTS for the net operating cost of the Bus Rapid Transit and Superloop projects that were approved as part of the extension. These costs are billed to SANDAG on a monthly basis. *TransNet* funds are also apportioned by SANDAG.

Transit and Intercity Rail Capital Program (TIRCP)

The TIRCP is a discretionary program that was created by Senate Bill (SB) 862 (Chapter 36, Statutes of 2014) and modified by Senate Bill 9 (Chapter 710, Statutes of 2015) to provide grants from the Greenhouse Gas Reduction Fund to fund transformative capital improvements that will modernize California's intercity, commuter, and urban rail systems, and bus and ferry transit systems to reduce emissions of greenhouse gases by reducing congestion and vehicle miles travelled throughout California. MTS was awarded \$40.1 million in 2018 for the Blue Line Rail Corridor Transit Enhancements projects.

Low Carbon Transit Operations Program (LCTOP):

The Low Carbon Transit Operations Program (LCTOP) is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions. Senate Bill 862 continuously appropriates five percent of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP.

Proposition 1B Revenue (Prop 1B)

The California Public Transportation Modernization, Improvement and Service Enhancement Act of 2006, approved by the voters as Proposition 1B (Prop 1B) in November 2006, authorizes the issuance of \$19.9 billion in general obligation bonds for the purpose of improving highway safety, traffic reduction, air quality, and port security. MTS is not expected to receive Prop 1B revenue after Fiscal Year 2018.

Other State Revenue

MediCal provides further funding support specifically tied to several ADA Paratransit routes to aid patients in their transportation to medical appointments.

Compressed Natural Gas Rebate

Alternative fuel credits are issued by the IRS to MTS for utilizing compressed natural gas to power its vehicles. This rebate program is reviewed annually and has not yet been approved for calendar year 2018.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Other Local Subsidies

The City of San Diego provides Maintenance of Effort funds to aid ADA efforts. In addition, SANDAG provides funds for the operation of certain express bus routes and NCTD provides partial subsidy for the Sorrento Valley Coaster Connection.

D. Use of Restricted/Unrestricted Assets

When both restricted and unrestricted resources are available for use, it is MTS's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash, Cash Equivalents, and Investments

Investments of pooled cash consist primarily of bankers' acceptances, certificates of deposit, pooled investment funds, liquidity funds, governmental bonds, and commercial paper. Investments are stated at fair value, which is based on quoted market price. Money market investments and participating interest earning investment contracts that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value.

For purposes of the statement of cash flows, all highly liquid temporary investments purchased with a maturity of three months or less are considered cash equivalents.

MTS participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool is the same as the fair value of the pool shares. MTS also participates in the San Diego County Investment Pool, which is a local government investment pool managed by the County Treasurer's Office on behalf of the Investment Pool participants.

Certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk
- Foreign Currency Risk

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgement associated with the inputs used to measure their fair value.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Cash, Cash Equivalents, and Investments (Continued)

Levels of inputs are as follows:

Level 1 - Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 - Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 - Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

F. Inventory

Inventories are valued at the weighted average unit cost.

G. Prepaid Items and Other Current Assets

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

H. Capital Assets

Capital assets include land and right-of-way, buildings and infrastructure assets, vehicles, and equipment. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital asset improvements are recorded as assets.

Under the operating agreements between MTS and SDTC and SDTI, SDTC and SDTI are required to pay a license fee to MTS for the use of certain capital assets. Due to SDTC's and SDTI's continued shortage of operating funds sufficient to cover recurring expenditures, the payment of these fees is considered remote, and therefore, these amounts were not recorded in the accompanying basic financial statements. Buildings, vehicles, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|------------------------------------|----------|
| Building and structures | 20 to 30 |
| Vehicles and buses | 5 to 25 |
| Equipment and other capital assets | 3 to 10 |
| Capital leases | 3 to 40 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Construction-in-Progress

Costs incurred for construction associated with the bus and trolley systems are capitalized as construction-in-progress until such time as they are complete and operational. Upon completion, they are contributed to SDTC, SDTI and MTS - Contracted Services to reflect their custodial accountability for the assets. Depreciation commences at the time of contribution. Assets acquired through capital leases are capitalized.

J. Compensated Absences

It is MTS's policy to permit employees to accumulate earned but unused personal leave time up to a maximum of 400 hours, which includes both vacation and sick pay benefits. All personal leave time is accrued when incurred.

K. Long-Term Obligations

Debt premiums and discounts, if any, are deferred and amortized over the life of the debt using the straight-line method. Long-term debt is reported net of the applicable bond premium or discount. Debt issuance costs are expensed when incurred.

L. Refunding of Debt

Gains or losses occurring from current or advance refunding of debt are reported as deferred inflows or outflows of resources and are being amortized using the straight-line method over the original remaining life of the old debt or the life of the new debt, whichever is less.

M. Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of MTS, SDTC and SDTI's pension plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

N. Other Postemployment Benefits

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, of the MTS, SDTC, and SDTI's OPEB Plan ("OPEB Plan") have been determined on the same basis as they are reported by the Plan (Note 12). For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Net Position

Net Position is classified as follows:

Net investments in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt and deferred inflows and outflows of resources that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

P. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from these estimates.

Q. Implementation of New GASB Pronouncements for the Year Ended June 30, 2018

During fiscal year ended June 30, 2018, MTS has implemented the following new GASB Pronouncements:

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

GASB Statement No. 81 - In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interest. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Q. Implementation of New GASB Pronouncements for the Year Ended June 30, 2018 (Continued)

GASB Statement No. 82 - In December 2015, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures of those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

GASB Statement No. 85 - In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of areas including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

GASB Statement No. 86 - In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Application of this statement is effective for MTS's fiscal year ending June 30, 2018.

R. Upcoming Government Accounting Standards for the Year Ended June 30, 2019

For the fiscal year ending June 30, 2019, MTS will implement the following new GASB Pronouncements:

GASB Statement No. 83 - In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. Application of this statement is effective for MTS's fiscal year ending June 30, 2019.

GASB Statement No. 88 - In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Application of this statement is effective for MTS's fiscal year ending June 30, 2019.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash, Cash Equivalents, and Investments

Cash and investments are reported in the accompanying statements of net position as follows on June 30, 2018:

| | |
|--|------------------------------|
| Cash and cash equivalents | \$ 84,588,129 |
| Cash and cash equivalents restricted for capital support | <u>17,246,933</u> |
| Total cash and investments | <u>\$ 101,835,062</u> |

Cash and cash equivalents consisted as follows on June 30, 2018:

| Investment Type | Measurement Input | Fair Value |
|--|----------------------|------------------------------|
| Cash and cash equivalents: | | |
| Demand Deposits | N/A | \$ 37,898,684 |
| Retention Trust Account | N/A | 2,799,920 |
| San Diego County Investment Pool | Level 2 | 43,281,259 |
| State of California - Local Agency Investment Fund | Uncategorized | <u>17,855,199</u> |
| Total cash and cash equivalents | | <u>\$ 101,835,062</u> |

Demand Deposits

As of June 30, 2018, the carrying amount of demand deposits was \$37,898,684 and the bank balance was \$43,038,639 of which the total amount was collateralized or insured with securities held by the pledging financial institutions in MTS's name as discussed below.

All cash accounts are pooled and swept nightly to a concentration account. Funds required to be held by fiscal agents under the provisions of bond indentures are not included in the pooled cash account.

Investments

Under the provisions of MTS's investment policy and in accordance with California Government Code, MTS is authorized to invest or deposit in the following:

- Securities of the U.S. Government, its agencies and instrumentalities
- Obligations of the State of California or any local agency within the state rated "A" or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Repurchase agreements
- Bankers' acceptances
- Commercial paper rated "A" or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Medium-term corporate notes rated "A" or higher by Standard and Poor's Corporation or Moody's Investor Services, Inc.
- Negotiable certificates of deposit
- Local Agency Investment Fund (LAIF) established by the State Treasurer
- San Diego County Pooled Money Fund
- Passbook savings or money market demand deposits with an FDIC, SIPC, or SAIF insured financial institution

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash, Cash Equivalents, and Investments (Continued)

Local Agency Investment Funds

MTS's investments with Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in structured notes and asset-backed securities. These investments include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises.
- Asset-Backed Securities - entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's), small business loans or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2018, MTS had \$17,855,199 invested in LAIF, which had invested 2.67% of the pool investment funds in structured notes and asset-backed securities.

San Diego County Investment Pool

The San Diego County Investment Pool is a local government investment pool managed by the County Treasurer's Office on behalf of Investment Pool participants. Depositors in the Investment Pool include both mandatory participants, those agencies required by law to deposit their funds with the County Treasurer's Office, and voluntary participants, agencies that place their funds in the Investment Pool as an investment option. As of June 30, 2018, voluntary participants, including cities, fire districts, and various special districts accounted for approximately 7.88% of the Investment Pool. At June 30, 2018, the fair value of our position in the pool is 99.48% of the value of the pool shares.

Pursuant to Section 27130-27137 of the California Government Code, the County Board of Supervisors has established the Treasurer's Oversight Committee ("TOC") that monitors and reviews the Investment Policy. The TOC consists of members appointed from the districts or offices that they represent, and up to five members of the public having expertise in, or an academic background in public finance.

To mitigate credit risk, the Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long-term or "A1" for short-term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by the California Government Code Section 53601, having fair market value of 102% or greater than the amount of the repurchase agreement. The Investment Pool does not hold any investments in structured notes.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash, Cash Equivalents, and Investments (Continued)

San Diego County Investment Pool (Continued)

MTS's investments with the County Treasurer's Office include a portion of the pool funds invested in asset-backed securities as defined in the preceding section for LAIF investments. As of June 30, 2018, MTS had \$43,281,259 invested with the San Diego County Investment Pool, which had invested 2.11% of the pool investment funds in asset-backed securities.

Disclosures Relating to Interest Rate Risk

As a means of limiting its exposure to market value losses arising from rising interest rates, MTS's investment policy limits investments to a maximum of five years unless otherwise approved by the Board.

Disclosures Relating to Credit Risk

MTS's investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated "A" or better by Standard and Poor's or Moody's Investor Services, Inc. In the current year, MTS does not hold investments in commercial papers or certificates of deposit. Other investment instruments, including deposits in LAIF; San Diego County Investment Pool; and U.S. Government taxable bonds, are not rated and do not require ratings.

Disclosures Relating to Concentration of Credit Risk

The investment policy limits the amount of the percentage of the portfolio that can be invested by the type of investment for certain types of investments. MTS is in compliance with investment type percentages of the total portfolio of the investment policy.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the broker or dealer to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code requires California banks and savings and loan associations to secure MTS's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in MTS's name.

The fair value of pledged securities must equal at least 110% of MTS's cash deposits. California law also allows institutions to secure MTS deposits by pledging first trust deed mortgage notes having a value of 150% of MTS's total cash deposits. MTS may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. MTS, however, has not waived the collateralization requirements.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Cash, Cash Equivalents, and Investments (Continued)**Summary of Investments to Maturity**

Investments held by MTS grouped by maturity date at June 30, 2018, are shown below:

| <u>Maturity</u> | |
|---------------------|-----------------------|
| Current to one year | \$ 101,835,062 |
| Total | <u>\$ 101,835,062</u> |

Note 3 – Accounts Receivable**A. Accounts and Other Receivables**

At June 30, 2018, the net realizable accounts and other receivables consisted of the following:

| | |
|--------------------------------------|---------------------|
| Passenger revenue - General Public | \$ 3,239,372 |
| Other trade receivables | 4,582,072 |
| Pension plan receivable | 1,609,767 |
| Total accounts and other receivables | <u>\$ 9,431,211</u> |

B. Due from Other Governments

At June 30, 2018, amounts due from other governments consisted of the following:

| | |
|--|----------------------|
| FTA Grant Funds | \$ 59,537,420 |
| STA Funds | 6,875,454 |
| SANDAG - <i>TransNet</i> | 6,248,861 |
| County of San Diego | 4,692,714 |
| Passenger Revenue - Other Governments | 1,762,228 |
| State of California | 1,638,020 |
| North County Transit District - shared costs | 957,362 |
| SANDAG - Project/Route reimbursement | 753,333 |
| Other Local Governments | 52,444 |
| Department of Homeland Security | 35,869 |
| City of San Diego | 19,215 |
| Total due from other governments | <u>\$ 82,572,920</u> |

Note 4 – Inventory

At June 30, 2018, inventory consisted of the following repair and maintenance parts and administrative supplies:

| | |
|-------------------------|----------------------|
| San Diego Transit Corp. | \$ 3,458,589 |
| San Diego Trolley, Inc. | 14,787,714 |
| Total inventory | <u>\$ 18,246,303</u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

| | Balance July 1, 2017 | Additions | Deletions | Balance June 30, 2018 |
|--|-------------------------|----------------|-----------------|--------------------------|
| Capital assets, not depreciated | | | | |
| Land and right-of-way | \$ 256,922,883 | \$ - | \$ - | \$ 256,922,883 |
| Construction-in-progress | 36,172,730 | 69,128,731 | (52,691,654) | 52,609,807 |
| Total capital assets, not depreciated | 293,095,613 | 69,128,731 | (52,691,654) | 309,532,690 |
| Capital assets, depreciated: | | | | |
| Buildings and structures | 1,903,169,196 | 92,423,892 | - | 1,995,593,088 |
| Buses and vehicles | 788,558,176 | 52,157,135 | (82,453,201) | 758,262,110 |
| Equipment and other | 141,534,519 | 7,661,286 | (42,895) | 149,152,910 |
| Capital lease property | 12,091,981 | - | - | 12,091,981 |
| Total capital assets, depreciated | 2,845,353,872 | 152,242,313 | (82,496,096) | 2,915,100,089 |
| Less accumulated depreciation for: | | | | |
| Buildings and structures | (934,725,013) | (64,506,342) | - | (999,231,355) |
| Buses and vehicles | (362,078,490) | (44,226,192) | 80,603,288 | (325,701,394) |
| Equipment and other | (89,769,157) | (11,817,453) | 42,895 | (101,543,715) |
| Capital lease property | (10,769,421) | (377,874) | - | (11,147,295) |
| Total accumulated depreciation | (1,397,342,081) | (120,927,861) | 80,646,183 | (1,437,623,759) |
| Total capital assets, depreciated, net | 1,448,011,791 | 31,314,452 | (1,849,913) | 1,477,476,330 |
| Total capital assets, net | \$ 1,741,107,404 | \$ 100,443,183 | \$ (54,541,567) | \$ 1,787,009,020 |

Contributed Capital

MTS converted \$53 million in capital assets from CIP to assets in service in FY2018 as follows:

| | |
|-------------------------------|----------------------|
| MTS - General Operations | \$ 1,448,245 |
| MTS - Contracted Services | 36,947,032 |
| San Diego Transit Corporation | 7,394,755 |
| San Diego Trolley, Inc. | 6,901,622 |
| Total | <u>\$ 52,691,654</u> |

Capital asset additions totaling \$100 million were contributed by SANDAG in FY2018 as follows:

| | |
|-------------------------------|----------------------|
| MTS - Contracted Services | \$ 2,724,742 |
| San Diego Transit Corporation | 89,506,033 |
| San Diego Trolley, Inc. | 7,319,884 |
| Total | <u>\$ 99,550,659</u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 5 – Capital Assets (Continued)**Depreciation Expense**

Depreciation expense for capital assets for the year ended June 30, 2018 was comprised of the following:

| | |
|-------------------------------|-----------------------|
| MTS - General Operations | \$ 3,098,695 |
| MTS - Contracted Services | 21,236,046 |
| San Diego Transit Corporation | 25,998,089 |
| San Diego Trolley, Inc. | 70,595,031 |
| | <u>70,595,031</u> |
| Total | <u>\$ 120,927,861</u> |

Note 6 - Due to Other Governments

At June 30, 2018, amounts due to other governments consisted of the following:

| | |
|---|---------------------|
| SANDAG - subsidy revenue for construction projects in process | \$ 5,165,754 |
| North County Transit District-passenger revenue | 1,509,661 |
| SANDAG - project reimbursements | 859,163 |
| State of California - miscellaneous | 561,701 |
| City of Lemon Grove - TDA Funds | 126,065 |
| County of San Diego - miscellaneous | 103,362 |
| City of El Cajon - TDA Funds | 94,555 |
| Other Governments - miscellaneous | 50,956 |
| City of Coronado - TDA Funds | 46,431 |
| City of San Diego - miscellaneous | 39,726 |
| City of La Mesa - TDA Funds | 17,486 |
| | <u>17,486</u> |
| Total due to other governments | <u>\$ 8,574,860</u> |

Note 7 - Unearned Revenue

At June 30, 2018, unearned revenue consisted of the following:

| | |
|--|---------------------|
| STA State of Good Repair funds received in advance | \$ 3,046,020 |
| Fare media payments received in advance | 2,806,245 |
| Caltrans LCTOP funds received in advance | 1,689,717 |
| Lease payments received in advance | 1,577,725 |
| Naming Rights payment received in advance | 300,000 |
| | <u>300,000</u> |
| Total unearned revenue | <u>\$ 9,419,707</u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt**A. Summary**

A summary of changes in long-term obligations for the year ended June 30, 2018 is as follows:

| | Balance July 1, 2017 (As Restated) | Additions | Reductions | Balance June 30, 2018 | Amounts due within one year | Amounts due in more than one year |
|---|--|---------------|----------------|--------------------------|-----------------------------------|---|
| MTS: | | | | | | |
| Capital lease obligations | \$ 1,747,713 | \$ - | \$ (676,444) | \$ 1,071,269 | \$ 708,197 | \$ 363,072 |
| Compensated absences payable | 1,081,927 | 972,967 | (910,589) | 1,144,305 | 910,589 | 233,716 |
| Accrued damage, injury, and employee claims | 531,592 | 828,363 | (407,000) | 952,955 | 359,151 | 593,804 |
| Aggregate net pension liability | 11,480,319 | 7,401,043 | (5,462,609) | 13,418,753 | - | 13,418,753 |
| Aggregate total OPEB liability | 5,562,352 | 109,394 | (96,621) | 5,575,125 | - | 5,575,125 |
| Total MTS | 20,403,903 | 9,311,767 | (7,553,263) | 22,162,407 | 1,977,937 | 20,184,470 |
| San Diego Transit Corporation: | | | | | | |
| Pension Obligation Bonds | 17,655,000 | - | (2,315,000) | 15,340,000 | 2,430,000 | 12,910,000 |
| Compensated absences payable | 7,244,573 | 2,637,867 | (3,050,499) | 6,831,941 | 3,050,499 | 3,781,442 |
| Accrued damage, injury, and employee claims | 12,189,894 | 6,656,672 | (5,500,000) | 13,346,566 | 3,604,736 | 9,741,830 |
| Aggregate net pension liability | 136,322,951 | 24,966,384 | (26,913,630) | 134,375,705 | - | 134,375,705 |
| Aggregate total OPEB liability | 29,858,990 | (206,937) | (929,170) | 28,722,883 | - | 28,722,883 |
| Total San Diego Transit Corporation | 203,271,408 | 34,053,986 | (38,708,299) | 198,617,095 | 9,085,235 | 189,531,860 |
| San Diego Trolley, Inc.: | | | | | | |
| Compensated absences payable | 2,663,379 | 2,332,538 | (2,218,409) | 2,777,508 | 2,218,409 | 559,099 |
| Accrued damage, injury, and employee claims | 2,913,356 | 1,180,275 | (1,103,000) | 2,990,631 | 1,297,933 | 1,692,698 |
| Aggregate net pension liability | 30,302,011 | 20,276,699 | (17,101,456) | 33,477,254 | - | 33,477,254 |
| Aggregate total OPEB liability | 11,414,062 | (126,202) | (189,039) | 11,098,821 | - | 11,098,821 |
| Total San Diego Trolley, Inc. | 47,292,808 | 23,663,310 | (20,611,904) | 50,344,214 | 3,516,342 | 46,827,872 |
| Total | \$270,968,119 | \$ 67,029,063 | \$(66,873,466) | \$271,123,716 | \$ 14,579,514 | \$256,544,202 |

Long-term debt is reported in the accompanying statement of net position as follows:

| | Due Within One Year | Noncurrent Liabilities |
|---|------------------------|---------------------------|
| Long-Term Liabilities: | | |
| Compensated absences payable | \$ 6,179,497 | \$ 4,574,257 |
| Accrued damage, injury, and employee claims | 5,261,820 | 12,028,332 |
| Long-term debt | 3,138,197 | 13,273,072 |
| Aggregate net pension liability | - | 181,271,712 |
| Aggregate total OPEB liability | - | 45,396,829 |
| Total long-term liabilities | \$ 14,579,514 | \$ 256,544,202 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)**B. Capital Lease**

The County of San Diego (the County) has a master lease agreement with the MTS Joint Powers Agency (Agency) for the lease of the MTS Tower building. MTS entered into a sublease agreement with the County for a portion (27.61%) of the MTS Tower building. The sublease is classified as a capital lease because 27.61% of the title transfers to MTS at the end of the County's master lease. The master lease terminates on November 1, 2086; however, the County has the option to terminate the agreement on November 1, 2041 and each tenth anniversary thereafter. In May 2011, San Diego County refunded the underlying debt obligation in order to secure a more favorable interest rate, which results in a \$1.3 million reduction in future principal and interest payments under the terms of the lease agreement. A \$788,266 net economic capital gain from the refunding, which is the difference between the present value of the minimum payments on the refunded debt and the present value of the minimum payments on the refunding debt, has been deferred. The deferred gain will be amortized as a component of interest expense over the life of the refunding debt, which is the same life as the refunded debt.

The asset acquired through the capital lease is as follows:

| | |
|-------------------------------|-------------------|
| Building – MTS Tower | \$ 12,091,981 |
| Less accumulated depreciation | (11,147,295) |
| Total | <u>\$ 944,686</u> |

At June 30, 2018 the future minimum payments under the capital lease were \$1,071,269 summarized below:

| Year ending June 30: | Tower Lease Payments |
|---|-------------------------|
| 2019 | \$ 744,055 |
| 2020 | 372,148 |
| Total minimum lease payments | 1,116,203 |
| Less amount representing interest | (44,934) |
| Present value of minimum lease payments | <u>\$ 1,071,269</u> |

C. Pension Obligation Bonds

In October 2004, MTS issued \$77,490,000 of Taxable Pension Obligation Bonds (POBs) for the benefit of SDTC. The purpose of the bonds was to make contributions to the San Diego Transit Corporation Retirement Plan and reduce its unfunded liability. This is in essence a hedge versus the assumed investment rate of 8% used by the actuary to determine the Actuarial Accrued Liability. The proceeds less fees were invested into the retirement plan. The bonds consist of the following:

Series A Bonds of \$38,690,000 are fixed rate bonds that mature in annual installments between 2006 and 2024 and bear an interest rate from 2.58% to 5.15% increasing progressively over the maturities. Interest is due and payable semi-annually on June 1 and December 1. Principal is due and payable each year on December 1.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

C. Pension Obligation Bonds (Continued)

At June 30, 2018, the outstanding balance of the Pension Obligation Bonds is \$15,340,000. The required payments for the Pension Obligation Bonds, including interest, are:

| Year ending June 30 | Principal | Interest | Total |
|------------------------|----------------------|---------------------|----------------------|
| 2019 | \$ 2,430,000 | \$ 723,671 | \$ 3,153,671 |
| 2020 | 2,555,000 | 599,074 | 3,154,074 |
| 2021 | 2,690,000 | 464,015 | 3,154,015 |
| 2022 | 2,835,000 | 321,746 | 3,156,746 |
| 2023 | 2,985,000 | 171,881 | 3,156,881 |
| 2024 | 1,845,000 | 47,509 | 1,892,509 |
| Total | <u>\$ 15,340,000</u> | <u>\$ 2,327,896</u> | <u>\$ 17,667,896</u> |

Note 9 – Risk Management

MTS (including SDTI, SDTC, and MTS - Contracted Services) is self-insured for third party liability claims to a maximum of \$2,000,000 per occurrence. Amounts in excess of the self-insured retention limits for public liability are covered through commercial insurance carriers up to \$75,000,000. No stop loss or cap coverage is purchased above the \$75,000,000 limits. MTS, SDTI, and SDTC purchase all-risk (excluding earthquake) insurance coverage for property damage up to \$600,000,000 per occurrence with deductibles ranging from \$25,000 to \$250,000, depending on the type of property and peril involved. In addition, MTS, SDTC, and SDTI are self-insured for costs arising from employee workers' compensation act benefit claims including employer's liability to a retained limit of \$1,000,000 per occurrence. Amounts in excess of \$1,000,000 are insured up to statutory limits. MTS, SDTC, and SDTI all finance their respective unemployment insurance liabilities. MTS, SDTC and SDTI have policies for crime coverage through commercial insurance as well as cyber liability insurance to protect the agencies from third party claims alleging computer security breaches. The crime coverage policy has a limit of \$1,000,000 subject to a \$25,000 deductible and the cyber liability policy has a limit of \$3,000,000 subject to a \$100,000 deductible. These policies protect against theft, loss or unauthorized disclosure of personally identifiable information.

Claim expenditures and liabilities in connection with these self-insurance programs are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported based upon past experience, modified for current trends and information. Claim payments up to \$2,000,000 per incident are recorded as risk management expenses in the statements of revenues, expenses, and changes in net position. Claim payments did not exceed insurance coverage in any of the past three years.

| | Beginning of fiscal year | Current year claims and changes in estimates | Claims payments | End of fiscal year |
|------|-----------------------------|---|--------------------|-----------------------|
| 2016 | \$ 14,208,750 | \$ 6,955,400 | \$ (5,569,000) | \$ 15,595,150 |
| 2017 | 15,595,150 | 3,599,692 | (3,560,000) | 15,634,842 |
| 2018 | 15,634,842 | 8,665,310 | (7,010,000) | 17,290,152 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Risk Management (Continued)

Following is a summary of accrued damage, injury, and employee claims for fiscal year 2018:

| | |
|---------------------|-----------------------------|
| Current portion | \$ 5,261,820 |
| Non-current portion | <u>12,028,332</u> |
| Total | <u><u>\$ 17,290,152</u></u> |

MTS has established a policy to consolidate the minimum balances required in the liability claims reserve accounts of SDTC and SDTI to be held by MTS. The policy also established eligible uses for the MTS reserve account, which included the reimbursement to SDTC and SDTI of awards/settlements of individual liability claims for personal injury and/or property damage in excess of \$300,000, but within the self-insurance retention at SDTC and SDTI. In connection with these self-insurance programs, liabilities for SDTC, SDTI and MTS were \$17,290,152 at June 30, 2018.

The Board has designated \$2,000,000 for the purposes of funding the future claims liabilities of MTS, SDTI, and SDTC.

Note 10 – Contingencies

Pending legal actions. MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2018. While the outcome of these lawsuits is not presently determinable, in the opinion of management of MTS, SDTC and SDTI, based in part on the advice of counsel, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of MTS, SDTC, or SDTI, or is adequately covered by insurance.

Pledged Revenue. SDTC has pledged future revenues pursuant to the provision of the Pension Obligation Bonds issued by SDTC in FY 2004.

Note 11 – Employee Retirement Systems**A. Summary****Aggregate Net Pension Liability**

Aggregate Net Pension Liability at June 30, 2018 is reported in the accompanying statements of net position as follows:

| | |
|----------------------|------------------------------|
| MTS CalPERS Plans | \$ 13,418,753 |
| SDTI CalPERS Plans | 31,326,755 |
| SDTI PARS Plan | 2,150,499 |
| SDTC Retirement Plan | <u>134,375,705</u> |
| Total | <u><u>\$ 181,271,712</u></u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**A. Summary (Continued)****Deferred Outflows of Resources**

Deferred Outflows of Resources at June 30, 2018 are reported in the accompanying statement of net position as follows:

| | Contributions Made After Measurement Date | Differences Between Expected and Actual Experience | Differences Between Projected and Actual Earnings on Pension Plan Investments | Changes in Assumptions | Changes in Employer's Proportion | Differences Between Employer's Contributions and Proportionate Share of Contributions | Total |
|----------------------|--|--|---|---------------------------|--|---|----------------------|
| MTS CalPERS Plans | \$ 1,896,639 | \$ 16,501 | \$ 463,033 | \$ 2,047,380 | \$ 1,162,548 | \$ 597,880 | \$ 6,183,981 |
| SDTI CalPERS Plans | 3,266,081 | 231,199 | 6,343,671 | 6,839,732 | - | - | 16,680,683 |
| SDTI PARS Plan | 539,350 | - | 336,497 | 184,933 | - | - | 1,060,780 |
| SDTC Retirement Plan | 13,020,223 | 790,458 | 13,036,259 | 9,899,958 | - | - | 36,746,898 |
| Total | <u>\$ 18,722,293</u> | <u>\$ 1,038,158</u> | <u>\$ 20,179,460</u> | <u>\$ 18,972,003</u> | <u>\$ 1,162,548</u> | <u>\$ 597,880</u> | <u>\$ 60,672,342</u> |

Deferred Inflows of Resources

Deferred Inflows of Resources at June 30, 2018 are reported in the accompanying statement of net position as follows:

| | Differences Between Expected and Actual Experience | Changes in Assumption | Changes in Employer's Proportion | Differences Between Projected and Actual Earnings on Pension Plan Investments | Total |
|----------------------|--|--------------------------|--|---|----------------------|
| MTS CalPERS Plans | \$ 236,407 | \$ 156,115 | \$ 166,559 | \$ - | \$ 559,081 |
| SDTI CalPERS Plans | 2,423,342 | 1,011,002 | - | 4,848,230 | 8,282,574 |
| SDTI PARS Plan | 95,439 | - | - | 208,147 | 303,586 |
| SDTC Retirement Plan | 724,825 | - | - | 2,622,345 | 3,347,170 |
| Total | <u>\$ 3,480,013</u> | <u>\$ 1,167,117</u> | <u>\$ 166,559</u> | <u>\$ 7,678,722</u> | <u>\$ 12,492,411</u> |

Pension Expense

Pension expenses are included in the accompanying statements of revenues, expenses, and changes in net position as follows:

| | |
|----------------------|----------------------|
| MTS CalPERS Plans | \$ 3,230,287 |
| SDTI CalPERS Plans | 5,391,273 |
| SDTI PARS Plan | 528,123 |
| SDTC Retirement Plan | 24,640,931 |
| Total | <u>\$ 33,790,614</u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS

General Information about the Pension Plans

Plan Description – All MTS management employees working the equivalent of 1,000 hours per fiscal year are eligible to participate in the MTS Miscellaneous, MTS Miscellaneous PEPR, or MTS Miscellaneous Second Tier cost-sharing multiple employer defined benefit plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit Provisions under the Plans are established by State statutes within the Public Employee's Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the MTS Board of Directors.

The Plan's provisions and benefits in effect as of June 30, 2018 are summarized as follows:

MTS Miscellaneous Plan-1223
CLOSED TO NEW MEMBERS

| | |
|---|--|
| Hire date | Prior to December 24, 2012 |
| Benefit formula | 2.7% @ 55 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Final Average Compensation Period | 12 months |
| Retirement age | 50-55 |
| Monthly benefits, as a % of eligible compensation | 2.0%-2.7% |
| Required employee contribution rates | 8.00% |
| Required employer contribution rates | 22.08% |
| Pre-Retirement Death Benefit | Optional Settlement 2W |
| Post-Retirement Death Benefit | \$500 Lump Sum |
| Non-Industrial Standard Disability | 1.8% of final compensation multiplied by service |
| COLA | 2.00% |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**B. MTS (Continued)****General Information about the Pension Plans (Continued)****MTS Miscellaneous Second Tier Plan - 30134**

| | |
|---|---|
| Hire date | On or Between December 24 and 31, 2012 or Grandfathered classic members |
| Benefit formula | 2.0% @ 60 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Final Average Compensation Period | 12 months |
| Retirement age | 50-63 |
| Monthly benefits, as a % of eligible compensation | 1.092%-2.418% |
| Required employee contribution rates | 7.00% |
| Required employer contribution rates | 7.65% |
| Pre-Retirement Death Benefit | Optional Settlement 2W |
| Post-Retirement Death Benefit | \$500 Lump Sum |
| Non-Industrial Standard Disability | 1.8% of final compensation multiplied by service |
| COLA | 2.00% |

MTS PEPRA Miscellaneous Plan - 26789

| | |
|---|--|
| Hire date | On or after January 1, 2013 |
| Benefit formula | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Final Average Compensation Period | 36 months |
| Retirement age | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.0-2.5% |
| Required employee contribution rates | 6.25% |
| Required employer contribution rates | 6.53% |
| Pre-Retirement Death Benefit | Optional Settlement 2W |
| Post-Retirement Death Benefit | \$500 Lump Sum |
| Non-Industrial Standard Disability | 1.8% of final compensation multiplied by service |
| COLA | 2.00% |

Employees Covered – At June 30, 2018 (measurement date of June 30, 2017), the following employees were covered by the benefit terms for each Plan:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 126 |
| Inactive employees entitled to but not yet receiving benefits | 47 |
| Active employees | 159 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017 (measurement date), the active employee contribution rates and average employer contribution rates were as follows:

| | Employee Contribution Rate | Employer Contribution Rate |
|--|-------------------------------|-------------------------------|
| MTS - Miscellaneous Plan-1223 | 8.00% | 22.08% |
| MTS Miscellaneous Second Tier Plan - 30134 | 7.00% | 7.65% |
| MTS PEPRA Miscellaneous Plan - 26789 | 6.25% | 6.53% |

For the year ended June 30, 2017 (measurement date), the plan's proportionate share of aggregate contributions recognized as part of pension expense were:

| | |
|--------------------------|--------------|
| Contributions - employer | \$ 1,348,728 |
| Contributions - employee | 496,615 |

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018 (measurement date 2017), MTS reported \$13,418,753 net pension liabilities for its proportionate share of the aggregate net pension liability.

MTS Plans' net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. MTS's proportion of the net pension liability was based on a projection of the MTS's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool:

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2016). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2017). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY2017).
- (3) The individual plan's TPL, FNP, and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from step (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the measurement date is equal to the risk pool TPL generated in step (2) multiplied by the TPL ratio generated in step (4). The plan's FNP as of the measurement date is equal to the FNP generated in step (2) multiplied by the FNP ratio generated in step (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the measurement date is the difference between the TPL and FNP calculated in step (5).

MTS's proportionate share of the net pension liability as of June 30, 2017 and 2016 (measurement dates) were as follows:

| | |
|------------------------------|-----------------|
| Proportion June 30, 2016 | 0.13477% |
| Proportion June 30, 2017 | 0.13531% |
| Change - Increase (Decrease) | <u>0.00054%</u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2018, MTS recognized pension expense of \$3,230,287. At June 30, 2018, MTS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Contributions made after the measurement date | \$ 1,896,639 | \$ - |
| Differences between expected and actual experience | 16,501 | (236,407) |
| Changes in assumptions | 2,047,380 | (156,115) |
| Change in employer's proportion | 1,162,548 | (166,559) |
| Differences between actual and proportionate share of employer contributions | 597,880 | - |
| Differences between projected and actual earnings on pension plan investments | 463,033 | - |
| Total | <u>\$ 6,183,981</u> | <u>\$ (559,081)</u> |

The \$1,896,639 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

As of the measurement date June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | Amounts |
|-----------------------|---------------------|
| 2019 | \$ 1,430,994 |
| 2020 | 1,567,698 |
| 2021 | 1,004,481 |
| 2022 | (274,911) |
| 2023 | - |
| Total | <u>\$ 3,728,262</u> |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | varies by entry age and service (1) |
| Investment Rate of Return | 7.50% (2) |
| Mortality | derived using CalPERS's membership data for all funds (3) |

(1) Depending on age, service and type

(2) Net of pension plan investment

(3) The mortality table used was developed based on CalPERS's specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scales BB.

Change in Assumptions – GASB 68, paragraph 30 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In the current year, the discount rate was reduced from 7.65 percent to 7.15 percent. All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | New Strategic Allocation | Real Return Years 1-10 (a) | Real Return Years 11+ (b) |
|-------------------------------|-----------------------------|-------------------------------|------------------------------|
| Global Equity | 47.00% | 4.90% | 5.38% |
| Global Fixed Income | 19.00% | 0.80% | 2.27% |
| Inflation Sensitive | 6.00% | 0.60% | 1.39% |
| Private Equity | 12.00% | 6.60% | 6.63% |
| Real Estate | 11.00% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.00% | 3.90% | 5.36% |
| Liquidity | 2.00% | -0.40% | -0.90% |

(a) an expected inflation of 2.50% for this period

(b) an expected inflation of 3.00% for this period

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

B. MTS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents MTS's proportionate share of the net pension liability as of June 30, 2018, calculated using the discount rate, as well as what MTS's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | |
|-----------------------|---------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$ 20,167,504 |
| Current Discount Rate | 7.15% |
| Net Pension Liability | \$ 13,418,753 |
| 1% Increase | 8.15% |
| Net Pension Liability | \$ 7,829,316 |

Pension Plan Fiduciary Net Position – Detailed information about MTS's pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2018, MTS reported a payable of \$154,017 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

C. SDTI

1. CalPERS Plans

Plan Description – All SDTI employees working the equivalent of 1,000 hours per fiscal year are eligible to participate in the SDTI Miscellaneous or PEPR Miscellaneous single employer defined benefit plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit Provisions under the Plans are established by State statutes within the Public Employee's Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan members include both contract and non-contract employees. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the MTS Board of Directors.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**C. SDTI (Continued)****1. CalPERS Plans (Continued)**

The Plans' provisions and benefits in effect as of June 30, 2018 are summarized as follows:

San Diego Trolley Miscellaneous Plan - 1406
Closed to New Members

| | Management Employees | Union Employees |
|---|--|--|
| Hire date | Prior to January 1, 2013 | Prior to January 1, 2013 |
| Benefit formula | 2.0% @ 55 | 2.0% @ 55 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | Monthly for life | Monthly for life |
| Final Average Compensation Period | 12 months | 12 months |
| Retirement age | 50-63 | 50-63 |
| Monthly benefits, as a % of eligible compensation | 1.426-2.418% | 1.426-2.418% |
| Required employee contribution rates | 8.00% | 7.26% |
| Required employer contribution rates | 10.53% | 11.26% |
| Pre-Retirement Death Benefit | 1959 Survivor Benefit Level 2 | 1959 Survivor Benefit Level 2 |
| Post-Retirement Death Benefit | \$500 Lump Sum | \$500 Lump Sum |
| COLA | 2.00% | 2.00% |
| Non-Industrial Standard Disability | 1.8% of final compensation multiplied by service | 1.8% of final compensation multiplied by service |

San Diego Trolley PEPRA Miscellaneous Plan - 26965

| | |
|---|--|
| Hire date | On or After January 1, 2013 |
| Benefit formula | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Final Average Compensation Period | 36 months |
| Retirement age | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.0-2.5% |
| Required employee contribution rates | 5.75% |
| Required employer contribution rates | 11.53% |
| Pre-Retirement Death Benefit | 1959 Survivor Benefit Level 2 |
| Post-Retirement Death Benefit | \$500 Lump Sum |
| COLA | 2.00% |
| Non-Industrial Standard Disability | 1.8% of final compensation multiplied by service |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

2. PARS

Plan Description – All full-time SDTI management employees employed between October 1, 2003 and December 24, 2012 are eligible to participate in the PARS Retirement Enhancement Plan, a defined benefit plan held by the Public Agency Retirement System Trust, an agent multiple employer retirement trust under Internal Revenue Service Code Section 401(a). The Plan is administered by Public Agency Retirement Services (PARS). Separate information for the Plan is included in another financial report issued by PARS. Copies of the financial report can be obtained in writing from Public Agency Retirement Services, 4350 Von Karman Ave., Suite 100, Newport Beach, CA 92660.

Benefits Provided – PARS provides supplemental service retirement benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Members are eligible to receive benefits if they, have retired under CalPERS, have terminated employment, or had their position eliminated due to internal reorganization or mandatory operating budget reductions after January 1, 2004. The Plan benefit supplements member's CalPERS benefit to provide members with an enhanced retirement benefit and MTS management has the authority to amend the Plan's benefit terms. The monthly lifetime benefit is calculated by taking the difference between (1) and (2) below and multiplying it by one-twelfth (1/12):

- (1) PARS Age Factor x Benefit Service x Highest Average Annual Compensation (Subject to CalPERS Deductions) during the Last 12 Months of Employment
- (2) CalPERS Age Factor x Benefit Service x Highest Average Annual Compensation (Subject to CalPERS Deductions) during the Last 12 Months of Employment

The Plan's provisions and benefits in effect as of June 30, 2018 are summarized as follows:

San Diego Trolley PARS Plan
CLOSED TO NEW MEMBERS

| | |
|---|--------------------------------|
| Hire date | Prior to January 1, 2013 |
| Benefit formula | 2.7% @ 55 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Final Average Compensation Period | 12 months |
| Retirement age | 50-63 |
| Monthly benefits, as a % of eligible compensation | 0.282-0.574% |
| Required employee contribution rates | Not Required or Permitted |
| Required employer contribution rates | 9.96% |
| Pre-Retirement Death Benefit | None |
| Post-Retirement Death Benefit | Joint-and-100% Survivor Option |
| Disability Retirement Benefit | None |
| COLA | 2.00% |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**C. SDTI (Continued)****2. PARS (Continued)****Employees Covered**

At June 30, 2018 (measurement date 2017), the following employees were covered by the benefit terms for each Plan:

| | SDTI CalPERS Plans | SDTI PARS Plan |
|--|-----------------------|----------------|
| Inactive employees or beneficiaries currently receiving benefits | 241 | 45 |
| Inactive employees entitled to but not yet receiving benefits | 92 | 0 |
| Active employees | 549 | 54 |

*SDTI PEPR Plan is included in the SDTI Miscellaneous Plan June 30, 2016 valuation report.

Contributions**1. CalPERS Plans**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SDTI is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017 (measurement date), the active employee contribution rates and average employer contribution rates were as follows:

| | Employee | Employer |
|--|----------|----------|
| SDTI Miscellaneous Plan 1406 - Management EE | 8.00% | 10.53% |
| SDTI Miscellaneous Plan 1406 - Union EE | 7.26% | 11.26% |
| SDTI Miscellaneous PEPR Plan 26965 | 5.75% | 11.53% |

For the year June 30, 2017 (measurement date), the contributions recognized as part of pension expense were:

| | |
|--------------------------|--------------|
| Contributions - employer | \$ 2,835,680 |
| Contributions - employee | 1,806,506 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**C. SDTI (Continued)****Contributions (Continued)****2. PARS**

Employer contribution rates for the PARS plan are contractually established by the Plan's administrator and agreed to by the employer, and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined biannually on an actuarial basis as of June 30 by PARS. For the period ended June 30, 2017 (measurement date), the employer's contribution rate is 9.96%.

For the year June 30, 2017 (measurement date), the contributions recognized as part of pension expense were:

| | |
|--------------------------|------------|
| Contributions - employer | \$ 605,864 |
| Contributions - employee | - |

Net Pension Liability**1. CalPERS Plans**

SDTI's net pension liability is measured as the total pension liability less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

| | |
|---------------------------|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | varies by entry age and service (1) |
| Investment Rate of Return | 7.50% (2) |
| Mortality | derived using CalPERS's membership data for all funds (3) |

(1) Depending on age, service and type

(2) Net of pension plan investment

(3) The mortality table used was developed based on CalPERS's specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scales BB.

Changes in Assumptions – GASB 68, paragraph 30 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In the current year, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Net Pension Liability (Continued)

1. CalPERS Plans (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | New Strategic Allocation | Real Return Years 1-10 (a) | Real Return Years 11+ (b) |
|-------------------------------|-----------------------------|-------------------------------|------------------------------|
| Global Equity | 47.00% | 4.90% | 5.38% |
| Global Fixed Income | 19.00% | 0.80% | 2.27% |
| Inflation Sensitive | 6.00% | 0.60% | 1.39% |
| Private Equity | 12.00% | 6.60% | 6.63% |
| Real Estate | 11.00% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.00% | 3.90% | 5.36% |
| Liquidity | 2.00% | -0.40% | -0.90% |

(a) an expected inflation of 2.50% for this period

(b) an expected inflation of 3.00% for this period

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Net Pension Liability (Continued)

2. PARS Plan

The net pension liability for the PARS Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--------------------------------------|--|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.00% |
| Inflation | 2.75% |
| Salary Increases Including Inflation | Graded rates based on years of services, 3.50% after 30 years of services |
| Investment Rate of Return | 7.00% |
| Pre-Retirement Mortality | Consistent with Non-Industrial rates used to value the Miscellaneous CALPERS Pension Plans (1) |
| Post Retirement Benefit Increase | Any benefit in payment status will increase by 2% per annum on the anniversary of the participant's date of retirement |

(1) CalPERS 1997-2011 Healthy Retiree Table (sex-distinct) with an assumed based year of 2008 and full generational projections using Scale AA.

Change in Assumptions – In the current report, the salary scale, retirement and pre-retirement mortality assumptions were updated to be consistent with those recommended for CalPERS actuarial valuations of public agency pension plans. These new demographic assumptions are described in the January 2014 experience study of the California Public Employees Retirement System. The study used data from the 1997 to 2011. The post-retirement mortality was updated to the CalPERS 1997-2011 Healthy Retiree Mortality Tables (sex-distinct) with an assumed base year of 2008 and full generational projections using Scale AA. The inflation rate was lowered from 3.0% to 2.75% to be consistent with CalPERS economic assumptions.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

C. SDTI (Continued)

Net Pension Liability (Continued)

2. PARS Plan (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.00 percent.

A formal cash flow projection was not performed as described under Paragraph 27 of GASB Statement 68. However, Paragraph 29 allows for alternative methods to confirm the sufficiency of the Net Position if the evaluations “can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan...” In our professional judgment, adherence to the actuarial funding policy described above will result in the pension plan’s projected Fiduciary Net Position being greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

The best estimate for the long-term expected rate of return of 7.00% was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The table below reflects long-term expected real rate of return presented as arithmetic and geometric means by asset class.

| Asset Class | Target Allocation | Long-Term Expected Arithmetic Real Rate of Return (a) | Long-Term Expected Geometric Real Rate of Return (b) |
|--------------------------|-------------------|--|---|
| U.S. Cash | 5.35% | 0.36% | 0.35% |
| U.S. Core Fixed Income | 36.76% | 2.17% | 2.04% |
| U.S. Equity Market | 42.57% | 4.83% | 3.57% |
| Foreign Developed Equity | 11.30% | 5.76% | 4.15% |
| Emerging Market Equities | 3.95% | 8.06% | 4.84% |
| U.S. REITs | 0.07% | 5.04% | 3.27% |

(a) Assumed inflation: 2.32% mean and 1.85% standard deviation

(b) Assumed inflation: 2.30% mean and 1.85% standard deviation

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**C. SDTI (Continued)****Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents SDTI's net pension liability at June 30, 2018 (measurement date 2017), calculated using the discount rate, as well as what SDTI's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | CalPERS Plans | PARS Plan |
|-----------------------|---------------|--------------|
| 1% Decrease | 6.15% | 6.00% |
| Net Pension Liability | \$ 52,557,834 | \$ 3,175,995 |
| Current Discount Rate | 7.15% | 7.00% |
| Net Pension Liability | \$ 31,326,755 | \$ 2,150,499 |
| 1% Increase | 8.15% | 8.00% |
| Net Pension Liability | \$ 13,888,356 | \$ 1,293,730 |

Changes in the Net Pension Liability**1. CalPERS Plans**

At June 30, 2018 (measurement date 2017), the change in the Net Pension Liability for the Plan is as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|----------------------------|--------------------------------|--------------------------|
| Balance at July 1, 2017 | \$ 129,098,911 | \$ 101,392,319 | \$ 27,706,592 |
| Changes in the year: | | | |
| Service cost | 3,882,206 | - | 3,882,206 |
| Interest on the total pension liability | 9,611,237 | - | 9,611,237 |
| Changes of assumptions | 8,593,509 | - | 8,593,509 |
| Differences between expected and actual experience | (2,759,754) | - | (2,759,754) |
| Benefit payments, including refunds of member contributions | (4,901,765) | (4,901,765) | - |
| Contributions - employer | - | 2,835,680 | (2,835,680) |
| Contributions - employee | - | 1,806,506 | (1,806,506) |
| Net investment income | - | 11,214,548 | (11,214,548) |
| Administrative expense | - | (149,699) | 149,699 |
| Net Changes | 14,425,433 | 10,805,270 | 3,620,163 |
| Balance at June 30, 2018 | \$ 143,524,344 | \$ 112,197,589 | \$ 31,326,755 |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**C. SDTI (Continued)****Changes in the Net Pension Liability (Continued)****2. PARS Plan**

At June 30, 2018 (measurement date 2017), the change in the Net Pension Liability for the Plan is as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|----------------------------|--------------------------------|--------------------------|
| Balance at July 1, 2017 | \$ 7,862,504 | \$ 5,267,085 | \$ 2,595,419 |
| Changes in the year: | | | |
| Service cost | 230,296 | - | 230,296 |
| Interest on the total pension liability | 556,089 | - | 556,089 |
| Changes of assumptions | - | - | - |
| Differences between expected and actual experience | - | - | - |
| Benefit payments, including refunds of member contributions | (302,460) | (302,460) | - |
| Contributions - employer | - | 605,864 | (605,864) |
| Contributions - employee | - | - | - |
| Net investment income | - | 638,858 | (638,858) |
| Administrative expense | - | (13,417) | 13,417 |
| Net Changes | 483,925 | 928,845 | (444,920) |
| Balance at June 30, 2018 | \$ 8,346,429 | \$ 6,195,930 | \$ 2,150,499 |

Pension Plan Fiduciary Net Position – Detailed information about the PARS Plan's fiduciary net position is available in the separately issued financial reports.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**C. SDTI (Continued)****Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2018, SDTI recognized pension expense of \$5,919,396. At June 30, 2018, SDTI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | SDTI CalPERS Plans | | SDTI PARS Plan | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Contributions made after measurement date | \$ 3,266,081 | \$ - | \$ 539,350 | \$ - |
| Differences between expected and actual experience | 231,199 | (2,423,342) | - | (95,439) |
| Changes in assumptions | 6,839,732 | (1,011,002) | 184,933 | - |
| Net differences between projected and actual earnings on pension plan investments | 6,343,671 | (4,848,230) | 336,497 | (208,147) |
| Total | <u>\$ 16,680,683</u> | <u>\$ (8,282,574)</u> | <u>\$ 1,060,780</u> | <u>\$ (303,586)</u> |

The combined \$3,805,431 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the two plans will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

As of the measurement date, June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | SDTI CalPERS Plan | SDTI PARS Plan |
|--------------------|---------------------|-------------------|
| 2019 | \$ 766,947 | \$ 106,995 |
| 2020 | 2,413,386 | 106,994 |
| 2021 | 1,666,185 | 55,891 |
| 2022 | 285,510 | (52,036) |
| 2023 | - | - |
| Total | <u>\$ 5,132,028</u> | <u>\$ 217,844</u> |

Payable to the Pension Plan

At June 30, 2018, SDTI reported a payable of \$446,881 to CalPERS and \$75,283 to PARS for the outstanding amount of contributions to the pension plans required for the fiscal year.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**D. SDTC****General Information about the Pension Plans**

Plan Description - The San Diego Transit Corporation (SDTC) Employee Retirement Plan (Plan), a single-employer defined benefit plan, is currently open to all full-time non-contract employees and certain part-time noncontract employees who have completed one year of service in which they have worked at least 1,000 hours. For contract employees to be eligible for participation in the defined benefit plan, the employee must have been hired before November 25, 2012 if they are an Amalgamated Transit Union (ATU), Local 1309 member, or before April 28, 2011 if they are an International Brotherhood of Electrical Workers (IBEW) Local 465 member.

Beginning in FY 2011, SDTC negotiated changes to retirement benefits for ATU Local 1309 members and IBEW Local 465 members. ATU Local 1309 represented employees hired after November 25, 2012 and IBEW local 465 represented employees hired after April 28, 2011 will receive their retirement benefits from a defined contribution 401(a) plan. Based on the applicable Collective Bargaining Agreement, SDTC contributes a fixed percentage of each employee's gross wages to a 401(a) account and matches voluntary employee contributions up to a maximum of 2% of the employees' gross wages.

The SDTC Plan issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to San Diego Transit Corporation, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

Benefits Provided – The SDTC Plan provides retirement, termination, and disability benefits, annual cost-of-living adjustments, and death benefits to eligible Plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment and can only be amended by the MTS Board of Directors.

The Plan's provisions and benefits as of June 30, 2018 are as follows:

San Diego Transit Pension Plan - Non-Contract Employees

| | Prior to January 1, 2013 | On or after January 1, 2013 |
|---|--|-----------------------------|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | Monthly for life | Monthly for life |
| Final Average Compensation Period | 12 months | 36 months |
| Retirement age | 53-63 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.742%-2.418% | 1.0%-2.5% |
| Required employee contribution rates | 8.00% | 6.25% |
| Required employer contribution rates | 43.08% | 44.83% |
| Pre-Retirement Death Benefit | 50% Joint & Survivor | |
| Post-Retirement Death Benefit | Based on benefit election | |
| Non-Industrial Standard Disability COLA | 1.5% times average monthly final earnings times credited years of service Lesser of CPI or 2.0% | |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)**D. SDTC (Continued)****General Information about the Pension Plans (Continued)**

| | SDTC Contract Employees | |
|---|---|---------------------------|
| | ATU - Closed Plan | IBEW - Closed Plan |
| Hire date | Prior to November 25, 2012 | Prior to January 1, 2013 |
| Benefit formula | 2% @ 55 | 2% @ 55 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | Monthly for life | Monthly for life |
| Final Average Compensation Period | 36 months | 36 months |
| Retirement age | 53-63 | 55-65 |
| Monthly benefits, as a % of eligible compensation | 1.742%-2.418% | 2.0%-2.418% |
| Required employee contribution rates | 8.00% | 8.00% |
| Required employer contribution rates | 43.08% | 43.08% |
| Pre-Retirement Death Benefit | 50% Joint & Survivor | |
| Post-Retirement Death Benefit | Based on benefit election | |
| Disability | 1.5% times average monthly final earnings times credited years of service | |

Employees Covered – At June 30, 2018 (measurement date 2017), the following employees were covered by the benefit terms for each Plan:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 952 |
| Inactive employees entitled to but not yet receiving benefits | 214 |
| Active employees | 513 |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the period ended June 30, 2017 (measurement date), the active employee contribution rate is 6.25-8.00% of annual pay and the average employer's contribution rate is 43.52% of annual payroll.

For the year ended June 30, 2017 (measurement date), the contributions recognized as part of pension expense for the Plan were as follows:

| | |
|--------------------------|---------------|
| Contributions - employer | \$ 12,649,101 |
| Contributions - employee | 2,047,593 |

Net Pension Liability

SDTC's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of July 1, 2017, using an annual actuarial valuation as of July 1, 2017.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

Net Pension Liability (Continued)

Actuarial Assumptions – The total pension liabilities in the July 1, 2017 actuarial valuations were determined using the following actuarial assumptions:

| | |
|--------------------------------------|--|
| Valuation Date | July 1, 2017 |
| Measurement Date | July 1, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.00% |
| Inflation | 2.75% |
| Payroll Growth | 3.25%-8.75% for Drivers 3.25%-10.25% for Mechanics 3.00%-6.25% for Non-Contract members 3.00%-12.75% for Clerical members |
| Projected Salary Increase | 2.75% |
| Investment Rate of Return (1) | 7.00% |
| Mortality | RP-2000 Tables using male rates for both male and female members with generational improvements using Scale MP-2015 |
| COLA Increase - Non-Contract Members | 2.00% |

(1) Net of pension plan investment expenses.

Changes in Assumptions – Changes in Actuarial Methods and Assumptions since the prior valuation were based on an experience study report dated April 2016. The assumptions were revised for investment rate of return, inflation, and merit pay increases, as well as decrements, mortality, disability, service retirement, and termination. There were no changes in assumptions during the current year.

Discount Rate – The discount rate used to measure the Total Pension Liability was 7.00%.

We have assumed that the employees will continue to contribute to the Plan at the required rates and the employer will continue the historical and legally required practice of contributing to the Plan based on an actuarially determined contribution, reflecting a payment equal to annual Normal Cost, a portion of the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as of June 30, 2012, over a closed 25-year period (20 years remaining as of the July 1, 2017 actuarial valuation). Actuarial gains and losses in plan years after June 30, 2012 are amortized over closed 15-year periods as a level dollar amount.

A formal cash flow projection was not performed as described under Paragraph 27 of GASB Statement 68. However, Paragraph 29 allows for alternative methods to confirm the sufficiency of the Net Position if the evaluations “can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan...” In our professional judgment, adherence to the actuarial funding policy described above will result in the pension plan’s projected Fiduciary Net Position being greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

Net Pension Liability (Continued)

According to Paragraph 30 of GASB Statement 68, the long-term expected rate of return should be determined net of pension plan investment expenses but without reduction for pension plan administrative expenses. The 7.00% investment return assumption used in the Total Pension Liability is net of investment expenses only.

The table below reflects long-term expected real rate of return by asset class. The critical inputs of the asset allocation model are the expected risk, return and correlations of different asset classes.

| Asset Class | Strategic Allocation | Real Return Years | Real Return Years |
|----------------------------|----------------------|-------------------|-------------------|
| | | 1-10 (a) | 11+ (a) |
| United States Equity | 25.00% | 4.25% | 4.25% |
| International Equity | 20.00% | 5.50% | 5.50% |
| Fixed Income | 32.50% | 1.00% | 1.00% |
| Alternatives (Multi-Asset) | 22.50% | 3.50% | 3.50% |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability for the SDTC Plan as of June 30, 2018, calculated using the discount rate, as well as what SDTC's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | |
|-----------------------|----------------|
| 1% Decrease | 6.00% |
| Net Pension Liability | \$ 166,180,628 |
| Current Discount Rate | 7.00% |
| Net Pension Liability | \$ 134,375,705 |
| 1% Increase | 8.00% |
| Net Pension Liability | \$ 107,378,009 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

Changes in Net Pension Liability

At June 30, 2018 (measurement date 2017), the change in the Net Pension Liability for the SDTC Plan is as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|----------------------------|--------------------------------|--------------------------|
| Balance at July 1, 2017 | \$ 289,255,802 | \$ 152,932,851 | \$ 136,322,951 |
| Changes in the year: | | | |
| Service cost | 3,660,961 | - | 3,660,961 |
| Interest on the total pension liability | 19,885,608 | - | 19,885,608 |
| Changes of assumptions | - | - | - |
| Differences between expected and actual experience | 1,185,687 | - | 1,185,687 |
| Benefit payments, including refunds of member contributions | (17,977,346) | (17,977,346) | - |
| Contributions - employer | - | 12,649,101 | (12,649,101) |
| Contributions - employee | - | 2,047,593 | (2,047,593) |
| Net investment income | - | 12,216,936 | (12,216,936) |
| Administrative expense | - | (234,128) | 234,128 |
| Net Changes | 6,754,910 | 8,702,156 | (1,947,246) |
| Balance at June 30, 2018 | \$ 296,010,712 | \$ 161,635,007 | \$ 134,375,705 |

Pension Plan Fiduciary Net Position – Detailed information about the SDTC Plan’s fiduciary net position is available in the separately issued financial reports. The financial report may be obtained by writing to San Diego Transit Corporation, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, SDTC recognized pension expense of \$24,640,931. At June 30, 2018, SDTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Contributions made after the measurement date | \$ 13,020,223 | \$ - |
| Changes in assumptions | 9,899,958 | - |
| Differences between expected and actual experience | 790,458 | (724,825) |
| Differences between projected and actual earnings on pension plan investments | 13,036,259 | (2,622,345) |
| Total | \$ 36,746,898 | \$ (3,347,170) |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 11 – Employee Retirement Systems (Continued)

D. SDTC (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The \$13,020,223 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | Amounts |
|-----------------------|----------------------|
| 2019 | \$ 13,221,231 |
| 2020 | 5,362,383 |
| 2021 | 2,122,404 |
| 2022 | (326,513) |
| 2023 | - |
| Total | <u>\$ 20,379,505</u> |

Payable to the Pension Plan

At June 30, 2018, SDTC reported a payable of \$1,099,401 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

Note 12 – Other Postemployment Benefits

Generally accepted accounting policies require that the reported results for total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense must pertain to certain defined timeframes. For this report, the following timeframes are used:

| | |
|--------------------|------------------------------|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2017 |
| Measurement Period | July 1, 2016 - June 30, 2017 |

Plan Description: MTS contracts with a third party to provide MTS retirees, SDTI retirees, and SDTC Management retirees a nationwide private health care exchange. The third party also provides non-commissioned benefit advisors to assist retirees in determining the health plan that best suits their needs. MTS funds a Health Reimbursement Arrangement (HRA) account for each eligible retiree to offset the cost of the healthcare they purchase through the exchange. The amount of the HRA contribution is based on the retiree's years of service/former position and ranges between \$100 and \$1,000 per month. SDTC union employees receive retirement benefits through health and welfare trust funds established for the benefit of active and retired members of the unions that represent SDTC employees. SDTC contributes \$1,019 per active employee each month to the fund for ATU, Local 1309 represented employees and \$1,042 per active employee each month to the fund for IBEW, Local 465 represented employees. The Trust boards have full discretion on how these funds are spent to provide benefits for active and retired employees. Currently, the Trusts offer retirees the opportunity to participate in a Kaiser HMO plan and retirees who do not live in an area where Kaiser HMO coverage is available receive a capped reimbursement for their health insurance expenditures.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Other Postemployment Benefits (Continued)

Eligibility. Employees are eligible after attaining age/service years of 55/10 for MTS and SDTI management, 55/15 for SDTI union, 55/10 for SDTC management, and 55/5 for SDTC unions.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms:

| | MTS | SDTI | SDTC |
|--|-----|------|-------|
| Active employees | 165 | 578 | 825 |
| Inactive employees or beneficiaries currently receiving benefits | 19 | 40 | 216 |
| Inactive employees entitled to but not yet receiving benefits | - | - | - |
| Total | 184 | 618 | 1,041 |

Actuarial Assumptions

The total OPEB liability, measured as of June 30, 2017, was determined using the following actuarial assumptions:

| | MTS | SDTI | SDTC |
|--------------------------------|---|---|------------------------------|
| Actuarial Cost Method | | Entry Age Normal | |
| Valuation Date | | June 30, 2017 | |
| Measurement Date | | June 30, 2017 | |
| Actuarial Assumptions: | | | |
| Discount Rate | | 3.4% per annum | |
| Inflation | | 2.75% per annum | |
| Salary Increases | | 3.0% per annum in aggregate | |
| Investment Rate of Return | | N/A | |
| Medical and Dental Trend Rates | | 6.5% initial, then decreasing 0.5% per year | |
| Mortality Rate | Derived using CalPERS Membership data for all funds | | RPH-2014 using scale MP 2017 |
| Pre-Retirement Turnover | Derived using CalPERS Membership data for all funds | | Management-3-10% Union 2-25% |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.4% percent. This discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 year Bond Index.

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Other Postemployment Benefits (Continued)**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of MTS, SDTC and SDTI, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

| | MTS | SDTI | SDTC | Aggregate |
|-----------------------|--------------|---------------|---------------|---------------|
| 1% Decrease | 2.40% | 2.40% | 2.40% | 2.40% |
| Total OPEB Liability | \$ 6,662,990 | \$ 12,922,889 | \$ 33,311,275 | \$ 52,897,154 |
| Current Discount Rate | 3.40% | 3.40% | 3.40% | 3.40% |
| Total OPEB Liability | \$ 5,575,125 | \$ 11,098,821 | \$ 28,722,883 | \$ 45,396,829 |
| 1% Increase | 4.40% | 4.40% | 4.40% | 4.40% |
| Total OPEB Liability | \$ 4,712,679 | \$ 9,611,184 | \$ 25,015,711 | \$ 39,339,574 |

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the total OPEB liability of MTS, SDTC and SDTI, as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates, for the measurement period ended June 30, 2017:

| | MTS | SDTI | SDTC | Aggregate |
|---|--------------|---------------------------------------|---------------|---------------|
| 1% Decrease in Healthcare Cost Trend Rate | | <u>2.0% HRA Contribution Increase</u> | | |
| Total OPEB Liability | \$ 4,560,975 | \$ 9,628,895 | \$ 24,713,928 | \$ 38,903,798 |
| Current Healthcare Cost Trend Rate | | <u>3.0% HRA Contribution Increase</u> | | |
| Total OPEB Liability | \$ 5,575,125 | \$ 11,098,821 | \$ 28,722,883 | \$ 45,396,829 |
| 1% Increase in Healthcare Cost Trend Rate | | <u>4.0% HRA Contribution Increase</u> | | |
| Total OPEB Liability | \$ 6,915,415 | \$ 12,945,048 | \$ 33,804,404 | \$ 53,664,867 |

Change in Total OPEB Liability

| | MTS | SDTI | SDTC | Aggregate |
|--|--------------|---------------|---------------|---------------|
| Balance at June 30, 2017 (as restated) | \$ 5,562,352 | \$ 11,414,062 | \$ 29,858,990 | \$ 46,835,404 |
| Changes Recognized for the Measurement Period: | | | | |
| Service Cost | 504,282 | 493,375 | 1,317,293 | 2,314,950 |
| Interest on the total OPEB liability | 171,522 | 336,668 | 875,283 | 1,383,473 |
| Changes in assumptions | (566,410) | (956,245) | (2,399,513) | (3,922,168) |
| Benefit payments | (96,621) | (189,039) | (929,170) | (1,214,830) |
| Net Changes | 12,773 | (315,241) | (1,136,107) | (1,438,575) |
| Balance at June 30, 2018 | \$ 5,575,125 | \$ 11,098,821 | \$ 28,722,883 | \$ 45,396,829 |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Other Postemployment Benefits (Continued)

Contributions

The contribution requirements of plan members and MTS, SDTC and SDTI are established and may be amended by MTS Management or the Board of Directors. The contribution required to be made is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year 2018, the following contributions were made:

| | MTS | SDTI | SDTC | Aggregate |
|---------------|-----------|------------|--------------|--------------|
| Contributions | \$ 92,802 | \$ 168,599 | \$ 1,032,492 | \$ 1,293,893 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, OPEB expense is included in the accompanying statement of revenues, expenses, and changes in net position as follows:

| | MTS | SDTI | SDTC | Aggregate |
|--------------|------------|------------|--------------|--------------|
| OPEB Expense | \$ 619,163 | \$ 723,794 | \$ 1,792,657 | \$ 3,135,614 |

At June 30, 2018 MTS, SDTC and SDTI reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | MTS | | SDTI | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Contributions made after measurement date | \$ 92,802 | \$ - | \$ 168,599 | \$ - |
| Changes in assumptions | - | (509,769) | - | (849,996) |
| Total | \$ 92,802 | \$ (509,769) | \$ 168,599 | \$ (849,996) |

| | SDTC | | Aggregate | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Contributions made after measurement date | \$ 1,032,492 | \$ - | \$ 1,293,893 | \$ - |
| Changes in assumptions | - | (1,999,594) | - | (3,359,359) |
| Total | \$ 1,032,492 | \$ (1,999,594) | \$ 1,293,893 | \$ (3,359,359) |

San Diego Metropolitan Transit System
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Other Postemployment Benefits (Continued)**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)**

The combined \$1,293,893 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

| Year Ended June 30, | MTS | SDTI | SDTC | Aggregate |
|------------------------|---------------------|---------------------|-----------------------|-----------------------|
| 2019 | \$ (56,641) | \$ (106,249) | \$ (399,919) | \$ (562,809) |
| 2020 | (56,641) | (106,249) | (399,919) | (562,809) |
| 2021 | (56,641) | (106,249) | (399,919) | (562,809) |
| 2022 | (56,641) | (106,249) | (399,919) | (562,809) |
| 2023 | (56,641) | (106,249) | (399,918) | (562,808) |
| Thereafter | (226,564) | (318,751) | - | (545,315) |
| Total | <u>\$ (509,769)</u> | <u>\$ (849,996)</u> | <u>\$ (1,999,594)</u> | <u>\$ (3,359,359)</u> |

Note 13 – Other Required Individual Disclosures

SDTC and SDTI had unrestricted (deficits) of \$(143,276,697) and \$(13,179,197) as of June 30, 2018. These deficits are primarily a result of the implementation of GASB 68 & 75 as well as timing difference between recognition of expenses on an accrual basis and when those expenses are funded by subsidy transfers for SDTC and SDTI.

Note 14 – Restatement of Net Position

As a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, net position as of July 1, 2017 was restated as follows:

| | |
|--|-------------------------|
| Net position at July 1, 2017, as previously reported | \$ 1,724,184,943 |
| Restatement to remove net OPEB liability from the statement of net position | 18,573,045 |
| Restatement to recognize total OPEB liability | (46,835,404) |
| Restatement to recognize OPEB contributions made subsequent to the measurement date as deferred outflow of resources | <u>1,214,830</u> |
| Total restatements | <u>(27,047,529)</u> |
| Net position at July 1, 2017, as restated | <u>\$ 1,697,137,414</u> |

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

DRAFT 10-23-2018

San Diego Metropolitan Transit System
Required Supplementary Information
For the Year Ended June 30, 2018

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MTS CALPERS PLANS

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 |
|---|---------------|---------------|--------------|--------------|
| Proportion of the net pension liability | 0.13531% | 0.13477% | 0.14142% | 0.13277% |
| Proportionate share of the net pension liability | \$ 13,418,753 | \$ 11,661,984 | \$ 9,707,169 | \$ 8,261,550 |
| Covered Payroll | \$ 11,809,510 | \$ 11,078,469 | \$ 9,954,718 | \$ 9,277,782 |
| Proportionate Share of the Net Pension Liability as percentage of covered payroll | 113.63% | 105.27% | 97.51% | 89.05% |
| Plan's fiduciary net position as percentage of the total pension liability | 72.65% | 72.53% | 75.07% | 77.50% |
| Proportionate share of aggregate employer contributions | \$ 1,348,728 | \$ 1,896,142 | \$ 1,998,897 | \$ 755,170 |

*GASB 68 was implemented in fiscal year 2015, therefore only four years of data is presented.

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San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SDTI CALPERS PLANS

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Pension Liability | | | | |
| Service Cost | \$ 3,882,206 | \$ 3,580,302 | \$ 3,615,793 | \$ 3,721,950 |
| Interest on total pension liability | 9,611,237 | 9,201,415 | 8,554,525 | 7,982,614 |
| Differences between expected and actual experience | (2,759,754) | 375,697 | (510,309) | - |
| Changes in assumptions | 8,593,509 | - | (2,274,755) | - |
| Changes in benefit terms | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (4,901,765) | (4,345,171) | (3,799,240) | (3,155,596) |
| Net change in total pension liability | 14,425,433 | 8,812,243 | 5,586,014 | 8,548,968 |
| Total pension liability - beginning | 129,098,911 | 120,286,668 | 114,700,654 | 106,151,686 |
| Total pension liability - ending (a) | \$ 143,524,344 | \$ 129,098,911 | \$ 120,286,668 | \$ 114,700,654 |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 2,835,680 | \$ 2,659,911 | \$ 2,553,900 | \$ 2,498,345 |
| Contributions - employee | 1,806,506 | 1,778,990 | 1,839,206 | 2,179,194 |
| Net investment income | 11,214,548 | 628,353 | 2,204,904 | 14,416,106 |
| Benefit payments, including refunds of employee contributions | (4,901,765) | (4,345,171) | (3,799,240) | (3,155,596) |
| Administrative expense | (149,699) | (61,391) | (113,387) | - |
| Net change in plan fiduciary net position | 10,805,270 | 660,692 | 2,685,383 | 15,938,049 |
| Plan fiduciary net position - beginning | 101,392,319 | 100,731,627 | 98,046,244 | 82,108,195 |
| Plan fiduciary net position - ending (b) | \$ 112,197,589 | \$ 101,392,319 | \$ 100,731,627 | \$ 98,046,244 |
| Net pension liability - ending (a) - (b) | \$ 31,326,755 | \$ 27,706,592 | \$ 19,555,041 | \$ 16,654,410 |
| Plan fiduciary net position as a percentage of the total pension liability | 78.17% | 78.54% | 83.74% | 85.48% |
| Covered payroll | \$ 26,643,371 | \$ 27,247,357 | \$ 26,965,416 | \$ 26,268,261 |
| Plan net pension liability/(asset) as a percentage of covered payroll | 117.58% | 101.69% | 72.52% | 63.40% |

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date.

Changes of assumption. : In FY 2018, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In FY 2016, the discount rate was increased from 7.5 percent (net of administrative expenses) to 7.65 percent to correct for an adjustment to exclude administrative expense.

*GASB 68 was implemented in fiscal year 2015, therefore only four years of data is presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SDTI PARS PLAN

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 |
|---|---------------------|---------------------|---------------------|
| Total Pension Liability | | | |
| Service Cost | \$ 230,296 | \$ 223,588 | \$ 267,889 |
| Interest on total pension liability | 556,089 | 523,457 | 480,808 |
| Differences between expected and actual experience | - | (166,133) | - |
| Changes in assumptions | - | 321,921 | - |
| Changes in benefit terms | - | - | - |
| Benefit payments, including refunds of employee contributions | (302,460) | (273,201) | (229,364) |
| Net change in total pension liability | 483,925 | 629,632 | 519,333 |
| Total pension liability - beginning | 7,862,504 | 7,232,872 | 6,713,539 |
| Total pension liability - ending (a) | <u>\$ 8,346,429</u> | <u>\$ 7,862,504</u> | <u>\$ 7,232,872</u> |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 605,864 | \$ 547,473 | \$ 590,203 |
| Contributions - employee | - | - | - |
| Net investment income | 638,858 | (59,981) | 127,592 |
| Benefit payments, including refunds of employee contributions | (302,460) | (273,201) | (229,364) |
| Administrative expense | (13,417) | (14,665) | (12,186) |
| Net change in plan fiduciary net position | 928,845 | 199,626 | 476,245 |
| Plan fiduciary net position - beginning | 5,267,085 | 5,067,459 | 4,591,214 |
| Plan fiduciary net position - ending (b) | <u>\$ 6,195,930</u> | <u>\$ 5,267,085</u> | <u>\$ 5,067,459</u> |
| Net pension liability - ending (a) - (b) | \$ 2,150,499 | \$ 2,595,419 | \$ 2,165,413 |
| Plan fiduciary net position as a percentage of the total pension | 74.23% | 66.99% | 70.06% |
| Covered payroll | \$ 5,170,611 | \$ 5,020,011 | \$ 4,943,557 |
| Plan net pension liability/(asset) as a percentage of covered payroll | 41.59% | 51.70% | 43.80% |

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

Changes in Assumption: In FY 2017, the salary scale, retirement and pre-retirement mortality assumptions were updated. The inflation rate was lowered from 3.0 percent to 2.75 percent.

*GASB 68 for PARS was implemented in fiscal year 2016, therefore only three year of data is presented.

San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SDTC PLAN

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Pension Liability | | | | |
| Service Cost | \$ 3,660,961 | \$ 3,469,595 | \$ 3,590,766 | \$ 3,908,376 |
| Interest on total pension liability | 19,885,608 | 18,865,499 | 18,434,275 | 17,812,979 |
| Differences between expected and actual experience | 1,185,687 | (2,174,475) | 812,878 | 2,905,692 |
| Changes in assumptions | - | 29,699,872 | - | - |
| Changes in benefit terms | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (17,977,346) | (17,350,158) | (16,584,043) | (15,466,924) |
| Net change in total pension liability | 6,754,910 | 32,510,333 | 6,253,876 | 9,160,123 |
| Total pension liability - beginning | 289,255,802 | 256,745,469 | 250,491,593 | 241,331,470 |
| Total pension liability - ending (a) | \$ 296,010,712 | \$ 289,255,802 | \$ 256,745,469 | \$ 250,491,593 |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 12,649,101 | \$ 10,711,282 | \$ 11,352,628 | \$ 12,628,190 |
| Contributions - employee | 2,047,593 | 1,754,869 | 1,363,092 | 899,791 |
| Net investment income | 12,216,936 | (540,093) | (2,018,866) | 18,417,439 |
| Benefit payments, including refunds of employee contributions | (17,977,346) | (17,350,158) | (16,584,043) | (15,466,924) |
| Administrative expense | (234,128) | (290,381) | (262,808) | (258,142) |
| Net change in plan fiduciary net position | 8,702,156 | (5,714,481) | (6,149,997) | 16,220,354 |
| Plan fiduciary net position - beginning | 152,932,851 | 158,647,332 | 164,797,329 | 148,576,975 |
| Plan fiduciary net position - ending (b) | \$ 161,635,007 | \$ 152,932,851 | \$ 158,647,332 | \$ 164,797,329 |
| Net pension liability - ending (a) - (b) | \$ 134,375,705 | \$ 136,322,951 | \$ 98,098,137 | \$ 85,694,264 |
| Plan fiduciary net position as a percentage of the total pension liability | 54.60% | 52.87% | 61.79% | 65.79% |
| Covered payroll | \$ 31,660,643 | \$ 31,048,663 | \$ 32,658,827 | \$ 32,313,553 |
| Plan net pension liability/(asset) as a percentage of covered payroll | 424.43% | 439.06% | 300.37% | 265.20% |

Notes to Schedule:

Changes of assumption. In FY 2017, the investment rate of return decreased from 7.5 percent to 7.0 percent. Inflation decreased from 3.0 percent to 2.75 percent and revisions were made to merit pay increases, mortality, disability, service retirements and termination.

*GASB 68 was implemented in fiscal year 2015, therefore only four years of data is presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CONTRIBUTIONS
MTS CALPERS PLANS**

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|--------------|--------------|
| Actuarially determined contribution | \$ 1,896,639 | \$ 1,731,711 | \$ 1,582,497 | \$ 1,559,846 | \$ 1,537,079 |
| Contributions in relation to the actuarially determined contribution | (1,896,639) | (1,731,711) | (1,582,497) | (1,559,846) | (1,537,079) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 12,873,186 | \$ 11,809,510 | \$ 11,078,469 | \$ 9,954,718 | \$ 9,277,782 |
| Contributions as a percentage of covered payroll | 14.73% | 14.66% | 14.28% | 15.67% | 16.57% |

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact they may have resulted from plan changes which occurred after June 30, 2016 as they have minimal cost impact.

Changes of assumption: In FY 2018, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In FY 2016, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without reduction for pension plan administrative expense).

Methods and assumptions used to determine contribution rates:

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2016-2017 was derived from the June 30, 2014 funding valuation report.

| | |
|----------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method/period | For details, see June 30, 2014 Funding Valuation |
| Asset valuation method | Actuarial value of assets. |
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Payroll growth | 3.00% |
| Investment rate of return | 7.50% net of pension plan investment and administrative expenses, including inflation |
| Retirement age | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 and 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Actuaries. |

* GASB 68 was implemented in fiscal year 2015, therefore only five years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CONTRIBUTIONS
SDTI CALPERS PLAN**

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | \$ 3,266,081 | \$ 2,835,680 | \$ 2,659,911 | \$ 2,553,900 | \$ 2,498,345 |
| Contributions in relation to the actuarially determined contribution | (3,266,081) | (2,835,680) | (2,659,911) | (2,553,900) | (2,498,345) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 29,777,442 | \$ 26,643,371 | \$ 27,247,357 | \$ 26,965,416 | \$ 26,268,261 |
| Contributions as a percentage of covered payroll | 10.97% | 10.64% | 9.76% | 9.47% | 9.51% |

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

Changes of assumption: In FY 2018, the discount rate was reduced from 7.65 percent to 7.15 percent. In FY 2016, the discount rate was increased from 7.5 percent (net of administrative expenses) to 7.65 percent to correct for an adjustment to exclude administrative expense.

Methods and assumptions used to determine contribution rates:

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2016-2017 was derived from the June 30, 2014 funding valuation report.

| | |
|----------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method/period | For details, see June 30, 2014 Funding Valuation |
| Asset valuation method | Actuarial value of assets. For details, see June 30, 2014 Funding Valuation Report. |
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Payroll growth | 3.00% |
| Investment rate of return | 7.50% net of pension plan investment and administrative expenses, including inflation |
| Retirement age | The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 and 2007. |
| Mortality | The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries. |

* GASB 68 was implemented in fiscal year 2015, therefore only five years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CONTRIBUTIONS
SDTI PARS PLAN**

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------------|---------------------|---------------------|--------------------|-----------------|
| Actuarially determined contribution | \$ 460,930 | \$ 499,993 | \$ 445,465 | \$ 546,873 | \$ 463,079 |
| Contributions in relation to the actuarially determined contribution | (549,296) | (605,864) | (547,473) | (590,203) | (453,934) |
| Contribution deficiency (excess) | <u>\$ (88,366)</u> | <u>\$ (105,871)</u> | <u>\$ (102,008)</u> | <u>\$ (43,330)</u> | <u>\$ 9,145</u> |
| Covered payroll | \$ 4,766,641 | \$ 5,170,611 | \$ 5,020,011 | \$ 4,943,557 | \$ 5,984,089 |
| Contributions as a percentage of covered payroll | 11.52% | 11.72% | 10.91% | 11.94% | 7.59% |

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after July 1, 2015 as they have minimal cost impact.

Changes in Assumption: In FY 2017, the salary scale, retirement and pre-retirement mortality assumptions were updated. The inflation rate was lowered from 3.0 percent to 2.75 percent.

Methods and assumptions used to determine contribution rates:

| | |
|---------------------------|---------------------------------|
| Valuation date | July 1, 2016 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percent of payroll |
| Amortization period | 20 years as of valuation date |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | varies by entry age and service |
| Payroll growth | 3.00% |
| Investment rate of return | 7.00% |

* GASB 68 was implemented in fiscal year 2015, therefore only five years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CONTRIBUTIONS
SDTC PLAN**

(LAST TEN YEARS*)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | \$ 13,020,223 | \$ 12,649,101 | \$ 10,711,282 | \$ 11,352,628 | \$ 12,628,190 |
| Contributions in relation to the actuarially determined contribution | (13,020,223) | (12,649,101) | (10,711,282) | (11,352,628) | (12,628,190) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 29,672,305 | \$ 31,660,643 | \$ 31,048,663 | \$ 32,658,827 | \$ 32,313,553 |
| Contributions as a percentage of covered payroll | 43.88% | 39.95% | 34.50% | 34.76% | 39.08% |

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after July 1, 2017 as they have minimal cost impact.

Changes in Assumptions: In FY 2017, the investment rate of return was decreased from 7.5 percent to 7.0 percent. Inflation decreased from 3.0 percent to 2.75 percent and revisions were made to merit pay increases, mortality, disability, service retirements and termination.

Methods and assumptions used to determine contribution rates:

| | |
|----------------------------|--|
| Valuation date | July 1, 2017 |
| Actuarial cost method | Entry Age |
| Amortization method/period | Level percent of payroll, closed 25-year period |
| Asset valuation method | 5-year smoothed market |
| Salary increases | 3.25%-8.75% for drivers 3.25%-10.25% for mechanics 3.00%-6.25% for non-contract members 3.00%-12.75% for clerical members |
| Payroll growth | 2.75% |
| Investment rate of return | 7.00% net of pension plan investment expenses. |
| Mortality | RP-2000 tables using male rates for both male and female members with generational improvements using Scale MP-2015 |

* GASB 68 was implemented in fiscal year 2015, therefore only five years data are presented.

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
MTS**

(LAST TEN YEARS*)

| | |
|--|----------------------------|
| Measurement period, year ended June 30: | <u>2017</u> |
| Total OPEB Liability | |
| Service Cost | \$ 504,282 |
| Interest | 171,522 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | (566,410) |
| Benefit payments, including refunds of member contributions | (96,621) |
| Net change in total OPEB liability | <u>12,773</u> |
| Total OPEB liability - beginning | <u>5,562,352</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 5,575,125</u></u> |
| OPEB fiduciary net position | |
| Contributions - employer | \$ 96,621 |
| Net investment income | - |
| Benefit payments, including refunds of member contributions | (96,621) |
| Administrative expense | - |
| Net change in plan fiduciary net position | <u>-</u> |
| Plan fiduciary net position - beginning | <u>-</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ -</u></u> |
| Plan net OPEB liability - ending (a) - (b) | <u><u>\$ 5,575,125</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% |
| Covered payroll | \$ 12,392,000 |
| Plan net OPEB liability as a percentage of covered payroll | 44.99% |

*Ten year historical information is not yet available

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
SDTI**

(LAST TEN YEARS*)

| | |
|--|-----------------------------|
| Measurement period, year ended June 30: | <u>2017</u> |
| Total OPEB Liability | |
| Service Cost | \$ 493,375 |
| Interest | 336,668 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | (956,245) |
| Benefit payments, including refunds of member contributions | <u>(189,039)</u> |
| Net change in total OPEB liability | (315,241) |
| Total OPEB liability - beginning | <u>11,414,062</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 11,098,821</u></u> |
| OPEB fiduciary net position | |
| Contributions - employer | \$ 189,039 |
| Net investment income | - |
| Benefit payments, including refunds of member contributions | (189,039) |
| Administrative expense | <u>-</u> |
| Net change in plan fiduciary net position | - |
| Plan fiduciary net position - beginning | <u>-</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ -</u></u> |
| Plan net OPEB liability - ending (a) - (b) | <u><u>\$ 11,098,821</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% |
| Covered payroll | \$ 30,369,000 |
| Plan net OPEB liability as a percentage of covered payroll | 36.55% |

*Ten year historical information is not yet available

**San Diego Metropolitan Transit System
Required Supplementary Information (Continued)
For the Year Ended June 30, 2018**

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
SDTC**

(LAST TEN YEARS*)

| | |
|--|-----------------------------|
| Measurement period, year ended June 30: | <u>2017</u> |
| Total OPEB Liability | |
| Service Cost | \$ 1,317,293 |
| Interest | 875,283 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | (2,399,513) |
| Benefit payments, including refunds of member contributions | (929,170) |
| Net change in total OPEB liability | <u>(1,136,107)</u> |
| Total OPEB liability - beginning | <u>29,858,990</u> |
| Total OPEB liability - ending (a) | <u><u>\$ 28,722,883</u></u> |
| OPEB fiduciary net position | |
| Contributions - employer | \$ 929,170 |
| Net investment income | - |
| Benefit payments, including refunds of member contributions | (929,170) |
| Administrative expense | - |
| Net change in plan fiduciary net position | <u>-</u> |
| Plan fiduciary net position - beginning | <u>-</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ -</u></u> |
| Plan net OPEB liability - ending (a) - (b) | <u><u>\$ 28,722,883</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.00% |
| Covered payroll | \$ 39,380,000 |
| Plan net OPEB liability as a percentage of covered payroll | 72.94% |

*Ten year historical information is not yet available

SUPPLEMENTARY INFORMATION

Combining Schedule of Net Position

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Combining Statement of Cash Flows

Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual:

Combined Operations

General Fund

Taxicab Administration

San Diego & Arizona Eastern Railway

MTS - Contracted Services

San Diego Transit Corporation

San Diego Trolley, Inc.

San Diego Metropolitan Transit System
Combining Schedule of Net Position
June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|-----------------------|------------------------|--------------------|----------------------|----------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 86,712,477 | \$ (1,457,564) | \$ (337,209) | \$ (329,575) | \$ 84,588,129 |
| Cash and cash equivalents restricted for capital support | 17,246,933 | - | - | - | 17,246,933 |
| Accounts and other receivables | 7,733,293 | 81 | 1,610,641 | 87,196 | 9,431,211 |
| Due from other governments | 82,253,858 | 59,797 | 11,261 | 248,004 | 82,572,920 |
| Internal balances | (48,121,968) | 9,670,337 | 21,885,007 | 16,566,624 | - |
| Inventory | - | - | 3,458,589 | 14,787,714 | 18,246,303 |
| Prepaid items and other current assets | 1,269,487 | 178,037 | 908,845 | 1,295,652 | 3,652,021 |
| Total current assets | 147,094,080 | 8,450,688 | 27,537,134 | 32,655,615 | 215,737,517 |
| Noncurrent assets: | | | | | |
| Capital assets (net of accumulated depreciation) | 110,216,519 | 220,613,589 | 311,488,601 | 1,144,690,311 | 1,787,009,020 |
| Total noncurrent assets | 110,216,519 | 220,613,589 | 311,488,601 | 1,144,690,311 | 1,787,009,020 |
| Total assets | 257,310,599 | 229,064,277 | 339,025,735 | 1,177,345,926 | 2,002,746,537 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Pension related deferred outflows of resources: | | | | | |
| Contributions made after the measurement date | 1,896,639 | - | 13,020,223 | 3,805,431 | 18,722,293 |
| Differences between projected and actual earnings on pension plan investments | 463,033 | - | 13,036,259 | 6,680,168 | 20,179,460 |
| Differences between expected and actual experience | 16,501 | - | 790,458 | 231,199 | 1,038,158 |
| Changes in employer's proportion | 1,162,548 | - | - | - | 1,162,548 |
| Differences between employer contributions and proportionate share | 597,880 | - | - | - | 597,880 |
| Changes in assumption | 2,047,380 | - | 9,899,958 | 7,024,665 | 18,972,003 |
| Total pension related deferred outflows of resources | 6,183,981 | - | 36,746,898 | 17,741,463 | 60,672,342 |
| OPEB related deferred outflows of resources: | | | | | |
| Contributions made after the measurement date | 92,802 | - | 1,032,492 | 168,599 | 1,293,893 |
| Total deferred outflows of resources | 6,276,783 | - | 37,779,390 | 17,910,062 | 61,966,235 |

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|-----------------------|------------------------|--------------------|-------------------|--------------------|
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 5,760,468 | 6,947,760 | 3,325,367 | 2,551,246 | 18,584,841 |
| Due to other governments | 8,238,777 | 11,708 | 113,300 | 211,075 | 8,574,860 |
| Unearned revenue | 9,356,144 | - | - | 63,563 | 9,419,707 |
| Accrued expenses | 648,622 | 16,936 | 1,190,651 | 1,134,557 | 2,990,766 |
| Retentions payable | 286,672 | - | 44 | 4,063 | 290,779 |
| Retentions payable from restricted assets | 2,799,920 | - | - | - | 2,799,920 |
| Due within one year: | | | | | |
| Compensated absences payable | 910,589 | - | 3,050,499 | 2,218,409 | 6,179,497 |
| Accrued damage, injury, and employee claims | 359,151 | - | 3,604,736 | 1,297,933 | 5,261,820 |
| Long-term debt | 708,197 | - | 2,430,000 | - | 3,138,197 |
| Total current liabilities | 29,068,540 | 6,976,404 | 13,714,597 | 7,480,846 | 57,240,387 |
| Noncurrent liabilities: | | | | | |
| Due in more than one year: | | | | | |
| Compensated absences payable | 233,716 | - | 3,781,442 | 559,099 | 4,574,257 |
| Accrued damage, injury, and employee claims | 593,804 | - | 9,741,830 | 1,692,698 | 12,028,332 |
| Aggregate net pension liability | 13,418,753 | - | 134,375,705 | 33,477,254 | 181,271,712 |
| Aggregate total OPEB liability | 5,575,125 | - | 28,722,883 | 11,098,821 | 45,396,829 |
| Long-term debt | 363,072 | - | 12,910,000 | - | 13,273,072 |
| Total noncurrent liabilities | 20,184,470 | - | 189,531,860 | 46,827,872 | 256,544,202 |
| Total liabilities | 49,253,010 | 6,976,404 | 203,246,457 | 54,308,718 | 313,784,589 |

San Diego Metropolitan Transit System
Combining Schedule of Net Position (Continued)
June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|-----------------------|------------------------|-----------------------|-------------------------|-------------------------|
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Deferred gain on refunding related to capital assets | 130,101 | - | - | - | 130,101 |
| Pension related deferred inflows of resources | | | | | |
| Differences between projected and actual earnings on pension plan investments | - | - | 2,622,345 | 5,056,377 | 7,678,722 |
| Differences between expected and actual experience | 236,407 | - | 724,825 | 2,518,781 | 3,480,013 |
| Changes in employer's proportion | 166,559 | - | - | - | 166,559 |
| Changes in assumptions | 156,115 | - | - | 1,011,002 | 1,167,117 |
| Total pension related deferred inflows of resources | 559,081 | - | 3,347,170 | 8,586,160 | 12,492,411 |
| OPEB related deferred inflows of resources | | | | | |
| Changes in assumptions | 509,769 | - | 1,999,594 | 849,996 | 3,359,359 |
| Total deferred inflows of resources | 1,198,951 | - | 5,346,764 | 9,436,156 | 15,981,871 |
| NET POSITION | | | | | |
| Net investment in capital assets | 109,015,149 | 220,613,589 | 311,488,601 | 1,144,690,311 | 1,785,807,650 |
| Restricted for: | | | | | |
| Capital projects | 14,447,013 | - | - | - | 14,447,013 |
| Unrestricted (deficit) | 89,673,259 | 1,474,284 | (143,276,697) | (13,179,197) | (65,308,351) |
| Total net position | \$ 213,135,421 | \$ 222,087,873 | \$ 168,211,904 | \$ 1,131,511,114 | \$ 1,734,946,312 |

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Eliminations | Total |
|----------------------------------|-----------------------|------------------------|----------------------|----------------------|----------------------|----------------------|
| Operating revenues: | | | | | | |
| Passenger revenue | \$ - | \$ 27,847,927 | \$ 23,034,059 | \$ 39,353,823 | \$ - | \$ 90,235,809 |
| Advertising | 1,130,974 | - | - | - | - | 1,130,974 |
| Miscellaneous operating revenues | 16,438,879 | 1,997 | 186,873 | 776,558 | - | 17,404,307 |
| Total operating revenues | 17,569,853 | 27,849,924 | 23,220,932 | 40,130,381 | - | 108,771,090 |
| Operating expenses: | | | | | | |
| Personnel costs | 20,988,506 | 604,065 | 84,914,215 | 39,775,705 | - | 146,282,491 |
| Outside services | 15,752,161 | 72,181,432 | 2,404,776 | 11,235,587 | - | 101,573,956 |
| Transit operations funding | 127,019,076 | - | - | - | (126,531,251) | 487,825 |
| Materials and supplies | 44,606 | 94,400 | 5,700,994 | 9,078,022 | - | 14,918,022 |
| Energy costs | 211,697 | 7,979,908 | 5,146,022 | 13,075,928 | - | 26,413,555 |
| Risk management | 863,836 | 15,300 | 4,351,956 | 1,443,980 | - | 6,675,072 |
| Miscellaneous operating expenses | (21,093,092) | 2,592,711 | 8,647,900 | 15,706,489 | - | 5,854,008 |
| Depreciation | 3,098,695 | 21,236,046 | 25,998,089 | 70,595,031 | - | 120,927,861 |
| Total operating expenses | 146,885,485 | 104,703,862 | 137,163,952 | 160,910,742 | (126,531,251) | 423,132,790 |
| Operating income (loss) | (129,315,632) | (76,853,938) | (113,943,020) | (120,780,361) | 126,531,251 | (314,361,700) |

San Diego Metropolitan Transit System
Combining Schedule of Revenues, Expenses, and Changes in Net Position (Continued)
For the Year Ended June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Eliminations | Total |
|---|-----------------------|------------------------|----------------|------------------|---------------|------------------|
| Public support and nonoperating revenues (expenses): | | | | | | |
| Federal revenue | 86,930,893 | 14,599,182 | 20,224,930 | 24,247,063 | (59,071,175) | 86,930,893 |
| Transportation Development Act (TDA) funds | 94,111,445 | 33,619,598 | 14,417,010 | 20,020,744 | (68,057,352) | 94,111,445 |
| State Transit Assistance (STA) funds | 21,680,915 | 3,304,470 | 1,588,376 | 1,965,467 | (6,858,313) | 21,680,915 |
| State revenue - other | 4,886,993 | 1,395,606 | 461,713 | 943,318 | (2,800,637) | 4,886,993 |
| <i>TransNet</i> funds | 45,695,361 | 1,910,548 | 38,284,814 | - | (45,695,361) | 40,195,362 |
| Other local subsidies | 5,492,305 | 788,488 | 603,817 | - | (1,392,305) | 5,492,305 |
| Investment earnings | 940,538 | - | - | - | - | 940,538 |
| Interest expense | 24,745 | - | (834,063) | - | - | (809,318) |
| Gain (loss) on disposal of assets | 762,747 | - | (1,739,761) | 167,820 | - | (809,194) |
| Total public support and nonoperating revenues (expenses): | 260,525,942 | 55,617,892 | 73,006,836 | 47,344,412 | (183,875,143) | 252,619,939 |
| Income (loss) before transfers and contributed capital | 131,210,310 | (21,236,046) | (40,936,184) | (73,435,949) | (57,343,892) | (61,741,761) |
| Transfers | (57,343,892) | - | - | - | 57,343,892 | - |
| Contributed capital, net | (51,302,238) | 39,671,774 | 96,900,788 | 14,280,335 | - | 99,550,659 |
| Changes in net position | 22,564,180 | 18,435,728 | 55,964,604 | (59,155,614) | - | 37,808,898 |
| Net Position: | | | | | | |
| Beginning of year, as previously reported | 190,944,664 | 203,652,145 | 135,663,464 | 1,193,924,670 | - | 1,724,184,943 |
| Restatements due to implementation of GASB 75 | (373,423) | - | (23,416,164) | (3,257,942) | - | (27,047,529) |
| Beginning of year, as restated | 190,571,241 | 203,652,145 | 112,247,300 | 1,190,666,728 | - | 1,697,137,414 |
| End of year | \$ 213,135,421 | \$ 222,087,873 | \$ 168,211,904 | \$ 1,131,511,114 | \$ - | \$ 1,734,946,312 |

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows
For the Year Ended June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|--|-----------------------|------------------------|---------------------|---------------------|-----------------------|
| Cash flows from operating activities: | | | | | |
| Receipts from customers and users | \$ 16,272,081 | \$ 27,850,330 | \$ 23,152,350 | \$ 40,155,024 | \$ 107,429,785 |
| Payments to suppliers | 5,752,741 | (83,667,807) | (29,583,456) | (43,654,149) | (151,152,671) |
| Payments to employees | (21,765,119) | (604,065) | (71,665,993) | (37,899,184) | (131,934,361) |
| Payments for damage and injury | 351,249 | - | (565,146) | (1,327,129) | (1,541,026) |
| Net cash (used in) operating activities | 610,952 | (56,421,542) | (78,662,245) | (42,725,438) | (177,198,273) |
| Cash flows from noncapital financing activities: | | | | | |
| Public support funds received | 72,358,961 | 54,909,396 | 81,483,648 | 42,549,561 | 251,301,566 |
| Net cash provided by noncapital financing activities | 72,358,961 | 54,909,396 | 81,483,648 | 42,549,561 | 251,301,566 |
| Cash flows from capital and related financing activities: | | | | | |
| Debt service costs | (676,444) | - | (3,149,063) | - | (3,825,507) |
| Property acquisition | (67,493,671) | - | - | - | (67,493,671) |
| Proceeds from disposal of assets | 740,111 | - | 91,043 | 167,820 | 998,974 |
| Net cash (used in) capital and related financing activities | (67,430,004) | - | (3,058,020) | 167,820 | (70,320,204) |
| Cash flows from investing activities: | | | | | |
| Interest received on investments | 965,283 | - | - | - | 965,283 |
| Net cash provided by investing activities | 965,283 | - | - | - | 965,283 |
| Net increase (decrease) in cash and cash equivalents | 6,505,192 | (1,512,146) | (236,617) | (8,057) | 4,748,372 |
| Cash and cash equivalents: | | | | | |
| Beginning of year | 97,454,218 | 54,582 | (100,592) | (321,518) | 97,086,690 |
| End of year | \$ 103,959,410 | \$ (1,457,564) | \$ (337,209) | \$ (329,575) | \$ 101,835,062 |
| Cash and cash equivalents: | | | | | |
| Cash and cash equivalents | \$ 86,712,477 | \$ (1,457,564) | \$ (337,209) | \$ (329,575) | \$ 84,588,129 |
| Cash and cash equivalents restricted for capital support | 17,246,933 | - | - | - | 17,246,933 |
| Total cash and cash equivalents | \$ 103,959,410 | \$ (1,457,564) | \$ (337,209) | \$ (329,575) | \$ 101,835,062 |

San Diego Metropolitan Transit System
Combining Schedule of Cash Flows (Continued)
For the Year Ended June 30, 2018

| | General Operations | Contracted Services | SDTC | SDTI | Total |
|---|-----------------------|------------------------|------------------------|------------------------|-------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash (Used In) Operating Activities | | | | | |
| Operating (loss): | \$ (2,784,381) | \$ (76,853,938) | \$ (113,943,020) | \$ (120,780,361) | \$ (314,361,700) |
| Adjustments to reconcile operating income (loss) to net cash (used in) operating activities | | | | | |
| Depreciation and amortization | 3,098,695 | 21,236,046 | 25,998,089 | 70,595,031 | 120,927,861 |
| (Increase) decrease in: | | | | | |
| Accounts and other receivables | 464,456 | 406 | (68,582) | 24,643 | 420,923 |
| Due from other governments | (1,762,228) | - | - | - | (1,762,228) |
| Inventory | - | - | (459,967) | 2,148,940 | 1,688,973 |
| Prepaid expenses and other current assets | (320,440) | 131,293 | (241,401) | (433,671) | (864,219) |
| Increase (decrease) in: | | | | | |
| Accounts payable | (1,687,293) | (936,478) | 546,076 | 800,341 | (1,277,354) |
| Due to other governments | 1,323,670 | (3,591) | 8,971 | (286,233) | 1,042,817 |
| Accrued expenses | (153,439) | 4,720 | 89,634 | 29,238 | (29,847) |
| Unearned revenue | 3,058,500 | - | - | 24,787 | 3,083,287 |
| Aggregate net pension liability | (701,162) | - | 11,249,586 | 1,710,786 | 12,259,210 |
| Aggregate total OPEB liability | 433,559 | - | (272,327) | 3,131,740 | 3,292,972 |
| Compensated absences payable | 62,378 | - | (412,632) | 386,596 | 36,342 |
| Accrued damage, injury and employee claims | (421,363) | - | (1,156,672) | (77,275) | (1,655,310) |
| Total adjustments | 3,395,333 | 20,432,396 | 35,280,775 | 78,054,923 | 137,163,427 |
| Net cash (used in) operating activities | \$ 610,952 | \$ (56,421,542) | \$ (78,662,245) | \$ (42,725,438) | \$ (177,198,273) |

Supplemental noncash disclosures:

During the year SANDAG contributed \$99,550,659 in capital assets

During the year the fair value of investments decreased by \$33,508

San Diego Metropolitan Transit System
Combined Operations
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|----------------------|----------------------|--|-----------------------------|----------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts | Budget Basis Adjustments | Actuals on Budget Basis | |
| Operating revenues: | | | | | | |
| Passenger revenue | \$ 95,867,107 | \$ 90,631,033 | \$ 90,235,809 | \$ - | \$ 90,235,809 | \$ (395,224) |
| Advertising | 1,150,000 | 1,225,000 | 1,130,974 | - | 1,130,974 | (94,026) |
| Miscellaneous operating revenues | 12,714,000 | 14,273,028 | 17,404,307 | (1,337,466) | 16,066,841 | 1,793,813 |
| Total operating revenues | 109,731,107 | 106,129,061 | 108,771,090 | (1,337,466) | 107,433,624 | 1,304,563 |
| Operating expenses: | | | | | | |
| Personnel costs | 130,643,373 | 131,351,795 | 146,282,491 | (16,962,016) | 129,320,475 | 2,031,320 |
| Outside services | 95,288,605 | 94,961,552 | 101,573,956 | (6,416,732) | 95,157,224 | (195,672) |
| Transit operations funding | 570,084 | 570,084 | 487,825 | - | 487,825 | 82,259 |
| Materials and supplies | 11,338,615 | 11,900,290 | 14,918,022 | (10,903) | 14,907,119 | (3,006,829) |
| Energy costs | 27,020,429 | 26,564,277 | 26,413,555 | - | 26,413,555 | 150,722 |
| Risk management | 5,862,530 | 6,613,400 | 6,675,072 | 517,816 | 7,192,888 | (579,488) |
| Miscellaneous operating expenses | 5,902,499 | 5,816,703 | 5,854,008 | (109,647) | 5,744,361 | 72,342 |
| Depreciation | - | - | 120,927,861 | (120,927,861) | - | - |
| Total operating expenses | 276,626,135 | 277,778,101 | 423,132,790 | (143,909,343) | 279,223,447 | (1,445,346) |
| Operating income (loss) | (166,895,028) | (171,649,040) | (314,361,700) | 142,571,877 | (171,789,823) | (140,783) |

San Diego Metropolitan Transit System
Combined Operations
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | |
|---|------------------|-------------|--|--------------------------|-------------------------|--|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Budget Basis Adjustments | Actuals on Budget Basis | Variance with Final Budget Positive (Negative) |
| Public support and nonoperating revenues (expenses): | | | | | | |
| Federal revenue | 58,992,100 | 58,992,100 | 86,930,893 | (27,794,567) | 59,136,326 | 144,226 |
| Transportation Development Act (TDA) funds | 64,096,043 | 64,096,043 | 94,111,445 | (30,015,402) | 64,096,043 | - |
| State Transit Assistance (STA) funds | 3,600,000 | 4,600,000 | 21,680,915 | (15,217,085) | 6,463,830 | 1,863,830 |
| State revenue - other | 1,400,000 | 3,400,000 | 4,886,993 | (3,496,493) | 1,390,500 | (2,009,500) |
| <i>TransNet</i> funds | 38,463,424 | 39,185,581 | 40,195,362 | - | 40,195,362 | 1,009,781 |
| Other local subsidies | 1,034,102 | 1,055,817 | 5,492,305 | (4,100,000) | 1,392,305 | 336,488 |
| Investment earnings | 350,000 | 920,000 | 940,538 | (12,592) | 927,946 | 7,946 |
| Interest expense | (1,595,248) | (1,595,248) | (809,318) | (785,904) | (1,595,222) | 26 |
| Gain (loss) on disposal of assets | 200,000 | 615,000 | (809,194) | 1,808,168 | 998,974 | 383,974 |
| Total public support and nonoperating revenues (expenses): | 166,540,421 | 171,269,293 | 252,619,939 | (79,613,875) | 173,006,064 | 1,736,771 |
| Income (loss) before contributed capital | (354,607) | (379,747) | (61,741,761) | 62,958,002 | 1,216,241 | 1,595,988 |
| Reserve revenue | | | | | | |
| Contributed capital, net | 354,607 | 379,747 | - | 431,327 | 431,327 | 51,580 |
| | - | - | 99,550,659 | (99,550,659) | - | - |
| Changes in net position | \$ - | \$ - | 37,808,898 | \$ (36,161,330) | \$ 1,647,568 | \$ 1,647,568 |
| Net Position: | | | | | | |
| Beginning of year | | | 1,697,137,414 | | | |
| End of year | | | \$ 1,734,946,312 | | | |

San Diego Metropolitan Transit System
General Operations
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|-------------------|--------------------|--|-----------------------------|----------------------------|----|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts | Budget Basis Adjustments | Actuals on Budget Basis | | |
| Operating revenues: | | | | | | | |
| Advertising | \$ 1,150,000 | \$ 1,225,000 | \$ 1,130,974 | \$ - | \$ 1,130,974 | \$ | (94,026) |
| Miscellaneous operating revenues | 10,719,000 | 12,344,428 | 14,338,551 | (337,466) | 14,001,085 | | 1,656,657 |
| Total operating revenues | 11,869,000 | 13,569,428 | 15,469,525 | (337,466) | 15,132,059 | | 1,562,631 |
| Operating expenses: | | | | | | | |
| Personnel costs | 20,545,363 | 19,742,834 | 20,046,625 | (57,005) | 19,989,620 | | (246,786) |
| Outside services | 14,711,184 | 15,133,714 | 15,514,315 | (185,647) | 15,328,668 | | (194,954) |
| Transit operations funding | 570,084 | 570,084 | 127,019,076 | (126,531,251) | 487,825 | | 82,259 |
| Materials and supplies | 43,300 | 120,434 | 43,565 | - | 43,565 | | 76,869 |
| Energy costs | 214,050 | 199,750 | 196,188 | - | 196,188 | | 3,562 |
| Risk management | 441,613 | 392,800 | 789,371 | (421,364) | 368,007 | | 24,793 |
| Miscellaneous operating expenses | (24,140,047) | (21,253,641) | (21,354,005) | (50,818) | (21,404,823) | | 151,182 |
| Depreciation | - | - | 3,075,009 | (3,075,009) | - | | - |
| Total operating expenses | 12,385,547 | 14,905,975 | 145,330,144 | (130,321,094) | 15,009,050 | | (103,075) |
| Operating income (loss) | (516,547) | (1,336,547) | (129,860,619) | 129,983,628 | 123,009 | | 1,459,556 |

San Diego Metropolitan Transit System
General Operations
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------|---|-----------------------------|----------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Budget Basis Adjustments | Actuals on Budget Basis | |
| Public support and nonoperating revenues (expenses): | | | | | | |
| Federal revenue | 140,000 | 140,000 | 86,930,893 | (86,818,679) | 112,214 | (27,786) |
| Transportation Development Act (TDA) funds | 570,084 | 570,084 | 94,111,445 | (93,623,620) | 487,825 | (82,259) |
| State Transit Assistance (STA) funds | - | - | 21,680,915 | (21,680,915) | - | - |
| State revenue - other | - | - | 4,886,993 | (4,886,993) | - | - |
| <i>TransNet</i> funds | - | - | 45,695,361 | (45,695,361) | - | - |
| Other local subsidies | - | - | 5,492,305 | (5,492,305) | - | - |
| Investment earnings | 350,000 | 920,000 | 940,538 | (12,592) | 927,946 | 7,946 |
| Interest expense | (743,537) | (743,537) | 24,745 | (768,282) | (743,537) | - |
| Gain (loss) on disposal of assets | 200,000 | 450,000 | 762,747 | (22,636) | 740,111 | 290,111 |
| Total public support and nonoperating revenues (expenses): | 516,547 | 1,336,547 | 260,525,942 | (259,001,383) | 1,524,559 | 188,012 |
| Income (loss) before transfers and contributed capital | - | - | 130,665,323 | (129,017,755) | 1,647,568 | 1,647,568 |
| Transfers | - | - | (57,343,892) | 57,343,892 | - | - |
| Contributed capital, net | - | - | (50,302,238) | 50,302,238 | - | - |
| Changes in net position | - | - | 23,019,193 | \$ (21,371,625) | \$ 1,647,568 | \$ 1,647,568 |
| Net Position: | | | | | | |
| Beginning of year, as restated | | | 171,161,375 | | | |
| End of year | | | <u>\$ 194,180,568</u> | | | |

San Diego Metropolitan Transit System
Taxicab Administration
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | |
|----------------------------------|------------------|------------------|--|--------------------------|-------------------------|--|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Budget Basis Adjustments | Actuals on Budget Basis | Variance with Final Budget Positive (Negative) |
| Operating revenues: | | | | | | |
| Miscellaneous operating revenues | \$ 1,140,000 | \$ 1,048,600 | \$ 953,536 | \$ - | \$ 953,536 | \$ (95,064) |
| Total operating revenues | 1,140,000 | 1,048,600 | 953,536 | - | 953,536 | (95,064) |
| Operating expenses: | | | | | | |
| Personnel costs | 959,685 | 885,334 | 886,327 | - | 886,327 | (993) |
| Outside services | 83,110 | 86,110 | 56,326 | - | 56,326 | 29,784 |
| Materials and supplies | 7,000 | 8,000 | 1,041 | - | 1,041 | 6,959 |
| Energy costs | 11,500 | 14,000 | 15,509 | - | 15,509 | (1,509) |
| Risk management | 9,000 | 8,000 | 7,692 | - | 7,692 | 308 |
| Miscellaneous operating expenses | 284,312 | 227,403 | 236,286 | - | 236,286 | (8,883) |
| Depreciation | - | - | 6,598 | (6,598) | - | - |
| Total operating expenses | 1,354,607 | 1,228,847 | 1,209,779 | (6,598) | 1,203,181 | 25,666 |
| Operating income (loss) | (214,607) | (180,247) | (256,243) | 6,598 | (249,645) | (69,398) |
| Reserve revenue | 214,607 | 180,247 | | 249,645 | 249,645 | 69,398 |
| Changes in net position | \$ - | \$ - | (256,243) | \$ 256,243 | \$ - | \$ - |
| Net Position: | | | | | | |
| Beginning of year | | | 499,860 | | | |
| End of year | | | \$ 243,617 | | | |

San Diego Metropolitan Transit System
San Diego Arizona and Eastern Railway
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Actual Amounts | | Variance with Final Budget Positive (Negative) |
|----------------------------------|------------------|------------------|---|-----------------------------|----------------------------|---|
| | Original | Final | | Budget Basis Adjustments | Actuals on Budget Basis | |
| Operating revenues: | | | | | | |
| Miscellaneous operating revenues | \$ 130,000 | \$ 145,000 | \$ 1,146,792 | \$ (1,000,000) | \$ 146,792 | \$ 1,792 |
| Total operating revenues | 130,000 | 145,000 | 1,146,792 | (1,000,000) | 146,792 | 1,792 |
| Operating expenses: | | | | | | |
| Personnel costs | 50,500 | 37,200 | 55,554 | - | 55,554 | (18,354) |
| Outside services | 200,000 | 220,000 | 181,520 | - | 181,520 | 38,480 |
| Risk management | 15,500 | 67,300 | 66,773 | - | 66,773 | 527 |
| Miscellaneous operating expenses | 4,000 | 20,000 | 24,627 | - | 24,627 | (4,627) |
| Depreciation | - | - | 17,088 | (17,088) | - | - |
| Total operating expenses | 270,000 | 344,500 | 345,562 | (17,088) | 328,474 | 16,026 |
| Operating income (loss) | (140,000) | (199,500) | 801,230 | (982,912) | (181,682) | 17,818 |
| Reserve revenue | 140,000 | 199,500 | - | 181,682 | 181,682 | (17,818) |
| Contributed capital, net | - | - | (1,000,000) | 1,000,000 | - | - |
| Changes in net position | - | - | (198,770) | \$ 198,770 | \$ - | \$ - |
| Net Position: | | | | | | |
| Beginning of year | | | 18,910,006 | | | |
| End of year | | | <u>\$ 18,711,236</u> | | | |

San Diego Metropolitan Transit System
Contracted Services
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|---------------------|---------------------|---|---------------------|-----------------------------|----------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Amounts | Budget Basis Adjustments | Actuals on Budget Basis | |
| Operating revenues: | | | | | | | |
| Passenger revenue | \$ 30,450,000 | \$ 28,872,700 | \$ 27,847,927 | \$ - | \$ - | \$ 27,847,927 | \$ (1,024,773) |
| Miscellaneous operating revenues | - | - | 1,997 | - | - | 1,997 | 1,997 |
| Total operating revenues | 30,450,000 | 28,872,700 | 27,849,924 | - | - | 27,849,924 | (1,022,776) |
| Operating expenses: | | | | | | | |
| Personnel costs | 499,612 | 438,532 | 604,065 | - | - | 604,065 | (165,533) |
| Outside services | 72,974,065 | 71,992,394 | 72,181,432 | (78,834) | (78,834) | 72,102,598 | (110,204) |
| Materials and supplies | 49,700 | 30,500 | 94,400 | (10,903) | (10,903) | 83,497 | (52,997) |
| Energy costs | 8,421,707 | 8,185,027 | 7,979,908 | - | - | 7,979,908 | 205,119 |
| Risk management | 15,300 | 15,300 | 15,300 | - | - | 15,300 | - |
| Miscellaneous operating expenses | 2,485,087 | 2,568,906 | 2,592,711 | - | - | 2,592,711 | (23,805) |
| Depreciation | - | - | 21,236,046 | (21,236,046) | (21,236,046) | - | - |
| Total operating expenses | 84,445,471 | 83,230,659 | 104,703,862 | (21,325,783) | (21,325,783) | 83,378,079 | (147,420) |
| Operating income (loss) | (53,995,471) | (54,357,959) | (76,853,938) | 21,325,783 | (55,528,155) | (1,170,196) | (1,170,196) |

San Diego Metropolitan Transit System
Contracted Services
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | |
|---|------------------|------------|--|--------------------------|-------------------------|--|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Budget Basis Adjustments | Actuals on Budget Basis | Variance with Final Budget Positive (Negative) |
| Public support and nonoperating revenues (expenses): | | | | | | |
| Federal revenue | 14,952,100 | 14,952,100 | 14,599,182 | - | 14,599,182 | (352,918) |
| Transportation Development Act (TDA) funds | 35,015,209 | 33,558,360 | 33,619,598 | (61,238) | 33,558,360 | - |
| State Transit Assistance (STA) funds | - | - | 3,304,470 | (23,393) | 3,281,077 | 3,281,077 |
| State revenue - other | 1,400,000 | 3,400,000 | 1,395,606 | (5,106) | 1,390,500 | (2,009,500) |
| <i>TransNet</i> funds | 1,872,060 | 1,669,682 | 1,910,548 | - | 1,910,548 | 240,866 |
| Other local subsidies | 756,102 | 777,817 | 788,488 | - | 788,488 | 10,671 |
| Total public support and nonoperating revenues (expenses): | 53,995,471 | 54,357,959 | 55,617,892 | (89,737) | 55,528,155 | 1,170,196 |
| Income (loss) before contributed capital | - | - | (21,236,046) | 21,236,046 | - | - |
| Contributed capital, net | - | - | 39,671,774 | (39,671,774) | - | - |
| Changes in net position | - | - | 18,435,728 | \$ (18,435,728) | \$ - | \$ - |
| Net Position: | | | | | | |
| Beginning of year | | | 203,652,145 | | | |
| End of year | | | <u>\$ 222,087,873</u> | | | |

San Diego Metropolitan Transit System
San Diego Transit Corporation
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|---------------------|---------------------|--|-----------------------------|----------------------------|----|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts | Budget Basis Adjustments | Actuals on Budget Basis | | |
| Operating revenues: | | | | | | | |
| Passenger revenue | \$ 24,292,400 | \$ 21,735,500 | \$ 23,034,059 | \$ - | \$ 23,034,059 | \$ | 1,298,559 |
| Miscellaneous operating revenues | 5,000 | 15,000 | 186,873 | - | 186,873 | | 171,873 |
| Total operating revenues | 24,297,400 | 21,750,500 | 23,220,932 | - | 23,220,932 | | 1,470,432 |
| Operating expenses: | | | | | | | |
| Personnel costs | 72,373,084 | 73,236,857 | 84,914,215 | (13,734,546) | 71,179,669 | | 2,057,188 |
| Outside services | 1,989,107 | 1,995,656 | 2,404,776 | (462,634) | 1,942,142 | | 53,514 |
| Materials and supplies | 4,521,828 | 5,429,556 | 5,700,994 | - | 5,700,994 | | (271,438) |
| Energy costs | 5,856,672 | 5,364,000 | 5,146,022 | - | 5,146,022 | | 217,978 |
| Risk management | 3,535,406 | 3,985,500 | 4,351,956 | 609,633 | 4,961,589 | | (976,089) |
| Miscellaneous operating expenses | 10,543,435 | 8,693,785 | 8,647,900 | - | 8,647,900 | | 45,885 |
| Depreciation | - | - | 25,998,089 | (25,998,089) | - | | - |
| Total operating expenses | 98,819,532 | 98,705,354 | 137,163,952 | (39,585,636) | 97,578,316 | | 1,127,038 |
| Operating income (loss) | (74,522,132) | (76,954,854) | (113,943,020) | 39,585,636 | (74,357,384) | | 2,597,470 |

San Diego Metropolitan Transit System
San Diego Transit Corporation
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | |
|---|-------------------|-------------------|--|--------------------------|--|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts | Budget Basis Adjustments | Actuals on Budget Basis |
| | | | | | Variance with Final Budget Positive (Negative) |
| Public support and nonoperating revenues (expenses): | | | | | |
| Federal revenue | 19,700,000 | 19,700,000 | 20,224,930 | - | 20,224,930 |
| Transportation Development Act (TDA) funds | 20,204,479 | 15,712,666 | 14,417,010 | (921) | 14,416,089 |
| State Transit Assistance (STA) funds | 3,600,000 | 4,600,000 | 1,588,376 | - | 1,588,376 |
| State revenue - other | - | - | 461,713 | (461,713) | - |
| <i>TransNet</i> funds | 31,591,364 | 37,515,899 | 38,284,814 | - | 38,284,814 |
| Other local subsidies | 278,000 | 278,000 | 603,817 | - | 603,817 |
| Interest expense | (851,711) | (851,711) | (834,063) | (17,622) | (851,685) |
| Gain (loss) on disposal of assets | - | - | (1,739,761) | 1,830,804 | 91,043 |
| Total public support and nonoperating revenues (expenses): | 74,522,132 | 76,954,854 | 73,006,836 | 1,350,548 | 74,357,384 |
| | | | | | |
| Income (loss) before contributed capital | - | - | (40,936,184) | 40,936,184 | - |
| Contributed capital, net | - | - | 96,900,788 | (96,900,788) | - |
| Changes in net position | - | - | 55,964,604 | \$ (55,964,604) | \$ - |
| Net Position: | | | | | |
| Beginning of year, as restated | | | 112,247,300 | | |
| End of year | | | \$ 168,211,904 | | |

San Diego Metropolitan Transit System
San Diego Trolley Incorporated
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|---------------------|---------------------|--|-----------------------------|----------------------------|---|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position Amounts | Budget Basis Adjustments | Actuals on Budget Basis | |
| Operating revenues: | | | | | | |
| Passenger revenue | \$ 41,124,707 | \$ 40,022,833 | \$ 39,353,823 | \$ - | \$ 39,353,823 | \$ (669,010) |
| Miscellaneous operating revenues | 720,000 | 720,000 | 776,558 | - | 776,558 | 56,558 |
| Total operating revenues | 41,844,707 | 40,742,833 | 40,130,381 | - | 40,130,381 | (612,452) |
| Operating expenses: | | | | | | |
| Personnel costs | 36,215,129 | 37,011,038 | 39,775,705 | (3,170,465) | 36,605,240 | 405,798 |
| Outside services | 5,331,139 | 5,533,678 | 11,235,587 | (5,689,617) | 5,545,970 | (12,292) |
| Materials and supplies | 6,716,787 | 6,311,800 | 9,078,022 | - | 9,078,022 | (2,766,222) |
| Energy costs | 12,516,500 | 12,801,500 | 13,075,928 | - | 13,075,928 | (274,428) |
| Risk management | 1,845,711 | 2,144,500 | 1,443,980 | 329,547 | 1,773,527 | 370,973 |
| Miscellaneous operating expenses | 16,725,712 | 15,560,250 | 15,706,489 | (58,829) | 15,647,660 | (87,410) |
| Depreciation | - | - | 70,595,031 | (70,595,031) | - | - |
| Total operating expenses | 79,350,978 | 79,362,766 | 160,910,742 | (79,184,395) | 81,726,347 | (2,363,581) |
| Operating income (loss) | (37,506,271) | (38,619,933) | (120,780,361) | 79,184,395 | (41,595,966) | (2,976,033) |

San Diego Metropolitan Transit System
San Diego Trolley Incorporated
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | |
|---|-------------------|-------------------|--|--------------------------|-------------------------|--|
| | Original | Final | Actuals per Statement of Revenues, Expenses, and Changes in Net Position | Budget Basis Adjustments | Actuals on Budget Basis | Variance with Final Budget Positive (Negative) |
| Public support and nonoperating revenues (expenses): | | | | | | |
| Federal revenue | 24,200,000 | 24,200,000 | 24,247,063 | (47,063) | 24,200,000 | - |
| Transportation Development Act (TDA) funds | 8,306,271 | 14,254,933 | 20,020,744 | (4,386,975) | 15,633,769 | 1,378,836 |
| State Transit Assistance (STA) funds | - | - | 1,965,467 | (371,090) | 1,594,377 | 1,594,377 |
| State revenue - other | - | - | 943,318 | (943,318) | - | - |
| <i>TransNet</i> funds | 5,000,000 | - | - | - | - | - |
| Gain (loss) on disposal of assets | - | 165,000 | 167,820 | - | 167,820 | 2,820 |
| Total public support and nonoperating revenues (expenses): | 37,506,271 | 38,619,933 | 47,344,412 | (5,748,446) | 41,595,966 | 2,976,033 |
| Income (loss) before contributed capital | - | - | (73,435,949) | 73,435,949 | - | - |
| Contributed capital, net | - | - | 14,280,335 | (14,280,335) | - | - |
| Changes in net position | \$ - | \$ - | (59,155,614) | \$ 59,155,614 | \$ - | \$ - |
| Net Position: | | | | | | |
| Beginning of year | | | 1,190,666,728 | | | |
| End of year | | | <u>\$ 1,131,511,114</u> | | | |

Statistical Section

(Unaudited)

Included in this section of the Metropolitan Transit System comprehensive annual financial report is detailed information to assist in analysis and understanding of the information presented in the financial statements, notes and required supplementary information.

Contents

Financial trends

These schedules contain trend information to help the reader understand how MTS's financial position has changed over time.

Revenue Capacity

These schedules contain detailed information about the fare structures and revenue generated from transit operations provided by MTS.

Debt Capacity

This schedule presents information to help the reader assess the affordability of MTS's current levels of outstanding debt and MTS's ability to issue debt in the future.

Demographic and Economic Information

These schedules provide service and infrastructure data to help the reader understand how the information in MTS's financial report relates to the services MTS provides.

Operating Information

These schedules provide service and infrastructure data to help the reader understand how the information in MTS's financial report relates to the services MTS provides.

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FINANCIAL TRENDS

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San Diego Metropolitan Transit System
Net Position by Component (in 000's)
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Business-type activities: | | | | | | | | | | |
| Net investment in capital assets | \$ 1,785,808 | \$ 1,739,360 | \$ 1,760,427 | \$ 1,699,222 | \$ 1,395,206 | \$ 1,296,217 | \$ 1,172,816 | \$ 1,073,562 | \$ 1,078,178 | \$ 1,075,105 |
| Restricted | 14,447 | 4,440 | 8,750 | 5,309 | 6,742 | 7,255 | 78,378 | 7,007 | 2,548 | 2,700 |
| Unrestricted | (65,308) | (19,615) | (31,668) | (31,900) | 181,114 | 189,837 | 157,609 | 173,128 | 177,158 | 172,344 |
| Total business-type activities net position | \$ 1,734,947 | \$ 1,724,185 | \$ 1,737,509 | \$ 1,672,631 | \$ 1,583,062 | \$ 1,493,309 | \$ 1,408,803 | \$ 1,253,697 | \$ 1,257,884 | \$ 1,250,149 |
| Primary government: | | | | | | | | | | |
| Net investment in capital assets | \$ 1,785,808 | \$ 1,739,360 | \$ 1,760,427 | \$ 1,699,222 | \$ 1,395,206 | \$ 1,296,217 | \$ 1,172,816 | \$ 1,073,562 | \$ 1,078,178 | \$ 1,075,105 |
| Restricted | 14,447 | 4,440 | 8,750 | 5,309 | 6,742 | 7,255 | 78,378 | 7,007 | 2,548 | 2,700 |
| Unrestricted | (65,308) | (19,615) | (31,668) | (31,900) | 181,114 | 189,837 | 157,609 | 173,128 | 177,158 | 172,344 |
| Total primary government net position | \$ 1,734,947 | \$ 1,724,185 | \$ 1,737,509 | \$ 1,672,631 | \$ 1,583,062 | \$ 1,493,309 | \$ 1,408,803 | \$ 1,253,697 | \$ 1,257,884 | \$ 1,250,149 |

Source: Audited financial statements

San Diego Metropolitan Transit System
Changes in Net Position (in 000's)
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Operating revenues: | | | | | | | | | | |
| Passenger revenue | \$ 90,236 | \$ 93,279 | \$ 97,914 | \$ 97,615 | \$ 93,995 | \$ 90,652 | \$ 88,094 | \$ 84,764 | \$ 84,167 | \$ 85,192 |
| Advertising | 1,131 | 1,379 | 968 | 816 | 870 | 972 | 784 | 621 | 783 | 925 |
| Charter | - | - | - | 6 | 30 | 1 | 186 | 129 | 128 | 69 |
| Miscellaneous | 17,404 | 18,863 | 15,781 | 9,349 | 9,531 | 4,934 | 4,445 | 4,688 | 4,264 | 4,874 |
| Total operating revenues | 108,771 | 113,521 | 114,663 | 107,786 | 104,426 | 96,559 | 93,509 | 90,202 | 89,342 | 91,060 |
| Operating expenses: | | | | | | | | | | |
| Personnel costs | 146,282 | 137,021 | 121,921 | 114,575 | 117,092 | 123,720 | 112,537 | 104,329 | 109,512 | 101,913 |
| Outside services | 101,574 | 97,800 | 94,802 | 84,302 | 73,859 | 67,414 | 66,050 | 64,037 | 63,574 | 65,140 |
| Transit operations funding | 488 | 463 | 491 | 2,692 | 4,243 | 3,571 | 3,721 | 4,053 | 3,758 | 3,004 |
| Materials and supplies | 14,918 | 13,065 | 9,715 | 10,307 | 9,276 | 8,469 | 7,977 | 7,678 | 6,680 | 7,190 |
| Energy costs | 26,414 | 25,552 | 24,531 | 28,003 | 26,044 | 22,572 | 22,689 | 21,932 | 22,892 | 25,283 |
| Risk management | 6,675 | 4,276 | 4,864 | 5,849 | 3,610 | 2,902 | 4,030 | 3,924 | 4,859 | 4,074 |
| Miscellaneous | 5,854 | 5,934 | 4,978 | 4,975 | 6,244 | 6,493 | 5,116 | 4,899 | 3,571 | 2,052 |
| Depreciation | 120,928 | 123,880 | 119,520 | 108,199 | 103,198 | 92,788 | 84,811 | 81,041 | 98,238 | 75,499 |
| Total operating expenses | 423,133 | 407,991 | 380,822 | 358,902 | 343,566 | 327,929 | 306,931 | 291,893 | 313,084 | 284,155 |
| Operating income (loss) | (314,362) | (294,470) | (266,159) | (251,116) | (239,140) | (231,370) | (213,422) | (201,691) | (223,742) | (193,095) |

San Diego Metropolitan Transit System
Changes in Net Position (in 000's) (Continued)
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|------------------|--------------------|------------------|-------------------|------------------|------------------|-------------------|-------------------|-----------------|--------------------|
| Public support and nonoperating revenues (expenses): | | | | | | | | | | |
| Grants and contributions | 253,298 | 232,775 | 235,763 | 235,755 | 211,517 | 183,945 | 325,658 | 170,850 | 224,506 | 176,979 |
| Investment earnings | 941 | 636 | 292 | 3,065 | 6,087 | 6,267 | 7,622 | 7,695 | 9,708 | 10,584 |
| Interest expense | (809) | (963) | (1,071) | (6,883) | (6,982) | (7,520) | (8,014) | (8,420) | (12,702) | (11,153) |
| Gain (loss) on disposal of assets | (809) | 396 | 2,433 | 67 | (273) | 804 | (620) | 712 | (69) | 294 |
| Other expenses | - | - | - | - | (13) | (13) | (5) | (139) | (1,075) | (705) |
| Total public support and nonoperating revenues (expenses) | 252,621 | 232,844 | 237,417 | 232,004 | 210,336 | 183,483 | 324,641 | 170,698 | 220,368 | 175,999 |
| Income (loss) before contributed capital | (61,741) | (61,626) | (28,742) | (19,112) | (28,804) | (47,887) | 111,219 | (30,993) | (3,374) | (17,096) |
| Contributed capital, net | 99,551 | 48,301 | 93,619 | 245,717 | 118,768 | 132,182 | 44,118 | 26,806 | 11,110 | 1,668 |
| Changes in net position | \$ 37,810 | \$ (13,325) | \$ 64,877 | \$ 226,605 | \$ 89,964 | \$ 84,295 | \$ 155,337 | \$ (4,187) | \$ 7,736 | \$ (15,428) |

REVENUE CAPACITY

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San Diego Metropolitan Transit System
Operating Revenue by Source (in 000's)
Last Ten Fiscal Years

| Fiscal Year Ended | Passenger Fares | Federal Operating Funds | State Operating Funds | Local Operating Funds | Other |
|--------------------------------------|--------------------|-------------------------------|-----------------------------|-----------------------------|----------|
| San Diego Transit Corporation | | | | | |
| 2009 | \$ 27,882 | \$ 17,177 | \$ 24,496 | \$ 14,416 | \$ 141 |
| 2010 | 26,708 | 18,267 | 16,249 | 21,456 | 182 |
| 2011 | 26,056 | 19,894 | 29,435 | 18,307 | 152 |
| 2012 | 27,498 | 20,709 | 20,497 | 17,549 | 196 |
| 2013 | 28,621 | 20,266 | 31,954 | 18,886 | 6 |
| 2014 | 27,781 | 19,336 | 16,489 | 20,897 | 34 |
| 2015 | 27,156 | 18,096 | 18,085 | 28,982 | 5 |
| 2016 | 26,169 | 18,000 | 15,993 | 35,558 | 2 |
| 2017 | 24,864 | 20,000 | 17,138 | 31,038 | 10 |
| 2018 | 23,034 | 20,225 | 16,467 | 38,889 | 187 |
| San Diego Trolley | | | | | |
| 2009 | \$ 33,454 | \$ 16,616 | \$ 787 | \$ 7,043 | \$ 1,012 |
| 2010 | 33,050 | 16,449 | 5,637 | 5,000 | 462 |
| 2011 | 34,673 | 14,912 | 5,497 | 5,000 | 528 |
| 2012 | 35,216 | 14,989 | 7,208 | 5,492 | 552 |
| 2013 | 35,554 | 22,426 | 3,379 | 5,000 | 574 |
| 2014 | 40,188 | 22,913 | 1,501 | 5,000 | 1,256 |
| 2015 | 41,140 | 21,151 | 5,047 | 5,000 | 628 |
| 2016 | 41,113 | 21,148 | 6,040 | 5,000 | 698 |
| 2017 | 38,968 | 23,149 | 13,609 | 5,000 | 704 |
| 2018 | 39,354 | 24,247 | 22,930 | - | 777 |
| MTS - Contracted Services | | | | | |
| 2009 | \$ 23,857 | \$ 4,681 | \$ 29,581 | \$ 1,456 | \$ 64 |
| 2010 | 24,410 | 10,420 | 21,524 | 1,636 | 47 |
| 2011 | 24,036 | 4,641 | 28,857 | 2,002 | - |
| 2012 | 25,380 | 7,155 | 26,635 | 1,984 | - |
| 2013 | 26,476 | 5,595 | 28,132 | 2,368 | - |
| 2014 | 26,025 | 10,362 | 26,906 | 2,665 | - |
| 2015 | 29,318 | 14,127 | 30,543 | 2,123 | 79 |
| 2016 | 30,631 | 13,827 | 33,796 | 2,258 | (2) |
| 2017 | 29,447 | 13,838 | 36,162 | 2,296 | 2 |
| 2018 | 27,848 | 14,599 | 38,320 | 2,699 | 2 |

Source: Audited Financial Statements.

San Diego Metropolitan Transit System

Fare Structure

Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Bus Cash Fares | | | | | | | | | | |
| One-way fare, local routes | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| Senior/disabled, local routes | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |
| Urban | - | - | - | - | - | - | - | - | - | - |
| Rapid/Express | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Senior/disabled Rapid/Express | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| Rapid Express/Premium | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Senior/disabled Rapid Express/Premium | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Rural bus | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 | 5.00-10.00 |
| Senior/disabled Rural bus | 2.5-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 | 2.50-5.00 |
| Sorrento Valley Coaster Connection | - | - | - | - | - | - | - | - | - | 1.00 |
| Senior/disabled Coaster Connection | - | - | - | - | - | - | - | - | - | 0.50 |
| Trolley Cash Fares | | | | | | | | | | |
| One-way fare, all stations | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Senior/disabled one-way fare all stations | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| Downtown | - | - | - | - | - | - | - | - | - | 1.25 |
| Senior/disabled Downtown | - | - | - | - | - | - | - | - | - | 0.60 |
| Bus and Trolley Day Passes | | | | | | | | | | |
| Regional day pass | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | - |
| Region plus day pass | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 | 12.00 | 14.00 | 14.00 | - |
| Bus and Trolley Monthly Passes | | | | | | | | | | |
| Regional monthly pass | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 68.00 |
| Senior/disabled Regional | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 17.00 |
| Youth Regional | 36.00 | 36.00 | 36.00 | 36.00 | 36.00 | 36.00 | 36.00 | 36.00 | 36.00 | 34.00 |
| 14-Day/Half-month | 43.00 | 43.00 | 43.00 | 43.00 | 43.00 | 43.00 | 43.00 | 43.00 | 43.00 | 41.00 |
| Rapid Express/Premium monthly pass | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 90.00 |
| Senior/disabled Rapid Express/Premium | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 22.50 |
| Youth Rapid Express/Premium | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 45.00 |
| 14-Day/Half-month Rapid Express/Premium | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | 54.00 |

SOURCE: SANDAG Comprehensive Fare Ordinance, amendments effective July 2014.

San Diego Metropolitan Transit System
Farebox Recovery Percentage
Last Ten Fiscal Years

| <u>Fiscal Year Ended</u> | <u>San Diego Transit</u> | <u>San Diego Trolley</u> | <u>MTS-Contracted Services</u> |
|------------------------------|------------------------------|------------------------------|------------------------------------|
| 2009 | 34.31 | 57.15 | 40.00 |
| 2010 | 28.46 | 54.26 | 42.06 |
| 2011 | 31.22 | 57.41 | 40.37 |
| 2012 | 30.50 | 55.63 | 41.50 |
| 2013 | 29.01 | 53.98 | 42.31 |
| 2014 | 30.34 | 56.52 | 39.46 |
| 2015 | 29.50 | 56.64 | 38.48 |
| 2016 | 27.39 | 54.76 | 38.05 |
| 2017 | 26.21 | 47.81 | 36.02 |
| 2018 | 23.12 | 44.89 | 33.36 |

Source: Audited financial statements; calculated as passenger revenue divided by operating expenses (less depreciation, GASB 68 related pension expense and GASB 75 related OPEB expenses), and interest expense.

DEBT CAPACITY

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San Diego Metropolitan Transit System
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

| Year ended June 30 | Capital Lease - Tower | Capital Lease- Equipment | 1995 LRV Lease/ Leaseback | Pension Obligation Bonds | Total | Percentage of Personal Income | Debt per Capita |
|-----------------------|--------------------------|-----------------------------|---------------------------------|--------------------------------|---------------|-------------------------------------|--------------------|
| 2009 | \$ 7,141,327 | \$ 117,470 | \$121,292,645 | \$ 71,565,000 | \$200,116,442 | 0.15% | \$ 65 |
| 2010 | 6,647,108 | 44,190 | 119,948,726 | 61,150,000 | 187,790,024 | 0.13% | 61 |
| 2011 | 5,317,686 | - | 118,501,460 | 47,265,000 | 171,084,146 | 0.11% | 55 |
| 2012 | 4,766,867 | - | 116,942,900 | 40,510,000 | 162,219,767 | 0.10% | 51 |
| 2013 | 4,189,818 | - | 115,264,486 | 25,880,000 | 145,334,304 | 0.09% | 46 |
| 2014 | 3,614,149 | - | 113,457,002 | 23,965,000 | 141,036,151 | 0.08% | 44 |
| 2015 | 3,006,729 | - | 18,108,323 | 21,960,000 | 43,075,052 | 0.02% | 13 |
| 2016 | 2,393,787 | - | - | 19,860,000 | 22,253,787 | 0.01% | 7 |
| 2017 | 1,747,713 | - | - | 17,655,000 | 19,402,713 | 0.01% | 6 |
| 2018 | 1,071,269 | - | - | 15,340,000 | 16,411,269 | 0.01% | 5 |

Details regarding MTS's outstanding debt can be found in the notes to the financial statements.

- MTS retired the capital equipment lease and refunded the Tower capital lease in FY2011
- MTS retired the 1995 LRV Lease/Leaseback obligation in FY2016

DEMOGRAPHIC AND ECONOMIC STATISTICS

DRAFT 10-23-2018

**San Diego Metropolitan Transit System
Regional Population and Personal Income Statistics
Last Ten Fiscal Years**

| | County of San Diego Population (1) | County of San Diego Personal Income (thousands) (1) | Per Capita Personal Income (1) | San Diego County Average Unemployment Rate (2) |
|------|---------------------------------------|---|-----------------------------------|---|
| 2009 | 3,077,633 | 137,300,000 | 48,464 | 10.20% |
| 2010 | 3,102,852 | 136,600,000 | 48,566 | 10.50% |
| 2011 | 3,135,806 | 145,700,000 | 49,938 | 10.40% |
| 2012 | 3,174,446 | 152,700,000 | 50,670 | 9.30% |
| 2013 | 3,208,946 | 157,800,000 | 51,223 | 7.40% |
| 2014 | 3,248,547 | 167,100,000 | 52,889 | 6.10% |
| 2015 | 3,275,546 | 175,900,000 | 54,708 | 5.00% |
| 2016 | 3,300,891 | 184,200,000 | 55,797 | 5.10% |
| 2017 | 3,327,564 | 192,500,000 | 56,437 | 4.30% |
| 2018 | 3,352,564 | 202,800,000 | 57,473 | 3.70% |

Source:

(1) California Department of Transportation - Actuals 2009-2016, Forecast 2017-2018

(2) California Employment Development Department, June 2018

**San Diego Metropolitan Transit System
Full-Time and Part-Time Employees by Function
Last Ten Fiscal Years**

| | <u>MTS</u> | <u>San Diego Transit</u> | <u>San Diego Trolley</u> | <u>Total</u> |
|------|------------|--------------------------|--------------------------|--------------|
| 2009 | 114 | 824 | 530 | 1,468 |
| 2010 | 110 | 782 | 528 | 1,420 |
| 2011 | 116 | 758 | 543 | 1,417 |
| 2012 | 122 | 761 | 568 | 1,451 |
| 2013 | 136 | 786 | 599 | 1,521 |
| 2014 | 149 | 785 | 600 | 1,534 |
| 2015 | 154 | 852 | 595 | 1,601 |
| 2016 | 163 | 823 | 571 | 1,557 |
| 2017 | 165 | 825 | 578 | 1,568 |
| 2018 | 166 | 802 | 593 | 1,561 |

Source: MTS payroll records

San Diego Metropolitan Transit System Ten Largest Employers in San Diego County

| Company Name | Number of Employees (1) | Percent of 1,525,500 County Total (2) |
|-------------------------------------|----------------------------|--|
| Federal Government* | 35,488 | 2.33% |
| University of California, San Diego | 34,448 | 2.26% |
| Naval Base San Diego | 34,185 | 2.24% |
| Sharp HealthCare | 18,364 | 1.20% |
| County of San Diego | 17,413 | 1.14% |
| Scripps Health | 14,941 | 0.98% |
| San Diego Unified School District | 13,815 | 0.91% |
| Qualcomm Inc. | 11,800 | 0.77% |
| City of San Diego | 11,462 | 0.75% |
| Kaiser Permanente | 9,606 | 0.63% |

Source:

- (1) San Diego Business Journal - 2018 Book of Lists. *U.S. Office of Personnel Management data reported for Executive Branch
- (2) Employment Development Department, State of California

Note: County of San Diego employment information is presented. Employer information is not currently available for the area served by the Metropolitan Transit System within San Diego County. MTS presents only current employment data for the county of San Diego.

OPERATING INFORMATION

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San Diego Metropolitan Transit System
Operating Indicator by Function
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Operating Cost (in 000's) | | | | | | | | | | |
| San Diego Transit | \$ 99,619 | \$ 94,878 | \$ 95,526 | \$ 92,059 | \$ 91,568 | \$ 98,666 | \$ 90,153 | \$ 83,457 | \$ 93,831 | \$ 81,271 |
| San Diego Trolley | 87,666 | 81,501 | 75,086 | 72,637 | 71,098 | 65,859 | 63,309 | 60,395 | 60,913 | 58,537 |
| MTS-Contract Services | 83,468 | 81,744 | 80,511 | 76,190 | 65,959 | 62,573 | 61,154 | 59,536 | 58,037 | 59,639 |
| Farebox Revenue (in 000's) | | | | | | | | | | |
| San Diego Transit | \$ 23,034 | \$ 24,864 | \$ 26,169 | \$ 27,156 | \$ 27,781 | \$ 28,621 | \$ 27,498 | \$ 26,056 | \$ 26,708 | \$ 27,882 |
| San Diego Trolley | 39,354 | 38,968 | 41,113 | 41,140 | 40,188 | 35,554 | 35,216 | 34,673 | 33,050 | 33,454 |
| MTS-Contract Services | 27,848 | 29,447 | 30,631 | 29,318 | 26,025 | 26,476 | 25,380 | 24,036 | 24,410 | 23,857 |
| Total Passengers (in 000's) | | | | | | | | | | |
| San Diego Transit | \$ 22,867 | \$ 24,315 | \$ 25,628 | \$ 27,264 | \$ 28,541 | \$ 28,927 | \$ 28,802 | \$ 27,252 | \$ 26,921 | \$ 29,762 |
| San Diego Trolley | 36,995 | 37,639 | 39,614 | 40,082 | 39,695 | 29,699 | 32,655 | 31,613 | 30,469 | 36,928 |
| MTS-Contract Services | 25,567 | 26,241 | 27,194 | 27,574 | 23,761 | 23,479 | 23,780 | 22,664 | 21,988 | 21,645 |
| Revenue Miles (in 000's) | | | | | | | | | | |
| San Diego Transit | \$ 9,684 | \$ 9,626 | \$ 9,702 | \$ 9,561 | \$ 8,695 | \$ 8,557 | \$ 8,221 | \$ 8,178 | \$ 8,624 | \$ 9,221 |
| San Diego Trolley | 8,656 | 8,728 | 8,424 | 8,596 | 8,516 | 7,758 | 7,544 | 7,519 | 7,743 | 7,895 |
| MTS-Contract Services | 14,983 | 15,144 | 14,969 | 13,328 | 12,139 | 11,607 | 11,214 | 11,196 | 11,450 | 12,179 |
| Subsidy / Total Passenger | | | | | | | | | | |
| San Diego Transit | \$ 3.35 | \$ 2.88 | \$ 2.71 | \$ 2.38 | \$ 2.24 | \$ 2.42 | \$ 2.18 | \$ 2.11 | \$ 2.50 | \$ 1.79 |
| San Diego Trolley | 1.31 | 1.13 | 0.86 | 0.79 | 0.78 | 1.02 | 0.86 | 0.81 | 0.92 | 0.68 |
| MTS-Contract Services | 2.18 | 1.99 | 1.83 | 1.70 | 1.68 | 1.54 | 1.50 | 1.57 | 1.53 | 1.66 |

Source: NTD Report, and audited financial statements.

San Diego Metropolitan Transit System
Service Performance Data
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Service Provided | | | | | | | | | | |
| San Diego Transit | | | | | | | | | | |
| Vehicle Revenue Miles (in 000's) | 9,684 | 9,626 | 9,702 | 9,561 | 8,695 | 8,557 | 8,221 | 8,178 | 8,624 | 9,221 |
| Vehicle Revenue Hours (in 000's) | 821 | 822 | 825 | 806 | 795 | 787 | 757 | 754 | 789 | 843 |
| Passengers (in 000's) | 22,867 | 24,315 | 25,628 | 27,264 | 28,541 | 28,927 | 28,802 | 27,252 | 26,921 | 29,762 |
| Passenger Miles (in 000's) | 104,545 | 109,727 | 111,639 | 117,585 | 110,009 | 108,222 | 106,804 | 100,500 | 98,163 | 107,408 |
| Number of Vehicles | 270 | 278 | 279 | 272 | 310 | 260 | 236 | 236 | 238 | 247 |
| San Diego Trolley | | | | | | | | | | |
| Vehicle Revenue Miles (in 000's) | 8,656 | 8,728 | 8,424 | 8,596 | 8,516 | 7,758 | 7,544 | 7,519 | 7,743 | 7,895 |
| Vehicle Revenue Hours (in 000's) | 478 | 490 | 493 | 496 | 504 | 472 | 428 | 423 | 442 | 410 |
| Passenger Car Hours (in 000's) | 486 | 504 | 507 | 509 | 512 | 476 | 433 | 429 | 448 | 416 |
| Passengers (in 000's) | 36,995 | 37,639 | 39,614 | 40,082 | 39,695 | 29,699 | 32,655 | 31,613 | 30,469 | 36,928 |
| Passenger Miles (in 000's) | 214,376 | 210,971 | 223,185 | 224,422 | 228,531 | 173,151 | 194,822 | 193,063 | 186,509 | 220,639 |
| Number of Vehicles | 177 | 177 | 177 | 177 | 179 | 178 | 151 | 128 | 134 | 133 |
| MTS-Contracted Services | | | | | | | | | | |
| Vehicle Revenue Miles (in 000's) | 14,983 | 15,144 | 14,969 | 13,328 | 12,139 | 11,607 | 11,214 | 11,196 | 11,450 | 12,179 |
| Vehicle Revenue Hours (in 000's) | 1,256 | 1,269 | 1,252 | 1,112 | 998 | 961 | 933 | 927 | 946 | 986 |
| Passengers (in 000's) | 25,567 | 26,241 | 27,194 | 27,573 | 23,761 | 23,479 | 23,780 | 22,664 | 21,988 | 21,645 |
| Passenger Miles (in 000's) | 94,665 | 95,940 | 97,479 | 94,504 | 85,269 | 84,021 | 79,789 | 82,125 | 79,237 | 80,104 |
| Number of Vehicles | 544 | 526 | 520 | 520 | 449 | 427 | 404 | 407 | 369 | 388 |
| Total | | | | | | | | | | |
| Passengers (in 000's) | 85,429 | 88,195 | 92,436 | 94,919 | 91,997 | 82,105 | 85,237 | 81,529 | 79,378 | 88,335 |
| Passenger Miles (in 000's) | 413,586 | 416,638 | 432,303 | 436,511 | 423,809 | 365,394 | 381,415 | 375,688 | 363,909 | 408,151 |

Source: NTD Report and MTS internal capital asset system

San Diego Metropolitan Transit System
Capital Assets Statistics by Function
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|
| General Operations | | | | | | | | | | |
| Buildings and structures | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Nonrevenue vehicles | - | - | 1 | 3 | 3 | 3 | 5 | 5 | 5 | 7 |
| San Diego Transit | | | | | | | | | | |
| Land (parcels) | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Buildings and structures | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Buses | 270 | 278 | 279 | 272 | 310 | 260 | 236 | 236 | 238 | 247 |
| Nonrevenue vehicles | 14 | 12 | 12 | 12 | 12 | 14 | 19 | 22 | 32 | 39 |
| San Diego Trolley | | | | | | | | | | |
| Trolley stations | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| Track miles | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| Light rail vehicles (total inventory) | 177 | 177 | 177 | 177 | 179 | 178 | 151 | 128 | 134 | 133 |
| Nonrevenue vehicles | 12 | 12 | 12 | 16 | 16 | 15 | 31 | 43 | 51 | 68 |
| MTS - Contracted Services | | | | | | | | | | |
| Land (parcel) | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |
| Buildings and structures | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 3 | 3 |
| Buses | 544 | 526 | 520 | 520 | 449 | 427 | 404 | 407 | 369 | 388 |
| Nonrevenue vehicles | 8 | 9 | 9 | 10 | 8 | 8 | 8 | 10 | 7 | 7 |
| Taxicab Administration | | | | | | | | | | |
| Buildings and structures | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Nonrevenue vehicles | 1 | 1 | 1 | 2 | 2 | 2 | 4 | 3 | 3 | 3 |

Source: MTS ERP System

**San Diego Metropolitan Transit System
Ridership
Last Ten Fiscal Years**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
| Ridership (in 000's) | | | | | | | | | | |
| San Diego Transit | 22,867 | 24,315 | 25,628 | 27,264 | 28,541 | 28,927 | 28,802 | 27,252 | 26,921 | 29,762 |
| % Change | -5.96% | -5.12% | -6.00% | -4.48% | -1.33% | 0.43% | 5.69% | 1.23% | -9.55% | 5.94% |
| San Diego Trolley | 36,995 | 37,639 | 39,614 | 40,082 | 39,695 | 29,699 | 32,655 | 31,613 | 30,469 | 36,928 |
| % Change | -1.71% | -4.99% | -1.17% | 0.98% | 33.65% | -9.05% | 3.30% | 3.75% | -17.49% | -1.84% |
| MTS - Contracted Services | 25,567 | 26,241 | 27,194 | 27,574 | 23,761 | 23,479 | 23,780 | 22,664 | 21,988 | 21,645 |
| % Change | -2.57% | -3.51% | -1.38% | 16.05% | 1.20% | -1.27% | 4.92% | 3.07% | 1.58% | 0.86% |

Source: NTD Report

San Diego Metropolitan Transit System
Operating Subsidy
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|
| Average Fare per Rider | | | | | | | | | | |
| San Diego Transit | 1.01 | 1.02 | 1.02 | 1.00 | 0.97 | 0.99 | 0.95 | 0.96 | 0.99 | 0.94 |
| San Diego Trolley | 1.06 | 1.04 | 1.04 | 1.03 | 1.01 | 1.20 | 1.08 | 1.10 | 1.08 | 0.91 |
| MTS - Contract Services | 1.09 | 1.12 | 1.13 | 1.06 | 1.10 | 1.13 | 1.07 | 1.06 | 1.11 | 1.10 |
| Operating Expense per Rider | | | | | | | | | | |
| San Diego Transit | 4.36 | 3.90 | 3.73 | 3.38 | 3.21 | 3.41 | 3.13 | 3.06 | 3.49 | 2.73 |
| San Diego Trolley | 2.37 | 2.17 | 1.90 | 1.81 | 1.79 | 2.22 | 1.94 | 1.91 | 2.00 | 1.59 |
| MTS - Contract Services | 3.27 | 3.12 | 2.96 | 2.76 | 2.78 | 2.67 | 2.57 | 2.63 | 2.64 | 2.76 |
| Subsidy per Rider | | | | | | | | | | |
| San Diego Transit | 3.35 | 2.88 | 2.71 | 2.38 | 2.24 | 2.42 | 2.18 | 2.11 | 2.50 | 1.79 |
| San Diego Trolley | 1.31 | 1.13 | 0.86 | 0.79 | 0.78 | 1.02 | 0.86 | 0.81 | 0.92 | 0.68 |
| MTS - Contract Services | 2.18 | 1.99 | 1.83 | 1.70 | 1.68 | 1.54 | 1.50 | 1.57 | 1.53 | 1.66 |

Source: NTD report and Audited financial statements

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
San Diego Metropolitan Transit System
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Diego Metropolitan Transit System (MTS), which comprise of the statement of net position as of June 30, 2018 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November XX, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MTS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MTS's internal control. Accordingly, we do not express an opinion on the effectiveness of MTS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MTS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
San Diego Metropolitan Transit System
San Diego, California
Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Diego, California
November XX, 2018

DRAFT 10-23-2018



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Agenda Item No. B2

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 1, 2018

SUBJECT:

INTERNAL AUDIT ACTIVITY UPDATE REPORT (TOUFIC TABSHOURI)

RECOMMENDATION:

That the Audit Oversight Committee receive the internal audit activity update report.

Budget Impact

None

DISCUSSION:

MTS Internal Auditor will present a report on Internal Audit activities.

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

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