

# Discussion Memo

## TransNet Extension Ordinance Eligibility Requirements

Section 4(C)(5) states that a transit operator must limit the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one fiscal year to the next to no more than the increase in the Consumer Price Index (CPI) for San Diego County over the same period. The section also allows the operators to request approval from the Board of Directors to conform with the requirements by calculating the allowable increase as an average over the previous three years or to exclude certain costs from the calculation.

## Independent Taxpayer Oversight Committee (ITOC)

At the April 8, 2026, ITOC meeting, the committee recommended that the Board of Directors not approve the eligibility requests. In prior years, eligibility requests involving non-compliance by MTS or NCTD were approved as permitted by the ordinance, typically through averaging the prior three years' expenses or excluding certain costs due to unusual circumstances. Previous discussions have raised concerns regarding the frequency of operator non-compliance, which has increasingly resulted in eligibility requests being brought before the BOD. Bus cost increases have been above CPI in six out of the last 16 years and rail cost increases have been above CPI in 13 out of the last 16 years for one or both transit operators.

While there have been discussions about amending the ordinance procedures, no formal action has been taken. The ITOC requests that the BOD revisit potential amendments to this section of the TransNet Ordinance.

*Non-compliance of Operators Prior to Board Action Since 2010:*

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>MTS</b>								
	<b>Bus</b>	No	Yes	No	No	Yes	Yes	Yes
	<b>Rail</b>	Yes	Yes	No	No	Yes	No	No
<b>NCTD</b>								
	<b>Bus</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	<b>Rail</b>	Yes	Yes	No	No	No	No	Yes

		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
<b>MTS</b>										
	<b>Bus</b>	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
	<b>Rail</b>	No	No	Yes	No	Yes	Yes	No	No	No
<b>NCTD</b>										
	<b>Bus</b>	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
	<b>Rail</b>	Yes	No	No	No	No	Yes	No	No	No

\*"No" = not in compliance

## Metropolitan Transit System (MTS)

The draft FY 2025 TransNet fiscal and compliance audit report for the Metropolitan Transit System (MTS) includes the following finding:

The transit operator was not in compliance with the bus and rail operator eligibility requirements such that the increase in operating cost per revenue vehicle mile exceeded the increase in Consumer Price Index (CPI).

**Operating Cost per Revenue Vehicle Hour for Bus Services**

	<u>2025</u>	<u>2024</u>	<u>Growth Rate</u>
Operating cost for buses	\$257,461,511	\$233,388,143	
Revenue vehicle hours	2,125,893	2,029,103	
<b>Total operating cost per revenue vehicle hour</b>	<b>\$121.11</b>	<b>\$115.02</b>	<b>5.29%</b>
Consumer Price Index	306.027	295.089	3.71%

**Operating Cost per Revenue Vehicle Mile for Rail Services**

	<u>2025</u>	<u>2024</u>	<u>Growth Rate</u>
Operating cost for rail	\$149,967,146	\$136,226,744	
Revenue vehicle miles	12,265,920	12,156,157	
<b>Total operating cost per revenue vehicle mile</b>	<b>\$12.23</b>	<b>\$11.21</b>	<b>9.10%</b>
Consumer Price Index	306.027	295.089	3.71%

***Transit Operator Request***

Section 4(C) of the TransNet Ordinance states, in part:

“...To maintain eligibility for the receipt of funds under Section 4(C), a transit operator must limit the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one fiscal year to the next to no more than the increase in the Consumer Price Index for San Diego County over the same period...”

Additionally, Section 4(C)(5) of the TransNet Extension Ordinance and Expenditure Plan states, in part:

“...If there were unusual circumstances in a given year, the operator may request the approval of the Commission to calculate the requirement as an average over the previous three years. The operator may also request the approval of the Commission to exclude from the calculation certain cost increases that were due to external events entirely beyond the operator’s control, including, but not limited to, increases in the costs for fuel, insurance premiums, or new state or federal mandates.”

In accordance with Section 4(C)(5), MTS is requesting the eligibility requirement calculation excludes \$3.98 million in personnel expenses for the Bus Operations year over year increase of 3.71% (amount above the Transportation Index in the San Diego County CPI). Additionally, MTS is requesting the

eligibility requirement calculation to instead allow for the Rail Operations metric to shift to Train Hours for FY 2025. Both eligibility requirements are recalculated as follows:

Rail Services	FY25	FY24	FY23	FY22	3 Year Avg
CPI	306.027	295.089	286.586	291.916	
Operating Costs	149,967,146	136,226,744	128,237,421	104,704,575	
Total Train Hours	250,263	232,211	231,542	213,152	
Operating Costs per Revenue Vehicle Hour	599.24	586.65	553.84	491.22	
Increase (Decrease) in CPI	3.71%	2.97%	0.00%		2.22%
Increase (Decrease) in Ratio	2.15%	5.92%	12.75%		6.94%

Bus Services	FY25	FY24	FY23	FY22	3 Year Avg
CPI	306.027	295.089	286.586	291.916	
Operating Costs	253,482,765	233,388,143	215,732,636	201,589,171	
Total Revenue Vehicle Hours	2,125,893	2,029,103	1,880,383	2,013,662	
Operating Costs per Revenue Vehicle Hour	119.24	115.02	114.73	100.11	
Increase (Decrease) in CPI	3.71%	2.97%	0.00%		2.22%
Increase (Decrease) in Ratio	3.67%	0.25%	14.60%		6.17%

### Next Steps

Approval of this request by the Board of Directors would enable compliance with Section 4(C) of the Ordinance by allowing MTS to calculate the eligibility requirement excluding applicable cost increases as provided in Section 4(C)(5) of the TransNet Extension and Ordinance, which will then bring them into compliance.

Should the Board of Directors choose to not approve the request, then MTS would remain in non-compliance for FY 2025 and the operator may not receive any additional funding under Section 4(C) in the following year above the amount received in FY 2025 adjusted for any increase in the CPI for San Diego County.

As shown in the table below, the maximum amount MTS may receive in FY 2026 is \$48,094,424 if the Board of Directors does not approve the request. The estimated amount to be received is \$47,593,451, which is \$500,973 less than the maximum allowable amount.

MTS	FY25 Adjusted @		FY26 Estimate @	Difference
	FY25 TransNet Allocation	3.71% CPI Growth	~2.63% growth	
Pass/Ops/Cap	45,175,657	46,851,674	46,363,646	488,028
Sr & Disabled	1,198,293	1,242,750	1,229,805	12,945
<b>Total</b>	<b>46,373,950</b>	<b>48,094,424</b>	<b>47,593,451</b>	<b>500,973</b>

### North County Transit District (NCTD)

The draft FY 2025 TransNet fiscal and compliance audit report for the North County Transit District (NCTD) includes the following finding:

The transit operator was not in compliance with the bus and rail operator eligibility requirements such that the increase in operating cost per revenue vehicle mile exceeded the increase in Consumer Price Index (CPI).

**Operating Cost per Revenue Vehicle Hour for Bus Services**

	<u>2025</u>	<u>2024</u>	<u>Growth Rate</u>
Operating cost for buses	\$86,930,210	\$77,089,646	
Revenue vehicle hours	519,491	482,919	
Total operating cost per revenue vehicle hour	\$167.34	\$159.63	4.83%
Consumer Price Index	306.027	295.089	3.71%

**Operating Cost per Revenue Vehicle Mile for Rail Services**

	<u>2025</u>	<u>2024</u>	<u>Growth Rate</u>
Operating cost for rail	\$76,751,983	\$71,253,669	
Revenue vehicle miles	898,902	912,513	
Total operating cost per revenue vehicle mile	\$85.38	\$78.09	9.34%
Consumer Price Index	306.027	295.089	3.71%

***Transit Operator Request***

Section 4(C) of the TransNet Ordinance states, in part:

“...To maintain eligibility for the receipt of funds under Section 4(C), a transit operator must limit the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one fiscal year to the next to no more than the increase in the Consumer Price Index for San Diego County over the same period...”

Additionally, Section 4(C)(5) of the TransNet Extension Ordinance and Expenditure Plan states, in part:

“...If there were unusual circumstances in a given year, the operator may request the approval of the Commission to calculate the requirement as an average over the previous three years. The operator may also request the approval of the Commission to exclude from the calculation certain cost increases that were due to external events entirely beyond the operator’s control, including, but not limited to, increases in the costs for fuel, insurance premiums, or new state or federal mandates.”

In accordance with Section 4(C)(5), NCTD is requesting to exclude cost increases of \$5.9 million and \$4.2 million for the bus and rail operations eligibility requirements, respectively, as follows:

	<u>2025</u>	<u>2024</u>
Transportation CPI (San Diego County)	306.027	295.089
Change in CPI	3.71%	
Bus operating costs	\$81,407,790	\$73,429,201
Revenue vehicle hours	519,491	482,918
Ratio	\$156.71	\$152.05
Change in ratio	3.06%	
	<u>2025</u>	<u>2024</u>
Transportation CPI (San Diego County)	306.027	295.089
Change in CPI	3.71%	
Rail operating costs	\$73,180,508	\$72,022,138
Revenue vehicle miles	898,902	912,513
Ratio	\$81.41	\$78.93
Change in ratio	3.15%	

### Next Steps

Approval of this request by the Board of Directors would enable compliance with Section 4(C) of the Ordinance by allowing NCTD to calculate the eligibility requirement excluding applicable cost increases as provided in Section 4(C)(5) of the TransNet Extension and Ordinance, which will then bring them into compliance.

Should the Board of Directors choose to not approve the request, then NCTD would remain in non-compliance for FY 2025 and the operator may not receive any additional funding under Section 4(C) in the following year above the amount received in FY 2025 adjusted for any increase in the CPI for San Diego County.

As shown in the table below, the maximum amount NCTD may receive in FY 2026 is \$19,676,846 if the Board of Directors does not approve the request. The estimated amount to be received is \$19,168,987 which is \$507,859 less than the maximum allowable amount.

NCTD	FY25 TransNet Allocation	FY25 Adjusted @ 3.71% CPI Growth	FY26 Estimate @ ~2.63% growth	Difference
Pass/Ops/Cap	18,482,692	19,168,400	18,673,664	494,736
Sr & Disabled	490,257	508,446	495,323	13,123
<b>Total</b>	<b>18,972,950</b>	<b>19,676,846</b>	<b>19,168,987</b>	<b>507,859</b>