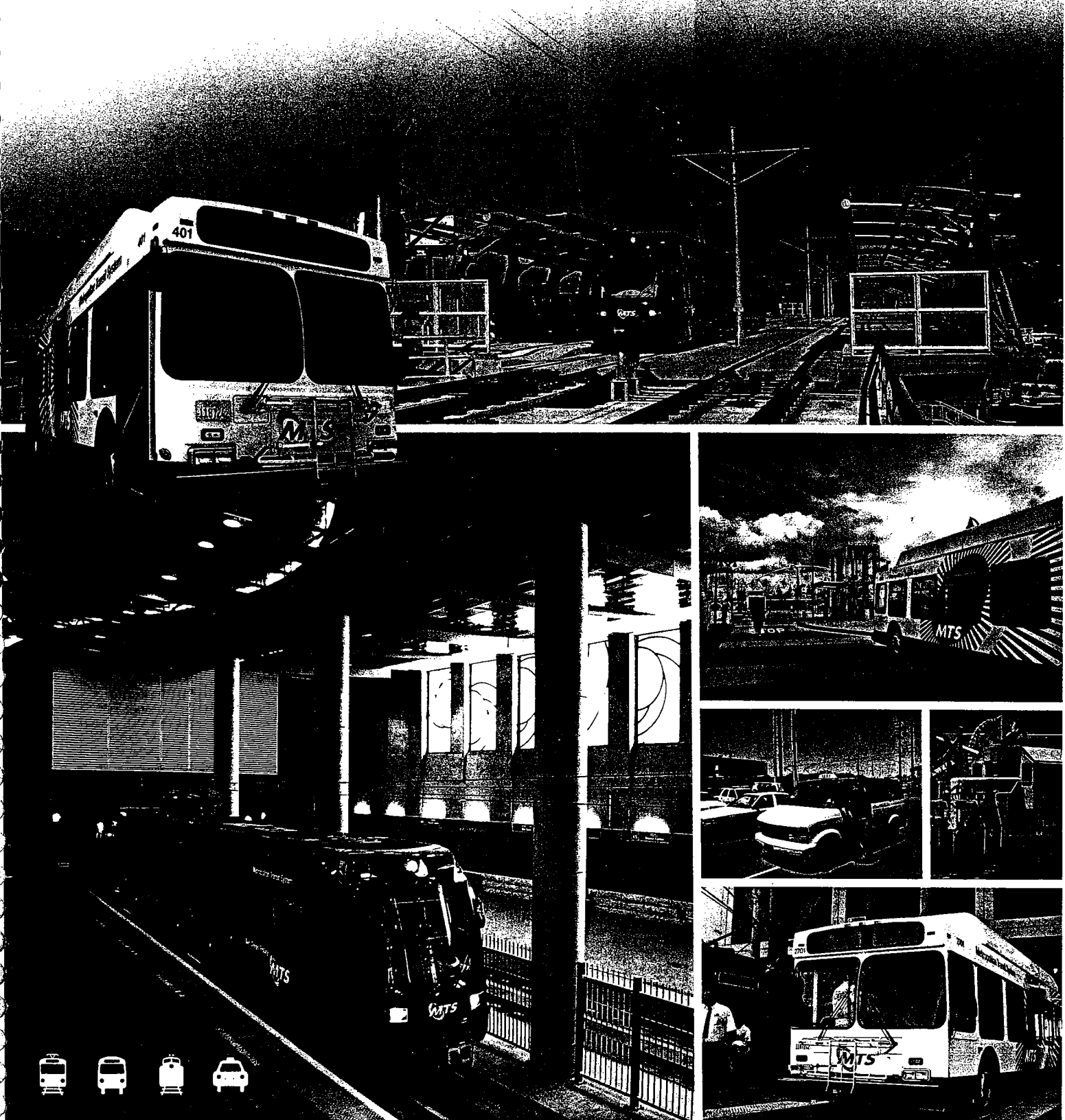




# ADOPTED FISCAL YEAR 2006 BUDGET





**SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
TABLE OF CONTENTS  
BUDGET FISCAL YEAR 2006**

Table of Contents.....	i
Authorizing Resolution.....	iii
 Section 1, Introduction	
1.01 Chief Executive Officer's Statement.....	1
1.02 Service Area.....	4
1.03 Description of Operator Activities.....	5
1.04 Organization Chart.....	13
 Section 2, Functional Budgets	
2.01 Operating Budget Summary.....	14
2.02 Operations Budget.....	15
2.03 Administrative Budget.....	16
2.04 Other Activities Budget.....	17
2.05 Debt Service Budget.....	18
2.10 Capital Budget.....	19
 Section 3, Revenues	
3.01 Revenue Summary.....	24
3.02 Summary of Significant Revenue Activities.....	25
3.03 Passenger Revenue.....	29
3.04 Other Operating Revenue.....	30
3.05 Subsidy Operating Revenue.....	31
3.06 Other Non Operating Revenue.....	32
 Section 4, Operations Budgets	
4.01 Operations Budget.....	33
4.02 Summary of Significant Operating Activities.....	34
4.03 Bus Operations.....	37
4.04 Rail Operations.....	38
4.05 Contract Bus Operations - Fixed Route.....	39
4.06 Contract Bus Operations - Para Transit.....	40
4.07 Chula Vista Transit.....	41
4.08 National City Transit.....	42
4.09 Coronado Ferry.....	43
4.10 Administrative Pass Thru.....	44
 Section 5, Administrative Budgets	
5.01 Administrative Budget.....	45
5.02 Summary of Significant Administrative Activities.....	46
5.03 Board of Directors.....	48
5.04 Board of Directors Administration.....	49
5.05 Bus Bench / Bus Shelter.....	50

**SAN DIEGO METROPOLITAN TRANSIT SYSTEM  
TABLE OF CONTENTS  
BUDGET FISCAL YEAR 2006**

Section 5, Administrative Budgets (continued)

5.06 Executive.....	51
5.07 Finance.....	52
5.08 Fringe Benefits.....	53
5.09 General Expenses.....	54
5.10 Human Resources.....	55
5.11 Information Technology.....	56
5.12 Land Management.....	57
5.13 Legal.....	58
5.14 Marketing.....	59
5.15 Multimodal Administration.....	60
5.16 Planning.....	61
5.17 Purchasing.....	62
5.18 Risk.....	63
5.19 Telephone Information Services.....	64
5.20 Transit Store.....	65

Section 6, Other Activities Budgets

6.01 Other Activities Budget.....	66
6.02 Summary of Significant Other Activities.....	67
6.03 Taxicab Administration.....	68
6.04 San Diego & Arizona Eastern Railroad.....	69

Section 7, Debt Service Budget

7.01 Debt Service Budget.....	70
7.02 Summary of Significant Debt Service Activities..	71
7.03 Debt Service Detail.....	74

Section 8, Capital Budget

8.01 Capital Budget.....	75
8.02 Summary of Significant Capital Activities.....	80

Section 9, Funding Sources by Activity

9.01 Funding Sources by Activity - Summary.....	83
9.02 Funding Sources by Activity - Detail.....	84

Section 10, Appendix

10.01 Five Year Financial Projections.....	119
10.02 Reserves.....	120
10.03 Statistical Summary.....	121
10.04 Position Information.....	126

SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Resolution No. 05-4

A Resolution Approving the Fiscal Year 2006 Budget

WHEREAS, MTS staff has coordinated with the staff of San Diego Transit Corporation (SDTC), San Diego Trolley, Inc. (SDTI), MTS Contract Services, Chula Vista Transit, National City Transit, and Coronado Ferry (hereafter referred to as MTS Operators) throughout the budget preparation process to ensure consistent budget assumptions; and

WHEREAS, the budgets have been prepared using the budget assumptions approved by the MTS Board of Directors; NOW THEREFORE, BE IT RESOLVED, by the San Diego Metropolitan Transit System Board of Directors, hereinafter "Board," as follows:

1. That the budget for fiscal year (FY) 2006, on file with the Clerk of the Board, is hereby adopted (including MTS, SDTC, SDTI, Chula Vista Transit, National City Transit, and Coronado Ferry).
2. That the Chief Executive Officer is authorized to transfer appropriate amounts up to \$100,000 between object accounts, so long as the total amount authorized to be spent for an object account by the FY 06 Budget is not exceeded by more than \$100,000, the total amount authorized to be spent by the FY 06 Budget is not exceeded, and all such transfers are reported to the Board of Directors in the monthly Budget Monitoring Report.
3. That the Chief Executive Officer is authorized to approve expenditures up to a maximum of \$100,000 for local firms and up to a maximum of \$25,000 for all others.
4. That the Chief Executive Officer or his designated representative is authorized to approve expenditures up to a maximum of \$5,000 for the purchase of materials, services, supplies, and equipment within the confines of the authorized budget.
5. That the check-signing authority on behalf of the Board shall be governed by MTS Policy No. 41, Signature Authority.
6. That the Board authorize a wage increase pool of 3 percent for all nonrepresented employees of MTS.
7. That the Board approves \$438,157 for the FY 06 Performance Incentive Plan.
8. That the annual lease and debt service payments are included in the FY 2006 Budget as set forth in Section 7.03 of the proposed FY 06 budget.
9. That each of the budgets for MTS and the MTS Operators establish absolute spending limits, and that the budgeted expenditures cannot be exceeded without prior written approval of the MTS Board of Directors.
10. That any budget variances will be reported to the MTS Board of Directors.
11. That MTS is authorized to withhold monthly subsidy payments to those operators who do not provide the information according to an established schedule.

12. That the position schedules of MTS, SDTC, and SDTI as contained in the FY 06 budget are approved.

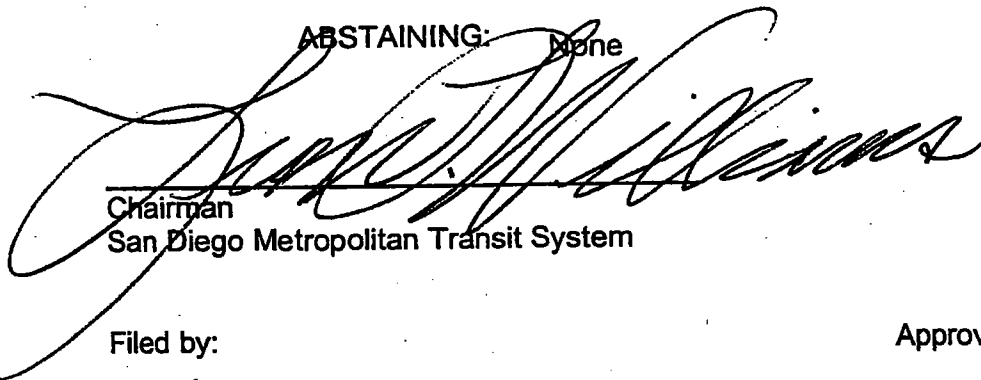
PASSED AND ADOPTED, by the Board of Directors this 9<sup>th</sup> day of June 2005, by the following vote:

AYES: Atkins, Clabby, Ewin, Jones, Lewis, Maienschein, Monroe, Morrison, Rindone, Roberts, Rose, Williams, Young

NAYES: None

ABSENT: Emery, Zucchet

ABSTAINING: None



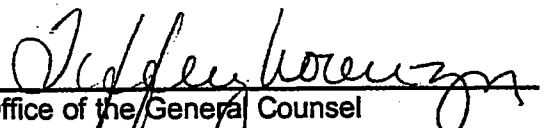
Chairman  
San Diego Metropolitan Transit System

Filed by:



Clerk of the Board  
San Diego Metropolitan Transit System

Approved as to form:



Office of the General Counsel  
San Diego Metropolitan Transit System

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RES-05-4.FY06BUDGET.LMARINESI  
5/26/05

# Section 1

## Introduction





**San Diego Metropolitan Transit System  
Chief Executive Officer's Statement  
Proposed Budget Fiscal Year 2006  
Section 1.01**

**Review of Fiscal Year 2005**

Fiscal year 2005 has proved to be an important year in MTS history and will be remembered as a year of challenge and change.

It is the first full year of working as an operating agency after the split off of functions to SANDAG under SB 1703. This legislation tasked the regional planning and programming functions to SANDAG and the operating functions to MTS. Internally, several MTS departmental functions have been consolidated from the various operating agencies. This consolidation has given MTS the ability to sharpen the focus of our core mission of operations and begin the journey to unify processes and develop organizational cohesiveness. Adaptation to this change has focused MTS on its new operating role of providing quality, efficient, reliable service to our customers. Some of the consolidating functions include Human Resources, Finance, Information Technology, Procurement and Planning.

From a financial perspective, MTS has been in a non-sustainable position with recurring expenses exceeding recurring revenues for the past several years. Within the 2005 fiscal year, MTS utilized \$15.0 million of non-recurring revenues to balance the budget. Included within this \$15.0 million figure, \$8.2 million was contingency reserve usage. As MTS' total operating budget was \$207.9 million, the total non-recurring revenue represents 7.2% of the budget.

Another challenge MTS faced over the fiscal year is energy rates. Diesel and Compressed Natural Gas (CNG) rates have increased significantly throughout the fiscal year. The original budgeted rates for diesel and CNG were \$1.10 per gallon and \$0.90 per therm, respectively. Rates have increased within the fiscal year, and have averaged throughout the year at approximately \$1.63 per gallon for diesel and \$1.04 per therm for CNG. The impact of this dramatic increase is approximately \$2.2 million in operating dollars.

Several exciting strategies and opportunities arose within the fiscal year. The second half of the calendar year 2004 (the first half of fiscal year 2005) brought excellent trolley ridership fueled from Padres' games at Petco Park. Bus Operations completed most of its preventative maintenance program which has shown tremendous improvement in reducing problems that affect service. The miles between mechanical failures have improved 168 percent since August 2004. Bus Operations has shown strong improvement in its on-time performance (90.1% in March 2005 up from 72.5% in July 2003). MTS is in the process of conducting its first ever Comprehensive Operational Analysis (COA). The COA process will aid in matching our resources to riders' needs and bring our service levels in line with the recurring resources we have to sustain them. In November of 2004, TransNet was reauthorized for an additional 40 years continuing a stable local source of funding for future years.

**Overview of the Budget Process**

This budget includes all MTS transit resources which are budgeted collectively and includes Bus Operations, Rail Operations, Contracted Bus Operations, Chula Vista Transit (CVT), National City Transit (NCT), and the Coronado Ferry.

The budget has a different look this year as we have an operating budget and a capital budget similar to other Transit agencies. Additionally, operating revenues and expenses for the various operators are shown consolidated rather than their individual net operating subsidy.

As discussed above, a number of departments were functionally consolidated in fiscal year 2005 and several others are planned to be consolidated within fiscal year 2006. For fiscal year 2005 most of the related costs remained in the various operators' budgets. For fiscal year 2006 these are now added to the Administrative areas within this budget. This explains the large change in administrative costs from fiscal year 2005 to fiscal year 2006. These cost "increases" are for the most part transfers of these departments from operations such as Bus Operations and Rail Operations to the Administrative activities area.

All operators and departments submitted budgets utilizing a zero based approach. This allowed us to review all expenses from the ground up rather simply increasing an unjustified base. Utilizing this process base operations and administrative costs were held to a 2.1% increase after being adversely affected by high energy, health care, and pension cost increases.

### **Fiscal Year 2006 Operational Highlights**

The Mission Valley East light rail transit (LRT) segment is slated to open in July 2005. This will add 5.9 miles of new track and four new stations to our Rail Operations' service including our first tunnel at San Diego State University. A new line consisting of current Blue Line stations from Old Town to Mission San Diego together with the four new stations and continuing to Santee will now be the Green Line. Included are 11 new low floor vehicles which will better aid our disabled riders.

Implementation of the Comprehensive Operational Analysis (COA) phases I and II are scheduled within the 2006 fiscal year. The goal of the COA is to evaluate and restructure MTS services and operations to more efficiently and effectively serve the region's transit needs and meet regional transportation goals within the constraints of the current financial and operating environment.

We will continue consolidating administrative and support departments into MTS including Procurement, Stores, Telephone Information Services, and the Transit Store. This will allow operations' areas to concentrate their focus, processes to become more uniform, and continued development of efficiencies.

### **Preview of Fiscal Year 2006**

Moving into fiscal year 2006 and beyond, MTS is faced with two major challenges.

As indicated previously, MTS historically has utilized non-recurring funding sources to balance the operating budget. The operating budget goal is usage of only recurring revenues for budget balancing.

Second, MTS has a woefully under funded capital budget. The total capital needs for the current fiscal year was over \$76.0 million. With only \$25.0 million of capital funding available, the unfunded capital for fiscal year 2006 is \$51.0 million.

### **Fiscal Year 2006 Budget**

With these significant challenges moving forward into fiscal year 2006, MTS has come very close to the goal of an operating budget funded by recurring revenues.

This operating budget has been balanced without utilizing any contingency reserves (compared to \$8.2 million in fiscal year 2005) and non-recurring revenues of \$7.1 million. The biggest cause of the non-recurring revenue usage is federally funded CMAQ dollars directly attributable to the opening of Mission Valley East in July 2005. CMAQ funding is available for operating purposes when a new operating segment becomes available. This funding timeline is only for the first three years of operations, and the fiscal year 2006 funding impact is just under \$4.6 million. The ceasing of this funding after fiscal year 2008 will present a problem in balancing the operating budget within fiscal years 2009 and beyond.

Due to the passage of TransNet this year, some non-recurring Bus Rapid Transit (BRT) funding was made available for operator usage for FY 2006. Of the total \$4.4 million non-recurring BRT funding available, \$2.4 million was allocated for operational use and the balance of \$2.0 million has been allocated to the capital program.

### **Fiscal Year 2006 Budget Highlights**

Several strategic measures were taken for fiscal year 2006 operating budget closure.

As indicated earlier, we initiated our first ever Comprehensive Operational Analysis. Phase I implementation is scheduled for July and September 2005, and the annualized budgetary impact for these changes are \$4.0 million in savings.

With the Mission Valley East opening, staff analyzed the duplicative nature of several Bus Operations routes and Rail Operations segments. Recommendation and approval of \$1.5 million in expense reductions (\$0.5 million for Bus Operations and \$1.0 million for Rail Operations) have been incorporated within the fiscal year 2006 budget.

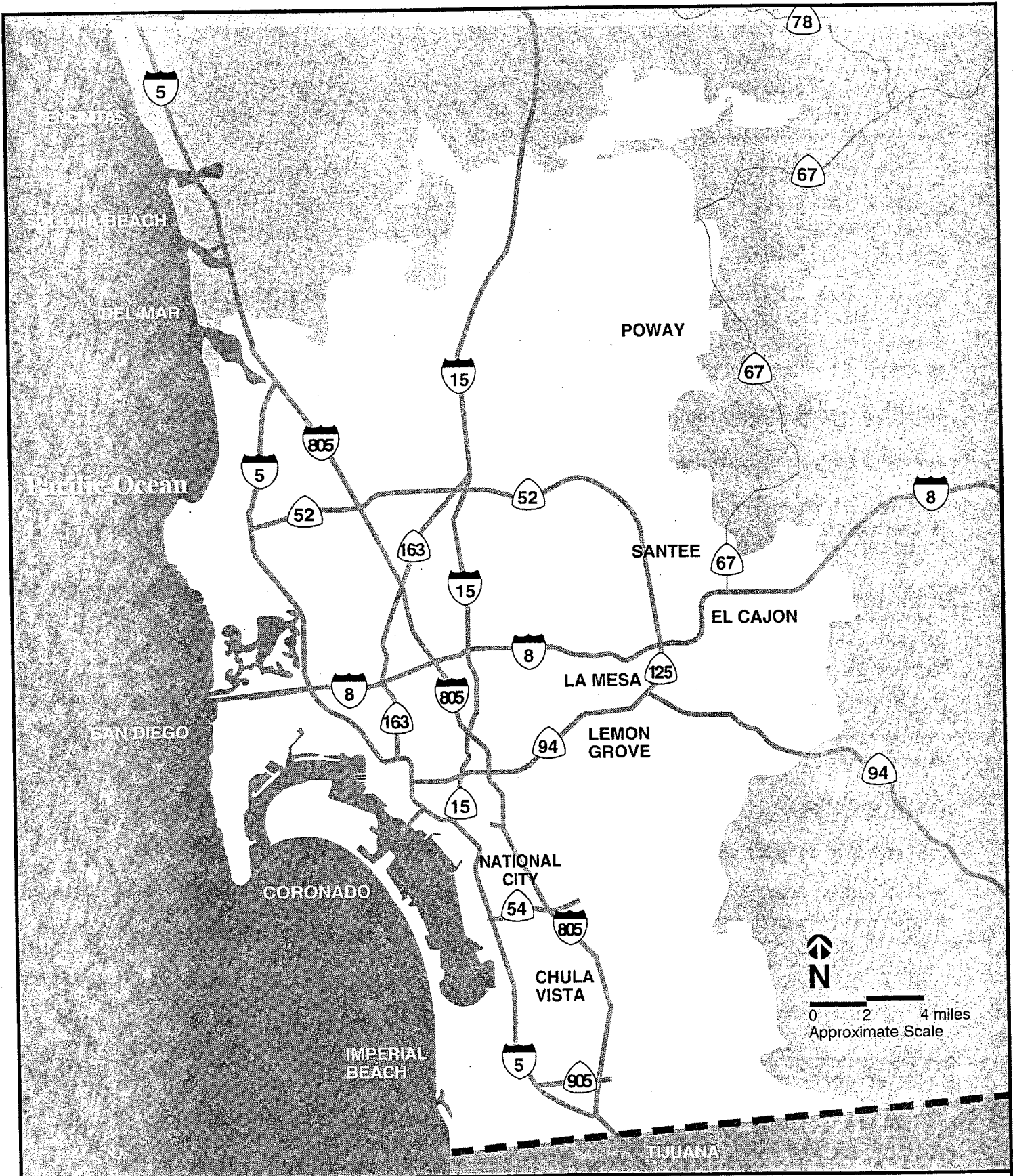
Even with contractual union increases within Bus Operations and Rail Operations of 3 percent to 3.5 percent, large increases within pension and health related expenses, MTS' base expenses (excluding Mission Valley East) increased only 2.1 percent.

### **Five Year Outlook**

The first schedule in the appendix, Section 10.01 summarizes the MTS five year outlook.

MTS' operational focus is matching recurring revenues to recurring expenses. Currently operating revenue growth is projected 1 percent to 2 percent beyond FY 2006. We have recurring subsidy projections averaging approximately 3.7 percent to 4.4 percent. This blends our recurring revenue growth to approximately 2.8 percent to 3.7 percent. With the growth in energy, health care, and pension costs going well above inflation, expenses will grow approximately 3.5 percent or more. This leaves the organization with a minimum of a 1 percent, perhaps 2 percent structured difference. While a 1 percent differential sounds small, it equates to approximately \$2 million a year. As it is structural, it is also cumulative meaning a \$2 million difference in FY 2007 is \$4 million in FY 2008 and \$8 million in FY 2009, etc.

While MTS has made significant strides toward the goals of operational budget balancing and capital funding, there are significant challenges for us in the short term and long term. MTS is dedicated to meet these challenges and work with the Board of Directors in achieving safe, efficient, reliable and cost effective public transportation.



Area of Jurisdiction



