

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

02/24/2022

MINUTES

1. ROLL CALL

Ms. Moreno called the Budget Development Committee (BDC) meeting to order at 12:31pm. A roll call sheet listing BDC member attendance is attached.

2. APPROVAL OF MINUTES

Ms. Moreno moved to approve the minutes of the October 15, 2021 San Diego Metropolitan Transit System (MTS) BDC meeting. Mr. Whitburn seconded the motion, and the vote was 5 to 0 in favor.

3. PUBLIC COMMENTS

There were no public comments.

4. Fiscal Year (FY) 2022 Operating Budget Midyear Amendment (Mike Thompson)

Mike Thompson, Director of Financial Planning and Analysis gave an overview of the FY 2022 Operating Budget Midyear Amendment and presented a PowerPoint explaining the Revenue and Expense Assumptions.

Mr. Thompson discussed the revenue assumptions, starting with sales tax revenues, mentioning that sales tax receipts have had very strong results on a regional basis. Mr. Thompson provided an update on the funding from TransNet and Transportation Development Act (TDA). With TransNet, the updated forecast is \$35.1M, with an increase of \$5.5M. TDA forecast does not have any changes, staying at \$101.3M, however the San Diego Association of Governments (SANDAG) has revised the regional target at Midyear to \$175M; this change will bring some growth for the FY23 budget on the TDA side. The State Transit Assistance (STA) updated forecast is \$28.2M with an increase of \$5.1M, Mr. Thompson mentioned that the actual STA amount will be determined by the state budgeting process which won't be approved until May 2022; the STA funds can be used for both the Capital and Operating Budgets and the anticipated increase will be included in the FY 2023 Capital Budget.

Mr. Thompson went over the Passenger Levels and Passenger Fare Revenue. He stated passenger levels have had consistent growth since the end of last FY, with December being up to 65% of baseline. He mentioned that passenger levels did decline a bit in January due primarily to Omicron and the delay in returning to school. He mentioned ridership is expected to rebound in February and continue a slow and steady growth, projecting 57M passengers, 45% growth over FY 2021. Mr. Thompson went over the changes impacting the passenger fare revenue, such as the Youth Opportunity Pass that SANDAG has put together, as well as the launch of PRONTO resulting in a 12% drop in average fare from October to January. Passenger Fares for FY 2022 was originally budgeted at \$49.5M, and the updated forecast is increasing by \$6.0M to \$55.5M primarily due to the ridership growth. Other Operating Revenues are projected to

increase \$2.0M to \$23.5M. FY 2022 Operating Revenues are projected to increase \$7.9M, and total Subsidy Revenues are projected to increase \$4.4M resulting in total revenue increases of \$13.2M for FY 2022.

Mr. Thompson reviewed the Expense Assumptions. Service levels are expected to reduce slightly across all modes (Trolley has a 2.1% decrease, Bus-Fixed Route has a 2.3% decrease, Paratransit has a 29.6% decrease). He mentioned the personnel expense assumptions includes a projected decrease of \$7.7M as wages are projected to decrease by \$2.1M due to staffing shortages with Bus and Rail operations, and fringe benefits having a projected decrease of \$5.5M due to healthcare cost being \$4.2M lower than originally budgeted. Other Outside Services are expected to decrease by \$9.5M, which includes service level changes decreasing within purchased transportation by \$7.0M, repairs & maintenance costs decreasing by \$0.5M and other outside services decreasing by \$1.9M, primarily due to PRONTO operations and maintenance costs. Mr. Thompson went over the Other Expense Assumptions including materials and supplies costs increasing by \$1.5M, energy costs increasing by \$2.0M, risk management costs increasing by \$0.4M, and General and Administration costs increasing by \$0.5M. Expenses are projected to decrease by \$12.5M (-3.5%)

Mr. Thompson went over the Consolidated Revenues less Expenses. He stated revenue is favorable by \$12.3M, expenses are unfavorable by \$12.5M, putting the Net Operating Deficit favorable by \$24.9M. He mentioned there is still a \$54.5M deficit that will be covered by federal stimulus funding.

Action Taken

Ms. Moreno moved to forward a recommendation to the MTS Board of Directors enact resolution No. 22-01 amending the FY 2022 operating budget for the MTS, SDTC, SDTI, MTS Contract Services and the Coronado Ferry. Mr. Sandke seconded the motion, and the vote was 5 to 0 in favor.

5. Fiscal Year 2023 Operating Budget Discussion (Mike Thompson)

Mr. Thompson presented high-level projections and assumptions for the FY 2023 Operating Budget. Mr. Thompson mentioned that the current presentation is a very early look at FY 2023 and a more detailed presentation will be brought to the committee at the next BDC meeting.

Mr. Thompson went over the Revenue Assumptions. He stated SANDAG is projecting subsidy revenue growth of 0.7%, and MTS will build their budget based on the 0.7% growth. He mentioned there will be some additional growth on the TDA side due to the large increase in the FY 2022 TDA receipts, and there will be additional TransNet reimbursement from SANDAG as it will be the first full year of the Mid-Coast Trolley extension. Federal revenues in the operating budget are projected at normal levels, and he mentioned that there will be a large increase on the formula funding due to the Infrastructure Act that was passed in December, although the new appropriations need to be passed by Congress and will most likely go in to effect in the FY 2024 budgets.

Mr. Thompson went over Passenger revenue. He mentioned that we expect to see growth over the next 18 months in passenger revenue. Based on the consistent growth for the next 18 months, it results in a forecast of \$67M, or 20% growth year over year. The increase will continue to be monitored in February and March before the forecast is finalized in April. Mr. Thompson went over the service levels for FY 2023. On the Rail side, service levels are projected to increase by 8% due to a full year of Mid-Coast

service, Bus-Fixed Route is projected to increase by 2.3%, and Bus-Paratransit is projected to increase 30% as the demand for service increases. Mr. Thompson did mention that even with the 30% projected increase in Paratransit, we are only at 55% of peak service levels in FY 2019.

On the expense side, personnel costs are not expecting to have any major headcount changes. Wage increase assumptions are almost set, ATU and TEOA have been approved for the FY, and IBEW and SMART are currently in negotiations. An increase of 3.5% - 4.0% is expected for ATU, IBEW, SMART and TEOA and a similar wage inflation is expected on the Management as well. For Fringe Benefits, an increase of 5% is projected for health care, and there will be additional savings due to the disbanding of the IBEW and ATU Healthcare Trust into FY 2023. Pension costs, will increase by \$316k, 1.8% on the San Diego Transit self-funded plan and the CalPERS plan will increase by \$991k (14.6%). The Contracted rates for Purchased Transportation are all fixed in place. Transdev contract fixed costs are increasing by 4.2% and variable rate increase by 7.4%, First Transit Contract has 3 pieces to the contract with fixed costs increasing by 4.4%, ADA Paratransit variable costs increasing by 3.1% and Minibus variable costs increasing by 5.6%. Mr. Thompson mentioned a new security contract went in to effect on 01/01/2022, which will have a higher service level and cost than the previous contract. Other outside services will have some increases. Rail Operations has major rehabilitation projects, and MTS will have a full year of PRONTO Operations and Maintenance costs. Risk and liability insurance costs will also be increasing. Mr. Thompson went over the energy assumptions, mentioning there are some volume increases due to added services on the Trolley. Commodity prices are projected to decrease 10% in Compressed Natural Gas (CNG), and electricity is projected to increase 10% year over year. He mentioned there is no plan to hedge CNG and or Electricity commodity prices. Gasoline and Propane commodity costs are projected to decrease 7%.

In summary, the preliminary projection reflects a combined revenue of \$316.0M (an increase of \$28.0M, 9.7%), combined expenses of \$371.0M (an increase of \$28.0M, 8.3%), leading to the same deficit of \$55.0M as compared to FY 2022. Mr. Thompson went over the Stimulus funding balance; \$220.0M was received from CARES; \$140.0M was received from ARP, totaling \$360M. He mentioned \$90.0M was used in the first two years and it is projected that \$55.0M will be used for each year in FY 2022 and FY 2023, leaving a projected balance of \$160.5M at the end of FY 2023.

Mr. Thompson went over the Major Initiatives, addressing the structural deficit and ridership recovery action plan. The Bipartisan Infrastructure Law timeline unknown and when the funding will be available to MTS. Other initiatives touched on were tracking on Division 6, the PRONTO tapping campaign and significant capital needs over the next five years.

Action Taken

No action was taken. Information item only.

6. Next Meeting Date:
March 24, 2022

7. Adjournment
Ms. Moreno adjourned the meeting at 1:19pm

/s/ Vivian Moreno

Chair of the Budget Development Committee

/s/ Lucia Mansour

Clerk of the Budget Development Committee

Attachment: Roll Call Sheet

BUDGET DEVELOPMENT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM

ROLL CALL

MEETING OF (DATE) 02/24/2022

CALL TO ORDER (TIME) 12:31pm

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 1:19pm

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
MORENO <input checked="" type="checkbox"/>	12:31pm	1:19pm
FLETCHER <input checked="" type="checkbox"/>	12:31pm	1:19pm
SALAS <input checked="" type="checkbox"/>	12:31pm	1:19pm
SANDKE <input checked="" type="checkbox"/>	12:31pm	1:19pm
Gloria <input type="checkbox"/> Whitburn <input checked="" type="checkbox"/>	12:31pm	1:19pm

SIGNED BY THE CLERK OF THE BUDGET DEVELOPMENT COMMITTEE: Lucia Mansour

Digitally signed by Lucia Mansour
DN: cn=Lucia Mansour, o=San Francisco
Mansour, email=Lucia.Mansour@sfmts.com, c=US
Date: 2022.03.04 17:53:27 -0800