



MTS ADOPTED FISCAL YEAR 2007 BUDGET





**SAN DIEGO METROPOLITAN TRANSIT SYSTEM
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SAN DIEGO METROPOLITAN TRANSIT SYSTEM

Resolution No. 06-6

A Resolution Approving the Fiscal Year 2007 Budget

WHEREAS, MTS staff has coordinated with the staff of San Diego Transit Corporation, San Diego Trolley, Inc., 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, DETERMINED, AND ORDERED by the San Diego Metropolitan Transit System Board of Directors (hereinafter to as "Board") as follows:

1. The Budget for fiscal year (FY) 2007, on file with the Clerk of the Board, is hereby adopted (including MTS, San Diego Transit Corporation [SDTC], San Diego Trolley, Inc. [SDTI], Chula Vista Transit, National City Transit, and Coronado Ferry); and
2. 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 07 Budget is not exceeded by more than \$100,000, the total amount authorized to be spent by the FY 07 Budget is not exceeded, and all such transfers are reported to the Board of Directors in the monthly Budget Monitoring Report; and
3. 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; and
4. The check-signing authority on behalf of the Board shall be governed by MTS Policy No. 41, Signature Authority; and
5. The Board authorizes the following with respect to compensation:
 - a. A wage increase pool of 4% for all nonrepresented employees of MTS.
6. The Board approves \$550,000 for the FY 07 Performance Incentive Plan; and
7. The annual lease and debt-service payments are included in the FY 2007 Budget as set forth in Section 7.02; and
8. The MTS Budget establishes absolute spending limits, and the budgeted expenditures cannot be exceeded without prior written approval of the MTS Board of Directors; and
9. Any budget variances will be reported to the MTS Board of Directors; and
10. MTS is authorized to withhold monthly subsidy payments to those operators who do not provide the information according to an established schedule; and
11. The position schedules of the MTS Operators as contained in the FY 07 budget are approved; and

PASSED AND ADOPTED, by the Board of Directors this 8th day of June 2006, by the following vote:

AYES: Atkins, Clabby, Emery, Ewin, Hanson-Cox, Jones, Maienschein, Mathis, McLean, Monroe, Rindone, Roberts, Zarate

NAYS: None

ABSENT: Faulconer, Young

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

JUNE8-06.25.FY07BUDGET.ATTB.RES06-6.LMARINESI

I HEREBY CERTIFY that this is a full, true, and correct copy of a DOCUMENT of the San Diego Metropolitan Transit System (MTS). Passed and adopted by the Board of Directors.


Gail Williams, Clerk of the Board

Section 1

Introduction

**San Diego Metropolitan Transit System
Chief Executive Officer's Statement
Proposed Budget Fiscal Year 2007
Section 1.01**

Review of Fiscal Year 2006 / Preview of Fiscal Year 2007

Fiscal year 2006 began with the Mission Valley East Light Rail Transit (LRT) segment opening in July 2005. This important segment added an additional 5.9 miles of track and four new stations to MTS's rail operations, including MTS's first underground tunnel at San Diego State University. The new Green Line begins in Old Town, runs through the four new stations (Grantville, San Diego State University, Alvarado, and 70th Street), continues to Santee, and provides the important linking of the existing Blue and Orange Lines. As this Mission Valley East segment began operations, 11 new Siemens S70, low-floor vehicles were added to our light rail fleet.

A significant evaluation of the MTS combined system began within fiscal year 2006. The goal of the Comprehensive Operational Analysis (COA) was 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. The first phase of the COA was implemented within the 2006 fiscal year. COA Phase II is programmed for implementation within fiscal year 2007. The dates of implementation are June 2006, September 2006, and January 2007.

This is the second year of working as an operating agency after splitting functions with the San Diego Association of Governments (SANDAG) under Senate Bill (SB) 1703. This legislation tasked the regional planning and programming functions to SANDAG and the operating functions to MTS. Within the fiscal year, internal consolidations have continued. This consolidation has given MTS the ability to enhance the focus of MTS's core mission of operations, produced uniformity within processes, and developed organizational efficiencies. This consolidation has provided opportunities to enhance MTS's ability of providing quality, efficient, reliable service to its customers.

MTS has been in a nonsustainable financial position over the past several years. Nonrecurring revenues were utilized to balance the operating budget, the MTS Capital Improvement Program has been significantly underfunded, and energy prices have skyrocketed.

Within the 2005 fiscal year, MTS utilized \$15 million of nonrecurring revenues to balance the budget. Within this \$15 million figure, \$8.2 million was used for contingency reserves. Within fiscal year 2006, this nonrecurring revenue figure had dropped to \$7.1 million and included no utilization of contingency reserves. This \$7.1 million included federally funded Congestion Mitigation and Air Quality (CMAQ) dollars (\$4.6 million) directly attributable to the opening of Mission Valley East, and some nonrecurring TransNet Bus Rapid Transit (BRT) funding (\$2.1 million) was utilized for operating usage for fiscal year 2006. Within fiscal year 2007, no CMAQ nonrecurring revenues have been programmed for utilization of the operating budget. Over a period of just two short years, MTS has reduced the amount of nonrecurring revenues in the operating budget balance from \$15 million, which includes no Mission Valley East funding, to under \$4.7 million (primarily Mission Valley East-CMAQ funding). The federal CMAQ funding will end at the close of fiscal year 2008 and will be replaced by TransNet II recurring operating funds.

The MTS Capital Improvement Program has a significant disparity between funding levels and project needs. The already-approved fiscal year 2007 Capital Improvement Program includes Federal 5307

and Federal 5309 funding, federal earmarks, and project transfers. Within the fiscal year 2006 operating budget, MTS also shifted \$2 million in nonrecurring BRT funding and \$3 million in State Transit Assistance (STA) funding into the Capital Improvement Program. The total available funding after debt service and preventative maintenance was \$32.4 million. The Capital Improvement Program needs for the fiscal year totaled \$82.4 million leaving a deficit of \$50 million. Looking over the following four years, projected funding amounts average approximately \$26.2 million, and MTS's organizational needs average approximately \$115.1 million, leaving an average deficit of approximately \$88.9 million per year for the next four years. The projected five-year outlook includes an accumulated deficit of \$405.1 million or a 25.3% funding-level-to-needs ratio.

Within fiscal year 2006, MTS began an analysis that projected the ten-year needs within the Capital Improvement Program. The projection included bus and rail infrastructure needs, various bus vehicle needs, and scenario options with regard to our light rail vehicles (purchases and rehabilitations). The funding deficits (project needs greater than funding) based upon the differing scenarios range from \$34 million to \$75 million per year for ten years. This significant long-range plan emphasizes the challenges for MTS in the short and long terms.

While these capital deficits loom, MTS is committed to bridge this gap. From an operating budget perspective, MTS has begun shifting any nonrecurring and recurring revenue funding into the Capital Improvement Program. Within fiscal year 2006, MTS was able to shift \$5 million, and in fiscal year 2007, the budget allows for an additional \$6.5 million into the Capital Improvement Program. MTS is exploring all other avenues of funding. The potential of the State of California's bond measure could bring \$17 million to \$20 million per year over the next ten years into the MTS Capital Improvement Program. MTS continues to look at securing federal earmarks, although this funding is not likely to generate significant capital funding.

Another challenge MTS faced over the fiscal year is energy rates. Diesel and compressed natural gas (CNG) rates have continued their significant rise. In just two short years, the original budgeted rates for diesel and CNG grew from \$1.10 per gallon and \$0.90 per therm, to \$2.32 per gallon and \$1.50 per therm, respectively. Over that two-year period, the operating expense increase totals over \$7.2 million.

One of the goals of MTS is to run an extremely efficient and well-managed operation. MTS compares very favorably with other similarly structured western operators in many operating statistics. There are many categories that MTS monitors, but I will mention three very important statistical comparisons (farebox recovery, cost per revenue hour, and subsidy per passenger) that confirm the leadership and direction of the MTS organization.

In terms of farebox recovery, MTS's 39% recovery rate far exceeds all other operators with Portland (Tri-Met) next at 24%. The cost per revenue hour is a very important statistic in which different-sized operators can comparatively assess cost efficiencies. MTS again leads the way at a rate of \$84.09 per revenue hour. Utah (UTA) is the closest at \$89.31, and all other western operators are well over \$100 per revenue hour. Subsidy per passenger provides insight in the utilization of taxpayer dollars for operating purposes. MTS again has the advantage by only utilizing \$1.42 per passenger. Tri-Met is next at \$1.96, and all other operators exceed \$3.00 per passenger.

Several strategies, from a technological implementation perspective, are underway. MTS's radio communications system and Automated Vehicle Location implementation took place within fiscal year 2006. This important tool will improve communication capabilities between MTS Central Control and bus operators as well as provide real-time bus location technology. Within fiscal year 2007, fare collection, passenger counting and Smartcard implementation will continue. These very important components will streamline many existing processes and provide operational and budgetary efficiencies.

Overview of the Budget Process

This budget includes all MTS transit resources that are budgeted collectively and includes bus operations, rail operations, contracted bus operations, Chula Vista Transit, National City Transit, and the Coronado Ferry.

All operators and departments submitted budgets utilizing a zero-based approach. This allowed MTS to review all expenses from the ground up rather than simply increasing an unjustified base. Utilizing this process, base operations and administrative costs were held to a 4.1% increase (which includes the energy rate impacts). The administrative areas within MTS only increased 2.5%.

Fiscal Year 2007 Budget / Operational Highlights

MTS' fiscal year 2007 proposed operating budget totals \$240.3 million, and several strategic measures were taken for fiscal year 2007 operating budget closure.

As indicated earlier, Phase II of our COA is programmed for implementation in June 2006, September 2006, and January 2007. Total implemented COA savings due to system restructuring and operating efficiencies are projected at \$5 million. Within fiscal year 2007, with restructuring costs and implementation schedules, the full impact will not be realized. Total fiscal year 2007 budgetary savings total \$719,000, and the full budgetary impact will be realized within fiscal year 2008.

As discussed above, MTS has continued an organization-wide dedication of keeping controllable expenses within manageable levels. From a consolidated MTS perspective, total operating expenses (excluding debt service) have increased by only 4.1% compared to amended fiscal year 2006 levels. This figure includes continued rising energy costs and expected purchased transportation costs (an approximate 5.3% increase). MTS's Administration Department's costs have increased by only 2.5%. Total operating divisions' expenses have increased by \$8,125,000 or 4.3%, and, excluding uncontrollable diesel and CNG costs, the results are \$6,891,000 or 4.0%.

From a Capital Improvement Program perspective, MTS is committed to funding vehicles in the short term. Taking into account the life expectancy of the various models and the number of vehicles within our fleet, MTS should be replacing approximately 50 to 60 vehicles every year. Within fiscal year 2007, MTS funded \$4.2 million toward the purchase of 67 Americans with Disabilities Act (ADA) vehicles. In fiscal year 2008, MTS will again commit funding toward vehicle procurement.

Five Year Outlook

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

The goals of MTS on a five-year basis are to:

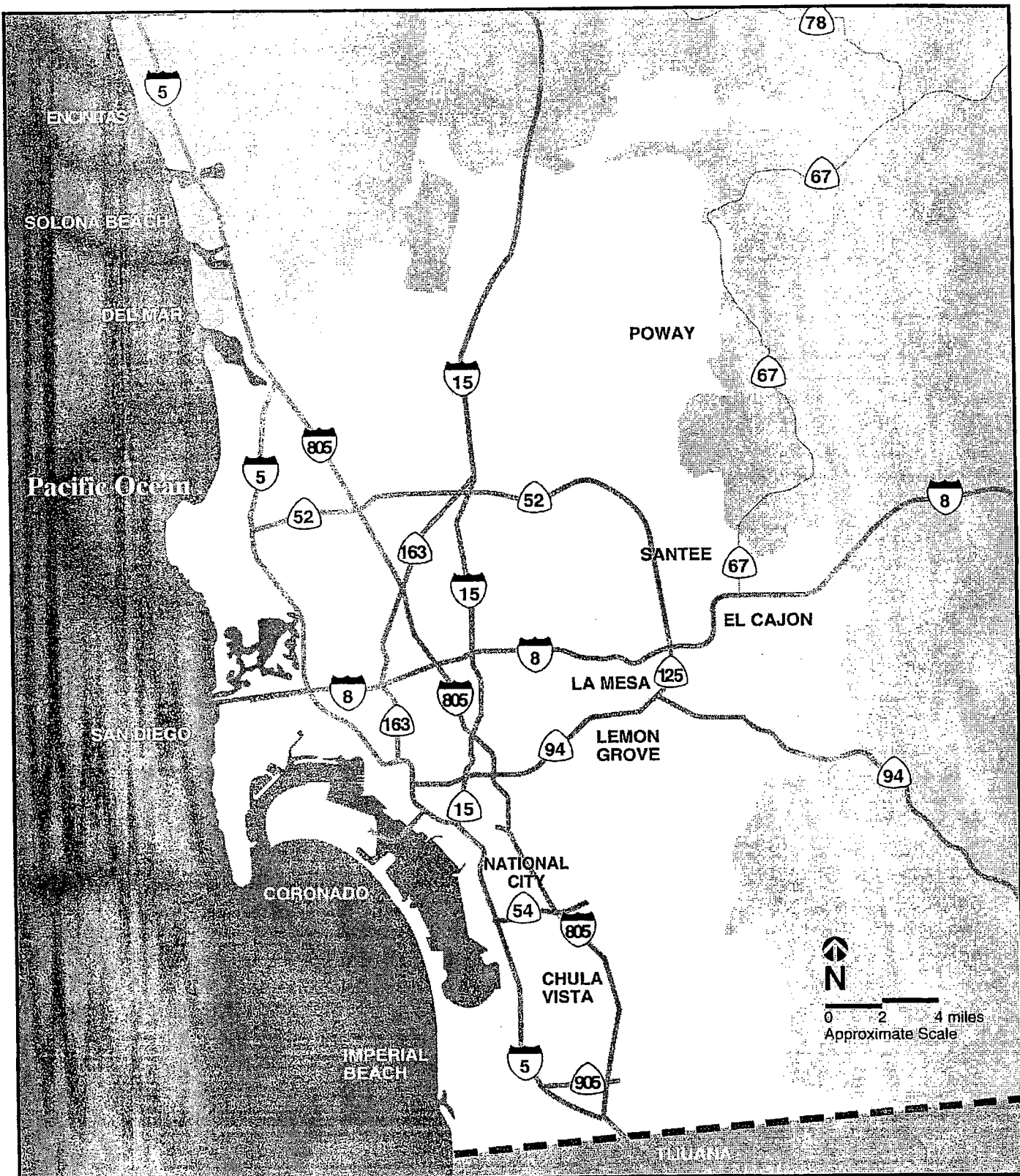
1. continue the matching of recurring revenues to recurring expenses;
2. control operating expenses as close as possible to inflation; and
3. continue the shift of recurring revenues that exceed recurring expenses to the Capital Improvement Program.

Currently operating revenue growth is projected at approximately 2.5% to 3.0% beyond fiscal year 2007. This is primarily due to the full impact of the goal of the COA to structure the MTS system to better meet the public's ridership needs.

MTS has recurring subsidy projections averaging between 2.8% to 4.7%. In fiscal year 2009, there is an approximate \$10.6 million increase from fiscal year 2008. This is primarily due to the MTS Board and SANDAG Board-approved TransNet II operating funding beginning within fiscal year 2009. The timing of this additional funding is crucial as our nonrecurring CMAQ funding that assists in the Mission Valley East start-up operations discontinues after fiscal year 2008.

With the growth in energy, health care, and pension costs going well above inflation, expenses are projected to grow between 3.9% and 4.3%. This leaves the organization with an approximate \$2.2 million deficit within fiscal year 2008 and a \$4.4 million deficit by fiscal year 2011. MTS remains committed to bridge these deficits, as was done in fiscal year 2007 with effective, sound budget management.

MTS has made significant strides toward the goals of operational budget balancing and capital-fund shifting. The organization does continue to have significant challenges for us in the short term and long term. MTS is dedicated to meet these operational and budgetary challenges and continue providing safe, efficient, reliable, and cost-effective public transportation.



Metropolitan Transit System

Area of Jurisdiction



**San Diego Metropolitan Transit System
Bus Operations Description of Activities
Fiscal Year 2007
Section 1.03**

General System Summary

Founded in 1886, San Diego Transit Corporation (MTS Bus Operations) has been providing the citizens of San Diego with safe, efficient and reliable public transportation for over 118 years. San Diego Transit's fleet of 258 buses carry over 25,000,000 customers annually.

MTS Bus Operations operates 29 bus routes throughout the City of San Diego and into the outlying cities of El Cajon, La Mesa, Lemon Grove, National City and Spring Valley. It's service area stretches from National City in the South Bay as far north as Rancho Bernardo and from the Pacific Ocean to El Cajon in East County.

MTS Bus Operations operates a mix of bus route types: Local (feeder-type service, 6 routes); Urban (long-haul line service, 16 routes) and Express (limited-stop service, 7 routes). These routes meet a variety of customer needs providing transportation to work, school, shopping, medical appointments and recreational activities.

The fleet of MTS Bus Operations is fully accessible to persons with mobility impairments using a mix of buses equipped with wheelchair lifts or ramps (over 5,000 boardings every month). Two tie-down areas within the bus accommodate and secure passengers in wheelchairs. All buses also have a "kneeling" feature which lowers the front of the bus for easier access from the curb. Approximately half of San Diego Transit's fleet is composed of low-floor buses which have no steps inside the vehicle, making entry and exit easier and faster.

Approximately 75 percent of MTS Bus Operations' miles are run by buses that are powered by environmentally-friendly compressed natural gas (CNG). As buses are added or replaced, CNG is the fuel of choice. All of MTS Bus Operations' buses are also equipped with bicycle racks so cyclists can mix their modes of travel—both two and four wheel.

MTS Bus Operations maintains an aggressive Preventive Maintenance Program to ensure the safety and reliability of its equipment. This means fewer customers inconvenienced due to bus malfunctions—MTS Bus Operations now averages over 30,000 miles between road calls. MTS Bus Operations is also committed to providing its customers with a quality riding experience employing programs to monitor driver performance, follow through on customer input, and freshen drivers' operating and customer skills.

MTS Bus Operations maintains the Regional Transit Information Service (RTIS) which provides complete route and schedule information for all the fixed route bus and rail operators in San Diego County. Over a million customers receive personal trip plans or automated assistance through the RTIS every year. With its on-line trip planning service, the RTIS also provides over one million personalized trip plans on the MTS website.

**San Diego Metropolitan Transit System
Rail Operations Description of Activities
Fiscal Year 2007
Section 1.03**

General System Summary

Effective July 2005, with the opening of the new Mission Valley East extension, Rail Operations will operate a 54.3-mile (108.6 total track miles) light rail transit (LRT) network that is part of the San Diego Regional Metropolitan Transit System (MTS), encompassing a 570 square mile area with a general population of 2.3 million people. The operation encompasses three separate operating line segments. The Blue Line operates from the Say Ysidro (US/Mexico border) Inter-modal Transit Center through downtown San Diego and along Mission Valley to Qualcomm Stadium. The Orange Line serves the East County communities from El Cajon (Gilliespie Field) through downtown San Diego and along the Bayside route serving the Convention Center, local major hotel chains and PETCO Park--home of the San Diego Padres. The Green Line will operate from Santee Town Center Station along Mission Valley and serve the campus of San Diego State University through a short tunnel section before continuing to Old Town Transit Center.

The system operates and maintains a fleet of 134 light rail vehicles to provide transit service. The general operating environment includes a combination of open stations at grade with standard railroad crossing protection, downtown mixed street traffic operation, elevated guideways and aerial stations, open-cut sub grade tracks, and one 4,100 foot long tunnel and underground station at SDSU.

The MTS Rail Operations LRT System is expected to carry close to 32 million passengers annually. Light Rail service is provided to 52 transit centers and stations through seven different local communities, each with separate emergency response (police, fire, and paramedic) services. Since the opening of the Mission Valley East Line extension, Rail Operations operates 493 daily scheduled train trips and many more during special events. While daily ridership is approximately 90,000 to 100,000, this number increases substantially when major event service is provided (ridership typically increases to 125,000+). Major special events include those at PETCO Park, Qualcomm Stadium, Street Scene, Oktoberfest, etc. Regular LRT service is provided virtually around the clock with a 22-hour service window.

During the latter part of fiscal year 2006, Rail Operations opened their new Operations Control Center. This center provides operations oversight as well as security monitoring of nine stations (this will be increased to 14 stations in fiscal year 2007). The centralized control provides monitoring of certain line sections with associated control of field switches and signals. The coordinated function will enhance the ability to affect operational oversight while providing coordination of other field functions, including security, maintenance and train operations.

