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## Agenda

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 7, 2019

9:00 a.m.

James R. Mills Building  
Board Meeting Room, 10th Floor  
1255 Imperial Avenue, San Diego

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#### ACTION RECOMMENDED

- |    |  |         |
|----|--|---------|
| A. | 1. Roll Call   |         |
|    | 2. <a href="#">Approval of the Minutes of November 1, 2018</a>   | Approve |
| B. | COMMITTEE DISCUSSION ITEMS   |         |
|    | 1. <a href="#">Draft of Fiscal Year 2019 Comprehensive Annual Financial Report (CAFR) (Erin Dunn with Gary Caporicci and Coley Delaney of The Pun Group)</a><br>Action would receive a draft of the Fiscal Year (FY) 2019 CAFR for review and discussion | Receive |
|    | 2. <a href="#">Internal Audit Activity Update Report (Toufic Tabshouri)</a><br>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

1255 Imperial Avenue, Suite 1000, San Diego, CA 92101-7490 • (619) 231-1466 • [www.sdmts.com](http://www.sdmts.com)

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

## MINUTES

November 1, 2018

### A. ROLL CALL

1. Ms. Gomez called the meeting to order at 9:05 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.
2. APPROVAL OF MINUTES

Ms. Rios moved for approval of the minutes of the May 3, 2018 Audit Oversight Committee meeting. Mr. Arambula seconded the motion, and the vote was 4 to 0 in favor with Chairman Ewin, Ms. Cole and Mr. Roberts absent.

### B. AUDIT OVERSIGHT 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)

Erin Dunn, MTS Controller, introduced this item. She stated that Ken Pun and Gary Caporicci of The Pun Group would be presenting details of the audit as well as key financial numbers. Ms. Dunn commented that the most notable item this year is that we implemented GASB 75, which changes how we report total Other Postemployment Benefits (OPEB) liability. This change required MTS to change to single year statements this year, but we will revert back to comparative statements next year.

Ken Pun, with The Pun Group, continued the presentation and discussed the Fiscal Year 2018 CAFR. He reviewed management responsibilities, auditors' responsibilities, and the approach to the audit. He reviewed the financial statements including the summary statement of net position; summary statements of revenues, expenses and changes in net position; and summary statement of cash flows. Gary Caporicci, with The Pun Group, discussed the Key Pension and OPEB Information including net pension liability, pension expenses, and OPEB plan. Mr. Pun reviewed the audit results and stated they have an unmodified opinion. He noted that they had no disagreements with management, no material weaknesses or significant deficiencies, and found no accounting issues.

Ms. Gomez asked what it means when they say the "financial statements are fairly presented in all material respects". Mr. Pun replied that based on the material and non-material transactions and analytical procedures, they determine if the numbers are correctly presented in the financial statements. He noted that it is positive when the financial statements are deemed as fairly presented.

Mr. Arambula asked if MTS uses a 115 Trust as an investment tool. Ms. Dunn replied that MTS invests in LAIF and the County's investment pools. Mr. Arambula recommended staff looking into the 115 Trust for investments. Mr. Arambula asked if there were any nonmaterial weaknesses or deficiencies. Mr. Pun replied there were none. Mr. Arambula

asked if any funds were not subject to this audit. Mr. Pun replied no. Mr. Arambula asked what about the MTS unrestricted cash amount. Larry Marinesi, Chief Financial Officer, replied that as of September 30, 2018, MTS had \$135 million in unrestricted cash. He noted that the unrestricted cash amount changes monthly and most of that number is designated for deferred capital. Mr. Arambula asked if any funds were not properly allocated to the different entities. Mr. Pun replied that they are not aware of any.

Ms. Gomez asked if any new accounting principles were adopted. Mr. Pun replied that under Note 1Q in the CAFR, it lists the implementation of the new GASB pronouncements for the current year, including GASB 75. Ms. Gomez asked if there were any difficulties with management during the audit process. Mr. Pun replied no. Ms. Gomez asked if all the necessary information was provided during the audit. Mr. Pun replied yes.

Action Taken

No action taken.

2. Internal Audit Activity Update Report (Toufic Tabshouri)

Toufic Tabshouri, MTS Internal Auditor, provided a presentation and an update on internal audit activity. Mr. Tabshouri reviewed the audits he is currently working on including the performance incentive program, risk management and claims, and information technology security. He stated that he has not received any substantive fraud and abuse hotline calls. He stated that most of the calls he receives are not valid fraud and abuse allegations. Mr. Tabshouri noted that he forwards those calls to either customer service or security for follow up, depending on the type of call. Mr. Arambula asked how the hotline is being advertised to the public. Mr. Tabshouri replied that the phone number is listed on both the MTS internal and external websites and lists a description of the purpose of the fraud, waste and abuse hotline. Ms. Landers noted that all customer service based calls are tracked and managed through our customer service call center. Mr. Arambula asked about any possible issues with accounts receivable and collections. Mr. Marinesi replied that accounts receivable function is done in house and we rarely have to write off any receivables. Mr. Jablonski commented that the biggest accounts receivable issues are with small compass card distribution stores. He stated that staff watches those receivables very closely to ensure that the stores do not fall behind in their payments. Ms. Dunn also noted that SANDAG makes up the bulk of our accounts receivable.

Action Taken

No action taken. Informational item only.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There was no committee member communications and other business.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next meeting will be held as called.

F. ADJOURNMENT

Ms. Gomez adjourned the meeting at 9:47 a.m.

/s/ Nathan Fletcher  
Chairperson

Attachment: Roll Call Sheet

**AUDIT OVERSIGHT COMMITTEE**  
**SAN DIEGO METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) November 1, 2018

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

RECESS \_\_\_\_\_

RECONVENE \_\_\_\_\_

CLOSED SESSION \_\_\_\_\_

RECONVENE \_\_\_\_\_

ADJOURN 9:47 a.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair)	<input type="checkbox"/>		
ARAMBULA	<input checked="" type="checkbox"/>	9:00 a.m.	9:47 a.m.
Transportation Committee Rep.			
COLE	<input type="checkbox"/>		
(Gomez)	<input type="checkbox"/>		
GOMEZ	<input checked="" type="checkbox"/>	9:05 a.m.	9:47 a.m.
MCWHIRTER	<input checked="" type="checkbox"/>	9:00 a.m.	9:47 a.m.
(Arambula)	<input type="checkbox"/>		
RIOS	<input checked="" type="checkbox"/>	9:00 a.m.	9:47 a.m.
(Salas)	<input type="checkbox"/>		
ROBERTS	<input type="checkbox"/>		
(Cox)	<input type="checkbox"/>		

SIGNED BY THE CLERK OF THE BOARD: Julia Tuer

CONFIRMED BY THE GENERAL COUNSEL: Phil Card



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## Agenda Item No. B1

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 7, 2019

#### SUBJECT:

DRAFT OF FISCAL YEAR 2019 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
(CAFR) (ERIN DUNN WITH GARY CAPORICCI AND COLEY DELANEY OF THE PUN  
GROUP)

#### RECOMMENDATION:

That the Audit Oversight Committee receive a draft of the Fiscal Year (FY) 2019 CAFR  
for review and discussion.

#### Budget Impact

None.

#### DISCUSSION:

The Finance Department presents for review and discussion the FY 2019 CAFR. As of  
this distribution date, staff expects no material changes to the financial report with the  
following exceptions:

1. Formatting and final proofreading; and
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.



Gary Caporicci and Coley Delaney 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](mailto:Sharon.Cooney@sdmts.com)

Attachment: A. Draft FY 2019 CAFR





# Comprehensive Annual Financial Report

for the Fiscal Years Ended  
June 30, 2019 and 2018

San Diego, California



Metropolitan Transit System





FINAL DRAFT 10-29-2019

# **San Diego Metropolitan Transit System**

San Diego, California

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

***For the Years Ended June 30, 2019 and 2018***

PREPARED BY SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
FINANCE DEPARTMENT

FINAL DRAFT 10-29-2019

# San Diego Metropolitan Transit System

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# San Diego Metropolitan Transit System

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**INTRODUCTORY SECTION**



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FINAL DRAFT 10-29-2019

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 years ended June 30, 2019 and 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 years ended June 30, 2019 and 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 years ended June 30, 2019 and 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 compliance with the requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of MTS's major federal programs. The auditors are required to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. 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 four 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, the Sycuan Green Line from the 12th and Imperial Transit Center Bayside platform to Santee and the SDG&E Silver Line that makes stops along the downtown loop using three restored vintage cars from the 1940's and 1981. 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 73 fixed-route bus lines and paratransit services with an active fleet of 530 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, 2024: San Diego, National City, El Cajon, Imperial Beach, La Mesa, Lemon Grove, Poway, Santee and Chula Vista. 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 2019. Industries projected to lead the region's growth include Biotech and Healthcare. San Diego's gross domestic product (GDP), the total value of the region's economy, soared to \$246 billion in 2018 compared to the \$231.8 billion earned in 2017, and is forecasted to grow 2.5 percent in 2019. The unemployment rate was 3.3% in June 2019. This is consistent with the 3.3% average for the first half of 2019, unchanged from 3.3% in 2018 yet down from 4.0% in 2017. San Diego continues to compare 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 ninth consecutive year, MTS experienced three years of ridership declines over FY16-FY18, 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. However, in FY19 passenger levels grew over FY18 by 0.2%, and passenger revenue increased by \$2.0 million. In addition, State Transit Assistance (STA) funding has stabilized after the defeat of the Senate Bill 1 (SB1) repeal in the November 2018 elections. For FY20, the operating budget was balanced without using any one-time funding. MTS still has a contingency reserve balance of 12.2% of the operating budget at its disposal.

### **Major Initiatives**

MTS addressed the 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 has now fully implemented all phases of its TOP. Among the goals of TOP was to create a network of services that would attract more riders to the system and reverse the decline in ridership and fare revenue MTS was experiencing. The TOP process included nearly 6,000 surveys, more than 50 outreach events across the region and a public hearing. Using rider input in conjunction with system performance data and ridership patterns, proposals were made for adjustments to over 60% of MTS' bus services. On the 11 routes with increased frequency, ridership increased by 5.5% in calendar year 2018, compared to a 2.7% drop for the non-TOP adjusted routes.

In another effort to spur ridership, MTS held Free Ride Day on Tuesday, October 2, 2018. MTS recorded almost 53,000 more rides than the same Tuesday one year before, a huge 17% increase. Every region in the MTS territory experienced substantial gains. Significantly, the Sycuan Green Line Trolley, which skirts the doorstep to thousands of middle income condo and rental units, saw a 37% jump in ridership. The media coverage for Free Ride Day also generated 3.5 million impressions.

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. After more than two years of work by MTS staff, in December 2018, the MTS Board approved staff's recommendation to hire Innovations in Transportation, Inc. (INIT) to develop and implement a new fare collection system. Part of the criteria was to select a proven system that is operational at another transit agency. INIT has implemented the highly successful HOP system for TriMet in Portland, Oregon. This is a tremendous step toward implementing a new fare system that keeps pace with technologies the riders' desire, such as guaranteed best fare based on the number of trips, real-time account management and much more. The goal is to have this new fare collection system implemented in 2021.

The UCSD student association recently extended the student transportation fee that provides a Regional Transit Pass (U-Pass) for all undergraduate, graduate and professional students who pay this fee. The U-Pass gives unlimited ridership during the fall, winter and spring quarters on all mass transit bus and light rail routes in the San Diego region provided by MTS and North County Transit District (NCTD), excluding the MTS rural and premium express routes. Due to buy-in from all students, MTS is able to keep the Triton U-Pass fare significantly lower than its typical fare structure. With U-Pass, UCSD students enjoy unlimited transit for less than 20% of the standard monthly pass cost. This extension is set to begin July 1, 2019 and run for six years, with total estimated revenue for the six years exceeding \$33 million.

MTS also has a couple major service enhancements under way. Construction on the majority of the South Bay Rapid project, the full 26-mile route between the Otay Mesa Transit Center and downtown San Diego, is nearing completion. This includes five new Rapid stations on a dedicated bus-only lane along East Palomar Street and a transit guideway over the SR-125. The final segment is still under construction along East Palomar Street between Interstate 805 and Heritage Road and is expected to be complete in summer 2019. The new route went into full service on Sunday, January 27, 2019, operating from 5 a.m. to 11 p.m. daily with service every 15 minutes during peak commuting hours (6-9 a.m. and 3-6 p.m.), and every 30 minutes during the rest of the day and on weekends. This *TransNet* funded route is part of the region's continuing effort to connect suburban commuters with major employment and entertainment centers.

The 11-mile extension of the UC San Diego Blue Line, named the Mid-Coast Corridor Transit Project (Mid-Coast) is also currently under construction from the Old Town Transit Center to the University City community. It will feature nine new stations, serving major activity centers such as the Veterans Administration Medical Center, UCSD, and Westfield UTC. The project is funded by SANDAG and the Federal Transit Administration (FTA) New Starts Program. Mid-Coast is anticipated to begin service in November 2021.

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 in June the MTS Board approved a contract with Siemens to purchase up to 47 new, low-floor Trolley cars to replace the 2000 vehicle series (SD100 fleet) which are now nearing 25-years old. This will be the final step for MTS to become 100% low-floor across the entire Trolley fleet. MTS has committed \$121 million for CIP in FY20, funding 51 projects focused on fleet replacement, maintaining a state of good repair, and a number of rehabilitation projects along the Orange Line.

MTS recently updated its joint Transit Oriented Development (TOD) program to more aggressively cultivate other partnerships to redevelop its top-tier park and ride locations into TODs. Program changes include prioritizing density, setting aside 20% of units for qualified low-income families, and identifying partners through a competitive bidding process. Going forward, MTS plans to be more aggressive in seeking development at Trolley stations and other owned properties. MTS sees the potential to transform the area at 12th & Imperial into a much more efficient transit center with a residential tower and low-rise offices adjacent to it. There is also a major project moving forward at the Grantville Station that would combine market rate student oriented housing and affordable housing. In addition, MTS has received a proposal for Palm Avenue and are actively working in a partnership with the City of Chula Vista to identify a developer for property at E Street. Other properties MTS is actively looking for redevelopment partners include the El Cajon Transit Center and the H Street Transit Center. These projects will not only help ensure the region's need for affordable housing, but provide MTS with new riders.

For the fourth consecutive cycle, MTS received a perfect score from the FTA's Triennial Review of the agency. That means for the last 12 years the FTA has found zero deficiencies in MTS's financial management of FTA funds' management, technical capacity, program management, legal capacity, or any other areas governed by FTA. The purpose of the FTA's Triennial Review is to ensure compliance with regulations and also provide a forward-looking assessment of each agency's risk in the management and implementation of FTA grant programs. Mandated by Congress in 1982, the Triennial Review examines how recipients of Urbanized Area Formula Program funds meet statutory and administrative requirements. These formula funds represent approximately 36% of all grant funds awarded by FTA each year.

In 2017, Assembly Bill (AB) 805 was passed, giving MTS the ability to place a half-cent sales tax on the ballot for transit-only improvements within its service territory. In 2018, an Ad Hoc committee of MTS Board members was formed to guide the development of a project list for a potential ballot measure. To do so, it created Elevate San Diego 2020, an unprecedented public participation campaign to gauge public opinion on transit improvements that can help define the future of mobility in the region. Over the next six months, MTS will convene industry-sector focus groups, a Community Advisory Committee made up of civic-minded, neighborhood-based organizations and dozens of meetings in communities and transit stations to gain more insights about how transit can help address housing, traffic congestion, carbon emissions reduction and more. The input received from this public participation effort will be analyzed. A proposed expenditure and financing plan will then be developed and announced tentatively by the end of the year.

## **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, 2018. This was the thirteenth consecutive year and the twenty-third 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

**[REPORT DATE]**



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# San Diego Metropolitan Transit System

## Listing of Board of Directors and Management

### BOARD OF DIRECTORS

<b>Members</b>	<b>Board position (elected position)</b>
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)
Paloma Aguirre	Board Member, since 12/18 (Councilmember, City of Imperial Beach)
David Arambula	Board Member, since 1/17 (Councilmember, City of Lemon Grove)
Mark Arapostathis	Board Member, since 1/19 (Mayor, City of La Mesa)
Kevin Faulconer	Board Member, since 1/18 (Mayor, City of San Diego)
Nathan Fletcher	Board Member, since 1/19 (Supervisor, County Board of Supervisors)
Caylin Frank	Board Member, since 12/18 (Councilmember, City of Poway)
Jill Galvez	Board Member, since 1/19 (Councilmember, City of Chula Vista)
Ronn Hall	Board Member, since 5/17 (Councilmember, City of Santee)
Bob McClellan	Board Member, since 4/08 (Councilmember, City of El Cajon)
Monica Montgomery	Board Member, since 12/18 (Councilmember, City of San Diego)
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)
Chris Ward	Board Member, since 12/18 (Councilmember, City of San Diego)

### BOARD COMMITTEE MEMBERSHIP

<b>Executive Committee</b>	<b>Accessible Services Advisory Committee</b>	<b>Airport Authority Advisory Committee</b>	<b>Public Security Committee</b>
Georgette Gómez, Chair	Mona Rios, Chair	Bill Sandke	David Arambula
Mark Arapostathis			Nathan Fletcher
Nathan Fletcher			Jill Galvez
Monica Montgomery			Ronn Hall
Mona Rios			Monica Montgomery
Mary Salas			Bill Sandke
<b>Audit Oversight Committee</b>	<b>Budget Development Committee</b>	<b>Los Angeles-San Diego Rail Corridor Agency</b>	<b>Taxicab Advisory Committee</b>
Georgette Gómez, Chair	Mary Salas, Chair	Caylin Frank	Chris Ward
Mark Arapostathis	Paloma Aguirre		
Nathan Fletcher	David Arambula		
Monica Montgomery	Nathan Fletcher		
Mona Rios	Georgette Gómez		
Mary Salas			
<b>SANDAG Board</b>	<b>SANDAG Regional Planning Committee</b>	<b>SANDAG Transportation Committee</b>	
Mona Rios	Jill Galvez	Nathan Fletcher	

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

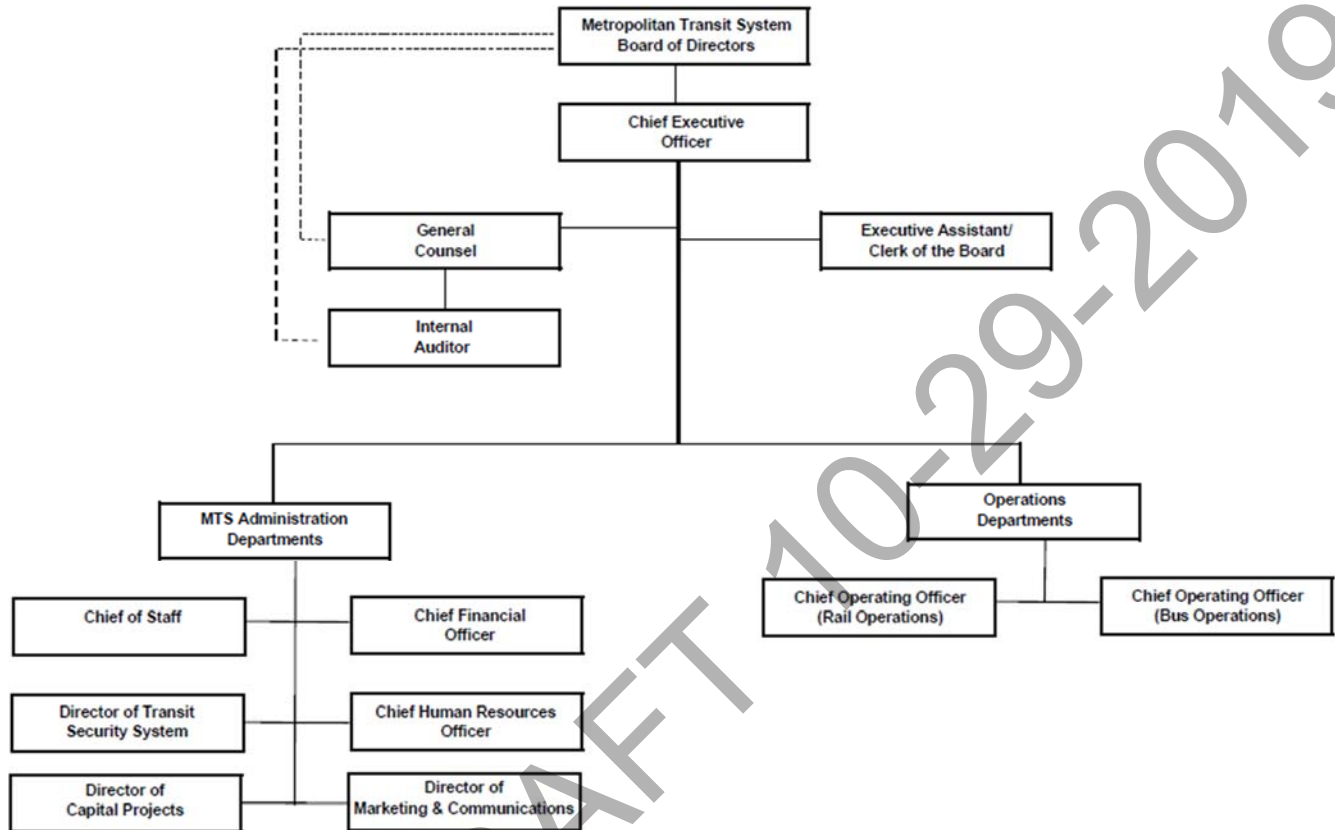
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**MTS MANAGEMENT**

<b>Staff</b>	<b>Position</b>
Paul Jablonski	Chief Executive Officer
Sharon Cooney	Chief of Staff
Karen Landers	General Counsel
Larry Marinesi	Chief Financial Officer
Mike Wygant	Chief Operating Officer, Transit Systems
E. Wayne Terry	Chief Operating Officer, Rail
Jeff Stumbo	Chief Human Resources Officer
Robert Schupp	Director, Marketing and Communications
Heather Furey	Director, Capital Projects
Manuel Guaderrama	Director, Transit System Security

# San Diego Metropolitan Transit System

## Executive Level Organization Chart



**San Diego Metropolitan Transit System**

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

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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, 2018**

*Christopher P. Morrell*

Executive Director/CEO

**FINANCIAL SECTION**

FINAL DRAFT 10-29-2019



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FINAL DRAFT 10-29-2019

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 statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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 audits. We conducted our audits 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. 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, 2019 and 2018, and the respective changes in financial position, and cash flows for the years 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

## **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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated [REPORT DATE], 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  
[REPORT DATE]

## San Diego Metropolitan Transit System Management's Discussion and Analysis (Unaudited) June 30, 2019 and 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 years ended June 30, 2019 and 2018. This information should be used in conjunction with the Letter of Transmittal, which can be found on pages i through iv of this report.

### Financial Highlights

- Net position, as reported in the statement of net position, totaled \$1,770 million as of June 30, 2019, \$1,735 million as of June 30, 2018 and \$1,724 million as of June 30, 2017. Of this amount, \$(53) million was the unrestricted deficit as of June 30, 2019, \$(55) 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 \$35 million in the current year and increased by \$11 million in the prior year. The current year increase is primarily due to a \$36 million increase in capital assets.
- For the year ended June 30, 2019, 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 34.21% compared to 33.33% for the year ended June 30, 2018 and 36.14% for the year ended June 30, 2017. The current year increase is primarily due to an increase in passenger revenue and decrease in risk management costs, partially offset by an increase in outside services and energy.

### 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 (Unaudited)(Continued)**  
**June 30, 2019 and 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 \$1,770 million at the close of the most recent fiscal year and \$1,735 million at the end of FY2018.

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 \$42 million, of which the largest projects are the Courthouse trolley station and the Transit Asset Management project, at \$12.8 and \$9.7 million respectively. Prior year construction-in-progress totaled \$53 million, of which the largest projects were the procurement of new Siemens SD8 Light Rail Vehicles (LRVs) and the Courthouse trolley station, at \$12.8 and \$12.4 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 FY2019, MTS transferred completed projects worth \$60.2 million to SDTC, SDTI and MTS - Contracted Services compared to \$51.2 million in FY2018.

The balance in the unrestricted component of net position increased by \$2.2 million during the current year and decreased by \$35.8 million in the prior year. Total assets increased by \$79 million primarily due to capital assets increasing by \$36 million and cash increasing by \$19 million. In FY2018, total assets increased by \$49 million. In the current fiscal year, total liabilities increased by \$29 million primarily due to an increase in unearned revenue of \$23 million and an increase in accounts payable of \$11 million. In the previous year, total liabilities increased by \$26 million.

	2019	2018	Change	2017	Change
Current and other assets	\$ 258,548,635	\$ 215,737,517	\$ 42,811,118	\$ 212,694,682	\$ 3,042,835
Capital assets	1,823,323,569	1,787,009,020	36,314,549	1,741,107,404	45,901,616
Total assets	2,081,872,204	2,002,746,537	79,125,667	1,953,802,086	48,944,451
Deferred outflows of resources	39,436,807	54,287,513	(14,850,706)	70,889,473	(16,601,960)
Current and other liabilities	91,121,531	57,240,387	33,881,144	58,940,833	(1,700,446)
Long-term liabilities outstanding	251,475,903	256,544,202	(5,068,299)	228,646,665	27,897,537
Total liabilities	342,597,434	313,784,589	28,812,845	287,587,498	26,197,091
Deferred inflows of resources	8,736,010	8,303,149	432,861	12,919,118	(4,615,969)
Net position:					
Net investment in capital assets	1,822,922,233	1,785,807,650	37,114,583	1,739,359,691	46,447,959
Restricted	212,422	4,545,522	(4,333,100)	4,440,262	105,260
Unrestricted (deficit)	(53,159,088)	(55,406,860)	2,247,772	(19,615,010)	(35,791,850)
Total net position	\$1,769,975,567	\$1,734,946,312	\$ 35,029,255	\$1,724,184,943	\$ 10,761,369

**San Diego Metropolitan Transit System**  
**Management's Discussion and Analysis (Unaudited)(Continued)**  
**June 30, 2019 and 2018**

Increases in operating revenue are attributable to an increase in passenger revenue of \$2 million, and an increase in Compressed Natural Gas (CNG) credits totaling \$400 thousand. Variances between FY2019 and FY2018 nonoperating revenues are attributable to a significant decrease in Federal revenue partially offset by an increase in State Transit Assistance revenue. Operating expenses increased due to outside services increasing by \$6 million along with depreciation and energy increasing by \$2 million each, partially offset by risk management costs decreasing by \$4.5 million.

	2019	2018	Change	2017	Change
<b>Revenues:</b>					
Operating revenues:					
Passenger revenue	\$ 92,225,166	\$ 90,235,809	\$ 1,989,357	\$ 93,279,455	\$ (3,043,646)
Other operating revenue	20,434,869	18,535,281	1,899,588	20,241,852	(1,706,571)
Nonoperating revenues:					
Federal revenue	66,068,502	86,930,893	(20,862,391)	72,404,730	14,526,163
Transportation Development Act	96,654,680	94,111,445	2,543,235	94,915,733	(804,288)
State Transit Assistance	32,382,645	21,680,915	10,701,730	12,918,834	8,762,081
State revenue - other	1,828,998	4,886,993	(3,057,995)	14,183,196	(9,296,203)
TransNet funds	45,550,475	40,195,362	5,355,113	37,270,235	2,925,127
Other nonoperating revenue	659,457	5,623,649	(4,964,192)	2,114,713	3,508,936
<b>Total revenues</b>	<b>355,804,792</b>	<b>362,200,347</b>	<b>(6,395,555)</b>	<b>347,328,748</b>	<b>14,871,599</b>
<b>Expenses:</b>					
Operating expenses	426,696,248	423,132,790	3,563,458	407,991,373	15,141,417
Nonoperating expenses	671,402	809,318	(137,916)	962,775	(153,457)
<b>Total expenses</b>	<b>427,367,650</b>	<b>423,942,108</b>	<b>3,425,542</b>	<b>408,954,148</b>	<b>14,987,960</b>
<b>Increase (decrease) in net position before capital contributions</b>	<b>(71,562,858)</b>	<b>(61,741,761)</b>	<b>(9,821,097)</b>	<b>(61,625,400)</b>	<b>(116,361)</b>
<b>Capital contributions</b>	<b>106,592,113</b>	<b>99,550,659</b>	<b>7,041,454</b>	<b>48,301,025</b>	<b>51,249,634</b>
<b>Increase (decrease) in net position</b>	<b>35,029,255</b>	<b>37,808,898</b>	<b>(2,779,643)</b>	<b>(13,324,375)</b>	<b>51,133,273</b>
<b>Net position:</b>					
Beginning of year, as previously reported	1,734,946,312	1,724,184,943	10,761,369	1,737,509,318	(13,324,375)
Restatements due to implementation of GASB 75	-	(27,047,529)	27,047,529	-	(27,047,529)
Beginning of year, as restated	1,734,946,312	1,697,137,414	37,808,898	1,737,509,318	(40,371,904)
End of year	<u>\$1,769,975,567</u>	<u>\$1,734,946,312</u>	<u>\$ 35,029,255</u>	<u>\$1,724,184,943</u>	<u>\$ 10,761,369</u>



**San Diego Metropolitan Transit System**  
**Management's Discussion and Analysis (Unaudited)(Continued)**  
**June 30, 2019 and 2018**

### Capital Asset and Debt Administration

**Capital assets.** MTS's investment in capital assets net of accumulated depreciation as of June 30, 2019 and 2018 amounted to \$1,823 million and \$1,787 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 revenue vehicle fleet. In FY2019, 11 light rail vehicles (LRVs) were capitalized for a total cost of \$44 million, two of those vehicles were contributed by SANDAG. MTS also placed 35 new buses into service totaling \$6.9 million.
- MTS completed the direct current (DC) circuit breaker project which replaced rectifiers and DC circuit breakers at twelve Traction Power Substations along the Green Line at a total cost of \$6 million.
- Completed capital projects and inventory parts totaling \$107 million were transferred from SANDAG to MTS and its component units during FY2019, the largest being the South Bay BRT expansion which included guideway, a transit center, seven stations, shelters and technology.

**CAPITAL ASSETS**  
 (Net of Accumulated Depreciation)

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Land	\$ 256,922,883	\$ 256,922,883	\$ 256,922,883
Buildings	1,041,617,309	996,361,733	968,444,183
Vehicles	437,802,630	432,560,716	426,479,686
Equipment & other	45,059,343	48,553,881	53,087,922
Construction-in-progress	41,921,404	52,609,807	36,172,730
Total	<u>\$ 1,823,323,569</u>	<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 \$363,000. In addition, MTS has one finance obligation outstanding relating to Pension Obligation Bonds issued in fiscal year 2005 for a total obligation of \$12.9 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 2019, the same rating that was received in 2018. 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](http://www.sdmts.com) or direct inquiries to the Controller, MTS, 1255 Imperial Avenue, Suite 1000, San Diego, CA 92101.

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**San Diego Metropolitan Transit System**  
**Statements of Net Position**  
**June 30, 2019 and 2018**

	2019	2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 98,640,856	\$ 84,588,129
Cash restricted for capital support	22,690,668	17,246,933
Accounts and other receivables	10,663,281	9,431,211
Due from other governments	102,071,466	82,572,920
Inventory	20,747,837	18,246,303
Prepaid items and other current assets	3,734,527	3,652,021
<b>Total current assets</b>	<b>258,548,635</b>	<b>215,737,517</b>
<b>Noncurrent assets:</b>		
Capital assets, net of accumulated depreciation	1,823,323,569	1,787,009,020
<b>Total noncurrent assets</b>	<b>1,823,323,569</b>	<b>1,787,009,020</b>
<b>Total assets</b>	<b>2,081,872,204</b>	<b>2,002,746,537</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions-related deferred outflows of resources		
Contributions made after measurement date	19,934,549	18,722,293
Differences between projected and actual investment earnings	9,055,035	12,500,738
Differences between expected and actual experience	1,052,301	1,038,158
Changes in employer's proportion	464,158	1,162,548
Differences between employer contributions and proportionate share	529,418	597,880
Changes in assumption	6,992,960	18,972,003
<b>Total pensions-related deferred outflows of resources</b>	<b>38,028,421</b>	<b>52,993,620</b>
OPEB-related deferred outflows of resources		
Contributions made after measurement date	1,408,386	1,293,893
<b>Total deferred outflows of resources</b>	<b>39,436,807</b>	<b>54,287,513</b>

See accompanying notes to basic financial statements.

**San Diego Metropolitan Transit System**  
**Statements of Net Position (Continued)**  
**June 30, 2019 and 2018**

	2019	2018
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	29,425,726	18,584,841
Due to other governments	6,908,807	8,574,860
Unearned revenue	32,259,264	9,419,707
Accrued expenses	3,114,362	2,990,766
Retentions payable	5,446,937	3,090,699
Due within one year:		
Compensated absences	6,049,951	6,179,497
Accrued damage, injury, and employee claims	4,998,412	5,261,820
Long-term debt, current portion	2,918,072	3,138,197
<b>Total current liabilities</b>	<u>91,121,531</u>	<u>57,240,387</u>
<b>Noncurrent liabilities:</b>		
Due in more than one year:		
Compensated absences	4,808,050	4,574,257
Accrued damage, injury, and employee claims	10,838,239	12,028,332
Long-term debt	10,355,000	13,273,072
Aggregate net pension liability	178,363,411	181,271,712
Aggregate total OPEB liability	47,111,203	45,396,829
<b>Total noncurrent liabilities</b>	<u>251,475,903</u>	<u>256,544,202</u>
<b>Total liabilities</b>	<u>342,597,434</u>	<u>313,784,589</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on debt refunding related to capital assets	38,264	130,101
Pensions-related deferred inflows of resources		
Differences between expected and actual experience	2,939,943	3,480,013
Changes in employer's proportion	246,648	166,559
Changes in assumptions	2,119,531	1,167,117
Total pensions-related deferred inflows of resources	<u>5,306,122</u>	<u>4,813,689</u>
OPEB-related deferred inflows of resources		
Changes in assumptions	3,391,624	3,359,359
<b>Total deferred inflows of resources</b>	<u>8,736,010</u>	<u>8,303,149</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,822,922,233	1,785,807,650
Restricted for capital assets	212,422	4,545,522
Unrestricted (deficit)	(53,159,088)	(55,406,860)
<b>Total net position</b>	<u>\$ 1,769,975,567</u>	<u>\$ 1,734,946,312</u>

See accompanying notes to basic financial statements.

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**San Diego Metropolitan Transit System**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2019 and 2018**

	2019	2018
<b>Operating Revenues:</b>		
Passenger revenue	\$ 92,225,166	\$ 90,235,809
Advertising	1,604,025	1,130,974
Miscellaneous	18,830,844	17,404,307
<b>Total operating revenues</b>	<b>112,660,035</b>	<b>108,771,090</b>
<b>Operating Expenses:</b>		
Personnel costs	146,005,624	146,282,491
Outside services	107,845,799	101,573,956
Transit operations funding	498,181	487,825
Materials and supplies	12,926,523	14,918,022
Energy costs	28,784,063	26,413,555
Risk management	2,183,096	6,675,072
Miscellaneous	5,446,266	5,854,008
Depreciation	123,006,696	120,927,861
<b>Total operating expenses</b>	<b>426,696,248</b>	<b>423,132,790</b>
<b>Operating (Loss)</b>	<b>(314,036,213)</b>	<b>(314,361,700)</b>
<b>Public Support and Nonoperating Revenues (Expenses):</b>		
Federal revenue	66,068,502	86,930,893
Transportation Development Act (TDA) funds	96,654,680	94,111,445
State Transit Assistance (STA) funds	32,382,645	21,680,915
State revenue - other	1,828,998	4,886,993
TransNet funds	45,550,475	40,195,362
Other local subsidies	1,058,481	5,492,305
Investment earnings	1,952,467	940,538
Interest expenses	(671,402)	(809,318)
(Loss) on disposal of assets	(2,351,491)	(809,194)
<b>Total public support and nonoperating revenues (expenses)</b>	<b>242,473,355</b>	<b>252,619,939</b>
<b>Income (Loss) Before Contributed Capital</b>	<b>(71,562,858)</b>	<b>(61,741,761)</b>
Contributed capital, net	106,592,113	99,550,659
<b>Changes in Net Position</b>	<b>35,029,255</b>	<b>37,808,898</b>
<b>Net Position:</b>		
Beginning of year, as restated (Note 14)	1,734,946,312	1,697,137,414
End of year	<b>\$ 1,769,975,567</b>	<b>\$ 1,734,946,312</b>

**San Diego Metropolitan Transit System**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2019 and 2018**

	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers and users	\$ 113,620,347	\$ 107,429,785
Payments to suppliers	(153,840,907)	(151,152,671)
Payments to employees	(132,594,038)	(131,934,361)
Payments for damage and injury	(1,478,061)	(1,541,026)
<b>Net cash (used in) operating activities</b>	<b>(174,292,659)</b>	<b>(177,198,273)</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Public support funds received	252,016,258	251,301,566
<b>Net cash provided by noncapital financing activities</b>	<b>252,016,258</b>	<b>251,301,566</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Debt service costs	(3,865,578)	(3,825,507)
Property acquisition	(55,892,229)	(67,493,671)
Proceeds from disposal of assets	122,231	998,974
<b>Net cash (used in) capital and related financing activities</b>	<b>(59,635,576)</b>	<b>(70,320,204)</b>
<b>Cash Flows From Investing Activities:</b>		
Interest received on investments	1,408,439	965,283
<b>Net cash provided by investing activities</b>	<b>1,408,439</b>	<b>965,283</b>
<b>Net increase in cash and cash equivalents</b>	<b>19,496,462</b>	<b>4,748,372</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	101,835,062	97,086,690
End of year	<u>\$ 121,331,524</u>	<u>\$ 101,835,062</u>
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Position:</b>		
Cash and cash equivalents	\$ 98,640,856	\$ 84,588,129
Cash restricted for capital support	22,690,668	17,246,933
<b>Total cash and cash equivalents</b>	<b><u>\$ 121,331,524</u></b>	<b><u>\$ 101,835,062</u></b>

**San Diego Metropolitan Transit System**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

	2019	2018
<b>Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities:</b>		
Operating (loss)	\$ (314,036,213)	\$ (314,361,700)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation	123,006,696	120,927,861
(Increase) decrease in:		
Accounts and other receivables	(1,232,070)	420,923
Due from other governments	799,454	(1,762,228)
Inventory	(2,501,534)	1,688,973
Prepaid items and other current assets	(82,506)	(864,219)
Increase (decrease) in:		
Accounts payable	3,960,874	(1,277,354)
Due to other governments	(487,022)	1,042,817
Accrued expenses	123,596	(29,847)
Unearned revenue	1,482,067	3,083,287
Aggregate net pension liability	11,598,598	12,259,210
Aggregate total OPEB liability	1,517,653	3,292,972
Compensated absences	104,247	36,342
Accrued damage, injury and employee claims	1,453,501	(1,655,310)
Total adjustments	139,743,554	137,163,427
<b>Net cash (used in) operating activities</b>	<b>\$ (174,292,659)</b>	<b>\$ (177,198,273)</b>
<b>Noncash investing, capital, and financing activities:</b>		
Contributions of capital assets and inventory parts from SANDAG	\$ 106,592,113	\$ 99,550,659
Increase (decrease) in fair value of investments	\$ 59,251	\$ (33,508)



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**NOTES TO BASIC FINANCIAL STATEMENTS**

FINAL DRAFT 10-29-2019

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements**  
**For the Years Ended June 30, 2019 and 2018**

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**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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FINAL DRAFT 10-29-2019

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**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 Years Ended June 30, 2019 and 2018**

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**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 are 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.

MTS receives funding primarily from the following revenue sources:

**Passenger Revenue**

Passenger fares comprised approximately 32 percent of MTS's \$290.5 million and \$277.8 million operating budget for both FY2019 and FY2018 respectively.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2019 and 2018**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

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

**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.

**Non Operating 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 Senate Bill (SB) 1 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.

**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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

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

**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 which we expect to receive in Fiscal Years 2021-2023 as expenses are incurred.

**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.

**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 expired on December 31, 2017. It continues to be discussed within the legislature, but has not yet been reauthorized.

**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 pooled investment funds, liquidity funds and governmental bonds. 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.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

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

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 Treasurer's Pooled Money Fund, 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

GASB Statement No. 72, *Fair Value Measurement and Application*, 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. 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 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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**H. Capital Assets (Continued)**

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

**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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

**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.

**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, 2019**

During fiscal year ended June 30, 2019, MTS has implemented 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 Years Ended June 30, 2019 and 2018**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**R. Upcoming Governmental Accounting Standards for the Year Ending June 30, 2020**

For the fiscal year ending June 30, 2020, MTS will implement the following new GASB Pronouncements:

**GASB Statement No. 84** - In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Application of this statement is effective for MTS's fiscal year ending June 30, 2020.

**GASB Statement No. 90** - In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. Application of this statement is effective for MTS's fiscal year ending June 30, 2020.

**Note 2 - Cash, Cash Equivalents, and Investments**

Cash and investments are reported in the accompanying statements of net position as follows on June 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 98,640,856	\$ 84,588,129
Cash and cash equivalents restricted for capital support	22,690,668	17,246,933
<b>Total cash and investments</b>	<b>\$ 121,331,524</b>	<b>\$ 101,835,062</b>

Cash and cash equivalents consisted as follows on June 30, 2019 and 2018:

Investment Type	Measurement Input	Fair Value	
		2019	2018
<b>Cash and cash equivalents:</b>			
Demand Deposits	N/A	\$ 49,175,889	\$ 37,898,684
Retention Trust Account	N/A	4,819,561	2,799,920
San Diego County Investment Pool	Level 2	32,663,475	43,281,259
State of California - Local Agency Investment Fund	Uncategorized	34,672,599	17,855,199
<b>Total cash and cash equivalents</b>		<b>\$ 121,331,524</b>	<b>\$ 101,835,062</b>

**Demand Deposits**

As of June 30, 2019, the carrying amount of demand deposits was \$49,175,889 and the bank balance was \$49,452,745 compared to \$37,898,684 and \$43,038,639 at June 30, 2018, 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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 2 - Cash, Cash Equivalents, and Investments (Continued)**

**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:

- United States Treasury bills, notes, bonds, or strips
- Federal Agency or U.S. government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by Federal agencies or U.S. government-sponsored enterprises
- Eligible Banker's Acceptances
- Prime Commercial Paper issued by a U.S. organization with a rating category of "A" or "A-1", its equivalent or higher
- Non-negotiable certificates of deposit that meet the requirements for deposit under California Government Code Section 53630
- Negotiable Certificates of Deposit with issuers rated in a rating category of "A", its equivalent or higher
- Repurchase Agreements collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities
- Reverse Repurchase Agreements
- State of California's Local Agency Investment Fund (LAIF)
- The San Diego County Treasurer's Pooled Money Fund
- A Joint Powers Authority Pool rated among the top two rating categories by a nationally recognized statistical rating organization (NRSRO)
- Medium Term Notes issued by corporations organized and operating within the U.S. with issuers rated in a rating category of "A", its equivalent, or higher by a NRSRO
- Money Market Funds registered under the Investment Company Act of 1940
- Municipal bonds issued by MTS
- Registered State warrants or treasury notes or bonds of the State of California
- Bonds, notes, warrants, or other evidences of indebtedness of a local agency within California
- Registered treasury notes or bonds of any of the other 49 states in addition to California
- Supranational obligations

For full details on the authorized investments and associated limitations, please refer to MTS Board Policy 30 on our website. <https://www.sdmts.com/about-mts-reports-records-and-policies/policies-and-procedures>

**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.

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2019 and 2018**

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**Note 2 - Cash, Cash Equivalents, and Investments (Continued)**

**Local Agency Investment Funds (Continued)**

As of June 30, 2019, MTS had \$34,672,599 invested in LAIF, which had invested 1.77% of the pool investment funds in structured notes and asset-backed securities compared to \$17,855,199 and 2.67% at June 30, 2018.

**San Diego County Treasurer's Pooled Money Fund**

The San Diego County Treasurer's Pooled Money Fund 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. Voluntary participants, including cities, fire districts, and various special districts accounted for approximately 6.78% and 7.88% of the Investment Pool as of June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the fair value of our position in the pool is 99.92% and 99.48%, respectively, 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.

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, 2019, MTS had \$32,663,475 invested with the San Diego County Treasurer's Pooled Fund, which had invested 7.20% of the pool investment funds in asset-backed securities compared to \$43,281,259 and 2.11% at June 30, 2018.

**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 maturities dependent on the investment vehicle.

**Disclosures Relating to Credit Risk**

MTS's investment policy limits investments in commercial paper and negotiable certificates of deposit to instruments rated "A", its equivalent or better by a NRSRO. In the current year, MTS does not hold investments in commercial paper or certificates of deposit. MTS investment instruments include deposits in LAIF and the San Diego County Treasurer's Pooled Market Fund which are not rated and do not require ratings.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 2 - Cash, Cash Equivalents, and Investments (Continued)**

**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 has waived the collateralization requirements.

**Summary of Investments to Maturity**

Investments held by MTS grouped by maturity date at June 30, 2019 and 2018, are shown below:

Maturity	2019	2018
Current to one year	\$ 121,331,524	\$ 101,835,062
Total	<u>\$ 121,331,524</u>	<u>\$ 101,835,062</u>

**Note 3 - Accounts Receivable**

**A. Accounts and Other Receivables**

At June 30, 2019 and 2018, the net realizable accounts and other receivables consisted of the following:

	2019	2018
Passenger revenue - General Public	\$ 2,590,781	\$ 3,239,372
Other trade receivables	6,373,594	4,582,072
Pension plan receivable	1,698,906	1,609,767
Total accounts and other receivables	<u>\$ 10,663,281</u>	<u>\$ 9,431,211</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 3 - Accounts Receivable (Continued)**

**B. Due From Other Governments**

At June 30, 2019 and 2018, amounts due from other governments consisted of the following:

	2019	2018
FTA Grant Funds	\$ 60,851,790	\$ 59,537,420
SANDAG - Project/Route reimbursement	25,274,333	753,333
STA Funds	7,523,824	6,875,454
SANDAG - <i>TransNet</i>	5,187,851	6,248,861
Passenger Revenue - Other Governments	1,306,541	1,762,228
County of San Diego	951,154	4,692,714
North County Transit District - passenger revenue and shared costs	575,904	957,362
State of California	254,850	1,638,020
Other Local Governments	99,546	52,444
Department of Homeland Security	45,673	35,869
City of San Diego	-	19,215
Total due from other governments	<u>\$ 102,071,466</u>	<u>\$ 82,572,920</u>

**Note 4 – Inventory**

At June 30, 2019 and 2018, inventory consisted of the following repair and maintenance parts and administrative supplies:

	2019	2018
San Diego Transit Corp.	\$ 4,173,162	\$ 3,458,589
San Diego Trolley, Inc.	16,574,675	14,787,714
Total inventory	<u>\$ 20,747,837</u>	<u>\$ 18,246,303</u>



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 5 - Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets, not depreciated				
Land and right-of-way	\$ 256,922,883	\$ -	\$ -	\$ 256,922,883
Construction-in-progress	52,609,807	55,614,281	(66,302,684)	41,921,404
Total capital assets, not depreciated	309,532,690	55,614,281	(66,302,684)	298,844,287
Capital assets, depreciated:				
Buildings and structures	1,995,593,088	109,804,853	(657,908)	2,104,740,033
Buses and vehicles	758,262,110	51,938,744	(13,426,880)	796,773,974
Equipment and other	149,152,910	10,832,531	(5,969,807)	154,015,634
Capital lease property	12,091,981	-	-	12,091,981
Total capital assets, depreciated	2,915,100,089	172,576,128	(20,054,595)	3,067,621,622
Less accumulated depreciation for:				
Buildings and structures	(999,231,355)	(64,433,608)	542,239	(1,063,122,724)
Buses and vehicles	(325,701,394)	(46,556,061)	13,286,111	(358,971,344)
Equipment and other	(101,543,715)	(11,639,153)	3,659,765	(109,523,103)
Capital lease property	(11,147,295)	(377,874)	-	(11,525,169)
Total accumulated depreciation	(1,437,623,759)	(123,006,696)	17,488,115	(1,543,142,340)
Total capital assets, depreciated, net	1,477,476,330	49,569,432	(2,566,480)	1,524,479,282
Total capital assets, net	\$ 1,787,009,020	\$ 105,183,713	\$ (68,869,164)	\$ 1,823,323,569

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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 5 - Capital Assets (Continued)**

MTS converted \$66 million in capital assets from CIP to assets in service in FY2019 compared to \$53 million in FY2018. A summary of capital asset additions contributed by MTS is as follows:

	2019	2018
MTS - General Operations	\$ 6,075,926	\$ 1,448,245
MTS - Contracted Services	7,416,853	36,947,032
San Diego Transit Corporation	4,562,728	7,394,755
San Diego Trolley, Inc.	48,247,177	6,901,622
Total	<u>\$ 66,302,684</u>	<u>\$ 52,691,654</u>

Capital asset additions totaling \$106 million were contributed by SANDAG in FY2019 compared to \$100 million in FY2018. SANDAG also contributed spare parts for the new LRVs to SDTI. A summary of capital asset additions contributed by SANDAG is as follows:

	2019	2018
MTS - Contracted Services	\$ 90,287,543	\$ 2,724,742
San Diego Transit Corporation	1,991,933	89,506,033
San Diego Trolley, Inc.	13,993,969	7,319,884
Total	<u>106,273,445</u>	<u>99,550,659</u>
San Diego Trolley, Inc - LRV Spare Parts Inventory	318,668	-
Total contributed capital	<u>\$ 106,592,113</u>	<u>\$ 99,550,659</u>

**Depreciation**

Depreciation expense for capital assets for the years ended June 30, 2019 and 2018 were comprised of the following:

	2019	2018
MTS - General Operations	\$ 3,106,473	\$ 3,098,695
MTS - Contracted Services	22,706,135	21,236,046
San Diego Transit Corporation	29,467,429	25,998,089
San Diego Trolley, Inc.	67,726,659	70,595,031
Total	<u>\$ 123,006,696</u>	<u>\$ 120,927,861</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 6 – Due To Other Governments**

At June 30, 2019 and 2018, amounts due to other governments consisted of the following:

	2019	2018
SANDAG - subsidy revenue for construction projects in process	\$ 4,480,475	\$ 5,165,754
State of California - miscellaneous	919,015	561,701
City of La Mesa - Miscellaneous	586,030	17,486
North County Transit District-passenger revenue	416,368	1,509,661
City of Lemon Grove - TDA Funds	129,847	126,065
City of San Diego - miscellaneous	103,131	39,726
City of El Cajon - TDA Funds	97,392	94,555
County of San Diego - miscellaneous	56,819	103,362
Other Governments - miscellaneous	53,179	50,956
City of Coronado - TDA Funds	37,738	46,431
SANDAG - project reimbursements	28,813	859,163
Total due to other governments	<u>\$ 6,908,807</u>	<u>\$ 8,574,860</u>

**Note 7 – Unearned Revenue**

At June 30, 2019 and 2018, unearned revenue consisted of the following:

	2019	2018
<i>TransNet</i> Funds for LRVs received in advance	\$ 12,921,047	\$ -
Caltrans LCTOP funds received in advance	8,852,223	1,689,717
STA State of Good Repair funds received in advance	4,319,957	3,046,020
Fare media payments received in advance	1,999,924	2,806,245
Insurance recoveries received in advance	1,596,242	-
Lease payments received in advance	1,594,871	1,577,725
Naming Rights payment received in advance	975,000	300,000
Total unearned revenue	<u>\$ 32,259,264</u>	<u>\$ 9,419,707</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 8 – Long-Term Debt****A. Summary**

A summary of changes in long-term obligations for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Amounts due within one year	Amounts due in more than one year
<b>MTS:</b>						
Capital lease obligations	\$ 1,071,269	\$ -	\$ (708,197)	\$ 363,072	\$ 363,072	\$ -
Compensated absences payable	1,144,305	676,009	(671,456)	1,148,858	671,456	477,402
Accrued damage, injury, and employee claims	952,955	449,867	(412,000)	990,822	439,332	551,490
Aggregate net pension liability	13,418,753	7,912,254	(8,348,344)	12,982,663	-	12,982,663
Aggregate total OPEB liability	5,575,125	653,863	(203,914)	6,025,074	-	6,025,074
<b>Total MTS</b>	<b>22,162,407</b>	<b>9,691,993</b>	<b>(10,343,911)</b>	<b>21,510,489</b>	<b>1,473,860</b>	<b>20,036,629</b>
<b>San Diego Transit Corporation:</b>						
Pension Obligation Bonds	15,340,000	-	(2,430,000)	12,910,000	2,555,000	10,355,000
Compensated absences payable	6,831,941	3,031,119	(3,049,850)	6,813,210	3,049,850	3,763,360
Accrued damage, injury, and employee claims	13,346,566	3,138,584	(4,454,554)	12,030,596	3,289,320	8,741,276
Aggregate net pension liability	134,375,705	24,130,606	(24,444,935)	134,061,376	-	134,061,376
Aggregate total OPEB liability	28,722,883	2,176,297	(1,378,967)	29,520,213	-	29,520,213
<b>Total San Diego Transit Corporation</b>	<b>198,617,095</b>	<b>32,476,606</b>	<b>(35,758,306)</b>	<b>195,335,395</b>	<b>8,894,170</b>	<b>186,441,225</b>
<b>San Diego Trolley, Inc.:</b>						
Compensated absences payable	2,777,508	2,447,070	(2,328,645)	2,895,933	2,328,645	567,288
Accrued damage, injury, and employee claims	2,990,631	929,646	(1,105,044)	2,815,233	1,269,760	1,545,473
Aggregate net pension liability	33,477,254	15,925,962	(18,083,844)	31,319,372	-	31,319,372
Aggregate total OPEB liability	11,098,821	830,012	(362,917)	11,565,916	-	11,565,916
<b>Total San Diego Trolley, Inc.</b>	<b>50,344,214</b>	<b>20,132,690</b>	<b>(21,880,450)</b>	<b>48,596,454</b>	<b>3,598,405</b>	<b>44,998,049</b>
<b>Total</b>	<b>\$ 271,123,716</b>	<b>\$ 62,301,289</b>	<b>\$ (67,982,667)</b>	<b>\$ 265,442,338</b>	<b>\$ 13,966,435</b>	<b>\$ 251,475,903</b>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 8 – Long-Term Debt (Continued)****A. Summary (Continued)**

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
<b>MTS:</b>						
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
<b>Total MTS</b>	<b>20,403,903</b>	<b>9,311,767</b>	<b>(7,553,263)</b>	<b>22,162,407</b>	<b>1,977,937</b>	<b>20,184,470</b>
<b>San Diego Transit Corporation:</b>						
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
<b>Total San Diego Transit Corporation</b>	<b>203,271,408</b>	<b>34,053,986</b>	<b>(38,708,299)</b>	<b>198,617,095</b>	<b>9,085,235</b>	<b>189,531,860</b>
<b>San Diego Trolley, Inc.:</b>						
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
<b>Total San Diego Trolley, Inc.</b>	<b>47,292,808</b>	<b>23,663,310</b>	<b>(20,611,904)</b>	<b>50,344,214</b>	<b>3,516,342</b>	<b>46,827,872</b>
<b>Total</b>	<b>\$ 270,968,119</b>	<b>\$ 67,029,063</b>	<b>\$ (66,873,466)</b>	<b>\$ 271,123,716</b>	<b>\$ 14,579,514</b>	<b>\$ 256,544,202</b>

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

	2019		2018	
	Due Within One Year	Noncurrent Liabilities	Due Within One Year	Noncurrent Liabilities
<b>Long-Term Liabilities:</b>				
Compensated absences payable	\$ 6,049,951	\$ 4,808,050	\$ 6,179,497	\$ 4,574,257
Accrued damage, injury, and employee claims	4,998,412	10,838,239	5,261,820	12,028,332
Long-term debt	2,918,072	10,355,000	3,138,197	13,273,072
Aggregate net pension liability	-	178,363,411	-	181,271,712
Aggregate total OPEB liability	-	47,111,203	-	45,396,829
<b>Total long-term liabilities</b>	<b>\$ 13,966,435</b>	<b>\$ 251,475,903</b>	<b>\$ 14,579,514</b>	<b>\$ 256,544,202</b>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 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:

	2019	2018
Building – MTS Tower	\$ 12,091,981	\$ 12,091,981
Less accumulated depreciation	(11,525,169)	(11,147,295)
Total	<u>\$ 566,812</u>	<u>\$ 944,686</u>

At June 30, 2019 the future minimum payments under the capital lease were \$363,072 summarized below:

Year ending June 30:	Tower Lease Payments
2020	<u>\$ 372,148</u>
Total minimum lease payments	372,148
Less amount representing interest	(9,076)
Present value of minimum lease payments	<u>\$ 363,072</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 Years Ended June 30, 2019 and 2018**

**Note 8 – Long-Term Debt (Continued)**

**C. Pension Obligation Bonds (Continued)**

At June 30, 2019 and 2018, the outstanding balance of the Pension Obligation Bonds is \$12,910,000 and \$15,340,000, respectively. The required payments for the Pension Obligation Bonds, including interest, are:

Year ending June 30	Principal	Interest	Total
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	\$ 12,910,000	\$ 1,604,225	\$ 14,514,225

**Note 9 - Risk Management**

MTS (including SDTC, SDTI, 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, SDTC, and SDTI 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 \$2,500 deductible and the cyber liability policy has a limit of \$5,000,000 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
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
2019	17,290,152	1,128,499	(2,582,000)	15,836,651

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 9 - Risk Management (Continued)**

Following is a summary of accrued damage, injury, and employee claims for fiscal years 2019 and 2018:

	2019	2018
Current portion	\$ 4,998,412	\$ 5,261,820
Non-current portion	10,838,239	12,028,332
Total	<u>\$ 15,836,651</u>	<u>\$ 17,290,152</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 MTS, SDTC and SDTI were \$15,836,651 at June 30, 2019 and \$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, SDTC, and SDTI.

**Note 10 - Contingencies**

**Pending legal actions.** MTS, SDTC and SDTI have been named in certain legal actions pending at June 30, 2019. 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 is reported in the accompanying statements of net position as follows:

	2019	2018
MTS CalPERS Plans	\$ 12,982,663	\$ 13,418,753
SDTI CalPERS Plans	29,552,949	31,326,755
SDTI PARS Plan	1,766,423	2,150,499
SDTC Retirement Plan	134,061,376	134,375,705
Total	<u>\$ 178,363,411</u>	<u>\$ 181,271,712</u>



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**A. Summary (Continued)**

**Deferred Outflows of Resources**

Deferred Outflows of Resources at June 30, 2019 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	\$ 2,041,117	\$ 498,122	\$ 64,183	\$ 1,480,062	\$ 464,158	\$ 529,418	\$ 5,077,060
SDTI CalPERS Plans	3,824,864	158,950	285,018	5,085,955	-	-	9,354,787
SDTI PARS Plan	435,748	-	40,356	426,943	-	-	903,047
SDTC Retirement Plan	13,632,820	395,229	8,665,478	-	-	-	22,693,527
Total	<u>\$ 19,934,549</u>	<u>\$ 1,052,301</u>	<u>\$ 9,055,035</u>	<u>\$ 6,992,960</u>	<u>\$ 464,158</u>	<u>\$ 529,418</u>	<u>\$ 38,028,421</u>

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	1,495,441	6,839,732	-	-	11,832,453
SDTI PARS Plan	539,350	-	128,350	184,933	-	-	852,633
SDTC Retirement Plan	13,020,223	790,458	10,413,914	9,899,958	-	-	34,124,553
Total	<u>\$ 18,722,293</u>	<u>\$ 1,038,158</u>	<u>\$ 12,500,738</u>	<u>\$ 18,972,003</u>	<u>\$ 1,162,548</u>	<u>\$ 597,880</u>	<u>\$ 52,993,620</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**A. Summary (Continued)**

**Deferred Inflows of Resources**

Deferred Inflows of Resources at June 30, 2019 are reported in the accompanying statement of net position as follows:

	Differences Between Expected and Actual Experience	Changes in Assumptions	Changes in Employer's Proportion	Total
MTS CalPERS Plans	\$ 169,508	\$ 362,735	\$ 246,648	\$ 778,891
SDTI CalPERS Plans	2,162,417	1,436,635	-	3,599,052
SDTI PARS Plan	487,781	-	-	487,781
SDTC Retirement Plan	120,237	320,161	-	440,398
Total	<u>\$ 2,939,943</u>	<u>\$ 2,119,531</u>	<u>\$ 246,648</u>	<u>\$ 5,306,122</u>

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 Assumptions	Changes in Employer's Proportion	Total
MTS CalPERS Plans	\$ 236,407	\$ 156,115	\$ 166,559	\$ 559,081
SDTI CalPERS Plans	2,423,342	1,011,002	-	3,434,344
SDTI PARS Plan	95,439	-	-	95,439
SDTC Retirement Plan	724,825	-	-	724,825
Total	<u>\$ 3,480,013</u>	<u>\$ 1,167,117</u>	<u>\$ 166,559</u>	<u>\$ 4,813,689</u>

**Pension Expense**

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

	2019	2018
MTS CalPERS Plans	\$ 2,931,758	\$ 3,230,287
SDTI CalPERS Plans	4,769,974	5,391,273
SDTI PARS Plan	403,546	528,123
SDTC Retirement Plan	24,465,090	24,640,931
Total	<u>\$ 32,570,368</u>	<u>\$ 33,790,614</u>

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2019 and 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, 2019 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	25.21%
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 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	8.19%
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 Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)****B. MTS (Continued)****General Information about the Pension Plans (Continued)****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	6.91%
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, 2019 (measurement date 2018) and June 30, 2018 (measurement date 2017), the following employees were covered by the benefit terms:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	136	126
Inactive employees entitled to but not yet receiving benefits	68	47
Active employees	163	159
Total	367	332

**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 years ended June 30, 2019 and 2018 (measurement dates 2018 and 2017), the active employee contribution rates and average employer contribution rates were as follows:

	2019		2018	
	Employee Contribution Rate	Employer Contribution Rate	Employee Contribution Rate	Employer Contribution Rate
MTS - Miscellaneous Plan-1223	8.00%	22.08%	8.00%	20.35%
MTS Miscellaneous Second Tier Plan - 30134	7.00%	7.65%	7.00%	7.61%
MTS PEPRA Miscellaneous Plan - 26789	6.25%	6.53%	6.25%	6.56%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

**General Information about the Pension Plans (Continued)**

For the years ended June 30, 2019 and 2018 (measurement dates 2018 and 2017) the plan's proportionate share of aggregate contributions recognized as part of pension expense were:

	2019	2018
Contributions - employer	\$ 1,536,182	\$ 1,348,728
Contributions - employee	543,455	496,615

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

As of June 30, 2019 and 2018 (measurement dates 2018 and 2017), MTS reported \$12,982,663 and \$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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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.

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, 2017). 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, 2018). 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, 2018 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY2018).
- (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).

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

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

MTS's proportionate share of the net pension liability as of June 30, 2018, 2017 and 2016 (measurement dates) were as follows:

Proportion June 30, 2016	0.13477%
Proportion June 30, 2017	0.13531%
Change - Increase (Decrease)	0.00054%
Proportion June 30, 2018	0.13473%
Change - Increase (Decrease)	-0.00058%

For the years ended June 30, 2019 and 2018, MTS recognized pension expense of \$2,931,758 and \$3,230,287, respectively. At June 30, 2019 and 2018, MTS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 2,041,117	\$ -	\$ 1,896,639	\$ -
Differences between expected and actual experience	498,122	(169,508)	16,501	(236,407)
Changes in assumptions	1,480,062	(362,735)	2,047,380	(156,115)
Change in employer's proportion	464,158	(246,648)	1,162,548	(166,559)
Differences between actual and proportionate share of employer contributions	529,418	-	597,880	-
Differences between projected and actual earnings on pension plan investments	64,183	-	463,033	-
Total	<u>\$ 5,077,060</u>	<u>\$ (778,891)</u>	<u>\$ 6,183,981</u>	<u>\$ (559,081)</u>

The \$2,041,117 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, 2020.

As of the measurement date June 30, 2018, 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
2020	\$ 1,679,371
2021	1,056,675
2022	(362,222)
2023	(116,790)
2024	-
Total	<u>\$ 2,257,034</u>

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

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

In the previous year, 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>

**Actuarial Assumptions** – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	varies by entry age and service
Payroll Growth	2.88%
Investment Rate of Return	7.15% (1)
Mortality	derived using CalPERS's membership data for all funds (2)

(1) Net of pension plan investment expenses.

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

The table includes 15 years of mortality improvements using Society of Actuaries Scales 90% of scale MP 2016.

**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 actuarial report did not have a change of assumption. In the prior year, the discount rate was reduced from 7.65 percent to 7.15 percent. All other actuarial assumptions used in the June 30, 2017 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 Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**B. MTS (Continued)**

**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (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. 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 (a)	New Strategic Allocation	Real Return Years 1-10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities;  
Liquidity is included in Short-term Investments; Inflation Assets are included in both  
Global Equity Securities and Global Debt Securities.
- (b) an expected inflation of 2.00% for this period
- (c) an expected inflation of 2.92% for this period



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 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, 2019 and 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:

	2019	2018
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 20,194,220	\$ 20,167,504
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 12,982,663	\$ 13,418,753
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 7,029,640	\$ 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, 2019, MTS reported a payable of \$171,024 for the outstanding amount of contributions to the pension plan required for the current year compared to \$154,017 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 PEPRA 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 Years Ended June 30, 2019 and 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, 2019 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	12.28%	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	13.28%
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 Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

**2. PARS Plans**

**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 Avenue, 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, 2019 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	9.64%
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 Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

**Employees Covered** – At June 30, 2019 and 2018 (measurement dates 2018 and 2017), the following employees were covered by the benefit terms for each Plan:

	CalPERS Plan		PARS Plan	
	2019	2018	2019	2018
Inactive employees or beneficiaries currently receiving benefits	241	241	43	45
Inactive employees entitled to but not yet receiving benefits	85	92	0	0
Active employees	548	549	53	54

\*SDTI PEPRA Plan is included in the SDTI Miscellaneous Plan June 30, 2017 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 years ended June 30, 2019 and 2018 (measurement dates 2018 and 2017), the active employee contribution rates and average employer contribution rates were as follows:

	2019		2018	
	Employee	Employer	Employee	Employer
SDTI Miscellaneous Plan 1406 - Management EE	8.00%	10.53%	8.00%	9.85%
SDTI Miscellaneous Plan 1406 - Union EE	7.26%	11.26%	7.00%	10.85%
SDTI Miscellaneous PEPRA Plan 26965	5.75%	11.53%	5.75%	10.85%

For the years June 30, 2019 and 2018 (measurement dates 2018 and 2017), the contributions recognized as part of pension expense were:

	2019	2018
Contributions - employer	\$ 3,342,623	\$ 2,835,680
Contributions - employee	2,034,672	1,806,506

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 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, 2018 (measurement date), the employer's contribution rate is 9.64% and was 9.96% at June 30, 2017 (measurement date).

For the years June 30, 2019 and 2018 (measurement dates 2018 and 2017), the contributions recognized as part of pension expense were:

	2019	2018
Contributions - employer	\$ 549,296	\$ 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, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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 liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	varies by entry age and service
Payroll Growth	2.875%
Investment Rate of Return	7.15% (1)
Mortality	Derived using CalPERS's Membership Data for all Funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power applies, 2.75% thereafter

(1) Net of pension plan investment expenses.

(2) The mortality table used was developed based on CalPERS's specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

**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 actuarial report did not have a change of assumption. In the prior year, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. All other actuarial assumptions used in the June 30, 2017 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 Years Ended June 30, 2019 and 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 (a)	New Strategic Allocation	Real Return Years 1-10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities;  
Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) an expected inflation of 2.00% for this period
- (c) an expected inflation of 2.92% for this period

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2019 and 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, 2018, using an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.50%
Inflation	2.75%
Salary Increases Including Inflation	Graded rates based on years of services, 3.50% after 30 years of services
Payroll Growth	3.00%
Investment Rate of Return	6.50%
Pre-Retirement Mortality	Consistent with Non-Industrial rates used to value the Miscellaneous CALPERS Pension Plans
Post Retirement Benefit Increase	CALPERS Miscellaneous Public Agency rates for "2.7% at 55" plans. Increased 20% at each age.

**Change in Assumptions** – In the current year, discount rate and investment rate of return were lowered from 7.00% to 6.50%.

**Discount Rate** – The discount rate used to measure the total pension liability was 6.50 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 6.50 percent 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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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

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	2.82%	0.31%	0.31%
U.S. Core Fixed Income	36.21%	2.14%	2.02%
U.S. Equity Market	45.26%	4.59%	3.32%
Foreign Developed Equity	9.95%	5.52%	3.91%
Emerging Market Equities	4.07%	7.82%	4.59%
U.S. REITs	1.69%	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

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

The following presents SDTI's net pension liability at June 30, 2019 and 2018, 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 Plan		PARS Plan	
	2019	2018	2019	2018
1% Decrease	6.15%	6.15%	5.50%	6.00%
Net Pension Liability	\$ 51,421,098	\$ 52,557,834	\$ 2,795,751	\$ 3,175,995
Current Discount Rate	7.15%	7.15%	6.50%	7.00%
Net Pension Liability	\$ 29,552,949	\$ 31,326,755	\$ 1,766,423	\$ 2,150,499
1% Increase	8.15%	8.15%	7.50%	8.00%
Net Pension Liability	\$ 11,540,308	\$ 13,888,356	\$ 843,767	\$ 1,293,730



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)****C. SDTI (Continued)****Changes in Net Pension Liability****1. CalPERS Plans**

At June 30, 2019 (measurement date 2018), 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, 2018	\$ 143,524,344	\$ 112,197,589	\$ 31,326,755
Changes in the year:			
Service cost	4,029,579	-	4,029,579
Interest on the total pension liability	10,112,324	-	10,112,324
Changes of assumptions	(1,064,034)	-	(1,064,034)
Differences between expected and actual experience	(498,533)	-	(498,533)
Benefit payments, including refunds of member contributions	(5,090,945)	(5,090,945)	-
Net Plan to Plan resource movement	-	(281)	281
Contributions - employer	-	3,342,623	(3,342,623)
Contributions - employee	-	2,034,672	(2,034,672)
Net investment income	-	9,482,977	(9,482,977)
Administrative expense	-	(506,849)	506,849
Net Changes	7,488,391	9,262,197	(1,773,806)
Balance at June 30, 2019	\$ 151,012,735	\$ 121,459,786	\$ 29,552,949

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 Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

**Changes in Net Pension Liability**

**2. PARS Plan**

At June 30, 2019 (measurement date 2018), 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, 2018	\$ 8,346,429	\$ 6,195,930	\$ 2,150,499
Changes in the year:			
Service cost	198,627	-	198,627
Interest on the total pension liability	587,363	-	587,363
Changes of assumptions	473,927	-	473,927
Differences between expected and actual experience	(652,788)	-	(652,788)
Benefit payments, including refunds of member contributions	(313,613)	(313,613)	-
Contributions - employer	-	549,296	(549,296)
Contributions - employee	-	-	-
Net investment income	-	458,921	(458,921)
Administrative expense	-	(17,012)	17,012
Net Changes	293,516	677,592	(384,076)
Balance at June 30, 2019	\$ 8,639,945	\$ 6,873,522	\$ 1,766,423

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 Years Ended June 30, 2019 and 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, 2019 and 2018, SDTI recognized pension expense of \$5,173,520 and \$5,919,396, respectively. At June 30, 2019 and 2018, SDTI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS Plans			
	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	\$ 3,824,864	\$ -	\$ 3,266,081	\$ -
Differences between expected and actual experience	158,950	(2,162,417)	231,199	(2,423,342)
Changes in assumptions	5,085,955	(1,436,635)	6,839,732	(1,011,002)
Net differences between projected and actual earnings on pension plan investments	285,018	-	1,495,441	-
Total	<u>\$ 9,354,787</u>	<u>\$ (3,599,052)</u>	<u>\$ 11,832,453</u>	<u>\$ (3,434,344)</u>

	PARS Plan			
	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	\$ 435,748	\$ -	\$ 539,350	\$ -
Differences between expected and actual experience	-	(487,781)	-	(95,439)
Changes in assumptions	426,943	-	184,933	-
Net differences between projected and actual earnings on pension plan investments	40,356	-	128,350	-
Total	<u>\$ 903,047</u>	<u>\$ (487,781)</u>	<u>\$ 852,633</u>	<u>\$ (95,439)</u>

The combined \$4,260,612 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, 2020 compared to \$3,805,431 for the previous year.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**C. SDTI (Continued)**

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

As of the measurement date, June 30, 2018, 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
2020	\$ 1,796,861	\$ 41,782
2021	1,049,660	(3,154)
2022	(331,015)	(55,572)
2023	(584,635)	(3,538)
2024	-	-
Total	<u>\$ 1,930,871</u>	<u>\$ (20,482)</u>

In the previous year, 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, 2019, SDTI reported a payable of \$343,069 to CalPERS and \$48,765 to PARS for the outstanding amount of contributions to the pension plans required for the fiscal year compared to \$446,881 payable to CalPERS and \$75,283 payable to PARS for the year ended June 30, 2018.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 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, 2019 are as follows:

	<b>San Diego Transit Pension Plan - Non-Contract Employees</b>	
	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	45.90%	47.65%
Pre-Retirement Death Benefit		50% Joint & Survivor
Post-Retirement Death Benefit		Based on benefit election
Non-Industrial Standard Disability	1.5% times average monthly final earnings times credited years of service	
COLA		Lesser of CPI or 2.0%

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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

	<b>SDTC Contract Employees</b>	
	<b>ATU - Closed Plan</b>	<b>IBEW - Closed Plan</b>
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	45.90%	45.90%
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, 2019 and 2018 (measurement date 2018 and 2017), the following employees were covered by the benefit terms for the Plan:

	<u>2019</u>	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefits	975	952
Inactive employees entitled to but not yet receiving benefits	230	214
Active employees	462	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, 2018 (measurement date), the active employee contribution rate is 6.25- 8.00% of annual pay, and the average employer's contribution rate is 46.34% of annual payroll compared to 6.25-8.00% and 43.52% for the previous year.

For the year ended June 30, 2019 and 2018 (measurement dates 2018 and 2017), the contributions recognized as part of pension expense for the Plan were as follows:

	<u>2019</u>	<u>2018</u>
Contributions - employer	\$ 13,020,223	\$ 12,649,101
Contributions - employee	1,751,616	2,047,593

**San Diego Metropolitan Transit System  
Notes to Basic Financial Statements (Continued)  
For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)****D. SDTC (Continued)****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, 2018, using an annual actuarial valuation as of July 1, 2018.

**Actuarial Assumptions** – The total pension liabilities in the July 1, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	July 1, 2018
Measurement Date	July 1, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Projected Salary Increase	2.75% plus merit component based on employee classification and years of services
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** – Valuation salary changed from using the most recent pensionable pay preceeding the valuation date to a two-year average of pay from the two years preceding the valuation date. This method change was done to mitigate fluctuations in overtime pay year over year which better reflects future salary expectations.

**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 (19 years remaining as of the July 1, 2018 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 Years Ended June 30, 2019 and 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 1-10	Real Return Years 11+
United States Equity	25.00%	4.30%	4.30%
International Equity	20.00%	6.40%	6.40%
Fixed Income	32.50%	1.25%	1.25%
Alternatives (Multi-Asset)	22.50%	3.75%	3.75%

**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, 2019 and 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:

	2019	2018
1% Decrease	6.00%	6.00%
Net Pension Liability	\$ 165,940,641	\$ 166,180,628
Current Discount Rate	7.00%	7.00%
Net Pension Liability	\$ 134,061,376	\$ 134,375,705
1% Increase	8.00%	8.00%
Net Pension Liability	\$ 106,995,199	\$ 107,378,009



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)****D. SDTC (Continued)****Changes in Net Pension Liability**

At June 30, 2019 (measurement date 2018), 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, 2018	\$ 296,010,712	\$ 161,635,007	\$ 134,375,705
Changes in the year:			
Service cost	3,559,738	-	3,559,738
Interest on the total pension liability	20,325,978	-	20,325,978
Changes of assumptions	(640,322)	-	(640,322)
Differences between expected and actual experience	(240,474)	-	(240,474)
Benefit payments, including refunds of member contributions	(18,715,199)	(18,715,199)	-
Contributions - employer	-	13,020,223	(13,020,223)
Contributions - employee	-	1,751,616	(1,751,616)
Net investment income	-	8,792,300	(8,792,300)
Administrative expense	-	(244,890)	244,890
Net Changes	4,289,721	4,604,050	(314,329)
Balance at June 30, 2019	\$ 300,300,433	\$ 166,239,057	\$ 134,061,376

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.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 11 – Employee Retirement Systems (Continued)**

**D. SDTC (Continued)**

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

For the years ended June 30, 2019 and 2018, SDTC recognized pension expense of \$24,465,090 and \$24,640,931, respectively. At June 30, 2019 and 2018, SDTC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after the measurement date	\$ 13,632,820	\$ -	\$ 13,020,223	\$ -
Changes in assumptions	-	(320,161)	9,899,958	-
Differences between expected and actual experience	395,229	(120,237)	790,458	(724,825)
Differences between projected and actual earnings on pension plan investments	8,665,478	-	10,413,914	-
Total	<u>\$ 22,693,527</u>	<u>\$ (440,398)</u>	<u>\$ 34,124,553</u>	<u>\$ (724,825)</u>

The \$13,632,820 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, 2020 compared to \$13,020,223 for the previous year. 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
2020	\$ 5,397,593
2021	2,598,012
2022	149,095
2023	475,609
2024	-
Total	<u>\$ 8,620,309</u>

In the previous year, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions were:

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, 2019, SDTC reported a payable of \$1,150,062 for the outstanding amount of contributions to the pension plan required for the fiscal year compared to \$1,099,401 for the year ended June 30, 2018.

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 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:

Fiscal Year	June 30, 2019
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 - June 30, 2018

**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 \$1,300 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.

**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 June 30, 2019 (June 30, 2018 measurement date), the following current and former employees were covered by the benefit terms:

	MTS	SDTI	SDTC
Active employees	167	595	820
Inactive employees or beneficiaries currently receiving benefits	19	37	230
Inactive employees entitled to but not yet receiving benefits	-	-	-
Total	186	632	1,050

As of June 30, 2018 (June 30, 2017 measurement date), 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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 12 – Other Postemployment Benefits (Continued)**

**Actuarial Assumptions**

The total OPEB liability as of June 30, 2019, 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, 2018	
Actuarial Assumptions:			
Discount Rate		3.5% per annum	
Inflation		2.75% per annum	
Salary Increases		3.0% per annum in aggregate	
Investment Rate of Return		N/A	
Medical Trend Rates		6.5%, decreasing 0.5% per year	
Dental Trend Rates		4% per annum	
Mortality Rate	Based on the Society of Actuaries 2014 retirement plans mortality study with the updates to the mortality projection scale		RPH-2014 using scale MP 2017
Pre-Retirement Turnover			Management-3-10% Union 2-25%

**Discount Rate**

The discount rate used to measure the total OPEB liability was 3.5% percent as of the measurement date June 30, 2018 and 3.4% as of the measurement date June 30, 2017. 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.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of MTS, SDTI and SDTC, 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 June 30, 2019:

	MTS	SDTI	SDTC	Aggregate
1% Decrease	2.50%	2.50%	2.50%	2.50%
Total OPEB Liability	\$ 7,187,160	\$ 13,413,321	\$ 34,179,661	\$ 54,780,142
Current Discount Rate	3.50%	3.50%	3.50%	3.50%
Total OPEB Liability	\$ 6,025,074	\$ 11,565,916	\$ 29,520,213	\$ 47,111,203
1% Increase	4.50%	4.50%	4.50%	4.50%
Total OPEB Liability	\$ 5,102,051	\$ 10,056,141	\$ 25,754,218	\$ 40,912,410

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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

The following presents the total OPEB liability of MTS, SDTI and SDTC, 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 June 30, 2018:

	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, SDTI and SDTC, 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 June 30, 2019:

	MTS	SDTI	SDTC	Aggregate
1% Decrease in Healthcare Cost Trend Rate		<u>2.0% HRA Contribution Increase</u>		
Total OPEB Liability	\$ 4,889,885	\$ 10,011,453	\$ 25,216,839	\$ 40,118,177
Current Healthcare Cost Trend Rate		<u>3.0% HRA Contribution Increase</u>		
Total OPEB Liability	\$ 6,025,074	\$ 11,565,916	\$ 29,520,213	\$ 47,111,203
1% Increase in Healthcare Cost Trend Rate		<u>4.0% HRA Contribution Increase</u>		
Total OPEB Liability	\$ 7,531,650	\$ 13,521,268	\$ 34,996,188	\$ 56,049,106

The following presents the total OPEB liability of MTS, SDTI and SDTC, 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 June 30, 2018:

	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

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**Note 12 – Other Postemployment Benefits (Continued)**

***Change in Total OPEB Liability***

At June 30, 2019, the change in the Total OPEB liability is as follows:

	MTS	SDTI	SDTC	Aggregate
Balance at June 30, 2018	\$ 5,575,125	\$ 11,098,821	\$ 28,722,883	\$ 45,396,829
Changes Recognized for the Measurement Period:				
Service Cost	450,678	440,969	1,176,005	2,067,652
Interest on the total OPEB liability	203,185	389,043	1,000,292	1,592,520
Changes in assumptions	(104,394)	(168,207)	(421,922)	(694,523)
Benefit payments	(99,520)	(194,710)	(957,045)	(1,251,275)
Net Changes	449,949	467,095	797,330	1,714,374
Balance at June 30, 2019	\$ 6,025,074	\$ 11,565,916	\$ 29,520,213	\$ 47,111,203

At June 30, 2018, the change in the Total OPEB liability is as follows:

	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

***Contributions***

The contribution requirements of plan members and MTS, SDTI and SDTC 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 years 2019 and 2018, the following contributions were made:

	MTS	SDTI	SDTC	Aggregate
2019 Contributions	\$ 108,036	\$ 186,118	\$ 1,114,232	\$ 1,408,386
2018 Contributions	\$ 92,802	\$ 168,599	\$ 1,032,492	\$ 1,293,893

**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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

For the years ended June 30, 2019 and 2018, OPEB expense is included in the accompanying statement of revenues, expenses, and changes in net position as follows:

	MTS	SDTI	SDTC	Aggregate
2019 OPEB Expense	\$ 586,783	\$ 705,073	\$ 1,706,058	\$ 2,997,914
2018 OPEB Expense	\$ 619,163	\$ 723,794	\$ 1,792,657	\$ 3,135,614

At June 30, 2019, MTS, SDTI and SDTC 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	\$ 108,036	\$ -	\$ 186,118	\$ -
Changes in assumptions	-	(547,083)	-	(893,264)
Total	\$ 108,036	\$ (547,083)	\$ 186,118	\$ (893,264)

	SDTC		Aggregate	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made after measurement date	\$ 1,114,232	\$ -	\$ 1,408,386	\$ -
Changes in assumptions	-	(1,951,277)	-	(3,391,624)
Total	\$ 1,114,232	\$ (1,951,277)	\$ 1,408,386	\$ (3,391,624)

At June 30, 2018, MTS, SDTI and SDTC 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 Years Ended June 30, 2019 and 2018**

**Note 12 – Other Postemployment Benefits (Continued)**

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)**

The combined \$1,408,386 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, 2020 compared to the combined \$1,293,893 reported in previous year.

As of the measurement date June 30, 2018, 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
2020	\$ (67,080)	\$ (124,939)	\$ (470,239)	\$ (662,258)
2021	(67,080)	(124,939)	(470,239)	(662,258)
2022	(67,080)	(124,939)	(470,239)	(662,258)
2023	(67,080)	(124,939)	(470,238)	(662,257)
2024	(67,080)	(124,939)	(70,322)	(262,341)
Thereafter	(211,683)	(268,569)	-	(480,252)
Total	<u>\$ (547,083)</u>	<u>\$ (893,264)</u>	<u>\$ (1,951,277)</u>	<u>\$ (3,391,624)</u>

As of the measurement date June 30, 2017, 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 \$(155,432,063) and \$(14,343,439) as of June 30, 2019 compared to \$(143,276,697) and \$(13,179,197) for the year ended 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.



**San Diego Metropolitan Transit System**  
**Notes to Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2019 and 2018**

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**Note 14 – Restatement of Net Position**

As a result of the implementation of GASB Statement No. 75, 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	1,214,830
Total restatements	<u>(27,047,529)</u>
Net position at July 1, 2017, as restated	<u><u>\$ 1,697,137,414</u></u>

FINAL DRAFT 10-29-2019

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

**San Diego Metropolitan Transit System  
Required Supplementary Information (Unaudited)  
For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MTS  
(LAST TEN YEARS\*)**

Measurement Period, Year Ended June 30:	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.13473%	0.13531%	0.13477%	0.14142%	0.13277%
Proportionate share of the net pension liability	\$ 12,982,663	\$ 13,418,753	\$ 11,661,984	\$ 9,707,169	\$ 8,261,550
Covered payroll	\$ 12,873,186	\$ 11,809,510	\$ 11,078,469	\$ 9,954,718	\$ 9,277,782
Proportionate share of the net pension liability as percentage of covered payroll	100.85%	113.63%	105.27%	97.51%	89.05%
Plan's fiduciary net position as percentage of the total pension liability	75.65%	72.65%	72.53%	75.07%	77.50%
Proportionate share of aggregate employer contributions	\$ 1,536,182	\$ 1,348,728	\$ 1,896,142	\$ 1,998,897	\$ 755,170

\*Ten year historical information is not yet

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**SDTI CALPERS PLANS**  
**(LAST TEN YEARS\*)**

Measurement Period, Year Ended June 30:	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service Cost	\$ 4,029,579	\$ 3,882,206	\$ 3,580,302	\$ 3,615,793	\$ 3,721,950
Interest on total pension liability	10,112,324	9,611,237	9,201,415	8,554,525	7,982,614
Differences between expected and actual experience	(498,533)	(2,759,754)	375,697	(510,309)	-
Changes in assumptions	(1,064,034)	8,593,509	-	(2,274,755)	-
Changes in benefit terms	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(5,090,945)	(4,901,765)	(4,345,171)	(3,799,240)	(3,155,596)
<b>Net change in total pension liability</b>	<b>7,488,391</b>	<b>14,425,433</b>	<b>8,812,243</b>	<b>5,586,014</b>	<b>8,548,968</b>
<b>Total pension liability - beginning</b>	<b>143,524,344</b>	<b>129,098,911</b>	<b>120,286,668</b>	<b>114,700,654</b>	<b>106,151,686</b>
<b>Total pension liability - ending (a)</b>	<b>\$151,012,735</b>	<b>\$143,524,344</b>	<b>\$129,098,911</b>	<b>\$120,286,668</b>	<b>\$114,700,654</b>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 3,342,623	\$ 2,835,680	\$ 2,659,911	\$ 2,553,900	\$ 2,498,345
Contributions - employee	2,034,672	1,806,506	1,778,990	1,839,206	2,179,194
Net investment income	9,482,977	11,214,548	628,353	2,204,904	14,416,106
Benefit payments, including refunds of employee contributions	(5,090,945)	(4,901,765)	(4,345,171)	(3,799,240)	(3,155,596)
Net plan to plan resource movement	(281)	-	-	-	-
Administrative expense	(506,849)	(149,699)	(61,391)	(113,387)	-
<b>Net change in plan fiduciary net position</b>	<b>9,262,197</b>	<b>10,805,270</b>	<b>660,692</b>	<b>2,685,383</b>	<b>15,938,049</b>
<b>Plan fiduciary net position - beginning</b>	<b>112,197,589</b>	<b>101,392,319</b>	<b>100,731,627</b>	<b>98,046,244</b>	<b>82,108,195</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$121,459,786</b>	<b>\$112,197,589</b>	<b>\$101,392,319</b>	<b>\$100,731,627</b>	<b>\$ 98,046,244</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 29,552,949</b>	<b>\$ 31,326,755</b>	<b>\$ 27,706,592</b>	<b>\$ 19,555,041</b>	<b>\$ 16,654,410</b>
Plan fiduciary net position as a percentage of the total pension liability	80.43%	78.17%	78.54%	83.74%	85.48%
Covered payroll	\$ 27,790,199	\$ 26,643,371	\$ 27,247,357	\$ 26,965,416	\$ 26,268,261
Plan net pension liability as a percentage of covered payroll	106.34%	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, 2017 valuation date.

**Changes of assumptions:**

- \*2018 - Demographic assumptions and inflation rate were changed in accordance to CalPERS Experience Study and Review December 2017
- \*2017 - Discount rate decreased to 7.15 percent from 7.65 percent
- \*2015 - Discount rate increased to 7.65 percent from 7.50 percent

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**SDTI PARS PLAN**  
**(LAST TEN YEARS\*)**

Measurement Period, Year Ended June 30:	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Service Cost	\$ 198,627	\$ 230,296	\$ 223,588	\$ 267,889
Interest on total pension liability	587,363	556,089	523,457	480,808
Differences between expected and actual experience	(652,788)	-	(166,133)	-
Changes in assumptions	473,927	-	321,921	-
Changes in benefit terms	-	-	-	-
Benefit payments, including refunds of employee contributions	(313,613)	(302,460)	(273,201)	(229,364)
<b>Net change in total pension liability</b>	<b>293,516</b>	<b>483,925</b>	<b>629,632</b>	<b>519,333</b>
<b>Total pension liability - beginning</b>	<b>8,346,429</b>	<b>7,862,504</b>	<b>7,232,872</b>	<b>6,713,539</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 8,639,945</b>	<b>\$ 8,346,429</b>	<b>\$ 7,862,504</b>	<b>\$ 7,232,872</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 549,296	\$ 605,864	\$ 547,473	\$ 590,203
Contributions - employee	-	-	-	-
Net investment income	458,921	638,858	(59,981)	127,592
Benefit payments, including refunds of employee contributions	(313,613)	(302,460)	(273,201)	(229,364)
Administrative expense	(17,012)	(13,417)	(14,665)	(12,186)
<b>Net change in plan fiduciary net position</b>	<b>677,592</b>	<b>928,845</b>	<b>199,626</b>	<b>476,245</b>
<b>Plan fiduciary net position - beginning</b>	<b>6,195,930</b>	<b>5,267,085</b>	<b>5,067,459</b>	<b>4,591,214</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 6,873,522</b>	<b>\$ 6,195,930</b>	<b>\$ 5,267,085</b>	<b>\$ 5,067,459</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 1,766,423</b>	<b>\$ 2,150,499</b>	<b>\$ 2,595,419</b>	<b>\$ 2,165,413</b>
Plan fiduciary net position as a percentage of the total pension liability	79.56%	74.23%	66.99%	70.06%
Covered payroll	\$ 4,766,641	\$ 5,170,611	\$ 5,020,011	\$ 4,943,557
Plan net pension liability as a percentage of covered payroll	37.06%	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, 2017 valuation date.

**Changes in Assumption:**

\*2018 - Investment rate of return decreased from 7.0 to 6.5 percent

\*2016 - Inflation rate decreased from 3.0 to 2.75 percent

\*2016 - Salary scale, retirement and pre-retirement mortality assumptions were updated.

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**SDTC PLAN**  
**(LAST TEN YEARS\*)**

Measurement Period, Year Ended June 30:	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service Cost	\$ 3,559,738	\$ 3,660,961	\$ 3,469,595	\$ 3,590,766	\$ 3,908,376
Interest on total pension liability	20,325,978	19,885,608	18,865,499	18,434,275	17,812,979
Differences between expected and actual experience	(240,474)	1,185,687	(2,174,475)	812,878	2,905,692
Changes in assumptions	(640,322)	-	29,699,872	-	-
Changes in benefit terms	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(18,715,199)	(17,977,346)	(17,350,158)	(16,584,043)	(15,466,924)
<b>Net change in total pension liability</b>	<b>4,289,721</b>	<b>6,754,910</b>	<b>32,510,333</b>	<b>6,253,876</b>	<b>9,160,123</b>
<b>Total pension liability - beginning</b>	<b>296,010,712</b>	<b>289,255,802</b>	<b>256,745,469</b>	<b>250,491,593</b>	<b>241,331,470</b>
<b>Total pension liability - ending (a)</b>	<b>\$300,300,433</b>	<b>\$296,010,712</b>	<b>\$289,255,802</b>	<b>\$256,745,469</b>	<b>\$250,491,593</b>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 13,020,223	\$ 12,649,101	\$ 10,711,282	\$ 11,352,628	\$ 12,628,190
Contributions - employee	1,751,616	2,047,593	1,754,869	1,363,092	899,791
Net investment income	8,792,300	12,216,936	(540,093)	(2,018,866)	18,417,439
Benefit payments, including refunds of employee contributions	(18,715,199)	(17,977,346)	(17,350,158)	(16,584,043)	(15,466,924)
Administrative expense	(244,890)	(234,128)	(290,381)	(262,808)	(258,142)
<b>Net change in plan fiduciary net position</b>	<b>4,604,050</b>	<b>8,702,156</b>	<b>(5,714,481)</b>	<b>(6,149,997)</b>	<b>16,220,354</b>
<b>Plan fiduciary net position - beginning</b>	<b>161,635,007</b>	<b>152,932,851</b>	<b>158,647,332</b>	<b>164,797,329</b>	<b>148,576,975</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$166,239,057</b>	<b>\$161,635,007</b>	<b>\$152,932,851</b>	<b>\$158,647,332</b>	<b>\$164,797,329</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$134,061,376</b>	<b>\$134,375,705</b>	<b>\$136,322,951</b>	<b>\$ 98,098,137</b>	<b>\$ 85,694,264</b>
Plan fiduciary net position as a percentage of the total pension liability	55.36%	54.60%	52.87%	61.79%	65.79%
Covered payroll	\$ 29,686,976	\$ 31,660,643	\$ 31,048,663	\$ 32,658,827	\$ 32,313,553
Plan net pension liability as a percentage of covered payroll	451.58%	424.43%	439.06%	300.37%	265.20%

**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, 2017 valuation date.

**Changes of assumptions:**

\*2018 - Valuation salary changed from using the most recent pensionable pay preceeding the valuation date to a two-year average of pay from the two years preceeding the valuation date

\*2016 - Investment rate of return decreased from 7.5 to 7.0 percent

\*2016 - Inflation decreased from 3.0 to 2.75 percent

\*2016 - Revisions were made to merit pay increases, mortality, disability, service retirements and terminations

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CONTRIBUTIONS**  
**MTS**  
**(LAST TEN YEARS\*)**

Fiscal Year Ended June 30:	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,041,117	\$ 1,896,639	\$ 1,731,711	\$ 1,582,497	\$ 1,559,846	\$ 1,537,079
Contributions in relation to the actuarially determined contribution	(2,041,117)	(1,896,639)	(1,731,711)	(1,582,497)	(1,559,846)	(1,537,079)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 12,892,323	\$ 12,873,186	\$ 11,809,510	\$ 11,078,469	\$ 9,954,718	\$ 9,277,782
Contributions as a percentage of covered payroll	15.83%	14.73%	14.66%	14.28%	15.67%	16.57%

**Notes to Schedule:**

**Methods and assumptions used to determine contribution rates:**

The actuarial methods and assumption used to set the actuarially determined contributions for Fiscal Year 2019 were derived from the June 30, 2017 funding valuation report.

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2017 Funding Valuation Report
Asset valuation method	Market value of assets
Inflation	2.63%
Salary increases	Varies based on entry age and service
Payroll growth	2.875%
Investment rate of return	7.00% net of pension plan investment and administrative expenses
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 and 2011.
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 Actuaries.

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CONTRIBUTIONS**  
**SDTI CALPERS PLAN**  
**(LAST TEN YEARS\*)**

Fiscal Year Ended June 30:	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 3,824,864	\$ 3,266,081	\$ 2,835,680	\$ 2,659,911	\$ 2,553,900	\$ 2,498,345
Contributions in relation to the actuarially determined contribution	(3,824,864)	(3,266,081)	(2,835,680)	(2,659,911)	(2,553,900)	(2,498,345)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 30,126,573	\$ 27,790,199	\$ 26,643,371	\$ 27,247,357	\$ 26,965,416	\$ 26,268,261
Contributions as a percentage of covered payroll	12.70%	11.75%	10.64%	9.76%	9.47%	9.51%

**Notes to Schedule:**

**Methods and assumptions used to determine contribution rates:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were derived from the June 30, 2017 funding valuation report.

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2017 Funding Valuation Report
Asset valuation method	Market value of assets
Inflation	2.63%
Salary increases	Varies based on entry age and service
Payroll growth	2.875%
Investment rate of return	7.00% net of pension plan investment and administrative expenses
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 and 2011.
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 Actuaries.

\*Ten year historical information is not yet available



**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CONTRIBUTIONS**  
**SDTI PARS PLAN**  
**(LAST TEN YEARS\*)**

Fiscal Year Ended June 30:	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 459,504	\$ 460,930	\$ 499,993	\$ 445,465	\$ 546,873	\$ 463,079
Contributions in relation to the actuarially determined contribution	(435,748)	(539,350)	(605,864)	(547,473)	(590,203)	(453,934)
Contribution deficiency (excess)	<u>\$ 23,756</u>	<u>\$ (78,420)</u>	<u>\$ (105,871)</u>	<u>\$ (102,008)</u>	<u>\$ (43,330)</u>	<u>\$ 9,145</u>
Covered payroll	\$ 4,909,640	\$ 4,766,641	\$ 5,170,611	\$ 5,020,011	\$ 4,943,557	\$ 5,984,089
Contributions as a percentage of covered payroll	8.88%	11.32%	11.72%	10.91%	11.94%	7.59%

**Notes to Schedule:**

**Methods and assumptions used to determine contribution rates:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were derived from the June 30, 2017 funding valuation report.

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Amortization period	16 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies based on entry age and service
Payroll growth	3.00%
Investment rate of return	6.50%

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CONTRIBUTIONS**  
**SDTC PLAN**  
**(LAST TEN YEARS\*)**

Fiscal Year Ended June 30:	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 13,632,820	\$ 13,020,223	\$ 12,649,101	\$ 10,711,282	\$ 11,352,628	\$ 12,628,190
Contributions in relation to the actuarially determined contribution	(13,632,820)	(13,020,223)	(12,649,101)	(10,711,282)	(11,352,628)	(12,628,190)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 27,121,687	\$ 29,672,305	\$ 31,660,643	\$ 31,048,663	\$ 32,658,827	\$ 32,313,553
Contributions as a percentage of covered payroll	50.27%	43.88%	39.95%	34.50%	34.76%	39.08%

**Notes to Schedule:**

**Methods and assumptions used to determine contribution rates:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were derived from the June 30, 2017 funding valuation report.

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	2.75% plus merit component based on employee classification and years of services
Investment rate of return	7.00% net of pension plan investment expenses
Mortality	Actives: RP-2000 tables using male rates for both male and female members with generational improvements using scale MP-2015

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**MTS**  
**(LAST TEN YEARS\*)**

Measurement period, year ended June 30:	2018	2017
<b>Total OPEB Liability</b>		
Service Cost	\$ 450,678	\$ 504,282
Interest	203,185	171,522
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	(104,394)	(566,410)
Benefit payments, including refunds of member contributions	(99,520)	(96,621)
<b>Net change in total OPEB liability</b>	449,949	12,773
<b>Total OPEB liability - beginning</b>	5,575,125	5,562,352
<b>Total OPEB liability - ending (a)</b>	<u>\$ 6,025,074</u>	<u>\$ 5,575,125</u>
<b>OPEB fiduciary net position</b>		
Contributions - employer	\$ 99,520	\$ 96,621
Net investment income	-	-
Benefit payments, including refunds of member contributions	(99,520)	(96,621)
Administrative expense	-	-
<b>Net change in plan fiduciary net position</b>	-	-
<b>Plan fiduciary net position - beginning</b>	-	-
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan net OPEB liability - ending (a) - (b)</b>	<u>\$ 6,025,074</u>	<u>\$ 5,575,125</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	0.00%	0.00%
<b>Covered payroll</b>	\$ 12,763,760	\$ 12,392,000
<b>Plan net OPEB liability as a percentage of covered payroll</b>	47.20%	44.99%

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**SDTI**  
**(LAST TEN YEARS\*)**

Measurement period, year ended June 30:	2018	2017
<b>Total OPEB Liability</b>		
Service Cost	\$ 440,969	\$ 493,375
Interest	389,043	336,668
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	(168,207)	(956,245)
Benefit payments, including refunds of member contributions	(194,710)	(189,039)
<b>Net change in total OPEB liability</b>	467,095	(315,241)
<b>Total OPEB liability - beginning</b>	11,098,821	11,414,062
<b>Total OPEB liability - ending (a)</b>	<u>\$ 11,565,916</u>	<u>\$ 11,098,821</u>
<b>OPEB fiduciary net position</b>		
Contributions - employer	\$ 194,710	\$ 189,039
Net investment income	-	-
Benefit payments, including refunds of member contributions	(194,710)	(189,039)
Administrative expense	-	-
<b>Net change in plan fiduciary net position</b>	-	-
<b>Plan fiduciary net position - beginning</b>	-	-
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan net OPEB liability - ending (a) - (b)</b>	<u>\$ 11,565,916</u>	<u>\$ 11,098,821</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	0.00%	0.00%
<b>Covered payroll</b>	\$ 31,280,070	\$ 30,369,000
<b>Plan net OPEB liability as a percentage of covered payroll</b>	36.98%	36.55%

\*Ten year historical information is not yet available

**San Diego Metropolitan Transit System**  
**Required Supplementary Information (Unaudited)(Continued)**  
**For the Years Ended June 30, 2019 and 2018**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**SDTC**  
**(LAST TEN YEARS\*)**

Measurement period, year ended June 30:	2018	2017
<b>Total OPEB Liability</b>		
Service Cost	\$ 1,176,005	\$ 1,317,293
Interest	1,000,292	875,283
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	(421,922)	(2,399,513)
Benefit payments, including refunds of member contributions	(957,045)	(929,170)
<b>Net change in total OPEB liability</b>	797,330	(1,136,107)
<b>Total OPEB liability - beginning</b>	28,722,883	29,858,990
<b>Total OPEB liability - ending (a)</b>	<u>\$ 29,520,213</u>	<u>\$ 28,722,883</u>
<b>OPEB fiduciary net position</b>		
Contributions - employer	\$ 957,045	\$ 929,170
Net investment income	-	-
Benefit payments, including refunds of member contributions	(957,045)	(929,170)
Administrative expense	-	-
<b>Net change in plan fiduciary net position</b>	-	-
<b>Plan fiduciary net position - beginning</b>	-	-
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan net OPEB liability - ending (a) - (b)</b>	<u>\$ 29,520,213</u>	<u>\$ 28,722,883</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	0.00%	0.00%
<b>Covered payroll</b>	\$ 40,561,400	\$ 39,380,000
<b>Plan net OPEB liability as a percentage of covered payroll</b>	72.78%	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, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 98,055,414	\$ 212,006	\$ (14,759)	\$ 388,195	\$ 98,640,856
Cash and cash equivalents restricted for capital support	22,690,668	-	-	-	22,690,668
Accounts and other receivables	8,658,577	-	1,700,806	303,898	10,663,281
Due from other governments	101,626,814	62,476	52,865	329,311	102,071,466
Internal balances	(39,873,195)	8,824,618	16,620,537	14,428,040	-
Inventory	-	-	4,173,162	16,574,675	20,747,837
Prepaid items and other current assets	1,299,427	162,737	885,873	1,386,490	3,734,527
<b>Total current assets</b>	<b>192,457,705</b>	<b>9,261,837</b>	<b>23,418,484</b>	<b>33,410,609</b>	<b>258,548,635</b>
<b>Noncurrent assets:</b>					
Capital assets (net of accumulated depreciation)	102,380,015	295,538,041	288,563,862	1,136,841,651	1,823,323,569
<b>Total noncurrent assets</b>	<b>102,380,015</b>	<b>295,538,041</b>	<b>288,563,862</b>	<b>1,136,841,651</b>	<b>1,823,323,569</b>
<b>Total assets</b>	<b>294,837,720</b>	<b>304,799,878</b>	<b>311,982,346</b>	<b>1,170,252,260</b>	<b>2,081,872,204</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension-related deferred outflows of resources					
Contributions made after the measurement date	2,041,117	-	13,632,820	4,260,612	19,934,549
Differences between projected and actual investment earnings	64,183	-	8,665,478	325,374	9,055,035
Differences between expected and actual experience	498,122	-	395,229	158,950	1,052,301
Changes in employer's proportion	464,158	-	-	-	464,158
Differences between employer contributions and proportionate share	529,418	-	-	-	529,418
Changes in assumptions	1,480,062	-	-	5,512,898	6,992,960
Total pension-related deferred outflows of resources	5,077,060	-	22,693,527	10,257,834	38,028,421
OPEB-related deferred outflows of resources					
Contributions made after the measurement date	108,036	-	1,114,232	186,118	1,408,386
<b>Total deferred outflows of resources</b>	<b>5,185,096</b>	<b>-</b>	<b>23,807,759</b>	<b>10,443,952</b>	<b>39,436,807</b>

**San Diego Metropolitan Transit System**  
**Combining Schedule of Net Position (Continued)**  
**June 30, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable	15,369,630	7,651,193	3,628,816	2,776,087	29,425,726
Due to other governments	6,342,851	45,660	120,532	399,764	6,908,807
Unearned revenue	32,120,992	-	-	138,272	32,259,264
Accrued expenses	611,740	16,891	1,181,421	1,304,310	3,114,362
Retentions payable	5,443,454	-	467	3,016	5,446,937
Due within one year:					
Compensated absences payable	671,456	-	3,049,850	2,328,645	6,049,951
Accrued damage, injury, and employee claims	439,332	-	3,289,320	1,269,760	4,998,412
Long-term debt	363,072	-	2,555,000	-	2,918,072
<b>Total current liabilities</b>	<b>61,362,527</b>	<b>7,713,744</b>	<b>13,825,406</b>	<b>8,219,854</b>	<b>91,121,531</b>
<b>Noncurrent liabilities:</b>					
Due in more than one year:					
Compensated absences payable	477,402	-	3,763,360	567,288	4,808,050
Accrued damage, injury, and employee claims	551,490	-	8,741,276	1,545,473	10,838,239
Long-term debt	-	-	10,355,000	-	10,355,000
Aggregate net pension liability	12,982,663	-	134,061,376	31,319,372	178,363,411
Aggregate total OPEB liability	6,025,074	-	29,520,213	11,565,916	47,111,203
<b>Total noncurrent liabilities</b>	<b>20,036,629</b>	<b>-</b>	<b>186,441,225</b>	<b>44,998,049</b>	<b>251,475,903</b>
<b>Total liabilities</b>	<b>81,399,156</b>	<b>7,713,744</b>	<b>200,266,631</b>	<b>53,217,903</b>	<b>342,597,434</b>



**San Diego Metropolitan Transit System**  
**Combining Schedule of Net Position (Continued)**  
**June 30, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred gain on refunding related to capital assets	38,264	-	-	-	38,264
Pension-related deferred inflows of resources					
Differences between expected and actual experience	169,508	-	120,237	2,650,198	2,939,943
Changes in employer's proportion	246,648	-	-	-	246,648
Changes in assumptions	362,735	-	320,161	1,436,635	2,119,531
Total pension-related deferred inflows of resources	778,891	-	440,398	4,086,833	5,306,122
OPEB-related deferred inflows of resources					
Changes in assumptions	547,083	-	1,951,277	893,264	3,391,624
<b>Total deferred inflows of resources</b>	<b>1,364,238</b>	<b>-</b>	<b>2,391,675</b>	<b>4,980,097</b>	<b>8,736,010</b>
<b>NET POSITION</b>					
Net investment in capital assets	101,978,679	295,538,041	288,563,862	1,136,841,651	1,822,922,233
Restricted for capital assets	212,422	-	-	-	212,422
Unrestricted (deficit)	115,068,321	1,548,093	(155,432,063)	(14,343,439)	(53,159,088)
<b>Total net position</b>	<b>\$ 217,259,422</b>	<b>\$ 297,086,134</b>	<b>\$ 133,131,799</b>	<b>\$ 1,122,498,212</b>	<b>\$ 1,769,975,567</b>

**San Diego Metropolitan Transit System**  
**Combining Schedule of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
<b>Operating revenues:</b>						
Passenger revenue	\$ -	\$ 28,178,285	\$ 22,041,356	\$ 42,005,525	\$ -	\$ 92,225,166
Advertising	1,604,025	-	-	-	-	1,604,025
Miscellaneous	18,033,899	1,365	6,127	789,453	-	18,830,844
<b>Total operating revenues</b>	<b>19,637,924</b>	<b>28,179,650</b>	<b>22,047,483</b>	<b>42,794,978</b>	<b>-</b>	<b>112,660,035</b>
<b>Operating expenses:</b>						
Personnel costs	23,688,427	705,766	82,152,284	39,459,147	-	146,005,624
Outside services	17,907,137	79,094,438	2,075,749	8,768,475	-	107,845,799
Transit operations funding	117,426,981	-	-	-	(116,928,800)	498,181
Materials and supplies	21,064	25,635	6,409,354	6,470,470	-	12,926,523
Energy costs	246,327	8,233,769	5,578,023	14,725,944	-	28,784,063
Risk management	325,645	15,300	1,122,273	719,878	-	2,183,096
Miscellaneous	(20,698,557)	2,867,483	7,594,611	15,682,729	-	5,446,266
Depreciation	3,106,473	22,706,135	29,467,429	67,726,659	-	123,006,696
<b>Total operating expenses</b>	<b>142,023,497</b>	<b>113,648,526</b>	<b>134,399,723</b>	<b>153,553,302</b>	<b>(116,928,800)</b>	<b>426,696,248</b>
<b>Operating income (loss)</b>	<b>(122,385,573)</b>	<b>(85,468,876)</b>	<b>(112,352,240)</b>	<b>(110,758,324)</b>	<b>116,928,800</b>	<b>(314,036,213)</b>

**San Diego Metropolitan Transit System**  
**Combining Schedule of Revenues, Expenses, and Changes in Net Position (Continued)**  
**For the Year Ended June 30, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Eliminations	Total
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	66,068,502	15,612,911	20,500,000	24,750,993	(60,863,904)	66,068,502
Transportation Development Act (TDA) funds	96,654,680	41,371,339	2,925,267	15,508,830	(59,805,436)	96,654,680
State Transit Assistance (STA) funds	32,382,645	-	6,866,113	1,266,634	(8,132,747)	32,382,645
State revenue - other	1,828,998	73,473	258,857	236,168	(568,498)	1,828,998
<i>TransNet</i> funds	51,050,475	4,924,537	40,625,938	-	(51,050,475)	45,550,475
Other local subsidies	1,058,481	780,481	278,000	-	(1,058,481)	1,058,481
Investment earnings	1,952,467	-	-	-	-	1,952,467
Interest expense	55,979	-	(727,381)	-	-	(671,402)
Gain (loss) on disposal of assets	(44,602)	-	(9,320)	(2,297,569)	-	(2,351,491)
<b>Total public support and nonoperating revenues (expenses)</b>	<b>251,007,625</b>	<b>62,762,741</b>	<b>70,717,474</b>	<b>39,465,056</b>	<b>(181,479,541)</b>	<b>242,473,355</b>
<b>Income (loss) before transfers and contributed capital</b>	<b>128,622,052</b>	<b>(22,706,135)</b>	<b>(41,634,766)</b>	<b>(71,293,268)</b>	<b>(64,550,741)</b>	<b>(71,562,858)</b>
Transfers	(64,550,741)	-	-	-	64,550,741	-
Contributed capital, net	(59,947,310)	97,704,396	6,554,661	62,280,366	-	106,592,113
<b>Changes in net position</b>	<b>4,124,001</b>	<b>74,998,261</b>	<b>(35,080,105)</b>	<b>(9,012,902)</b>	<b>-</b>	<b>35,029,255</b>
<b>Net Position:</b>						
Beginning of year	213,135,421	222,087,873	168,211,904	1,131,511,114	-	1,734,946,312
End of year	\$ 217,259,422	\$ 297,086,134	\$ 133,131,799	\$ 1,122,498,212	\$ -	\$ 1,769,975,567

**San Diego Metropolitan Transit System**  
**Combining Schedule of Cash Flows**  
**For the Year Ended June 30, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 20,919,452	\$ 28,179,731	\$ 21,868,179	\$ 42,652,985	\$ 113,620,347
Payments to suppliers	3,751,399	(89,483,940)	(21,647,227)	(46,461,139)	(153,840,907)
Payments to employees	(22,462,190)	(705,811)	(71,120,053)	(38,305,984)	(132,594,038)
Payments for damage and injury	(176,680)	-	(363,483)	(937,898)	(1,478,061)
<b>Net cash provided by (used in) operating activities</b>	<b>2,031,981</b>	<b>(62,010,020)</b>	<b>(71,262,584)</b>	<b>(43,052,036)</b>	<b>(174,292,659)</b>
<b>Cash flows from noncapital financing activities:</b>					
Public support funds received	69,833,847	63,679,590	74,739,765	43,763,056	252,016,258
<b>Net cash provided by noncapital financing activities</b>	<b>69,833,847</b>	<b>63,679,590</b>	<b>74,739,765</b>	<b>43,763,056</b>	<b>252,016,258</b>
<b>Cash flows from capital and related financing activities:</b>					
Debt service costs	(708,197)	-	(3,157,381)	-	(3,865,578)
Property acquisition	(55,892,229)	-	-	-	(55,892,229)
Proceeds from disposal of assets	112,831	-	2,650	6,750	122,231
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(56,487,595)</b>	<b>-</b>	<b>(3,154,731)</b>	<b>6,750</b>	<b>(59,635,576)</b>
<b>Cash flows from investing activities:</b>					
Interest received on investments	1,408,439	-	-	-	1,408,439
<b>Net cash provided by investing activities</b>	<b>1,408,439</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,408,439</b>
<b>Net increase in cash and cash equivalents</b>	<b>16,786,672</b>	<b>1,669,570</b>	<b>322,450</b>	<b>717,770</b>	<b>19,496,462</b>
<b>Cash and cash equivalents:</b>					
Beginning of year	103,959,410	(1,457,564)	(337,209)	(329,575)	101,835,062
End of year	\$ 120,746,082	\$ 212,006	\$ (14,759)	\$ 388,195	\$ 121,331,524
<b>Cash and cash equivalents:</b>					
Cash and cash equivalents	\$ 98,055,414	\$ 212,006	\$ (14,759)	\$ 388,195	\$ 98,640,856
Cash restricted for capital support	22,690,668	-	-	-	22,690,668
<b>Total cash and cash equivalents</b>	<b>\$ 120,746,082</b>	<b>\$ 212,006</b>	<b>\$ (14,759)</b>	<b>\$ 388,195</b>	<b>\$ 121,331,524</b>

**San Diego Metropolitan Transit System**  
**Combining Schedule of Cash Flows (Continued)**  
**For the Year Ended June 30, 2019**

	General Operations	Contracted Services	SDTC	SDTI	Total
<b>Reconciliation of Operating (Loss) to Net Cash (Used In) Operating Activities</b>					
<b>Operating (loss):</b>	\$ (5,456,773)	\$ (85,468,876)	\$ (112,352,240)	\$ (110,758,324)	\$ (314,036,213)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities					
Depreciation	3,106,473	22,706,135	29,467,429	67,726,659	123,006,696
(Increase) decrease in:					
Accounts and other receivables	(925,284)	81	(90,165)	(216,702)	(1,232,070)
Due from other governments	799,454	-	-	-	799,454
Inventory	-	-	(714,573)	(1,786,961)	(2,501,534)
Prepaid expenses and other current assets	(29,940)	15,300	22,972	(90,838)	(82,506)
Increase (decrease) in:					
Accounts payable	2,729,775	703,433	303,872	223,794	3,960,874
Due to other governments	(716,895)	33,952	7,232	188,689	(487,022)
Accrued expenses	(36,882)	(45)	(9,230)	169,753	123,596
Unearned revenue	1,407,358	-	-	74,709	1,482,067
Aggregate net pension liability	731,214	-	10,219,347	648,037	11,598,598
Aggregate total OPEB liability	456,795	-	585,533	475,325	1,517,653
Compensated absences	4,553	-	(18,731)	118,425	104,247
Accrued damage, injury and employee claims	(37,867)	-	1,315,970	175,398	1,453,501
Total adjustments	7,488,754	23,458,856	41,089,656	67,706,288	139,743,554
<b>Net cash (used in) operating activities</b>	<b>\$ 2,031,981</b>	<b>\$ (62,010,020)</b>	<b>\$ (71,262,584)</b>	<b>\$ (43,052,036)</b>	<b>\$ (174,292,659)</b>

**Noncash investing, capital and financing activities:**

During the year, SANDAG contributed \$106,592,113 in capital assets and inventory parts.

During the year, the fair value of investments increased by \$59,251.

**San Diego Metropolitan Transit System**  
**Combining Operations**  
**Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2019**

	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		
<b>Operating revenues:</b>							
Passenger revenue	\$ 92,087,210	\$ 92,087,210	\$ 92,225,166	\$ -	\$ 92,225,166	\$	137,956
Advertising	1,390,000	1,720,000	1,604,025	-	1,604,025	(115,975)	
Miscellaneous operating revenues	13,945,930	16,357,930	18,830,844	(1,248,265)	17,582,579	1,224,649	
<b>Total operating revenues</b>	<b>107,423,140</b>	<b>110,165,140</b>	<b>112,660,035</b>	<b>(1,248,265)</b>	<b>111,411,770</b>	<b>1,246,630</b>	
<b>Operating expenses:</b>							
Personnel costs	133,813,280	135,399,540	146,005,624	(13,056,188)	132,949,436	2,450,104	
Outside services	101,224,910	103,144,830	107,845,799	(4,055,922)	103,789,877	(645,047)	
Transit operations funding	585,490	585,490	498,181	-	498,181	87,309	
Materials and supplies	12,224,210	12,857,430	12,926,523	-	12,926,523	(69,093)	
Energy costs	27,264,350	28,621,690	28,784,063	-	28,784,063	(162,373)	
Risk management	4,665,700	3,722,130	2,183,096	223,204	2,406,300	1,315,830	
Miscellaneous operating expenses	5,948,810	6,135,800	5,446,266	(39,219)	5,407,047	728,753	
Depreciation	-	-	123,006,696	(123,006,696)	-	-	
<b>Total operating expenses</b>	<b>285,726,750</b>	<b>290,466,910</b>	<b>426,696,248</b>	<b>(139,934,821)</b>	<b>286,761,427</b>	<b>3,705,483</b>	
<b>Operating income (loss)</b>	<b>(178,303,610)</b>	<b>(180,301,770)</b>	<b>(314,036,213)</b>	<b>138,686,556</b>	<b>(175,349,657)</b>	<b>4,952,113</b>	

**San Diego Metropolitan Transit System**  
**Combining Operations**  
**Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Continued)**  
**For the Year Ended June 30, 2019**

	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	
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	61,259,700	61,182,830	66,068,502	(5,083,296)	60,985,206	(197,624)
Transportation Development Act (TDA) funds	63,040,810	63,040,820	96,654,680	(33,613,871)	63,040,809	(11)
State Transit Assistance (STA) funds	5,600,000	8,756,340	32,382,645	(23,516,532)	8,866,113	109,773
State revenue - other	3,400,000	-	1,828,998	(1,755,525)	73,473	73,473
<i>TransNet</i> funds	42,384,210	44,266,720	45,550,475	-	45,550,475	1,283,755
Other local subsidies	1,055,820	1,555,820	1,058,481	-	1,058,481	(497,339)
Investment earnings	1,275,000	1,350,000	1,952,467	(166,015)	1,786,452	436,452
Interest expense	(1,480,940)	(1,480,940)	(671,402)	(809,512)	(1,480,914)	26
Gain (loss) on disposal of assets	200,000	200,000	(2,351,491)	2,473,722	122,231	(77,769)
<b>Total public support and nonoperating revenues (expenses):</b>						
	176,734,600	178,871,590	242,473,355	(62,471,029)	180,002,326	1,130,736
<b>Income (loss) before contributed capital</b>						
	(1,569,010)	(1,430,180)	(71,562,858)	76,215,527	4,652,669	6,082,849
Reserve revenue	1,569,010	1,430,180	-	117,665	117,665	(1,312,515)
Contributed capital, net	-	-	106,592,113	(106,592,113)	-	-
<b>Changes in net position</b>						
	\$ -	\$ -	35,029,255	\$ (30,258,921)	\$ 4,770,334	\$ 4,770,334
<b>Net Position:</b>						
Beginning of year			1,734,946,312			
End of year			<u>\$ 1,769,975,567</u>			

**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, 2019**

	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		
<b>Operating revenues:</b>							
Advertising	\$ 1,390,000	\$ 1,720,000	\$ 1,604,025	\$ -	\$ 1,604,025	\$	(115,975)
Miscellaneous operating revenues	11,900,930	14,424,730	15,905,864	(248,265)	15,657,599		1,232,869
<b>Total operating revenues</b>	13,290,930	16,144,730	17,509,889	(248,265)	17,261,624		1,116,894
<b>Operating expenses:</b>							
Personnel costs	20,088,940	21,467,500	22,860,040	(1,367,985)	21,492,055		(24,555)
Outside services	16,096,750	16,417,380	17,781,980	(635,174)	17,146,806		(729,426)
Transit operations funding	585,490	585,490	117,426,981	(116,928,800)	498,181		87,309
Materials and supplies	6,370	16,640	20,718	-	20,718		(4,078)
Energy costs	210,070	238,400	228,526	-	228,526		9,874
Risk management	435,100	373,580	260,035	(37,867)	222,168		151,412
Miscellaneous operating expenses	(21,375,360)	(20,342,830)	(20,906,956)	-	(20,906,956)		564,126
Depreciation	-	-	3,083,343	(3,083,343)	-		-
<b>Total operating expenses</b>	16,047,360	18,756,160	140,754,667	(122,053,169)	18,701,498		54,662
<b>Operating income (loss)</b>	(2,756,430)	(2,611,430)	(123,244,778)	121,804,904	(1,439,874)		1,171,556



**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, 2019**

	Budgeted Amounts		Actuals			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	
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	140,000	120,000	66,068,502	(65,917,968)	150,534	30,534
Transportation Development Act (TDA) funds	585,490	585,490	96,654,680	(91,750,231)	4,904,449	4,318,959
State Transit Assistance (STA) funds	-	-	32,382,645	(32,382,645)	-	-
State revenue - other	-	-	1,828,998	(1,828,998)	-	-
<i>TransNet</i> funds	-	-	51,050,475	(51,050,475)	-	-
Other local subsidies	-	-	1,058,481	(1,058,481)	-	-
Investment earnings	1,275,000	1,350,000	1,952,467	(166,015)	1,786,452	436,452
Interest expense	(744,060)	(744,060)	55,979	(800,037)	(744,058)	2
Gain (loss) on disposal of assets	200,000	200,000	(44,602)	157,433	112,831	(87,169)
<b>Total public support and nonoperating revenues (expenses):</b>	1,456,430	1,511,430	251,007,625	(244,797,417)	6,210,208	4,698,778
<b>Income (loss) before transfers and contributed capital</b>	(1,300,000)	(1,100,000)	127,762,847	(122,992,513)	4,770,334	5,870,334
Transfers	-	-	(64,550,741)	64,550,741	-	-
Reserve revenue	1,300,000	1,100,000	991,000	(991,000)	-	(1,100,000)
Contributed capital, net	-	-	(58,947,310)	58,947,310	-	-
<b>Changes in net position</b>	\$ -	\$ -	5,255,796	\$ (485,462)	\$ 4,770,334	\$ 4,770,334
<b>Net Position:</b>						
Beginning of year			194,180,568			
End of year			\$ 199,436,364			

**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, 2019**

	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)
<b>Operating revenues:</b>						
Miscellaneous operating revenues	\$ 1,065,000	\$ 943,200	\$ 988,859	\$ -	\$ 988,859	\$ 45,659
<b>Total operating revenues</b>	<b>1,065,000</b>	<b>943,200</b>	<b>988,859</b>	<b>-</b>	<b>988,859</b>	<b>45,659</b>
<b>Operating expenses:</b>						
Personnel costs	809,470	793,600	792,098	-	792,098	1,502
Outside services	107,230	95,750	76,671	-	76,671	19,079
Materials and supplies	8,000	1,100	346	-	346	754
Energy costs	14,670	19,030	17,801	-	17,801	1,229
Risk management	8,000	8,000	7,910	-	7,910	90
Miscellaneous operating expenses	224,260	187,600	182,505	-	182,505	5,095
Depreciation	-	-	6,042	(6,042)	-	-
<b>Total operating expenses</b>	<b>1,171,630</b>	<b>1,105,080</b>	<b>1,083,373</b>	<b>(6,042)</b>	<b>1,077,331</b>	<b>27,749</b>
<b>Operating income (loss)</b>	<b>(106,630)</b>	<b>(161,880)</b>	<b>(94,514)</b>	<b>6,042</b>	<b>(88,472)</b>	<b>73,408</b>
Reserve revenue	106,630	161,880	-	88,472	88,472	(73,408)
<b>Changes in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(94,514)</b>	<b>\$ 94,514</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Position:</b>						
Beginning of year			243,617			
End of year			<u>\$ 149,103</u>			

**San Diego Metropolitan Transit System**  
**San Diego and Arizona Eastern Railway**  
**Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual**  
**For the Year Ended June 30, 2019**

	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)
<b>Operating revenues:</b>						
Miscellaneous operating revenues	\$ 245,000	\$ 150,000	\$ 1,139,176	\$ (1,000,000)	\$ 139,176	\$ (10,824)
<b>Total operating revenues</b>	<b>245,000</b>	<b>150,000</b>	<b>1,139,176</b>	<b>(1,000,000)</b>	<b>139,176</b>	<b>(10,824)</b>
<b>Operating expenses:</b>						
Personnel costs	53,000	31,000	36,289	-	36,289	(5,289)
Outside services	210,000	140,000	48,486	-	48,486	91,514
Risk management	120,300	117,300	57,700	-	57,700	59,600
Miscellaneous operating expenses	24,080	30,000	25,894	-	25,894	4,106
Depreciation	-	-	17,088	(17,088)	-	-
<b>Total operating expenses</b>	<b>407,380</b>	<b>318,300</b>	<b>185,457</b>	<b>(17,088)</b>	<b>168,369</b>	<b>149,931</b>
<b>Operating income (loss)</b>	<b>(162,380)</b>	<b>(168,300)</b>	<b>953,719</b>	<b>(982,912)</b>	<b>(29,193)</b>	<b>139,107</b>
Reserve revenue	162,380	168,300	(991,000)	1,020,193	29,193	(139,107)
Contributed capital, net	-	-	(1,000,000)	1,000,000	-	-
<b>Changes in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(1,037,281)</b>	<b>\$ 1,037,281</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Position:</b>						
Beginning of year			18,711,236			
End of year			<u>\$ 17,673,955</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, 2019**

	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		
<b>Operating revenues:</b>							
Passenger revenue	\$ 30,323,700	\$ 29,317,500	\$ 28,178,285	\$ -	\$ 28,178,285	\$	(1,139,215)
Miscellaneous operating revenues	-	-	1,365	-	1,365		1,365
<b>Total operating revenues</b>	<b>30,323,700</b>	<b>29,317,500</b>	<b>28,179,650</b>	<b>-</b>	<b>28,179,650</b>		<b>(1,137,850)</b>
<b>Operating expenses:</b>							
Personnel costs	420,000	605,600	705,766	-	705,766		(100,166)
Outside services	77,615,560	79,356,630	79,094,438	-	79,094,438		262,192
Materials and supplies	40,100	41,020	25,635	-	25,635		15,385
Energy costs	8,341,210	8,338,410	8,233,769	-	8,233,769		104,641
Risk management	15,300	15,300	15,300	-	15,300		-
Miscellaneous operating expenses	2,561,920	2,874,260	2,867,483	-	2,867,483		6,777
Depreciation	-	-	22,706,135	(22,706,135)	-		-
<b>Total operating expenses</b>	<b>88,994,090</b>	<b>91,231,220</b>	<b>113,648,526</b>	<b>(22,706,135)</b>	<b>90,942,391</b>		<b>288,829</b>
<b>Operating income (loss)</b>	<b>(58,670,390)</b>	<b>(61,913,720)</b>	<b>(85,468,876)</b>	<b>22,706,135</b>	<b>(62,762,741)</b>		<b>(849,021)</b>

**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, 2019**

	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		
<b>Public support and nonoperating revenues (expenses):</b>							
Federal revenue	15,719,700	15,662,830	15,612,911	-	15,612,911		(49,919)
Transportation Development Act (TDA) funds	35,114,120	40,830,160	41,371,339	-	41,371,339		541,179
State revenue - other	3,400,000	-	73,473	-	73,473		73,473
<i>TransNet</i> funds	3,658,750	4,142,910	4,924,537	-	4,924,537		781,627
Other local subsidies	777,820	1,277,820	780,481	-	780,481		(497,339)
<b>Total public support and nonoperating revenues (expenses):</b>	<b>58,670,390</b>	<b>61,913,720</b>	<b>62,762,741</b>	<b>-</b>	<b>62,762,741</b>		<b>849,021</b>
<b>Income (loss) before contributed capital</b>	<b>-</b>	<b>-</b>	<b>(22,706,135)</b>	<b>22,706,135</b>	<b>-</b>		<b>-</b>
Contributed capital, net	-	-	97,704,396	(97,704,396)	-		-
<b>Changes in net position</b>	<b>-</b>	<b>-</b>	<b>74,998,261</b>	<b>\$ (74,998,261)</b>	<b>\$ -</b>		<b>\$ -</b>
<b>Net Position:</b>							
Beginning of year			222,087,873				
End of year			<u>\$ 297,086,134</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, 2019**

	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		
<b>Operating revenues:</b>							
Passenger revenue	\$ 21,735,500	\$ 22,016,400	\$ 22,041,356	\$ -	\$ 22,041,356	\$	24,956
Miscellaneous operating revenues	15,000	15,000	6,127	-	6,127	(8,873)	
<b>Total operating revenues</b>	<b>21,750,500</b>	<b>22,031,400</b>	<b>22,047,483</b>	<b>-</b>	<b>22,047,483</b>	<b>16,083</b>	
<b>Operating expenses:</b>							
Personnel costs	74,909,470	74,484,330	82,152,284	(10,393,969)	71,758,315	2,726,015	
Outside services	2,017,820	1,893,960	2,075,749	(295,457)	1,780,292	113,668	
Materials and supplies	5,693,040	5,938,310	6,409,354	-	6,409,354	(471,044)	
Energy costs	5,581,000	5,459,000	5,578,023	-	5,578,023	(119,023)	
Risk management	2,167,000	1,560,630	1,122,273	229,127	1,351,400	209,230	
Miscellaneous operating expenses	8,273,380	7,549,310	7,594,611	-	7,594,611	(45,301)	
Depreciation	-	-	29,467,429	(29,467,429)	-	-	
<b>Total operating expenses</b>	<b>98,641,710</b>	<b>96,885,540</b>	<b>134,399,723</b>	<b>(39,927,728)</b>	<b>94,471,995</b>	<b>2,413,545</b>	
<b>Operating income (loss)</b>	<b>(76,891,210)</b>	<b>(74,854,140)</b>	<b>(112,352,240)</b>	<b>39,927,728</b>	<b>(72,424,512)</b>	<b>2,429,628</b>	

**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, 2019**

	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	
<b>Public support and nonoperating revenues (expenses):</b>						
Federal revenue	20,500,000	20,500,000	20,500,000	-	20,500,000	-
Transportation Development Act (TDA) funds	12,524,630	5,932,870	2,925,267	(36,600)	2,888,667	(3,044,203)
State Transit Assistance (STA) funds	5,600,000	8,756,340	6,866,113	2,000,000	8,866,113	109,773
State revenue - other	-	-	258,857	(258,857)	-	-
<i>TransNet</i> funds	38,725,460	40,123,810	40,625,938	-	40,625,938	502,128
Other local subsidies	278,000	278,000	278,000	-	278,000	-
Interest expense	(736,880)	(736,880)	(727,381)	(9,475)	(736,856)	24
Gain (loss) on disposal of assets	-	-	(9,320)	11,970	2,650	2,650
<b>Total public support and nonoperating revenues (expenses):</b>	76,891,210	74,854,140	70,717,474	1,707,038	72,424,512	(2,429,628)
<b>Income (loss) before contributed capital</b>	-	-	(41,634,766)	41,634,766	-	-
Contributed capital, net	-	-	6,554,661	(6,554,661)	-	-
<b>Changes in net position</b>	-	-	(35,080,105)	\$ 35,080,105	\$ -	\$ -
<b>Net Position:</b>						
Beginning of year			168,211,904			
End of year			<u>\$ 133,131,799</u>			

**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, 2019**

	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		
<b>Operating revenues:</b>							
Passenger revenue	\$ 40,028,010	\$ 40,753,310	\$ 42,005,525	\$ -	\$ 42,005,525	\$	1,252,215
Miscellaneous operating revenues	720,000	825,000	789,453	-	789,453		(35,547)
<b>Total operating revenues</b>	<b>40,748,010</b>	<b>41,578,310</b>	<b>42,794,978</b>	<b>-</b>	<b>42,794,978</b>		<b>1,216,668</b>
<b>Operating expenses:</b>							
Personnel costs	37,532,400	38,017,510	39,459,147	(1,294,234)	38,164,913		(147,403)
Outside services	5,177,550	5,241,110	8,768,475	(3,125,291)	5,643,184		(402,074)
Materials and supplies	6,476,700	6,860,360	6,470,470	-	6,470,470		389,890
Energy costs	13,117,400	14,566,850	14,725,944	-	14,725,944		(159,094)
Risk management	1,920,000	1,647,320	719,878	31,944	751,822		895,498
Miscellaneous operating expenses	16,240,530	15,837,460	15,682,729	(39,219)	15,643,510		193,950
Depreciation	-	-	67,726,659	(67,726,659)	-		-
<b>Total operating expenses</b>	<b>80,464,580</b>	<b>82,170,610</b>	<b>153,553,302</b>	<b>(72,153,459)</b>	<b>81,399,843</b>		<b>770,767</b>
<b>Operating income (loss)</b>	<b>(39,716,570)</b>	<b>(40,592,300)</b>	<b>(110,758,324)</b>	<b>72,153,459</b>	<b>(38,604,865)</b>		<b>1,987,435</b>



**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, 2019**

	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		
<b>Public support and nonoperating revenues (expenses):</b>							
Federal revenue	24,900,000	24,900,000	24,750,993	(29,232)	24,721,761		(178,239)
Transportation Development Act (TDA) funds	14,816,570	15,692,300	15,508,830	(1,632,476)	13,876,354		(1,815,946)
State Transit Assistance (STA) funds	-	-	1,266,634	(1,266,634)	-		-
State revenue - other	-	-	236,168	(236,168)	-		-
Gain (loss) on disposal of assets	-	-	(2,297,569)	2,304,319	6,750		6,750
<b>Total public support and nonoperating revenues (expenses):</b>	<b>39,716,570</b>	<b>40,592,300</b>	<b>39,465,056</b>	<b>(860,191)</b>	<b>38,604,865</b>		<b>(1,987,435)</b>
<b>Income (loss) before contributed capital</b>	<b>-</b>	<b>-</b>	<b>(71,293,268)</b>	<b>71,293,268</b>	<b>-</b>		<b>-</b>
Contributed capital, net	-	-	62,280,366	(62,280,366)	-		-
<b>Changes in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(9,012,902)</b>	<b>\$ 9,012,902</b>	<b>\$ -</b>		<b>\$ -</b>
<b>Net Position:</b>							
Beginning of year			1,131,511,114				
End of year			<u>\$ 1,122,498,212</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.

FINAL DRAFT 10-29-2019

**FINANCIAL TRENDS**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Business-type activities:</b>										
Net investment in capital assets	\$ 1,822,922	\$ 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
Restricted	212	14,447	4,440	8,750	5,309	6,742	7,255	78,378	7,007	2,548
Unrestricted	(53,159)	(65,308)	(19,615)	(31,668)	(31,900)	181,114	189,837	157,609	173,128	177,158
<b>Total business-type activities net position</b>	<b>\$ 1,769,975</b>	<b>\$ 1,734,947</b>	<b>\$ 1,724,185</b>	<b>\$ 1,737,509</b>	<b>\$ 1,672,631</b>	<b>\$ 1,583,062</b>	<b>\$ 1,493,309</b>	<b>\$ 1,408,803</b>	<b>\$ 1,253,697</b>	<b>\$ 1,257,884</b>
<b>Primary government:</b>										
Net investment in capital assets	\$ 1,822,922	\$ 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
Restricted	212	14,447	4,440	8,750	5,309	6,742	7,255	78,378	7,007	2,548
Unrestricted	(53,159)	(65,308)	(19,615)	(31,668)	(31,900)	181,114	189,837	157,609	173,128	177,158
<b>Total primary government net position</b>	<b>\$ 1,769,975</b>	<b>\$ 1,734,947</b>	<b>\$ 1,724,185</b>	<b>\$ 1,737,509</b>	<b>\$ 1,672,631</b>	<b>\$ 1,583,062</b>	<b>\$ 1,493,309</b>	<b>\$ 1,408,803</b>	<b>\$ 1,253,697</b>	<b>\$ 1,257,884</b>

Source: Audited Financial Statements.

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Operating revenues:</b>										
Passenger revenue	\$ 92,225	\$ 90,236	\$ 93,279	\$ 97,914	\$ 97,615	\$ 93,995	\$ 90,652	\$ 88,094	\$ 84,764	\$ 84,167
Advertising	1,604	1,131	1,379	968	816	870	972	784	621	783
Charter	-	-	-	-	6	30	1	186	129	128
Miscellaneous	18,831	17,404	18,863	15,781	9,349	9,531	4,934	4,445	4,688	4,264
<b>Total operating revenues</b>	<b>112,660</b>	<b>108,771</b>	<b>113,521</b>	<b>114,663</b>	<b>107,786</b>	<b>104,426</b>	<b>96,559</b>	<b>93,509</b>	<b>90,202</b>	<b>89,342</b>
<b>Operating expenses:</b>										
Personnel costs	146,006	146,282	137,021	121,921	114,575	117,092	123,720	112,537	104,329	109,512
Outside services	107,846	101,574	97,800	94,802	84,302	73,859	67,414	66,050	64,037	63,574
Transit operations funding	498	488	463	491	2,692	4,243	3,571	3,721	4,053	3,758
Materials and supplies	12,927	14,918	13,065	9,715	10,307	9,276	8,469	7,977	7,678	6,680
Energy costs	28,784	26,414	25,552	24,531	28,003	26,044	22,572	22,689	21,932	22,892
Risk management	2,183	6,675	4,276	4,864	5,849	3,610	2,902	4,030	3,924	4,859
Miscellaneous	5,446	5,854	5,934	4,978	4,975	6,244	6,493	5,116	4,899	3,571
Depreciation	123,007	120,928	123,880	119,520	108,199	103,198	92,788	84,811	81,041	98,238
<b>Total operating expenses</b>	<b>426,697</b>	<b>423,133</b>	<b>407,991</b>	<b>380,822</b>	<b>358,902</b>	<b>343,566</b>	<b>327,929</b>	<b>306,931</b>	<b>291,893</b>	<b>313,084</b>
<b>Operating (loss)</b>	<b>(314,037)</b>	<b>(314,362)</b>	<b>(294,470)</b>	<b>(266,159)</b>	<b>(251,116)</b>	<b>(239,140)</b>	<b>(231,370)</b>	<b>(213,422)</b>	<b>(201,691)</b>	<b>(223,742)</b>

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Public support and nonoperating revenues (expenses):</b>										
Grants and contributions	243,544	253,298	232,775	235,763	235,755	211,517	183,945	325,658	170,850	224,506
Investment earnings	1,952	941	636	292	3,065	6,087	6,267	7,622	7,695	9,708
Interest expense	(671)	(809)	(963)	(1,071)	(6,883)	(6,982)	(7,520)	(8,014)	(8,420)	(12,702)
Gain (loss) on disposal of	(2,351)	(809)	396	2,433	67	(273)	804	(620)	712	(69)
Other expenses	-	-	-	-	-	(13)	(13)	(5)	(139)	(1,075)
<b>Total public support and nonoperating revenues (expenses)</b>	<b>242,474</b>	<b>252,621</b>	<b>232,844</b>	<b>237,417</b>	<b>232,004</b>	<b>210,336</b>	<b>183,483</b>	<b>324,641</b>	<b>170,698</b>	<b>220,368</b>
<b>Income (loss) before contributed capital</b>	<b>(71,563)</b>	<b>(61,741)</b>	<b>(61,626)</b>	<b>(28,742)</b>	<b>(19,112)</b>	<b>(28,804)</b>	<b>(47,887)</b>	<b>111,219</b>	<b>(30,993)</b>	<b>(3,374)</b>
Contributed capital, net	106,592	99,551	48,301	93,619	245,717	118,768	132,182	44,118	26,806	11,110
<b>Changes in net position</b>	<b>\$ 35,029</b>	<b>\$ 37,810</b>	<b>\$ (13,325)</b>	<b>\$ 64,877</b>	<b>\$ 226,605</b>	<b>\$ 89,964</b>	<b>\$ 84,295</b>	<b>\$ 155,337</b>	<b>\$ (4,187)</b>	<b>\$ 7,736</b>

Source: Audited Financial Statements.

**REVENUE CAPACITY**



**San Diego Metropolitan Transit System**  
**Operating Revenues by Source (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					
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
2019	22,041	20,500	10,050	40,904	6
San Diego Trolley					
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
2019	42,006	24,751	17,012	-	789
MTS - Contracted Services					
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
2019	28,178	15,613	41,445	5,705	1

Source: Audited Financial Statements.

# San Diego Metropolitan Transit System

## Fare Structure

### Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Bus Cash Fares</b>										
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
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	2.50-5.00	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	2.50-5.00
<b>Trolley Cash Fares</b>										
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
<b>Bus and Trolley Day Passes</b>										
Regional day pass	5.00	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	12.00	14.00	14.00
<b>Bus and Trolley Monthly Passes</b>										
Regional monthly pass	72.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00
Senior/disabled Regional	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Youth Regional	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00
14-Day/Half-month	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00
Rapid Express/Premium monthly pass	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Senior/disabled Rapid Express/Premium	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Youth Rapid Express/Premium	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
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	60.00

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

The SANDAG Board of Directors approved a Comprehensive Fare Ordinance amendment in February 2019 with new transit fares effective September 1, 2019.

**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>
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
2019	23.41	49.71	30.98

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**

**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
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
2019	363,072	-	-	12,910,000	13,273,072	0.01%	4

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 INFORMATION**

**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)
2010	3,102,852	136,600,000	49,924	10.50%
2011	3,135,522	145,700,000	51,339	10.40%
2012	3,173,442	152,700,000	52,103	9.30%
2013	3,207,852	157,800,000	52,674	7.40%
2014	3,247,475	167,600,000	54,554	6.10%
2015	3,274,141	177,600,000	56,796	5.00%
2016	3,295,816	183,000,000	57,086	5.10%
2017	3,320,108	192,600,000	58,014	4.30%
2018	3,347,292	201,200,000	58,513	3.70%
2019	3,372,910	210,100,000	59,325	3.30%

Source:

(1) California Department of Transportation - Actuals 2010-2017, Forecast 2018-2019

(2) California Employment Development Department, June 2019

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

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	<u>MTS</u>	<u>San Diego Transit</u>	<u>San Diego Trolley</u>	<u>Total</u>
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
2019	166	841	612	1,619

Source: MTS Human Resources records



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

Company Name	Number of Employees (1)	Percent of 1,529,500 County Total (2)
Naval Base San Diego	42,951	2.81%
Federal Government	38,527	2.52%
Sharp HealthCare	25,500	1.67%
University of California, San Diego	20,000	1.31%
County of San Diego	18,132	1.19%
UC San Diego Health	15,379	1.01%
Scripps Health	15,000	0.98%
San Diego Unified School District	13,559	0.89%
Qualcomm Inc.	13,000	0.85%
City of San Diego	11,538	0.75%

Source:

1. Infogroup Inc., U.S. Office of Personnel Management data reported for Executive Branch and Company websites
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**

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Operating Cost (in 000's)</b>										
San Diego Transit	\$ 93,943	\$ 99,619	\$ 94,878	\$ 95,526	\$ 92,059	\$ 91,568	\$ 98,666	\$ 90,153	\$ 83,457	\$ 93,831
San Diego Trolley	81,414	87,666	81,501	75,086	72,637	71,098	65,859	63,309	60,395	60,913
MTS-Contract Services	90,864	83,468	81,744	80,511	76,190	65,959	62,573	61,154	59,536	58,037
<b>Farebox Revenue (in 000's)</b>										
San Diego Transit	\$ 22,041	\$ 23,034	\$ 24,864	\$ 26,169	\$ 27,156	\$ 27,781	\$ 28,621	\$ 27,498	\$ 26,056	\$ 26,708
San Diego Trolley	42,006	39,354	38,968	41,113	41,140	40,188	35,554	35,216	34,673	33,050
MTS-Contract Services	28,178	27,848	29,447	30,631	29,318	26,025	26,476	25,380	24,036	24,410
<b>Total Passengers (in 000's)</b>										
San Diego Transit	\$ 22,397	\$ 22,867	\$ 24,315	\$ 25,628	\$ 27,264	\$ 28,541	\$ 28,927	\$ 28,802	\$ 27,252	\$ 26,921
San Diego Trolley	37,294	36,995	37,639	39,614	40,082	39,695	29,699	32,655	31,613	30,469
MTS-Contract Services	25,667	25,567	26,241	27,194	27,574	23,761	23,479	23,780	22,664	21,988
<b>Revenue Miles (in 000's)</b>										
San Diego Transit	\$ 9,739	\$ 9,684	\$ 9,626	\$ 9,702	\$ 9,561	\$ 8,695	\$ 8,557	\$ 8,221	\$ 8,178	\$ 8,624
San Diego Trolley	8,821	8,656	8,728	8,424	8,596	8,516	7,758	7,544	7,519	7,743
MTS-Contract Services	15,666	14,983	15,144	14,969	13,328	12,139	11,607	11,214	11,196	11,450
<b>Subsidy / Total Passenger</b>										
San Diego Transit	\$ 3.21	\$ 3.35	\$ 2.88	\$ 2.71	\$ 2.38	\$ 2.24	\$ 2.42	\$ 2.18	\$ 2.10	\$ 2.50
San Diego Trolley	1.05	1.31	1.13	0.86	0.78	0.78	1.02	0.86	0.81	0.92
MTS-Contract Services	2.44	2.18	2.00	1.83	1.70	1.68	1.54	1.50	1.57	1.53

Source: NTD Report, and audited financial statements.

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

Service Provided	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>San Diego Transit</b>										
Vehicle Revenue Miles (in 000's)	9,739	9,684	9,626	9,702	9,561	8,695	8,557	8,221	8,178	8,624
Vehicle Revenue Hours (in 000's)	823	821	822	825	806	795	787	757	754	789
Passengers (in 000's)	22,397	22,867	24,315	25,628	27,264	28,541	28,927	28,802	27,252	26,921
Passenger Miles (in 000's)	98,896	104,545	109,727	111,639	117,585	110,009	108,222	106,804	100,500	98,163
Number of Vehicles	270	270	278	279	272	310	260	236	236	238
<b>San Diego Trolley</b>										
Vehicle Revenue Miles (in 000's)	8,821	8,656	8,728	8,424	8,596	8,516	7,758	7,544	7,519	7,743
Vehicle Revenue Hours (in 000's)	487	478	490	493	496	504	472	428	423	442
Passenger Car Hours (in 000's)	500	486	504	507	509	512	476	433	429	448
Passengers (in 000's)	37,294	36,995	37,639	39,614	40,082	39,695	29,699	32,655	31,613	30,469
Passenger Miles (in 000's)	219,453	214,376	210,971	223,185	224,422	228,531	173,151	194,822	193,063	186,509
Number of Vehicles	141	130	179	179	179	179	178	151	128	134
<b>MTS-Contracted Services</b>										
Vehicle Revenue Miles (in 000's)	15,666	14,983	15,144	14,969	13,328	12,139	11,607	11,214	11,196	11,450
Vehicle Revenue Hours (in 000's)	1,305	1,256	1,269	1,252	1,112	998	961	933	927	946
Passengers (in 000's)	25,667	25,567	26,241	27,194	27,573	23,761	23,479	23,780	22,664	21,988
Passenger Miles (in 000's)	97,045	94,665	95,940	97,479	94,504	85,269	84,021	79,789	82,125	79,237
Number of Vehicles	530	538	526	520	520	449	427	404	407	369
<b>Total</b>										
Passengers (in 000's)	85,358	85,429	88,195	92,436	94,919	91,997	82,105	85,237	81,529	79,378
Passenger Miles (in 000's)	415,394	413,586	416,638	432,303	436,511	423,809	365,394	381,415	375,688	363,909

Source: NTD Report and MTS internal capital asset system

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>General Operations</b>										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	-	-	-	1	3	3	3	5	5	5
<b>San Diego Transit</b>										
Land (parcels)	2	2	2	2	2	2	2	2	2	2
Buildings and structures	11	11	9	8	7	7	4	2	2	2
Buses	270	270	278	279	272	310	260	236	236	238
Nonrevenue vehicles	15	15	12	12	12	12	14	19	22	32
<b>San Diego Trolley</b>										
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)	141	130	179	179	179	179	178	151	128	134
Nonrevenue vehicles	12	12	12	12	16	16	15	31	43	51
<b>MTS - Contracted Services</b>										
Land (parcel)	2	2	2	2	2	2	2	2	1	1
Buildings and structures	11	5	4	4	4	4	4	4	3	3
Buses	530	538	526	520	520	449	427	404	407	369
Nonrevenue vehicles	7	7	9	9	10	8	8	8	10	7
<b>Taxicab Administration</b>										
Buildings and structures	1	1	1	1	1	1	1	1	1	1
Nonrevenue vehicles	1	1	1	1	2	2	2	4	3	3

Source: MTS ERP System

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

Ridership (in 000's)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
San Diego Transit	22,397	22,867	24,315	25,628	27,264	28,541	28,927	28,802	27,252	26,921
% Change	-2.06%	-5.96%	-5.12%	-6.00%	-4.47%	-1.33%	0.43%	5.69%	1.23%	-9.55%
San Diego Trolley	37,294	36,995	37,639	39,614	40,082	39,695	29,699	32,655	31,613	30,469
% Change	0.81%	-1.71%	-4.99%	-1.17%	0.97%	33.66%	-9.05%	3.30%	3.75%	-17.49%
MTS - Contracted Services	25,667	25,567	26,241	27,194	27,574	23,761	23,479	23,780	22,664	21,988
% Change	0.39%	-2.57%	-3.51%	-1.38%	16.05%	1.20%	-1.27%	4.92%	3.07%	1.58%

Source: NTD Report

**San Diego Metropolitan Transit System**  
**Operating Subsidy**  
**Last Ten Fiscal Years**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Average Fare per Rider</b>										
San Diego Transit	0.98	1.01	1.02	1.02	1.00	0.97	0.99	0.95	0.96	0.99
San Diego Trolley	1.13	1.06	1.04	1.04	1.03	1.01	1.20	1.08	1.10	1.08
MTS - Contract Services	1.10	1.09	1.12	1.13	1.06	1.10	1.13	1.07	1.06	1.11
<b>Operating Expense per Rider</b>										
San Diego Transit	4.19	4.36	3.90	3.73	3.38	3.21	3.41	3.13	3.06	3.49
San Diego Trolley	2.18	2.37	2.17	1.90	1.81	1.79	2.22	1.94	1.91	2.00
MTS - Contract Services	3.54	3.27	3.12	2.96	2.76	2.78	2.67	2.57	2.63	2.64
<b>Subsidy per Rider</b>										
San Diego Transit	3.21	3.35	2.88	2.71	2.38	2.24	2.42	2.18	2.10	2.50
San Diego Trolley	1.05	1.31	1.13	0.86	0.79	0.78	1.02	0.86	0.81	0.92
MTS - Contract Services	2.44	2.18	2.00	1.83	1.70	1.68	1.54	1.50	1.57	1.53

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 the San Diego Metropolitan Transit System (MTS), which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements and have issued our report thereon dated [REPORT DATE].

**Internal Control over Financial Reporting**

In planning and performing our audits 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 the 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  
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**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

[REPORT DATE]

FINAL DRAFT 10-29-2019



# **SAN DIEGO METROPOLITAN TRANSIT SYSTEM**

**Presentation to the Audit Oversight Committee  
For the Fiscal Year Ended June 30, 2019**

**November 7, 2019**

## Contents

- Management and Auditors' Responsibilities
- Approach to the Audit
- Overview of the Financial Statements
- Key Pension and OPEB Information
- Audit Results
- GASB: Upcoming Standards and Key Research Projects





## Management and Auditors' Responsibilities

## Management Responsibilities

- Responsible for the financial statements
- Present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP)
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Fair presentation of financial statements that are free from material misstatements, whether due to fraud or error
- Preventing and detecting fraud

## Auditors' Responsibilities

- Perform the audit in conformity with Auditing Standards Generally Accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS or “Yellow Book”)
- Communicate with “Those Charged with Governance”
- Assess audit risk of internal control over financial reporting
- Determine the fair presentation of the financial statements
- Render an opinion on the financial statements
- Issue recommendations to management, if any





## Approach to the Audit

## The Pun Group's Audit Approach for MTS

- Phase I – Detailed Planning
- Phase II – Risk Based Review of Internal Controls Over Systems and Compliance including:
  - Financial Reporting
  - Revenues and Expenses
  - Capital Assets and Inventories
  - Payroll and Related Liabilities
  - IT Controls
- Phase III – Validation of Account Balances
- Phase IV – Review Financial Statements and Issue Audit Report Opinion







## Overview of the Financial Statements

## San Diego Metropolitan Transit System

### Summary Statements of Net Position

June 30, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b>Assets</b>	\$ 2,081,872,000	\$ 2,002,747,000
<b>Deferred Outflows of Resources</b>	39,437,000	54,288,000
<b>Liabilities</b>	342,597,000	313,785,000
<b>Deferred Inflows of Resources</b>	8,736,000	8,303,000
<b>Net Position:</b>		
Net investment in capital assets	1,822,922,000	1,785,808,000
Restricted	212,000	4,546,000
Unrestricted (deficit)	(53,158,000)	(55,407,000)
<b>Total Net Position</b>	<b>\$ 1,769,976,000</b>	<b>\$ 1,734,947,000</b>

## San Diego Metropolitan Transit System

### Summary Statements of Revenues, Expenses and Changes in Net Position

#### For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Operating revenues	\$ 112,660,000	\$ 108,771,000
Nonoperating revenues	245,496,000	254,238,000
<b>Total revenues</b>	<u>358,156,000</u>	<u>363,009,000</u>
<b>Expenses</b>		
Operating expenses	426,696,000	423,133,000
Nonoperating expenses	<u>3,023,000</u>	<u>1,618,000</u>
<b>Total expenses</b>	<u>429,719,000</u>	<u>424,751,000</u>
<b>(Loss) before capital contributions</b>	(71,563,000)	(61,742,000)
Capital contributions	<u>106,592,000</u>	<u>99,551,000</u>
<b>Changes in Net Position</b>	<u>\$ 35,029,000</u>	<u>\$ 37,809,000</u>

## San Diego Metropolitan Transit System

### Summary Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>	\$ (174,293,000)	\$ (177,198,000)
<b>Cash Flows from Noncapital Financing Activities</b>	252,016,000	251,302,000
<b>Cash Flows from Capital and Related Financing Activities</b>	(59,636,000)	(70,320,000)
<b>Cash Flows from Investing Activities</b>	<u>1,408,000</u>	<u>965,000</u>
<b>Changes in cash and cash equivalents</b>	<u>\$ 19,495,000</u>	<u>\$ 4,749,000</u>



## Key Pension and OPEB Information

## San Diego Metropolitan Transit System

### Net Pension Liability

#### June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>MTS CalPERS Miscellaneous Plan</b>	\$ 12,983,000	\$ 13,419,000
<b>SDTI CalPERS Miscellaneous Plan</b>	29,553,000	31,327,000
<b>SDTI PARS Plan</b>	1,766,000	2,150,000
<b>SDTC Retirement Plan</b>	<u>134,061,000</u>	<u>134,376,000</u>
 <b>Aggregate Net Pension Liability</b>	 <u><u>\$ 178,363,000</u></u>	 <u><u>\$ 181,272,000</u></u>

**San Diego Metropolitan Transit System**  
**Pension Expense**  
**For the Years Ended June 30, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>MTS CalPERS Miscellaneous Plan</b>	\$ 2,932,000	\$ 3,230,000
<b>SDTI CalPERS Miscellaneous Plan</b>	4,770,000	5,391,000
<b>SDTI PARS Plan</b>	404,000	528,000
<b>SDTC Retirement Plan</b>	<u>24,465,000</u>	<u>24,641,000</u>
<b>Total Pension Expense</b>	<u><u>\$ 32,571,000</u></u>	<u><u>\$ 33,790,000</u></u>

**San Diego Metropolitan Transit System**  
**Other Postemployment Benefits Plan**  
**Total OPEB Liability**  
**June 30, 2019 and 2018**

	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>MTS</b>	\$ 6,025,000	\$ 5,575,000
<b>SDTI</b>	11,566,000	11,099,000
<b>SDTC</b>	<u>29,520,000</u>	<u>28,723,000</u>
<b>Total OPEB Liability</b>	<b><u><u>\$ 47,111,000</u></u></b>	<b><u><u>\$ 45,397,000</u></u></b>





## Audit Results

## Audit Result

- **Unmodified Opinion**

- Financial statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements

- **Other Results**

- No disagreements with management
- No material weaknesses or significant deficiencies in internal controls were noted
- No accounting issues noted



## **GASB: Upcoming Standards and Key Research Projects**

## GASB: Upcoming Standards

- No. 84 *Fiduciary Activities* (effective 2020)
- No. 87 *Leases* (effective 2021)
- No. 89 *Interest Cost Incurred before the End of a Construction Period* (effective 2021)

## **GASB: Key Research Projects**

- Capital Asset Reporting
- Condition Reporting
- Financial Reporting Model
- Revenue and Expense Recognition

## For more information, contact:

### Presenters:

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## Agenda Item No. B2

### MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM AUDIT OVERSIGHT COMMITTEE

November 7, 2019

#### 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

Key Staff Contact: Sharon Cooney, 619.557.4513, [Sharon.Cooney@sdmts.com](mailto:Sharon.Cooney@sdmts.com)



# Internal Audit Presentation

for the  
Audit Oversight Committee  
November 7, 2019



# Agenda

1. Audit Resources
2. Audit Selection Process
3. Fiscal Year 2018-19 Audits
4. Tentative Audits For Calendar Year 2020
5. Other Activities

## Audit Resources

Work Hours (52 weeks x 40 hours per week)	<b>2,080</b>
Less	
Holidays (13 days)	<b>(104)</b>
Annual Leave	<b><u>(184)</u></b>
Available Hours	<b>1,792</b>
Allocation:	
Continuing Education & Training	60
Audit Planning & Administration	156
Audits (80 %)	1,261
Advisory Services & Fraud (20 %)	315

## **Risk Assessment & Audit Selection Methodology**

For every work area or division, I rate inherent:

- Compliance Risks
- Financial Risks
- Fraud Risks
- Safety Risks

I then adjust my rating based on the:

- Criticality of the function
- Strength of internal controls
- Management input
- Audit history & my own judgement

## Fiscal Year 2018-2019 Audits

Audit	Status
1. Information Technology Security	Submitted
2. Liability Claims Payments	Submitted
3. Project Management	Submitted
4. Employee Overtime	Draft
5. Taxicab Administration	Draft
6. Information Technology Applications	Started
7. Payments to Vendors	Not Started
8. Real Estate Assets	Cancelled

# Potential Audits for Calendar Year 2020

- Information Technology Expenditures
- Trolley Auxiliary and Part-Time Positions
- Environmental Compliance
- Revenue collections – Trolley (Repeat)
- Revenue collections – Transit (Repeat)

# Other Activities

**Fraud Hotline** – One call that was investigated; could not substantiate allegations.