

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE (BDC)

03/02/2023

[Clerk's note: Except where noted, public, staff and board member comments are paraphrased. The full comment can be heard by reviewing the recording at the [MTS website](#).]

1. Roll Call

Ms. Moreno called the Budget Development Committee (BDC) meeting to order at 09:00 a.m. A roll call sheet listing BDC member attendance is attached.

2. Public Comments

Corrina Contreras Transportation Policy Advocate for Climate Action Campaign – Minutes of the June 9, 2022 Meeting

Ms. Contreras asked if there will be an increase in the amount of PRONTO validators to help increase tapping of the PRONTO cards, an increase revenue.

Corrina Contreras Transportation Policy Advocate for Climate Action Campaign – FY 2023 Operating Budget Midyear Amendment

Ms. Contreras mentioned that there is a concern with the ongoing staff shortage and it is very important for the public to know, what is the target amount of bus operators that are needed to increase frequency and how is the agency going to pay for it.

Corrina Contreras Transportation Policy Advocate for Climate Action Campaign – FY 2024 Operating Budget

Ms. Contreras asked how is MTS planning to increase retention of bus operators and how many bus operators is MTS planning for. Ms. Contreras also asked what is the methodology for restoring bus routes.

3. Approval of Minutes

Mr. Fletcher moved to approve the minutes of the June 9, 2022, San Diego Metropolitan Transit System (MTS) BDC meeting. Mr. Elo-Rivera seconded the motion, and the vote was 5 to 0 in favor with Mr. McCann absent.

DISCUSSION ITEMS

4. Fiscal Year (FY) 2023 Operating Budget Midyear Amendment (Mike Thompson)

Mike Thompson, Director of Financial Planning and Analysis gave an overview of the FY 2023 Operating Budget Midyear Amendment and presented a PowerPoint explaining the Revenue and Expense Assumptions.

Mr. Thompson discussed the revenue assumptions. In the subsidy revenues there will be a slight reduction of about \$255k in Federal revenues due to service levels. Mr. Thompson provided an update on the funding from TransNet and Transportation Development Act (TDA). TDA does not have any changes, as it is claim based and the claim will not be amended. For TransNet, the San Diego Association of Governments (SANDAG) has revised the regional target and has increased it by 5%, which will result in MTS receiving additional TransNet formula funding of \$1.0M. MTS also receives TransNet Operating Reimbursement in the form of BRT and Mid-Coast services, which is expected to increase by \$0.9M. In total, an increase of \$1.7M is expected in Subsidy Revenues.

Mr. Thompson went over the Passenger Fare Revenue. He stated that FY23 revenue has been trending very close to the actual budget so far this year. He mentioned ridership is much stronger than initially planned; with the first full year of Mid-Coast complete and the youth opportunity pass ridership, passenger levels have increased 9.8%, but are not generating enough revenue per rider as initially thought.

Mr. Thompson gave a Revenue Summary for FY 2023. Operating Revenues are projected to increase \$582k, 0.6%, and total Subsidy Revenues are projected to increase 0.7% resulting in total revenue increases of \$2.1M, 0.6% for amended FY 2023.

Mr. Thompson reviewed the Expense Assumptions. Service levels have been reduced across all modes. (Trolley has a 0.9% decrease, Bus-Fixed Route has an 8.3% decrease, Paratransit has a 20.2% decrease). He mentioned wages have decreased by \$1.6M due to staffing shortages with operator staffing across the agency but there has been an increase in overtime wages of \$1.7M. Fringe benefits are increasing by \$1M, 1.5%, with Pension and Healthcare decreasing and Workers Comp increasing. Purchased Transportation will decrease by \$5.6M, 5.8%. This is due to reduced service levels. Within Other Outside Services, Security is increasing by \$1M, Repair and Maintenance are decreasing by \$3.1M, Engines and Transmissions is decreasing by \$300k and Other Outside Services are decreasing by \$269k. Energy costs are increasing by \$8.3M primarily due to the commodity cost of natural gas. Mr. Thompson stated that Other Expense Assumptions are increasing by \$1M, 3.2% this includes Materials and Supplies costs increasing, partially offset by reduced Risk Management costs. In total, expenses are projected to increase by \$2.1M, 0.6%.

Mr. Thompson went over the Consolidated Revenues less Expenses. He stated the increase of revenue and expenses are overall the same at \$2.1M, which leaves the same structural deficit as the original budget. The deficit of \$37.3M will be covered by federal stimulus funding.

Mr. Thompson went over the stimulus funding balance. He went over a new strategy that will allow us to draw the stimulus funding sooner as there is concern of having to return unspent funding. He mentioned the new strategy will allow for increased interest income and any excess local funds can be put into a reserve for future operating deficits.

Action Taken

Goble moved to recommendation to the MTS Board of Directors To:

1. Enact resolution No. 23-02 (attachment B) amending the FY 2023 operating budget for the MTS, San Diego Transit Corporation (SDTC), San Diego Trolley, Inc. (SDTI), MTS Contract Services and the Coronado Ferry
2. Direct Staff to accelerate the draws of Federal Stimulus funding and create an Operating Deficit Reserve with those proceeds for use in future fiscal years.

McCann seconded the motion, and the vote was 6 to 0 in favor.

5. Fiscal Year (FY) 2024 Operating Budget Mike Thompson

Mr. Thompson presented high-level projections and assumptions for the FY 2024 Operating Budget. Mr. Thompson went over the Revenue Assumptions. He stated SANDAG is projecting subsidy revenue growth of 1.0% for TransNet, and TDA is projected growth 3.3%. TDA funding is also used in the capital budget to match the federal funds, as a result the operating budget is

estimated to decrease by \$4M. Federal operating revenues are projected to increase by \$1.5M, for preventive maintenance and other operating reimbursement.

Mr. Thompson went over Passenger revenue. He mentioned that we have experienced steady growth over the last 18 months in passenger revenue. Based on that same steady growth rate for the next 18 months, it will result in an increase of \$8M for FY24, 11% year over year in passenger revenue. The increase will continue to be monitored in February and March before the budget is finalized. Mr. Thompson went over the service levels for FY 2024. On the Bus-Fixed Route is projected to increase by 5.4%, 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 58% of peak service levels in FY 2019.

On the expense side, personnel costs will have an increase in operator hours, headcount will be increasing with potentially 5 additional construction safety flag persons. Collective Bargaining agreements are in place for all bargaining units and an increase of 3.25% - 4.25% is expected for ATU, IBEW, SMART and TEOA, for non-bargaining unit employees a merit pool of 4% and a performance incentive program of 1% is assumed. Mr. Thompson also mentioned they want to discuss the possibility of a Cost of Living Adjustment (COLA) for all internal employees across the board or to certain group of employees to help deal with the turnover in the agency. For Fringe Benefits, an increase of 10% is projected for health care in Calendar Year (CY) 2024, Pension costs will increase by \$1M, 5.8% on the San Diego Transit self-funded plan and the CalPERS Pension plan costs will increase by \$1.2M, 9.5%. The contracted rates for Purchased Transportation are known. Transdev contract fixed costs are increasing by 3.4% and variable rate increase by 3.1%, the First Transit contract will increase fixed costs by 4.1%, ADA Paratransit service per hour rate costs increasing by 2.1% and Minibus fixed rate increasing by 4.6%. Other outside services will have some increases as Rail Operations has major rehabilitation projects, and MTS will have a full year of PRONTO Operations and Maintenance costs. Mr. Thompson went over the energy assumptions, mentioning there are some volume increases but are expecting savings on the energy side.

In summary, the preliminary projection reflects a combined revenue of \$354.0M (an increase of \$10.8M, 3.2%), combined expenses of \$407M (an increase of \$26.6M, 7.0%), projecting a deficit of \$53.0M compared to the \$37.2M deficit in FY 2023. Ms. Cooney addressed the \$50M structural deficit and presented the board with available options, which include, freeze current service levels, cut service, enforce current fare policies, raise the cost of fares, defer capital investments, seek relief from innovative clean transit requirements ballot measure and seek state and federal assistance along with open ideas from the board.

Chair Moreno, mentioned some of the key items that need continued discussion later in the year; addressing the structural deficit, which positions are experiencing a high volume of vacancies, new services, and other revenue opportunities. She also mentioned she would also like to bring the State and Federal Lobbyist to a future BDC meeting to address the deficit given our State of California environmental ICT requirements.

Action Taken

Informational item only. No action taken.

6. San Diego Transit Defined Benefit Plan (Larry Marinesi)

Larry Marinesi, Chief Financial Officer (CFO) gave an overview of the presentation.

Mr. Thompson gave an overview of the current pension plan, mentioning that the plan was closed to newly hired Contract employees: IBEW in 2011 and 2012 for ATU. He went over how the

contribution and match process is structured for the Defined Contribution (DC) Plan, mentioning the total contribution could be up to 10% when the employee contributes 2%. The number of employees in the DC Plan is 328 ATU employees, 121 IBEW employee for a total of 449 employees. The Defined Benefit (DB) Plan has a total of 1,573 employees, of which 331 are active employees.

In order to complete the study for DC to DB reinstatement that was directed by the MTS Board, Mr. Thompson reviewed the Public Employees' Reform Act (PEPRA) AB 340 and AB 197 legislation that was passed in January 1, 2013 and would impact this study. PEPRA limited the maximum pension formula to 2% at 62, but allows lesser formulas, requires employee to contribute 50% of the normal cost, currently being 7.75%, require employee share to be paid by the actual employee and not the employer, limited amount of compensation that can be applied to each pension, allowed for no retroactive benefit increases and many other restrictions. Mr. Thompson mentioned that there are limitations with CalPERS and labor relations considerations for this study. He also mentioned any change to the DC or DB benefits would need to collectively bargained with ATU and IBEW.

Mr. Thompson mentioned the next steps are to engage consultants and attorneys to analyze financial and legal considerations, develop range of pension formula option for actuarial analysis and bring those reports back to MTS BDC to see the budget impact of the various options and legal considerations.

Action Taken

Informational item only. No action taken.

OTHER ITEMS

7. Next Meeting Date

The next Budget Development Committee meeting is scheduled for April 6, 2022, at 9:00 a.m.

8. Adjournment

Chair Moreno adjourned the meeting at 10:18am.

/s/ Vivian Moreno

Chairperson
San Diego Metropolitan Transit System

/s/ Lucia Mansour

Committee Clerk
San Diego Metropolitan Transit System

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE MEETING

ROLL CALL

MEETING OF (DATE): 03/2/2023 CALL TO ORDER (TIME): 9:00am

ADJOURN: 10:18am

| BOARD MEMBER | | (Alternate) | PRESENT (TIME ARRIVED) | ABSENT (TIME LEFT) |
|-------------------|-------------------------------------|---|---------------------------|-----------------------|
| MORENO (Chair) | <input checked="" type="checkbox"/> | (no alternate) <input type="checkbox"/> | 9:00am | |
| ELO-RIVERA | <input checked="" type="checkbox"/> | (no alternate) <input type="checkbox"/> | 9:00am | |
| FLETCHER | <input checked="" type="checkbox"/> | (no alternate) <input type="checkbox"/> | 9:00am | |
| GOBLE | <input checked="" type="checkbox"/> | (no alternate) <input type="checkbox"/> | 9:00am | |
| MCCANN | <input checked="" type="checkbox"/> | (no alternate) <input type="checkbox"/> | 9:15am | |
| WHITBURN | <input checked="" type="checkbox"/> | (no alternate) <input type="checkbox"/> | 9:00am | |

COMMITTEE CLERK: Lucia I Mansour Digitally signed by Lucia I Mansour
Date: 2023.03.13 09:16:25 -07'00'