



ADMINISTRATION & FINANCE COMMITTEE

Thursday, February 16, 2006

MINUTES

1. CALL TO ORDER

The Regular Meeting of the Administration and Finance Committee (A&F) was called to order at 12:05 p.m. by Chairperson Williams in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

ROLL CALL

Members Present

Don Gage
Madison Nguyen
Forrest Williams, Chairperson

Members Absent

Breene Kerr

Alternates Present

Jamie Matthews

Alternates Absent

Pete McHugh
Ken Yeager

* Alternates do not serve unless participating as a Member.

A quorum was present.

2. ADJOURN TO CLOSED SESSION at 12:06 p.m.

Conference with Labor Negotiators
[Government Code Section 54957.6]

Employee Organizations:

Amalgamated Transit Union (ATU)

Agency Designated Representatives:

Matthew O. Tucker, Chief Operating Officer
Robert Escobar, Manager, Office of Employee Relations

Alternate Board Member Matthews arrived at the Meeting
and entered Closed Session at 12:08 p.m.

RECONVENE TO OPEN SESSION at 12:25 p.m.

3. CLOSED SESSION REPORT

Conference with Labor Negotiators
[Government Code Section 54957.6]

Employee Organizations:

Amalgamated Transit Union (ATU)

Agency Designated Representatives:

Matthew O. Tucker, Chief Operating Officer
Robert Escobar, Manager, Office of Employee Relations

There was no reportable action taken during Closed Session.

4. PUBLIC PRESENTATIONS

There were no Public Presentations.

5. ORDERS OF THE DAY

Chairperson Williams requested Agenda Item # 8., Report on Santa Clara Valley Transportation Authority Investments for the Month of December and quarter ending December 2005 be removed from the Consent Agenda and placed on the Regular Agenda.

M/S/C (Gage/Matthews) to accept the Orders of the Day.

CONSENT AGENDA

6. Regular Meeting Minutes of December 15, 2005

M/S/C (Gage/Matthews) to approve the Regular Meeting Minutes of December 15, 2005.

7. Regular Meeting Minutes of January 19, 2006

M/S/C (Gage/Matthews) to approve the Regular Meeting Minutes of January 19, 2006.

8. (Removed from the Consent Agenda and placed on the Regular Agenda.)

Report on Santa Clara Valley Transportation Authority Investments for the Month of December and quarter ending December 2005.

9. Quarterly Purchasing Report

M/S/C (Gage/Matthews) to review the Quarterly Purchasing Report.

NOTE: M/S/C MEANS MOTION SECONDED AND CARRIED AND, UNLESS OTHERWISE INDICATED, THE MOTION PASSED UNANIMOUSLY.

10. Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR)

M/S/C (Gage/Matthews) to review the Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR).

11. Monthly Legislative Report for January 2006

M/S/C (Gage/Matthews) to review the Monthly Legislative Report for January 2006.

12. Second Quarter FY 2006 Report of Public Liability/Property Damage and Owner Controlled Insurance Program (OCIP) Claims Activity

M/S/C (Gage/Matthews) to review the Second Quarter FY 2006 Report of Public Liability/Property Damage and Owner Controlled Insurance Program (OCIP) Claims Activity.

13. Second Quarter FY 2006 Report of Workers' Compensation Claims, Transitional Work Program and Owner Controlled Insurance Program (OCIP) Claims Activity

M/S/C (Gage/Matthews) to review Second Quarter FY 2006 Report of Workers' Compensation Claims, Transitional Work Program and Owner Controlled Insurance Program (OCIP) Claims Activity.

The Agenda was taken out of order.

REGULAR AGENDA

8. Report on Santa Clara Valley Transportation Authority Investments for the Month of December and quarter ending December 2005

Roger Contreras, Chief Financial Officer, provided a brief overview of the Report on Santa Clara Valley Transportation Authority Investments for the Month of December and quarter ending December 2005. Mr. Contreras stated that the U.S. Department of Commerce has reported an annual growth of 3.5 percent in the Gross Domestic Product (GDP). Mr. Contreras continued that the total number of wage and salary jobs between November and December 2005 fell by 980 in Santa Clara County. Mr. Contreras noted that the County experienced an increase on wage and salary jobs of 2,842 in the calendar year 2005.

Mr. Contreras commented that the VTA/ATU Pension Plan Portfolio's year to date performance has a total gain of 7.2 percent of its total market value compared to the composite benchmark gain of 5.9 percent.

Mr. Contreras directed attention to Santa Clara Valley Transportation Authority Investment Programs, Slide 2 - Investment Program Objectives, noting that the primary objectives are Safety, Liquidity, and Return on Investment. Mr. Contreras stated that a

great emphasis is placed on return on investment but a greater emphasis is on safety by investing in quality and the liquidity has to be above the rate of returns.

Mr. Contreras referenced Slide 3 – Total VTA Composite Investment Portfolio December 2005 Breakdown by Fund – Book Value (in millions), noting VTA’s Total Investment Program Funds of \$637 million. The restricted and unrestricted group of funds are \$173 million, which are set aside for matching of grants and include operating reserves; \$99 million is for other VTA Bond funds with fiscal agents for bond proceeds that are remaining to be spent while they are idle; \$279 million for ATU Pension Funds; \$74 million for Retiree Health; and \$11 million for Spousal Medical, which is assigned to pay for spouse medical coverage.

Mr. Contreras referenced Slide 4 – VTA/ATU Pension Plan Investment Portfolio December 2005 Breakdown by Fund – Book Value (in millions), noting that VTA’s total pension plan investment program funds of \$279 million, which is the composition of the investment managers that manages VTA’s Pension Portfolio.

Board Member Gage asked what is the return on the investment. Mr. Contreras responded that for the year 2005, it was 7.2 percent. Board Member Gage asked if the 7.2 percent was across the board. Mr. Contreras responded that the 7.2 percent is a weighted average for the pension plan.

Mr. Contreras referenced Slide 5 - Investment Benchmarks, noting the importance to measure successes by assigning a benchmark against the money manager, which is designed to mimic the performance of the portfolio. Mr. Contreras stated the following money managers and benchmarks for the ATU Pension Plan are: Dodge & Cox benchmarked against Lehman Brothers Aggregate Bond Index, Boston Partners benchmarked against Standard & Poors 500, Brandywine benchmarked against Russell 2000 Value, State Street benchmarked against Standard & Poors 500, and Fidelity Investments benchmarked against Morgan Stanley Capital International and Europe, Australia and Far East (MSCI, EAFE). The operating money manager is Payden & Rygel – Restricted Funds and Unrestricted Funds benchmarked against Lehman Brothers Intermediate Government Bond Index and Institutional Money Market Fund Index. Mr. Contreras noted that the benchmarks for Retiree Health (S&P 500) and Spousal Medical Trust Funds (Dodge & Cox) are the same as in the ATU Pension Plan.

Mr. Contreras referenced Slide 6 – VTA Money Managers Performance Restricted and Cash Reserves vs. Benchmarks, noting that Payden & Regal did not outperform the benchmark for the inception to date or five years for Restricted and Cash Reserves. Mr. Contreras reported that for 2005 the investment return was 3 percent and the benchmark was 2.7 percent.

Mr. Contreras referenced Slide 7 – ATU Money Managers Performance ATU Composite vs. Benchmarks, noting that VTA’s ATU Money Managers has out performed the benchmark on both inception to date and five-year. VTA’s ATU Money Managers has out performed the inception to date by 25 percent and the five-year by more than 10 percent, which is very good since the five-year average is 9.5 percent.

Board Member Nguyen referenced Slide 3 – Total VTA Composite Investment Portfolio December 2005 Breakdown by Fund – Book Value (in millions) and queried about what portion is the unrestricted and restricted. Mr. Contreras responded that the unrestricted is \$81 million and the restricted is \$92 million.

Chairperson Williams expressed appreciation to Mr. Contreras for the Investment Programs report. Chairperson Williams stressed the importance of receiving the Investment Program Information since it relates to individuals that have a vested interest in ensuring the availability of resources for when they retire. Chairperson Williams continued that the Committee and VTA have a fiduciary responsibility to manage VTA's investment funds and provide for employee retirement.

Board Member Gage asked how frequently the Investment Program Report will be presented to the Committee. Chairperson Williams responded that the Committee will receive the Investment Program Report once a quarter.

Chairperson Williams introduced and welcomed Board Member Madison Nguyen to the A&F Committee. Chairperson Williams stated that Board Member Nguyen represents District 7 as City Council Member for the City of San Jose.

Board Member Nguyen expressed appreciation and thanked the Committee for the opportunity to attend and participate in the A&F Committee Meeting.

M/S/C (Gage/Nguyen) to review the Report on Santa Clara Valley Transportation Authority Investments for the Month of December and quarter ending December 2005.

14. Consider Responses to Questions on VTA Scenario posed at Board of Directors' Workshop Meeting of January 27, 2006

Michael T. Burns, General Manager, provided a brief overview of the report, "Consider Responses to Questions on VTA Scenario posed at Board of Directors' Workshop Meeting of January 27, 2006". Mr. Burns stated that the responses were provided in a booklet format to the Board Members last week. Mr. Burns directed attention to the Expenditure Plan – Workshop Responses, a five-page handout summary format with highlights and commented on Section 1: Chronology – VTA Scenario, noting that staff has worked on the scenario for the last two years to develop an Expenditure Plan.

Mr. Burns continued that in June 2005, the Board reviewed four scenarios and requested a new scenario based on assumptions set forth in a letter received by the City of San Jose regarding changes to projects and timeframes as well as the structure of additional projects to be included in the Expenditure Plan. In September 2005, three scenarios were reviewed and staff was directed to proceed with one scenario, which contained several provisions, such as a 30-year tax, ¼ cent sales tax, BART by 2018, and Dumbarton by 2011. In December 2005, the Board considered a modified scenario that included the Airport People Mover (APM) based on responses from the September 2005 scenario. At that time the City of San Jose forwarded recommendations from their City Council so the Board agreed to defer action of the Expenditure Plan pending full public review of the plan. Staff updated the scenario using the new sales tax projections received from the Center for Continuing Study of the California Economy (CCSCE). As a result of the

new projections, all projects were moved into the initial program. During January and February 2006, staff worked through the Advisory and Standing Committees, Stakeholder Groups, and Municipalities to review the Expenditure Plan. At the January 27, 2006 Board of Directors Workshop, additional information was requested by the Board so action on the Expenditure Plan was deferred to the March 2, 2006 Board Meeting.

Mr. Burns referenced Section 2: Cost Projections, noting that this follows up on the discussion regarding the labor cost assumptions in VTA Scenario that were used in the Expenditure Plan. Mr. Burns commented that the wage and benefit assumptions are 3.5 percent, inflation rate is 3 percent, and construction cost is 3.5 percent. Mr. Burns stated that staff used operator wages since they are the largest component of VTA's workforce and is 3.56 percent over the 10-year period. Mr. Burns noted that staff is working on the information regarding benefits, and more information would be forwarded to the Board Members before the March 2, 2006 Board Meeting. The consumer price index is 3 percent, which is the historical experience and matches with VTA's inflation rate. Staff used the 10-year construction cost for averaging the building cost index of 3 percent, construction cost index of 2.6 percent, and construction cost inflation factor of 3.5 percent.

Mr. Burns stated that staff was directed to look at other sources regarding the projections of sales tax growth. Staff looked at the State Board of Equalization, Association of Bay Area Governments (ABAG), and the California Office of Transportation Economics projections, which all forecast solid sales tax growth averaging the numbers that VTA has. The projections from the other sources all generally support or concur with the new projections by the CCSCE.

Mr. Burns referenced Section 3: Summary of Scenarios, noting that staff was directed to run different scenarios using the new projections. The first scenario is the December 23, 2005 VTA Recommended Scenario, which has an initial program balance of \$537 million with all the projects in the initial program and maintains VTA's Reserves at 15 percent. The second scenario uses a conservative projection from the CCSCE, which has an initial program balance of \$94 million with projects in the completion plan and maintains VTA's Reserves at 15 percent. Staff was asked if VTA could deliver the Expenditure Plan without having a new sales tax so staff prepared two scenarios: one with the new projects and one without the new projects. Mr. Burns noted that the new projects are the following: Bus Rapid Transit (BRT) in Sunnyvale/Cupertino, Pavement Management Program, Senior/Disabled Program, and an increase in service from 12 to 24 percent. The third scenario is no sales tax with the new projects, which has a deficit of \$2.9 billion for the initial program balance with projects in the completion plan and depletes VTA's Reserves by 2027. The fourth scenario is no sales tax without new projects, which has a deficit of \$1.4 billion for the initial program balance and depletes VTA's Reserves by 2028. Mr. Burns stated that the Expenditure Plan if constructed today could not be delivered without a new sales tax.

Board Member Gage asked if staff had a breakdown of what percentage of bus and light rail service will be cut. Mr. Burns referenced Page 5, Section 4: Other Issues, noting that the issue to preserve existing service was raised at the January 27, 2006 Board of

Directors Workshop Meeting. Mr. Burns stated that the VTA Recommended Scenario can preserve existing service and increase service by 24 percent by 2020. Mr. Burns noted that VTA can preserve existing service and increase service to 12 percent without the ¼ cent sales tax and without new projects. Mr. Burns stated that without the ¼ cent sales tax and with new projects VTA can barely maintain the existing service and will not have any increase in service.

Board Member Gage asked if this includes operations and maintenance. Mr. Burns responded “yes” and over the next 30 years VTA is basically tapped at its service levels.

Board Member Gage noted that this actually represents reductions in service since there will be more people and less service if projected out to 2030.

Mr. Burns commented that the second item that came up from the South County representative was to include specific project descriptions for expressway and major arterials in the Pavement Management Program. Staff recommendation is that the Technical Advisory Committee (TAC) establish the priorities for the Pavement Management allocation of funds.

Mr. Burns commented that the third item was that staff was directed to look was Caltrain Grade Separations from the north end of the County line to Tamien Station. Staff has identified ten grade crossings in the section and used the work performed for the City of Mountain View on the Rengstorff Avenue crossing as a basis to conduct the estimates. VTA’s calculations to complete the ten grade crossings will cost \$400 million in 2004 dollars, which is an estimate to grade separate all of the ten grade crossings from the County line to Tamien Station. The grade crossing estimates do not include pedestrian grade crossings or overpass, which would be an addition to the \$400 million for the grade crossings. Mr. Burns noted that the primary purpose of grade separations is for safety and the second benefit is to improve traffic flow.

Board Member Gage stressed the importance of prioritizing the list of ten grade separations. Mr. Collins responded that the grade separations are not part of the Expenditure Plan proposals.

Board Member Gage stated that he understands that the grade crossings are not part of the Expenditure Plan but emphasized the importance to prioritize the list of grade separations when they are worked on. Mr. Burns responded that the grade separations are not part of the Expenditure Plan by definition but there are Caltrain Improvements that are undefined as part of the Expenditure Plan. Mr. Burns noted that the funding from the Caltrain Improvements could be utilized to complete some of the grade separations.

Mr. Burns commented that the last item staff was directed to look at was a hybrid of the Single Car Light Rail for the Santa Clara/Alum Rock Corridor and staff will forward the information to the March 2, 2006 Downtown East Valley (DTEV) Policy Advisory Board (PAB) Meeting.

Mr. Burns referenced Section 5: Ad-Hoc Financial Stability Committee, noting the important work conducted by the Ad-Hoc Financial Stability Committee. Mr. Burns

commented on the following Ad-Hoc Financial Stability Committee findings and recommendations: operating deficits are expected to continue; VTA must urgently address the need to increase revenues and reduce expenses, maximize current revenue sources for operations, pursue limited expansion of sales tax base, pursue joint development opportunities aggressively, and a provision that VTA consider an advisory ballot measure for setting Measure A Project priorities if no new revenue sources are approved by December 2006. Mr. Burns noted that staff will provide the Board Members more information regarding benefits.

Chairperson Williams queried about the next steps. Mr. Burns responded that the intent was to provide the Board Members with the information requested to assist with moving closer to some consensus regarding to the Expenditure Plan.

Board Member Gage queried about the timing and when the Board has to take action on the plan. Mr. Burns responded that staff should be given some decision to move forward with the Expenditure Plan at the March 2, 2006 Board of Directors Meeting. Mr. Burns continued that a separate agenda item will provide information and open discussion regarding sales tax options.

Board Member Gage stressed the importance for Board Members to have opportunities to discuss and negotiate to arrive at a final plan since some cities feel that they are not getting their fair share in terms of the Expenditure Plan. Mr. Burns responded that the March 2, 2006 Board Agenda will allow adequate time for Board discussion as it relates to the Expenditure Plan.

Chairperson Williams noted the importance for staff to provide information and address concerns raised by the Board of Directors. Chairperson Williams expressed appreciation to staff for their diligent work and effort to provide information requested by the Board of Directors.

On order of Chairperson Williams, there being no objection, the Committee accepted the report on the “Consider Responses to Questions on VTA Scenario posed at Board of Directors’ Workshop Meeting of January 27, 2006.”

15. SAP Hardware Replacement

George Barlow, Chief Technology Officer, provided a brief overview of the SAP Hardware Replacement. Mr. Barlow commented that in April 1998, VTA entered into a contract with Digital Computer Corporation for the purchase and installation of servers and data storage to support VTA’s Enterprise Resource Planning (ERP) system, SAP. Mr. Barlow stated that SAP is VTA’s main financial system and core business process. Mr. Barlow continued that VTA’s ERP hardware is aging to the point that it is in need for replacement and the hardware technology is becoming obsolete. Mr. Barlow stressed the need to replace the hardware and move from the alpha chip technology before it fails.

Mr. Barlow continued that a Request for Proposal (RFP) for hardware and software was issued on September 2005. VTA received proposals from five firms in November 2005. Mr. Barlow commented that after careful evaluation of the five proposals staff determined that the Hewlett Packard (HP) hardware offered by WinVision, Inc. and

CompuCom were the best choices for VTA. Mr. Barlow stated that implementing HP hardware will provide VTA the advantages of reduced costs, reduced training needs, and simpler system management tasks. Mr. Barlow commented that VTA's review team evaluated the proposals and WinVision, Inc. was determined to be non-responsive and did not meet many of the basic requirements of the RFP. Mr. Barlow continued that WinVision, Inc. was unable to demonstrate knowledge and experience in the SAP Migration area.

Mr. Barlow noted that CompuCom demonstrated extensive experience with SAP installations and has a team of competent SAP consultants that demonstrate extensive knowledge in the work that VTA is requesting. Mr. Barlow commented that the Committee reviewed and approved the contract previously in December 2005 but was delayed due to negotiation details within the contract. Mr. Barlow stated that with the contract negotiations completed staff recommends approval of the contract award to CompuCom.

M/S/C (Gage/Nguyen) to approve submitting a recommendation to the Board of Directors to authorize the General Manager to enter into a contract with CompuCom Systems, Inc. to purchase server hardware, installation services, migration services, and maintenance services in the amount of \$1,951,092.

16. Local Assistance Contribution Agreement with Caltrans for the State Route 152 Truck Climbing Lane Project

John Ristow, Programming and Project Development Deputy Director, provided a brief overview of the Local Assistance Contribution Agreement with Caltrans for the State Route 152 Truck Climbing Lane Project. Mr. Ristow commented that in the agreement VTA is acting as the funding agency and Caltrans is acting as the implementing agency of the project. Mr. Ristow continued that VTA has previously approved funding for this project through its share of the State Transportation Improvement Program (STIP) funds and recently Caltrans has asked for additional funding for the project. Mr. Ristow noted that VTA was able to satisfy the request by utilizing existing federal earmarks that were allocated for the State Route 152 Corridor to move the funding over to the Caltrans project. Mr. Ristow stated that Caltrans is ready to move the project into construction so the agreement with the funding agency is required to access the funding for the project. Mr. Ristow stated the recommendation to authorize the General Manager to execute a Local Assistance Contribution Agreement with Caltrans for the project.

Chairperson Williams asked why Caltrans did not seek the additional funds from the federal government but instead asked VTA for the additional funds. Mr. Ristow responded that VTA as the Congestion Management Agency (CMA) is responsible for funding projects on the State highway system. Mr. Ristow continued that VTA coordinated the reprogramming of existing federal earmark funding from the State Route 152 Corridor to the Caltrans Truck Climbing Lane Project.

Mr. Burns commented that VTA has reached an agreement with Caltrans to allow VTA to manage the 152/156 Interchange Project. Board Member Gage expressed his support and appreciation that VTA will manage the 152/156 Interchange Project.

M/S/C (Gage/Matthews) to approve submitting a recommendation to the Board of Directors to authorize the General Manager to execute a Local Assistance Contribution Agreement with Caltrans for the State Route 152 Truck Climbing Lane Project.

OTHER ITEMS

17. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

18. Committee Work Plan

On order of Chairperson Williams, there being no objection, the Committee reviewed the Committee Work Plan.

19. Committee Staff Report

Jim Lawson, Government Affairs Manager and Administration and Finance Committee Liaison, noted that the Mid-year Budget will be delayed until the April/May timeframe. Mr. Lawson commented on VTA's recognition of Black History Month and the dedication of VTA Historic Coach #6512 as the Rosa Parks Memorial Bus Event took place on Wednesday, February 15, 2006 in front of the Martin Luther King, Jr. Library in Downtown San Jose. A diversity celebration at VTA River Oaks Campus followed the dedication ceremony for the Rosa Parks Memorial Bus.

20. Chairperson's Report

Chairperson Williams noted that the Capitol Corridor Joint Powers Board (CCJPB) Meeting in Sacramento was held on Wednesday, February 15, 2006. Chairperson Williams commented on the Capitol Corridor double tracking work from Oakland to San Jose moving ahead, which will increase the returns and ridership. Chairperson Williams expressed appreciation to the CCJPB for doing a great job and encouraged everyone to ride the Capitol Corridor. Chairperson Williams expressed appreciation and thanked staff for their diligent work, effort, and assistance regarding the organization and to VTA Board of Directors.

21. Determine Consent Agenda for the March 2, 2006 Board Meeting

CONSENT: Agenda Item # 15., Authorize the General Manager to enter into a contract with CompuCom Systems, Inc. to purchase server hardware, installation services, migration services, and maintenance services in the amount of \$1,951,092 and **Agenda Item # 16.**, Authorize the General Manager to execute a Local Assistance Contribution Agreement with Caltrans for the State Route 152 Truck Climbing Lane Project.

REGULAR: Agenda Item # 14., Consider Responses to Questions on VTA Scenario posed at Board of Directors' Workshop Meeting of January 27, 2006.

22. Announcements

There were no Announcements.

23. ADJOURNMENT

On order of Chairperson Williams, there being no objection, the meeting was adjourned at 1:19 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant
VTA Board of Directors