

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

04/27/2023

[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 meeting to order at 2:00 p.m. A roll call sheet listing Budget Development Committee member attendance is attached.

**2. Public Comments**

*Alex Wong* – Mr. Wong expressed that cutting services should not be the first resource that MTS cuts during a budget crisis. He mentioned that some of the things that should be cut are capital spending for on-board WiFi, and fancy stations. He mentioned that while they are nice, they are not what keep the passengers moving. He mentioned that projects such as rebuilding the San Ysidro Transit Center and free youth fares are not nearly as important as keeping frequency and service.

**3. Approval of Minutes**

Ms. Moreno moved to approve the minutes of the April 6, 2023, San Diego Metropolitan Transit System Budget Development Committee meeting. Mr. Goble seconded the motion, and the vote was 4 to 0 in favor with Mr. Whitburn absent.

DISCUSSION ITEMS

**4. Report from California Transit Association – (Michael Pimentel of California Transit Association)**

Mr. Pimentel, Executive Director of California Transit Association, gave an overview of the organization and went over their approach to addressing the transit operational process funding crisis across the State of California.

Mr. Pimentel went over the California Budget Development Timeline for FY 23–24. He mentioned that the timeline anchors the schedule that they operate under in order to move this advocacy effort forward. He mentioned the Governor released the proposed State budget on January 10<sup>th</sup> for FY 23-24 mentioning that the Governor's proposed budget projects a deficit of \$22.5B, which the government is proposing to balance with a series of cuts including a proposed reduction of \$2.0B for the Transit and Intercity Rail Capital Program (TIRCP). Between February – May, the State Legislature will be holding a series of topic specific budget sub-committee hearings, which provides the public the opportunity to review the Governor's proposed budget. He mentioned the hearings will continue until the Governor releases the "May Revise", which this year is scheduled to be May 15<sup>th</sup>. Between May – July, the legislature will hold hearings on the "May Revise" budget adjustment. Mr. Pimentel did mention that in some California counties, the tax filing dateline was extended to October for both State and Federal taxes due to the severe weather. This extension will impact the timeline process in an unprecedented way as the State will not have a clear picture come the "May Revise" of what to expect in terms of tax receipts for the next FY. He mentioned the adoption of a balanced budget will be June 15<sup>th</sup>, and that will be in effect July 1<sup>st</sup> for the start of State's FY 23-24.

Between July – September, there will be continued action on the main budget bill and trailer bills.

Mr. Pimentel went over the Budget Advocacy Phased Approach. He mentioned that Phase (1) is to issue awareness, Phase (2) includes coordinated statewide advocacy and Phase (3) is negotiations.

He went over the issue awareness campaign. He mentioned that Phase (1) started November 2022 – March/April 2023 once the January budget was released including the proposed cuts to the TIRCP. They worked closely with State Senator Scott Wiener of San Francisco to respond to the budget, and they have also been meeting directly with key legislators, and government officials to continue to speak to the specifics of their requests. He mentioned that all of this work has led to some measurable outcomes for the industry, which includes a budget document that was released by the Senate. The document does highlight the need to preserve the funding for the TIRCP. The Phase (2) timeline is from April 2023 – September 2023, and focuses on building a coordinated statewide advocacy effort now that a budget request was finalized last week and was submitted to the legislature this week. Relating to Phase (3), the Association has formally requested \$5.15B in transit operations funding over a 5-year horizon. The Association also asked the legislature for a commitment in Calendar Year (CY) 2023 to give agencies some certainty around the level of funding that may be received over the 5-year time horizon.

Mr. Pimentel mentioned that elements of the Association's budget requests mostly pulls from funding sources that have traditionally supported transit capital and operations. Some of these elements are sales tax on diesel fuel, and unallocated cap and trade revenue. Mr. Pimentel also mentioned that the Governor is proposing the reduction of TIRCP from \$4B to \$2B, that were supported through a general fund, a one-time investment. He mentioned that the Association will ask for the \$2B cut to be rejected and to maintain the \$4B of investment, and to allow agencies to flex 25% of the restored \$4B over 2 years for operations on a regional basis. He also mentioned that within the San Diego Region, the money that is contemplated here for transit capital and potentially operations flowing directly to MTS.

Mr. Pimentel went over the accountability metrics, mentioning that the feedback was received from the legislature. Their feedback included a demonstrated commitment from the transit industry to reform its operations to implement new accountability metrics, as there will not be any new funding provided for transit operations. Mr. Pimentel mentioned that having heard that message, they have incorporated within their budget framework a reference to the work they are committed to doing to improve transit operations. He also mentioned that of the agencies statewide, MTS has made significant strides to regrow its ridership. To find fiscal stability for quite a few more fiscal years, he mentioned that the Association will be supporting some key reform efforts, including AB 761 Transit Transformation Task Force, AB 1377 Homeless Housing, Assistance and Prevention (HHAP) and SB 434 Street harassment.

#### **Action Taken**

Informational item only. No action taken.

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

Mike Thompson, Director of Financial Planning and Analysis, gave an overview of the FY 2024 Operating Budget development and presented a PowerPoint explaining the Revenue Assumptions and Expense Assumptions for FY24.

Mr. Thompson gave the preliminary passenger revenue results for March. He mentioned that in July of 2021, ridership was down to 56% compared to the pre-pandemic baseline and currently we are up to 80% ridership. He mentioned that the original projection for the March mid-year budget was slightly missed. This ridership decrease was due to March numbers decreasing to 79%, primarily due to the rain, however April had already increased to 83% and ridership trends are expected to continue to increase. Mr. Thompson mentioned that even with January and March being very rainy this year, ridership is at 80% of baseline in 2023 compared to only 66% in FY22. He mentioned that the continued steady growth over the past two years is being used as the assumption for next FY, which forecasts 11% growth or 81M passengers. Mr. Thompson went over passenger revenue, and mentioned that it was also slightly below the mid-year budget by \$0.5M. He mentioned that even though this month's baseline was missed, ridership is expected to get back on track and still hit the amended budget of \$78.9M at this point in time.

Mr. Thompson went over the changes to the FY24 Operating Budget Revenue since the last draft, starting with Other Operating Revenue which is increasing by \$2.8M. The majority of the increase is in the energy credit revenues. Mr. Thompson went over the energy credit revenue, and mentioned that the State credit is increasing from \$70.00 per credit to \$85.00 at the start of July and will grow slowly over the course of the year. On the Federal side, the credit is still trending at about \$2.00 per credit and is not changing substantially. Real estate revenue is increasing by \$300k. Mr. Thompson went over the Revenue Summary for FY24. Total Operating Revenue is increasing by \$10.8M, 11.7%, for a total of \$103.6M. Total Subsidy Revenue is increasing \$1.7M, 0.7%, and overall Revenue is increasing by \$12.7M, 3.7% for FY24.

Mr. Thompson went over the FY 24 Operating Budget Expense Assumptions. He mentioned that energy assumption changes were made, mentioning that electricity costs have two major components: the transmission/demand that is paid to San Diego Gas & Electric (SDG&E) and the actual commodity. Mr. Thompson explained that a 10% increase is projected every year on the transmission side. On the commodity side, the rate per kilowatt hour (kWh) is usually between the \$0.05 - \$0.08 range and in FY 22, the rate went up to almost \$0.10 because of the war in Ukraine and currently we are on track to pay over \$0.14 in the current FY. Mr. Thompson mentioned that staff creates multiple forecasts of what the price could be and staff also obtains a quote from their external vendors of what a fixed price would be. Staff is projecting \$0.128 kWh for the commodity side. Staff is not recommending a fixed position at this time with the projected rate of \$0.128 kWh, but will continue to monitor pricing and if the pricing does look more favorable, it will be brought back to the committee. Natural Gas will be increasing 7% for transportation of the actual gas (through SDG&E). Natural gas commodity increased in FY22 to up to over \$6.00/Dekatherm and in FY23 there were increases because of problems in December 2022 through February 2023 causing the projected average of over \$13.00 for the year. He mentioned that as of right now staff is projecting about \$6.00/Dekatherms for FY24, which is still a high number, but it is lower than the fixed price quote that was received from their vendor of \$7.44/Dekatherm; staff

is not recommending a fixed position. Mr. Thompson went over the Expense Summary, energy net increased by \$175k, personnel costs increased by \$160k since the last draft, and overall the proposed budget will be an increase of \$26.6M, 7.0%.

Mr. Thompson went over the Consolidated Revenues Less Expenses for FY24. He stated that Total Revenues are increasing by \$12.6M, 3.7% and Total Expenses are increasing by \$26.6M, 7.0%, resulting in a Net Operating Deficit of \$51.1M. Mr. Thompson mentioned the deficit will be balanced with federal stimulus funding.

Mr. Thompson went over the 5-year Operating Budget projections. He mentioned that some of the major revenue assumptions will come from passenger growth as we continue to head towards the pre-pandemic levels. He mentioned the other revenue growth assumptions for the 5-year projection include growth in energy credits and the Gaslamp Quarter Digital information board. Mr. Thompson mentioned that sales tax revenue assumptions are projected by SANDAG to grow 3.0% per year over the next four years. He went over the Expense Assumptions, mentioning that for CPI and Wage/Benefits, staff is assuming higher levels in the first couple of years before getting back to more normal levels. Mr. Thompson went over the net operating deficit for the next five years, stating that in FY24 the deficit is at \$51.1M. It will grow to \$57.0M in FY25 as there will be additional service in FY25 as well lower revenue growth versus expense growth. The deficit continues to grow in the outyears as projected revenue does not keep pace with the projected expense growth. Mr. Thompson mentioned staff is projecting to have stimulus funding available into FY27.

Mr. Thompson gave an update on the Contingency Reserve Balance. He mentioned the Board policy sets the contingency reserve balance at 12.5% of the Operating Expense Budget. Based on the current draft budget, the target would be \$44.9M, and at the end of last year's audit in FY22, the reserve was at \$41.8M, putting us \$3.0M under the target reserve balance. Mr. Thompson mentioned that MTS is not expected to utilize any reserves in FY23 or FY24. Staff is projecting a reserve balance target of 11.6% versus 12.5%. Staff is not proposing any changes at this time, instead staff is proposing to continue to monitor until the end of FY23.

### **Action Taken**

Mr. Elo-Rivera moved to:

- 1) Receive testimony, review, and comment on the FY 2024 San Diego Metropolitan Transit System (MTS) Operating Budget at a public hearing to be scheduled on May 18, 2023; and
- 2) Enact Resolution No. 23-04 (in substantially the same format as Attachment B) adopting the FY 2024 operating budget for the San Diego Metropolitan Transit System, San Diego Transit Corporation (SDTC), San Diego Trolley (SDTI), MTS Contract Services, and the Coronado Ferry.

Mr. McCann seconded the motion, and the vote was 4 to 0 in favor with Mr. Whitburn absent.

### **OTHER ITEMS**

**6. Next Meeting Date**

The next Budget Development Committee meeting is to be determined.

\*Clerk's note: the next Budget Development Committee meeting was subsequently scheduled for September 13, 2023 at 1:00 p.m.

**7. Adjournment**

Chair Moreno adjourned the meeting at 3:31 p.m.

/s/ Vivian Moreno  
Chairperson  
San Diego Metropolitan Transit System

/s/ Lucia Mansour  
Committee Clerk  
San Diego Metropolitan Transit System

Attachment: Roll Call Sheet

SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
BUDGET DEVELOPMENT COMMITTEE MEETING

ROLL CALL

MEETING OF (DATE): 04/27/2023 CALL TO ORDER (TIME): 2:00 p.m.

ADJOURN: 3:31 p.m.

BOARD MEMBER		(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
MORENO (Chair)	<input checked="" type="checkbox"/>	(no alternate) <input type="checkbox"/>	2:00 p.m.	
ELO-RIVERA	<input checked="" type="checkbox"/>	(no alternate) <input type="checkbox"/>	2:00 p.m.	
GOBLE	<input checked="" type="checkbox"/>	(no alternate) <input type="checkbox"/>	2:00 p.m.	
MCCANN	<input checked="" type="checkbox"/>	(no alternate) <input type="checkbox"/>	2:00 p.m.	
WHITBURN	<input type="checkbox"/>	(no alternate) <input type="checkbox"/>	Absent	Absent

COMMITTEE CLERK: Lucia I Mansour

Digitally signed by Lucia I Mansour  
Date: 2023.05.02 10:08:48 -07'00'