



MEETING OF THE SAN DIEGO ASSOCIATION OF GOVERNMENTS
TRANSPORTATION COMMITTEE

July 18, 2025

SUBJECT:

Metropolitan Transit System (MTS): Operations Budget

DISCUSSION:

MTS BUDGET STATUS REVIEW

MTS staff held a public hearing and received final budget approval from the MTS Board of Directors (MTS Board) on May 15, 2025.

Fiscal Year (FY) 2025 Highlights

- Service Improvements

In October 2024, MTS launched its new Copper Line - East County Connector. The Copper Line serves four stations between El Cajon Transit Center and Santee Trolley Station every 15 minutes every day for most of the day. The new segment replaces the existing Green and Orange Line Trolley service north of El Cajon Transit Center. The primary purpose of the Copper Line is to reduce the impacts of the single-track segment between Gillespie Field and Santee. In turn, this has improved service reliability throughout the Trolley network. In addition, delays that may occur on the rest of the system no longer impact Trolley service between El Cajon and Santee.

In January 2025, MTS launched Route 910 Overnight Express and MTS officially became a 24-hour operation. The new route connects San Ysidro and downtown San Diego during the late night and early morning hours and helps provide a link along the busiest transit corridor in the region. Route 910 operates during the hours when the UC San Diego Blue Line Trolley cannot run service giving riders 24-hour transit reliability along this corridor. MTS shares part of the rail line with heavy freight companies overnight and federal regulations limit the agency's ability to run service at the same time. Route 910 is an express route, serving limited stops between the U.S.-Mexico border and downtown San Diego, making the route time competitive and more effective for users. Route 910 has stops at or near the Iris Avenue Transit Center, Palomar Street Transit Center, 24th Street Transit Center, near the Harborside and Barrio Logan Trolley Stations, and multiple stops in downtown San Diego.

Also in January 2025, MTS added more Trolley service on nights and weekends. The Green Line now offers 15-minute service all day, every day. The UC San Diego Blue Line increased to 15-minute service after 9:30 p.m. between downtown San Diego and UTC

1255 Imperial Avenue, Suite 1000, San Diego, CA 92101-7490 • (619) 231-1466 • sdmts.com

San Diego Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc. and San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations). MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego. MTS is also the For-Hire Vehicle administrator for multiple cities in San Diego County.



nightly. And the Orange Line increased to 15-minute service weekend mornings, giving riders 15-minute service until 7 p.m.

- Customer Satisfaction Survey

The opinions of our riders are very important to MTS, and MTS has conducted onboard customer satisfaction surveys for more than a decade, approximately every other year since 2011. The 2024 Customer Satisfaction Survey results show MTS continues to exceed public transportation industry benchmarks in several key areas of service, including on-time performance, customer satisfaction, community value and safety. The survey, conducted in November 2024 by ETC Institute, a professional market research firm that specializes in customer satisfaction surveys, gathered feedback from more than 3,700 riders across the MTS bus and Trolley networks. Results revealed that 83% of bus riders and 82% of Trolley riders are satisfied with the service MTS provides—well above national averages for transit agencies (58%). Survey Highlights:

- High Community Value: 87% of bus riders and 85% of Trolley riders believe MTS provides value to the community.
- Recommended Service: When asked if riders would recommend MTS services to others, 58% of bus riders and 62% of Trolley riders are highly likely to do so.
- Reliable Operations: 79% of Trolley riders and 66% of bus riders agree that their vehicle usually runs on time, compared to 48% nationwide.
- Important Economic Connector: 61% of Trolley riders and 73% of bus riders use MTS services to get to work or school.
- Safety on Board: 71% of bus riders and 63% of Trolley riders feel safe while on board, scoring higher than the national average (42% for bus and Trolley).
- Positive Trends: In addition to safety trends, riders were five times more likely to say their satisfaction has improved over the past year (31% bus, 33% Trolley) than decreased (5% bus, 6% Trolley).

While the survey results are overwhelmingly positive, MTS will use this rider feedback to identify areas for improvement. The most impactful areas, based on rider priorities, include safety while waiting for transit, cleanliness of vehicles and stations, and maintaining timely service.

- Contactless Fare Payment

In July 2024, MTS and North County Transit District (NCTD) launched a new contactless payment feature for the PRONTO fare collection system. With contactless payment, riders can pay their fare with the direct tap of a debit or credit card or other contactless payment options, such as a smartphone or smartwatch, on fare validators system wide. This means riders can bypass ticket vending machines and bus fareboxes and pay directly on the fare validator. Contactless Payment is available on MTS buses and Trolleys, and NCTD Coaster, Sprinter, Flex and Breeze services.

In March 2024, another fare payment option was added to PRONTO. Express Mode was made available for customers using Apple Pay to pay and ride transit, with just a simple tap of an iPhone or Apple Watch. With Express Mode enabled for debit or credit cards, riders do not need to wake or unlock their iPhone or Apple Watch, or even open any apps, to pay and ride. All users have to do is hold their Apple device near a PRONTO validator to securely pay with Apple Pay. As of May 2024, MTS and NCTD riders have completed over one million trips with contactless payment options since the feature's launch! MTS and NCTD

became the first transit systems within the state to reach one million contactless payment transactions.

- Transit Amenities

A common request riders have for MTS is to have better amenities at stops and stations. MTS made progress on its amenities program over the past year by installing new next-arrival digital boards on the Orange Line, new murals at busy transit centers and improved lighting at bus stops and Trolley stations.

The new state-of-the-art digital signs along the Trolley's Orange Line provide passengers provide important real-time messages about service. The new digital signs provide greater display flexibility, enabling real-time Trolley arrival updates, delivery of critical passenger notifications, special event information, public service announcements, and more. In total, 78 digital signs will be installed at 19 Trolley stations, spanning from the Arnele Avenue Trolley Station to the Courthouse Trolley Station. MTS invested \$2.3 million on this modernization project which is funded in part by a 2022 Transit and Intercity Rail Capital Program (TIRCP) Award from the California State Transportation Agency (CalSTA). The Green, UC San Diego Blue, and Copper Lines will also get new digital signs after the Orange Line is completed, which will be partially funded by Federal Community Project earmarks.

Four new murals were installed – two at the E Street Transit Center and two at the Grossmont Transit Center - as a part of the agency's efforts to "color the corridor" in and around transit centers. MTS, in collaboration with Caltrans and local artists, unveiled the community-focused murals which are part of a larger effort by MTS to provide a better, more inviting experience for passengers using the transit system. MTS previously partnered with artists for completed works of art at Massachusetts Avenue, 62nd Street, 47th Street, Euclid Avenue, and the 67th Street pedestrian crossing. MTS also has one more mural in the works with other artists along the UC San Diego Blue Line at the Beyer Blvd Trolley Station, to be completed in 2026. These murals were funded in part by a Clean California grant award.

MTS riders have also asked for better lighting at stops and stations to offer better visibility, security and awareness. Over the last year, MTS has been improving lighting systems on Orange Line Trolley platforms and transit centers. Lighting improvement projects were completed at nine stations, which included new LED lights on platforms, walkways, shelters and parking lots. Total project cost was \$1 million. MTS also installed 33 solar lights on bus stop poles to improve nighttime visibility for passengers and bus operators. This bus stop lighting pilot is testing new technology, and installation is expected to be complete by the end of 2025. Total project cost is \$1 million for the bus stop lighting project.

- Orange Line Improvement Project

The Orange Line Improvement Project includes Transit and Intercity Rail Capital Program (TIRCP) grant funded projects to improve the Trolley system infrastructure at various locations along the 17.6-mile Orange Line. The \$151.2 million project will benefit the riding public and the cities of San Diego, Lemon Grove, La Mesa, and El Cajon. The comprehensive state of good repair project aims to enhance the Trolley system between 32nd Street and El Cajon. By investing in these improvements along the Orange Line, MTS will be able to increase train speeds, improve grade crossings, reconstruct three new pedestrian grade crossings for better pedestrian safety, upgrade lighting in MTS stations

and parking lots, plus much more. Various design projects are well underway, and construction take place between summer 2025 and early 2028.

- Comprehensive Operational Analysis

MTS is undertaking a comprehensive operational analysis (COA) to evaluate the efficiency of our operations over the next couple of years. The COA will examine two scenarios: securing more revenue or not. This analysis is crucial for addressing a significant budget deficit, which needs to happen by 2028. While challenging, we've faced similar situations, such as during the Great Recession in 2008-09, and emerged stronger. It's essential we take proactive steps now, rather than waiting until funds run out. Over the next few months, MTS teams will prepare for the COA, with regular updates provided to the Board of Directors and staff. Thanks to everyone involved, from Planning to Bus Operations, Marketing to Procurement and more, for contributing to this critical task.

- Ridership Recovery

For California Clean Air Day in October 2024, MTS held another successful Free Ride Day with more than 300,000 trips made on MTS buses and Trolleys, a 15% increase in ridership compared to the previous Clean Air Day in 2023. MTS continues to see steady growth in transit ridership. After seeing a 10% increase in ridership for FY24 over the prior fiscal year, MTS is on track to exceed 80 million riders in FY25, another 7% increase in ridership compared to FY24.

- Zero Emission Bus (ZEB) Transition

In July 2024, MTS achieved a major milestone towards its goal to help San Diego reduce greenhouse gas emissions and advance cleaner air. On the road to having a carbon-neutral fleet by 2040, MTS's battery-electric buses eclipsed the one-million-mile marker that month. This milestone, 1,021,990 miles, represents 2,130 metric tons of CO₂e, or carbon dioxide equivalent, not being emitted into our region's air. It is also the equivalent of 4.9 million passenger vehicle miles traveled. This means less cars on the road and cleaner air. MTS currently has 25 electric buses in service and more on the way to keep residents moving in a cleaner and greener way. MTS anticipates receiving 13 more electric buses in late 2025. This is another big step in the agency's efforts to convert the entire fleet to all zero-emissions by 2040.

MTS also made progress with its ZEB infrastructure. The Imperial Avenue Division (IAD) is getting overhead charging infrastructure to accommodate a large electrical fleet. Design has been completed, and construction of the overhead charging ports was approved by the Board in December 2024.

- Capital Improvement Program (CIP)

The FY26 CIP budget of \$163.3 million will fund 49 different projects for state-of-good repair and zero-emission bus transition purposes. Of that amount, 93% of the funding goes towards keeping the bus and rail systems in a state of good repair. Top funding allocations include:

- \$54.0 million – Orange Line Improvement Project Phases 1 and 2.
- \$53.9 million – Continuing bus fleet replacements.
- \$31.4 million – Rail infrastructure improvements and maintenance.

- \$9.8 million – Overhead charging infrastructure at existing bus division to support conversion to an all-electric bus fleet.

Fiscal Year 2026 Budget Recap

The following is a recap of the FY 2026 budget process:

- MTS uses a zero-based budgeting process that begins in January each year. In MTS's process, every budget line-item is reviewed and approved each year. Department managers complete budget templates in which they propose amounts for each line item, submitted with the appropriate supporting details for each assumption (in contrast, with a traditional historic budgeting process, managers only justify variances versus prior year budget; the assumption is that the baseline is automatically approved). Meetings are held with each department to validate their assumptions, review proposals versus existing spending trends, and review any new initiatives. This collaborative process results in the assumptions that are then presented to and reviewed by senior management at MTS, the Executive Committee, and ultimately the MTS Board.
- On February 6, 2025, staff presented a forecast of the FY 2025 operating budget amendment as well as a current five-year forecast of the operating budget. The five-year forecast estimated that MTS would hit the "fiscal cliff" and run out of budget balancing funds early in FY 2028. In the same presentation, staff presented a range of potential short-term and long-term options for addressing the structural deficit. Staff recommended exercising off-ramp provisions of the Innovative Clean Transit (ICT) mandate for purchasing electric buses, shifting funding from capital to operations in FY 2026 (\$25M), FY 2027 (\$35M), and FY 2028 (\$50M), and delaying all planned service enhancements after the January 2025 service change. These short-term solutions were proposed to extend the timing of the fiscal cliff while MTS waits to see the results of potential revenue increases including a possible tax measure pursued by MTS or changes to the state-wide Transportation Development Act (TDA) tax that could dramatically increase MTS revenues. Other solutions discussed, but not part of the recommendation, were fare increases and minor/major service cuts. In this meeting the Planning department also recommended conducting a Comprehensive Operating Analysis (COA) to evaluate existing service and guide strategic decisions on service reductions (or increases) as necessary.
- On February 13, 2025, staff presented the same presentation to the Board. In this meeting, the Board approved the recommendation to exercise off-ramp provisions of the ICT mandate for purchasing electric buses, shift funding from capital to operations in FY 2026 (\$25M), FY 2027 (\$35M), and FY 2028 (\$50M), and delay all planned service enhancements after the January 2025 service change.
- On March 6, 2025, staff met with the Executive Committee and reviewed and recommended approval of the FY 2025 midyear operating budget amendment and the FY 2026 Capital Improvement Program (CIP).
- On March 13, 2025, staff met with the Board of Directors. During this meeting, staff reviewed and received Board approval of the FY 2025 amended operating budget and the FY 2026 CIP.
- On April 10, 2025, staff presented an initial draft of the operating budget to the Executive Committee meeting.

- Staff has continued to refine the proposed operating budget since the initial draft was presented in April. Expenses in the final proposed budget decreased by \$2.5 million from the prior draft, primarily due to finalizing energy expense assumptions. Other operating revenue decreased by \$923,000, primarily due to updated Low Carbon Fuel Standard (LCFS) energy credit assumptions.

Fiscal Year 2026 Operating Budget

As indicated within Attachment B, the FY 2026 total budgeted revenue is projected at \$473.1 million, and total expenses are projected at \$473.1 million, resulting in a balanced budget for FY 2026.

Fiscal Year 2026 Revenues

Sec Attachment A summarizes the total operating and non-operating revenues in a schedule format. As indicated within the schedule, FY 2026 combined revenues total \$473.1 million, an increase from the FY 2025 amended budget of \$24.9 million (5.6%).

Operating revenue totals \$121.1 million, an increase from the FY 2025 amended budget of \$6.1 million (5.3%). Passenger revenues are projected to increase by \$9.4 million (11.7%) based on projected ridership of 86.2 million passengers and an average fare of \$1.04. The ridership target represents 6.0% growth over ridership in the FY 2025 amended budget. The average fare of \$1.04 represents a \$0.05 (5.4%) increase over the FY 2025 amended budget, based on the preliminary results of the fare enforcement changes that began in February 2025. Other operating revenues are projected to decrease by \$3.2 million (-9.2%), primarily due to projected interest revenue decreasing by \$3.1M (-32.1%). MTS is expected to generate significantly less interest next year as MTS will no longer be receiving federal stimulus funds and plans to deplete the operating deficit reserve in FY 2026, resulting in lower cash balances. Advertising revenue is expected to decrease by \$226,000 (-3.5%), primarily to reflect recent decreases in vehicle advertising revenue. Real estate lease is expected to decrease by \$457,000 (-11.9%) due to declining occupancy at the Grantville development as well as the continued non-renewals of Clean Transit Advancement Campus (CTAC) property tenants. These decreases are projected to be partially offset by an increase of \$585,000 (5.9%) in energy credit revenue. The Low Carbon Fuel Standard (LCFS) program is expected to implement changes to credit generation for fixed guideway electricity reported for January 2026 and later. The new changes are expected to result in approximately 2.3 times the number of credits previously generated for fixed guideway electricity by MTS. Beginning in January 2026, pre-2011 sub-stations (all except Mid-Coast sub-stations) will generate as many credits as post-2010 sub-stations (Mid-Coast), representing a significant increase in credit generation for MTS going forward.

Non-operating revenue totals \$352.0 million, an increase from the FY 2025 amended budget of \$18.7 million (5.6%).

Federal Transit Administration (FTA) funding is structured on a reimbursement basis (after expenses are incurred), and funds both the CIP and operating budgets. MTS's share of recurring federal revenue in the operating budget is expected to increase by \$1.3 million (1.7%) from the FY 2025 amended budget to \$79.1 million in total. This is due to increasing preventive maintenance funds in the operating budget by \$2.0 million.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provided \$25 billion to the transit industry nationwide. MTS

received \$220 million in CARES Act funding over multiple fiscal years to supplement lost revenues and increased expenses related to the pandemic. On March 11, 2021, President Biden signed the American Rescue Plan (ARP) Act into law, providing \$140 million in additional stimulus funding for MTS. In total, MTS was awarded \$360.0 million in stimulus funds. The final \$47.4M of stimulus funds were drawn and received during FY 2025, and there are no additional stimulus funds available for FY 2026. Stimulus funds that were drawn and contributed to the operating deficit reserve in prior years will be available and spent in FY 2026, but are represented as reserves revenue in Attachment A.

Regional sales tax revenues (TDA and TransNet) in the MTS operating budget are expected to increase by \$12.1 million (7.4%) year over year for FY 2026, but only after shifting \$25.0 million in TDA revenue from the capital budget to operations. Regional sales tax receipts are projected to decline overall in FY 2026 with very modest growth projected for future years in the San Diego Association of Government's (SANDAG) most recent forecasts. This is a concerning trend that has the potential to dramatically affect the short-term financial outlook for MTS.

Regional TDA cash receipts are projected to decline -3.6% versus FY 2025 projected cash receipts. MTS files an annual TDA claim based on SANDAG projections, and that claim amount is the amount received, regardless of actual sales tax performance. If sales tax receipts end up higher than the claim amount, excess funds are stored in a reserve at the County. If sales tax receipts come in lower than the claim amount, funds are drawn from the County reserve. The overall amount of TDA projected for FY 2026, available for both capital and operations, is decreasing by \$7.7 million (-5.7%) from the FY 2025 amended budget based on projected sales tax receipts by SANDAG. The overall decrease is higher than the -3.6% decrease in receipts projected by SANDAG, because MTS had claimed an additional \$3.0 million from the County TDA reserve in the FY 2025 claim. TDA revenue in the operating budget is increasing by \$10.3 million (11.5%) from the FY 2025 amended budget, after shifting \$25.0 million from the FY 2026 capital budget to the FY 2026 operating budget.

TransNet revenue is projected to increase by \$1.7 million (2.3%) versus the FY 2025 amended budget. Unlike TDA, TransNet revenues are not based on an annual claim process and are instead disbursed as the sales tax revenue is generated. The formula share of TransNet funding is expected to increase by \$153,000 (0.4%) versus last year, based on economic growth assumptions provided by SANDAG. MTS also receives TransNet as operating assistance for TransNet funded services, which includes Superloop, I-15 BRT, Mid-City Rapid, South Bay BRT, and Mid-Coast. TransNet operating assistance is projected to be \$34.7 million in FY 2026, an increase of \$1.6 million (4.7%) from the FY 2025 amended budget. This is primarily due to increases in net subsidy for TransNet-funded services based on higher expenses for these services.

In the FY 2025 fiscal year to date, MTS has received \$17.2 million of the projected \$33.9 million of State Transit Assistance (STA) funding. This funding is primarily programmed in the CIP due to its volatile history, but a portion is also allocated to operations to fund service increases, replace lost Medi-Cal revenue, and address the structural deficit. The amount in the operating budget is typically static at \$11.3 million but was reduced to \$6.2 million in the FY 2025 budget to keep the capital budget whole while reflecting an anticipated \$5.1 million shortfall in overall STA revenue. The share of STA in the operating budget is increasing back to \$11.3 million in FY 2026, an increase of \$5.1 million from the FY 2025 amended budget.

Other state revenue is projected to be \$20.9 million in FY 2026, an increase of \$11.9 million from the FY 2025 operating budget. Senate Bill 125 (SB 125), approved by the Governor on

July 10, 2023, guides the distribution of \$4 billion in General Fund through the TIRCP on a population-based formula to regional transportation planning agencies, which can use the funds for either capital or operations. MTS is expected to receive \$237.3 million in SB 125 TIRCP funds over multiple fiscal years, including both capital and operations. The FY 2026 operating budget includes \$3.5 million for security enhancements, \$4.9 million for Route 227 (Iris Rapid) operations, \$826,000 for Route 910 (Overnight Express) operations, \$1.5 million for Trolley service enhancements (15-minute service on all lines), and \$10.2 million for balancing the structural deficit.

Other local funding is projected to be \$3.1 million in FY 2026, a decrease of \$1.2 million (-27.6%) from the FY 2025 amended budget. MTS historically received \$5.74 per student per quarter for operating the Route 201 and 202 shuttle service at the University of California, San Diego (UCSD). This revenue, which was projected to generate \$690,000 in FY 2025, will be included in the new U-PASS agreement and reported as passenger revenue beginning in FY 2026 (marking a reduction in subsidy revenue). Other local funding is also decreasing due to a \$500,000 reduction in the amount of FasTrak revenue being provided by SANDAG in FY 2026. The decrease in FasTrak revenue is part of a revenue swap with SANDAG and is being offset by an equal increase in TransNet reimbursement for BRT services. Consolidated subsidy revenue totals \$289.9 million, a decrease of \$18.2 million (-5.9%) from the FY 2025 amended budget.

Reserve revenue totals \$62.1 million. For-Hire Vehicle (FHV) Administration and San Diego & Arizona Eastern (SD&AE) are self-funded activities. The FHV Administration is projected to use \$162,000 of reserves to balance its operating budget in FY 2026, as expenses are projected to exceed revenues. SD&AE is projected to contribute \$73,000 to its reserves, as revenues are projected to exceed expenses. The creation of an operating budget deficit reserve was approved by the Board in April 2023. MTS contributed \$57.0 million in excess revenues over expenses to the Operating Budget deficit reserve in FY 2023 and contributed an additional \$30.2 million at the end of FY 2024. The current balance of the operating deficit reserve is \$87.1 million and is expected to be \$62.0 million at the end of FY 2025, based on the projected usage of \$25.2 million in the FY 2025 amended budget. The FY 2026 proposed operating budget assumes that the entire \$62.0 million reserve balance will be used to balance the operating budget in FY 2026, at which point MTS will start using SB 125 TIRCP funds to balance the operating budget.

Fiscal Year 2026 Expenses

Attachment B contains the total revenues as detailed above and the total proposed expenses for FY 2026. FY 2026 combined expenses totaled \$473.1 million, an increase from the FY 2025 amended budget of \$24.9 million (5.6%). The proposed budget reflects planned service levels across all modes. Rail operations service levels are expected to increase by 1.3% with a full year of 15-minute system-wide service implemented in January 2025. Directly operated bus service levels are expected to remain flat at FY 2025 levels. The contracted fixed route bus service levels are expected to increase by 0.3% to reflect a full year of Route 910 Overnight Express service. Paratransit service levels, based on demand, are projected to increase by 8.4% in FY 2026 as demand continues to increase toward pre-pandemic levels.

Within operating expenses, personnel expenses are projected to increase from the FY 2025 amended budget by \$11.0 million (5.6%). Wages are expected to increase by \$6.7 million (5.7%) overall. Wages within Administration are projected to increase by \$1.1 million (4.6%), primarily due to the planned merit increase of 4.0% for management employees in FY 2026 and higher security staffing levels assumed in the FY 2026 budget. Wages within Trolley operations

are projected to increase by \$3.1 million (7.8%) over FY 2025, primarily due to 7.0% wage increases for all SMART union members effective April 2025. Wages within Bus operations are increasing by \$2.4 million (4.6%), primarily due to a full year of increased wages which ranged from 7.0% to over 12% for IBEW and ATU employees effective January 2025. Fringe expenses are projected to increase by \$4.3 million (5.5%) versus the FY 2025 amended budget. This is primarily due to increasing healthcare expenses and pension expenses. Healthcare expenses are increasing by \$1.9 million (9.1%) due to premium increases as well as increases to employer contributions in the recently approved collective bargaining agreements. Pension costs are increasing by \$1.8 million (5.6%) overall. Within pension costs, the employer share of the SDTC defined benefit plan is increasing by \$1.1 million (5.7%) based on the most recent actuarial valuation and projected employee contributions. CalPERS employer contributions are projected to increase by \$626,000 (5.6%).

Purchased transportation costs are projected to increase from the FY 2025 amended budget by \$5.3 million (4.8%). This is primarily due to rate increases for both the fixed route contract and paratransit/minibus contract, both operated by Transdev. Both contracts have fixed and variable rate components which determine total contract costs. The fixed cost rate is not dependent on service levels and is a fixed monthly fee, whereas the variable rate is dependent on the volume of service operated. Transdev fixed costs in the fixed route contract are increasing by 4.2% over the FY 2025 amended budget. The variable rate for Transdev is increasing by 4.0% in FY 2026, including an additional \$0.08 per revenue mile budgeted for potential Transdev collective bargaining increases as approved by the Board in FY 2025 (the additional \$0.08 will only be incurred as Transdev collective bargaining raises are agreed to and confirmed by MTS). Overall Transdev fixed route contract costs are projected to increase by \$3.7 million (4.4%). Fixed costs on the paratransit/minibus contract are increasing by 2.1% in FY 2026. The minibus per-mile rate is staying flat for FY 2026, and the paratransit per-hour rate is increasing by 2.8%. Overall, minibus costs are projected to decrease by \$90,000 (-1.4%) and paratransit costs are expected to increase by \$1.7M (9.1%). Paratransit costs are increasing due to the contract increases and a projected increase of 8.4% in service demand for FY 2026.

Excluding purchased transportation, outside service expenses are projected to increase from the FY 2025 amended budget by \$1.9 million (3.5%). Within outside services, security costs are increasing by 4.1%, primarily due to contractual 4.0% wage increases. Repair and maintenance costs are projected to increase by \$2.1 million (18.0%), primarily due to rail tie replacement, bridge repairs, and a new contract for light rail vehicle body repairs with price increases. Other outside services are decreasing by \$639,000 (-2.3%) due to a variety of changes. Decreases within other outside services primarily represent one-time expenditures in FY 2025 that are not continuing into FY 2026. These one-time expenses included emergency track repairs, Baltimore/Euclid Avenue planning studies, a variety of bus facility repair projects, and security equipment purchases for new staff (radios, handheld units). These decreases are partially offset by increases for the Planning department COA, fare system upgrades (mobile app enhancements), and increasing Information Technology department expenses for rail maintenance software upgrades and contractual increases.

Materials and supplies costs are projected to increase by \$2.1 million (10.6%), primarily due to an increase of \$1.3 million for SD8 light rail vehicle (LRV) drive unit overhauls within the LRV maintenance budget, and \$1.2 million for upgrading the credit card module on all existing ticket vending machines within the Revenue Maintenance department budget.

Energy costs are projected to increase by \$3.1 million (6.3%). Electricity costs are projected to increase by \$2.1 million (6.8%) due a projected 3.5% increase in rates combined with a 3.2% increase in projected usage for trolley traction power electricity stemming from a full year of 15-

minute Trolley service across the entire system. Compressed natural gas (CNG) costs are projected to increase by \$887,000 (6.6%), primarily due to a projected increase of 6.6% in the rate per therm. The forecasted CNG commodity rate increase is being driven by increased demand (primarily exports), extreme weather events, and storage and pipeline issues.

Risk management costs are increasing by \$2.0 million (18.6%). The increase is primarily driven by an increase of \$1.5 million (16.4%) in insurance premiums, with property and excess liability insurance premiums driving the increase. Claim payments are projected to increase by \$555,000 in FY 2026, based on pending litigation as well as contingency for unplanned events.

General and Administrative costs are decreasing by \$409,000 (-5.5%) over the FY 2025 amended budget. The FY 2025 operating budget included one-time expenses for bus radio equipment and handheld units for security staff, expenses that will not be necessary in FY 2026.

Vehicle and Facility Lease costs are projected to decrease by \$35,000 (-1.6%), primarily due to non-revenue vehicle leasing expenses.

Debt service costs are zero in FY 2026. There are no outstanding debt service obligations. In total, expenses are projected to increase by \$24.9 million or 5.6% versus the FY 2025 amended budget.

Five-Year Operating Forecast

Attachment C provides a look at MTS operations through FY 2030. Operating revenues are projected to increase by 4.7% in FY 2027 and then by an average of 3.4% from FY 2028 through FY 2030. These increases are primarily due to projected passenger revenue increases as ridership is expected to continue to grow by 6.0% in FY 2027, 5.0% in both FY 2028 and FY 2029, and then 4.0% in FY 2030. Within operating revenues, other revenues are projected to average negative growth of -0.2% over the forecast period, primarily reflecting decreasing interest revenue as interest rates and cash balances are projected to decline significantly. Declining interest is partially offset by projected increases in energy credit revenue over the forecast period.

Recurring subsidy revenue in the operating budget, which is primarily composed of sales tax revenues and federal formula funding, are projected to increase by an average of 2.2% from FY 2027 through FY 2030. This relatively low growth rate is primarily due to slow sales tax growth assumptions provided by SANDAG, particularly in FY 2027 and FY 2028 with TDA and TransNet expected to grow by an average of only 1.8% in FY 2027 and 2.7% in FY 2028, before returning to more normal growth trends in FY 2029 and beyond. This forecast also assumes federal revenues remain at FY 2026 levels throughout FY 2030 with zero projected growth due to the uncertainty regarding federal funding levels in the future.

Overall subsidy revenue in the operating budget, including both recurring and non-recurring sources, is projected to grow 26.1% in FY 2027, primarily due to shifting \$35.0 million from the capital budget as approved by the Board in February 2025, as well as including \$83.2 million in non-recurring SB 125 funding which will primarily be used to balance the structural deficit but also fund the recent service enhancements that are already in place. Total subsidy revenue is projected to grow by 4.0% in FY 2028, including the final approved shift of \$50.0 million from the capital budget to operations, and the projected usage of \$77.7 million in SB 125 funds to balance the structural deficit and keep implemented service enhancements in place. Without assuming any additional shifts from the capital budget to operations past FY 2028, subsidy revenue in the operating budget is projected to decrease -27.7% in FY 2029, reflecting the

decrease of \$50.0 million that was shifted from capital to operations in FY 2028 as well as the projected decrease of \$61.8 million in available SB 125 funding in FY 2029 as the final \$15.9 million is projected to be spent in FY 2029. The total subsidy is then expected to decrease by - 3.3% in FY 2030, due to having no SB 125 funds available since the entire balance of projected SB 125 awards will have already been depleted. It is worth noting that MTS has received approximately half of the \$237.3 million in planned SB 125 funds and is expecting two additional payments over multiple fiscal years. Any changes to the timing or the amount of these funds has the potential to significantly impact the MTS short-term financial outlook as these funds are being used to balance the operating budget until the anticipated fiscal cliff early in FY 2029.

Total recurring revenues, including operating revenues and recurring subsidy, are projected to grow by an average of 2.7% from FY 2027 through FY 2030. During that period, expenses are projected to grow by an average of 3.9%, primarily reflecting annual inflation and growth in labor costs, with no service additions or decreases included.

With projected expense growth exceeding projected growth in recurring revenues, the current five-year operating forecast includes projected structural deficits in each subsequent fiscal year, beginning with a structural deficit of \$118.4 million in FY 2027 and growing to \$145.9 million in FY 2030. Non-recurring revenues, in the form of one-time shifts from the capital to budget (\$25.0 million in FY 2026, \$35.0 million in FY 2027, and \$50.0 million in FY 2028) and SB 125 funding are projected to balance the operating budget through FY 2028. In the current forecast, MTS will hit the fiscal cliff early in FY 2029, with a projected revenue shortfall of \$120.1 million.

Outcomes of potential revenue increases (tax measure, TDA reform, additional SB 125 allocations, etc.) will ultimately determine the outlook of the MTS operating budget in the near-term and determine whether major service cuts, fare increases, etc. will be necessary as MTS prepares for the looming fiscal cliff. MTS is currently procuring the services of a consulting firm to conduct a COA to develop alternative strategic plans for either major service increases (if MTS secures a tax initiative) or major service reductions (if there are no significant revenue increases). The COA is expected to be completed by September 2026, prior to the November 2026 election. Upon determination of a potential tax measure, MTS would begin working on the implementation of service increases or decreases immediately with service changes being implemented as early as January 2027.

Attachments:

- A. MTS Operating Budget – Revenue Summary
- B. MTS Operating Budget – Consolidated Income Statement
- C. MTS Operating Budget – Five-Year Financial Projection