JOINT FY 05 FINANCE WORKSHOP OF THE BOARD OF DIRECTORS FOR THE METROPOLITAN TRANSIT DEVELOPMENT BOARD, SAN DIEGO TRANSIT CORPORATION, AND SAN DIEGO TROLLEY, INC.

May 8, 2004

BOARD OF DIRECTORS MEETING ROOM, 10TH FLOOR
1255 IMPERIAL AVENUE, SAN DIEGO

MINUTES

1. Roll Call

Finance Chairman Rindone called the workshop to order at 9:04 a.m. Board members in attendance included Bob Emery, Ernest Ewin (alternate for Ruth Sterling), Mark Lewis, Phil Monroe, Jerry Rindone, Ron Roberts, Diane Rose, and Leon Williams. Ex officio board member Harry Mathis was also present.

CONSENT ITEMS

2. Operating Resources

Action would receive a report on MTS resources.

3. Fixed-Route Historical Trends

Action would receive a report on relevant MTS ridership, revenue, and cost trends.

Motion on Recommended Consent Items

Mr. Emery moved to approve Consent Agenda Item Nos. 2 and 3. Mr. Williams seconded the motion and the vote was 8-0 in favor.

DISCUSSION ITEMS

4. Preliminary FY 05 Operating Budgets

Mr. Jablonski thanked everyone for coming to the workshop on a Saturday and stated that he hoped to develop a budget process that blends into the regular meeting schedule and would eliminate the need for a special workshop. He stressed that the budget was developed without a finance department, per se, and with very extensive collaborative efforts by staff from MTS, SDTI and SDTC. He also extended thanks to the staff that coordinated these efforts.

Ms. Susan Hafner, Director of Multimodal Operations, presented a summary of the budget by category pointing out that over 84 percent of the budget consists of personnel, energy and purchased transportation costs. She reviewed charts and tables presenting the following information: Projected deficit amounts on a worst-case and best-case basis, operating revenues and funding sources for operating costs. Mr. Jablonski pointed out that the FY 09 projected deficit as depicted in the table (worst case) assumes that TransNet does not pass.

Mr. Jablonski reported that the SANDAG Board set aside $5 million out of the $20 million they projected as MTDB's share of TransNet. He reported that SANDAG originally intended to use that $5 million for bus rapid transit studies; however, they are currently projecting the use of $1.5 million. Mr. Monroe stated that he did not recall that the Transportation Committee took that particular action and did not realize that $5 million was being removed from MTDB operating funding. In response to a comment by Mr. Roberts about the high dollar amount ($5 million) for planning, Jack Limber of SANDAG stated that the MTD Board took action in May 03, when considering options for allocating the remaining TransNet revenues, to prioritize a number of projects. He stated that, based on those priorities, the work next year for planning for BRT and the Super Loop is estimated to cost $5 million.

Ms. Hafner presented information on federal preventative maintenance funds used for operations. She stated that it is important to note that these funds come out of the same funding pool as the capital projects. She stated that it is the Board's policy decision to balance operating and capital needs. Elliot Hurwitz, Contract Services Administrator, then presented fare revenue projections for FY 05 and briefly discussed current ridership trends. In response to a question from Mr. Ewin, Mr. Hurwitz reviewed fluctuations in passenger loads and how the system copes with the fluctuations.

Mr. Hurwitz then presented information on costs for diesel and CNG fuel. Mr. Hurwitz stated that every penny change in diesel fuel prices equates to $30,000. Mr. Jablonski pointed out that one gallon of diesel equates to 2.5 therms of CNG in terms of usage and, as MTS converts to CNG vehicles, costs will increase over time as a result. In response to a question from Mr. Mark Lewis, Ms. Hafner reported that staff reviews on a regular basis the feasibility of entering into fuel contracts. She stated that fuel contracts can stabilize costs but, when prices go down, MTS would find itself paying a premium price for fuel. Mr. Jablonski stated that this type of arrangement needs to be entered into when fuel prices are low in order for it to be economically advantageous. Cliff Telfer, SDTC Vice President of Finance & Administration, reported that SDTC has someone on staff that contacts fuel suppliers on a daily basis and purchases fuel for almost all the transit agencies in San Diego County. Mr. Telfer also reported that staff does regular comparisons with prices being paid by Orange County Transit and MTA in Los Angeles as well. Ms. Hafner reported that Contract Services handles CNG procurement through the maintainer of the CNG fueling facility. Staff also pointed out that MTS does not pay taxes on fuel.

Ms. Hafner reviewed the budget reductions made by each of the agencies and reported that each, along with the CEO, made significant efforts to identify efficiencies that would reduce costs.

John Davenport, Sr. Transportation Operation Specialist, reviewed cost changes in terms of percentages and the current, projected and proposed farebox recovery. In response to question from Mr. Roberts, Mr. Davenport reported that the 6-percent increase ($2.5 million) in trolley costs associated with the start up of MVE is primarily personnel related. Mr. Tereschuck, General Manager of San Diego Trolley, reported that 70 to 75 employees will need to be hired for the start up of MVE. Mr. Tereshuck also reported that a $900,000 contingency line item is included in that figure. Mr. Jablonski pointed out that approximately $400,000 of the start-up cost is for marketing and signage. He added that the marketing budget was actually reduced by $400,000 and that $400,000 was then used to supplement MVE start-up funding and provide marketing for MVE. Mr. Rindone suggested that staff provide a report detailing the start-up costs. In response to a comment from Mr. Roberts about the substantial size of the contingency, Mr. Tereschuck responded that this contingency was established at a high level because, at the time, there wasn't significant information regarding an operating plan and other issues relative to staffing. He added that the contingency will be used to defray the expense of staffing and the overall cost for the operation. Mr. Roberts asked for a detailed report on this issue and stated that marketing efforts should be minimal because of all the natural publicity the opening of the line will get. Ms. Hafner stated that a later report will provide the Board with information on the funding sources for start-up and support of the operating budget.

In response to a question from Mr. Mark Lewis, Ms. Hafner stated that MTS will be identifying bus service that duplicates MVE service and changes will be made to reinstitute that bus service in a more local way. She further responded to Mr. Lewis' concern regarding staffing levels that any changes in this element would be achieved through attrition. Ms. Hafner reported that the results of the MVE bus study will be brought back to the Board once completed. Mr. Roberts stated that he would like to see details on the operating cost changes and revenue by each agency, and Mr. Rindone reiterated that request. Mr. Jablonski pointed out that costs are increasing at a slower rate than inflation. Mr. Rindone stated that information in staff's report would be more helpful if the dollar amounts were indicated alongside the percentages.

Mr. Davenport then reviewed MTS G&A Expenses. He reported that marketing expenses are being centralized in order to exert more control over the uniformity and quality of MTS ads. He also stated that Management Information Systems expenses include recurring software license fees and computer improvements to make it possible for employees to access the new computerized financial system. He pointed out that general expense decreased due to the smaller workforce, but increased as a result of relocation costs associated with the relocation of employees between agencies. Staff explained the process for determining cost-of-living increases for staff salaries at Mr. Lewis' request. In response to a question from Ms. Rose, staff explained that the Management Information Systems reference in the report consists of $90,000 for conversion to the new financial system and $7,000 for recurring licensing agreements. She requested that this be broken out in the final report. Mr. Roberts stated that he strongly felt that the budget presentation should include a quantitative perspective on the results of the consolidation and felt that there should be some resulting cost savings. He stated that both FY 2003 and FY 2004 can be included in this perspective if events occurred in both years, both organizationally and financially. Mr. Jablonski stated that, while approximately 50 employees transferred to SANDAG, fixed costs were not affected. He added that consolidation of SDTI and SDTC with MTS is still in the beginning stages – that an overall structure has been developed, but details remain to be worked out. He stated that Human Resources will be consolidated shortly. He stated that he hopes to see some economies as a result of the consolidation, but felt it was too early to assess this factor. Mr. Roberts stated that he would accept at least a best estimate. Ms. Rose stated that she would like to see a category of expenses associated with the consolidation. Mr. Ewin stated that he respectfully disagreed and stated that he is sure there is an ongoing strategy. He felt that actions to date were fairly well reflected in staff's report. In response to a question from Mr. Ewin, Mr. Jablonski stated he just received a letter from CalPers stating that the pension plan at MTS and the independent pension plan at SDTC cannot coexist under CalPers. He stated that it appears that combining the agencies into one legal entity would be cost prohibitive.

Mr. Monroe asked if Mr. Jablonski has a timeline for the consolidation. Mr. Jablonski stated that this process requires a great deal of effort – that there are many details that must be addressed, e.g. creating departments, filling positions, making decisions regarding leadership positions within the departments, facility and contract elements, consolidating revenue functions, transitioning practices between the agencies, etc. Mr. Jablonski stated that the complexity of these issues depends on the function being studied and cited examples. Mr. Jablonski added that he is still negotiating with SANDAG regarding the planning function. Mr. Monroe stated that he didn't need that kind of detail but would like to see a blueprint of the new organization, e.g. how many people in certain positions, what areas would not be changed at all, etc.

Mr. Davenport then reviewed MTS operating expenses and the combined FY 2005 operating budget. He added that the MTS Operating Expenses includes $2 million for the replenishment of the reserve fund.

Ms. Rose pointed out that staff's percentage numbers for subtotals and totals on attachment C3 are inaccurate. Staff stated that corrections will be made.

Mr. Monroe thanked Mr. Jablonski and staff who prepared the presentation as well as staff from the other agencies for their time and all of their efforts. In response to a question from Mr. Lewis, Ms. Hafner explained that the Coronado Ferry appears in the report because MTS subsidizes its operating costs in order to maintain a reasonable fare for commuter trips.

Action Taken

Mr. Williams moved to receive the preliminary FY 05 budgets for San Diego Trolley, San Diego Transit, MTS Contract Services, Chula Vista Transit, National City Transit, Coronado Ferry, and MTS General Fund. Mr. Emery seconded the motion and the vote was 8-0 in favor.

5. Balancing the Operating Budgets: Recommended Action Plan

Ms. Hafner reviewed the primary policy choices and factors of importance for the Board to consider relative to the FY 2005 budget. Staff reviewed Options A, B and C as presented in staff's presentation. Staff recommended Option A for balancing the FY 2005 budget, and stated that the next steps are formal approval of the action plan at the Board's May 27, 2004 meeting and a public hearing and final adoption in June.

Mr. Jablonski pointed out that the shortage of funding that MTS has been experiencing is compounding from year to year. He stated that CMAQ funds will only cover trolley operations for the first three years after start up. He stated that the Board, when it begins to cut service, will lose cost but also lose ridership and revenue. He added that, unless something happens to improve the revenue picture, he will recommend conducting a comprehensive operations analysis (COA), which would take approximately 12 to 15 months to complete. He suggested reorganizing the system in such a way that it lowers costs and maintains ridership by making the system quicker and more streamlined. He added that it will be hard to do and fairly traumatic to implement.

Mr. Ewin expressed support of Mr. Jablonski's comments. He stated that it will be very important after the election in November to assess where MTS service is, what its resources are, and how it should move forward. In response to questions from Mr. Ewin, staff reported that MTS would be challenged should reserves be exhausted and would have to turn to its partners to seek solutions. In response to another question from Mr. Ewin, staff advised Mr. Ewin that SDT just completed contract negotiations with its unions for three years. Mr. Rindone gave Mr. Ewin permission to direct further questions to Mr. Jablonski with a copy to Mr. RIndone in the interest of completing the meeting prior to losing a quorum.

Mr. Roberts expressed concern with the compounding projected deficit figures, the fact that farebox recovery is down, operating expenses are increasing, one-time funding sources are becoming scarcer, and ridership is not experiencing its usual recovery from fare increases. He stated that he felt a stronger strategy was needed. He stated that he does not favor Option A. He felt that service cuts need to be considered at an adequate level to put MTDB in position for next year. Mr. Jablonski agreed and stated that staff has already started looking at service cuts, but a review of the system as a whole is needed. He reminded everyone that service cuts also generate decreases in ridership and revenue. He added that a comprehensive operational analysis (COA) would help create a foundation to carry MTDB forward into the future.

Mr. Roberts stated that savings as a result of the consolidation should appear somewhere in staff's report, and he expressed dissatisfaction with waiting for 12 to 15 months for a plan to deal with these issues. Mr. Monroe expressed support of Mr. Robert's statements but also supported Mr. Jablonski's proposal for a COA. Mr. Emery stated that he didn't disagree but added that he thinks the Board has already taken steps toward building the foundation of a better system by hiring Mr. Jablonski. He stated that the first order of business should be for the Board to give Mr. Jablonski clear direction on how to go forward and give him the time to carry out the Board's mission. He added his support for the COA. Mr. Williams expressed support of a COA and added that the Board will have to find the courage as political office holders to make hard decisions that may have negative affects on the public. He stated that the Board has not been doing that.

Action Taken

Mr. Rindone made a motion to direct staff to proceed with Option A: That the MTS Board of Directors adopt a balanced FY 05 financial plan for MTS transit operations and the MTS General Fund based on Option A as discussed in budget balancing options below that would: (A) Approve maintaining an operating reserve (MTS Contingency Reserve) at a level approximately 5 percent of the total operating budget ($9.8 million), and use an additional $2.9 million for the FY 05 budget above the previously approved $12 million set aside for FY 04 and FY 05 operations. A total MTS FY 05 contingency reserve contribution to operations would be approximately $8.1 million; (2) Approve use of TransNet funds as previously adopted in June 2003 in the amount of $15.5 million (includes $5.5 million in pass subsidies), and request the San Diego Association of Governments (SANDAG) for an additional amount of TransNet operations funds up to $3.5 million from the bus rapid transit (BRT) project; (3) Authorize staff to issue Grant Anticipation Notes to fund FY 05 operations if the subsidy cash flow lags behind actual expenditures; (4) Approve a deposit to the liability claims reserve of $2 million; (5) Delay implementation of any new subsidized services (other than Mission Valley East Light Rail Transit [MVE LRT]) until we are operating a sustainable level of service and authorize the Chief Executive Officer to work with SANDAG in seeking Congestion Mitigation and Air Quality (CMAQ) funds for the first three years of MVE LRT operations. He also moved to include direction to staff to come back to the Board with a comprehensive assessment (COA) of the whole system – bus and rail – and schedule a special meeting or two to educate members of the Board not present for the meeting and provide them with input, deliberation and comments from this meeting in order to educate them at the beginning of the COA process. Mr. Ewin seconded that motion. Mr. Monroe asked Mr. Rindone to split the motion into two parts with the first vote to cover the recommendation for Option A. Mr. Monroe seconded the motion and the vote failed by a 7-1 vote with Mr. Roberts dissenting.

Mr. Rindone made a motion for staff to come back to the Board with a proposal for a comprehensive operational analysis (COA) and provide a set of meetings to get full input of the Board. Mr. Jablonski offered to come back to a regular Board meeting with an agenda item and presentation regarding the COA. He explained that not much effort would be required to prepare for the initial presentation to the Board. There was no vote taken on this motion.

Mr. Roberts made a motion that staff proceed with a discussion with SANDAG on the $3.5 million and direct staff to strengthen Option A. Mr. Monroe seconded the motion and the vote passed by an 8-0 vote.

Mr. Lewis was assured that minutes are being taken and the meeting recorded when he expressed concern that Board members who represent the City of San Diego were not present for this discussion. Mr. Rindone also reminded Mr. Lewis that the purpose of the workshop is to give direction to staff and the results of the meeting would be reported at the next general meeting. He stated that efforts will be made to bring the remaining members up to date on current recommendations. Ms. Lorenzen reported that City representatives have aides present in the audience. Mr. Jablonski summarized by saying that he will address a reduction in the reserve request, provide dollar amounts for elements of the reorganization, review the contingency identified in staff's report for MVE, and provide numbers to use as a basis for discussion of service reductions. Mr. Rindone stated that any need for successive meetings to provide direction for the budget process can be recommended by the Board at its regular meeting.

6. Public Comments

There were no public comments.

7. Adjournment

Finance Chair Rindone adjourned the meeting at 11:56 a.m.

Chairman
San Diego Metropolitan Transit
Development Board

Filed by:

Office of the Clerk of the Board
San Diego Metropolitan Transit
Development Board

Approved as to form:

Office of the General Counsel
San Diego Metropolitan Transit
Development Board

GWilliams

Attachments: A. Roll Call Sheet