

ADMINISTRATION & FINANCE COMMITTEE

Thursday, December 21, 2006

MINUTES

1. CALL TO ORDER

The Regular Meeting of the Administration and Finance Committee (A&F) was called to order at 12:25 p.m. by Chairperson Williams in Room B-104, VTA River Oaks Campus, 3331 North First Street, San Jose, California.

ROLL CALL

Members Present

Don Gage
Forrest Williams, Chairperson

Members Absent

Breene Kerr, Vice Chairperson
Madison Nguyen

Alternates Present

None

Alternates Absent

Pete McHugh
Ken Yeager

* Alternates do not serve unless participating as a Member.

A quorum was not present and a Committee of the Whole was declared.

Chairperson Williams noted that the Committee of the Whole could not vote or take action on the agenda items but the items would be discussed then forwarded the items to the Board of Directors for consideration at the January 4, 2007 Meeting.

The Agenda was taken out of Order.

2. (Placed towards the end of the A&F Committee Meeting Agenda.)

CLOSED SESSION

Conference with Labor Negotiators
[Government Code Section 54957.6]

VTA Designated Representatives:

Roger Contreras, Chief Financial Officer
Bill Lopez, Chief Administrative Officer
Robert Escobar, Manager, Office of Employee Relations

Employee Organization:

American Federation of State, County, and Municipal Employees (AFSCME)

RECONVENE TO OPEN SESSION

3. **(Placed towards the end of the A&F Committee Meeting Agenda.)**

CLOSED SESSION REPORT

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4. **PUBLIC PRESENTATIONS**

There were no Public Presentations.

5. **ORDERS OF THE DAY**

Chairperson Williams requested that the following Agenda Items be placed towards the end of the Agenda: **Agenda Item # 2.**, Closed Session and **Agenda Item # 3.**, Closed Session Report.

Chairperson Williams requested that the following Agenda Item be removed from the Consent Agenda and placed on the Regular Agenda: **Agenda Item # 7.**, Report on Santa Clara Valley Transportation Authority Investments for the Month of October 2006.

Chairperson Williams requested that the following Agenda Item be deferred to the January 18, 2006 A&F Committee Meeting: **Agenda Item # 14.**, Modify the criteria used to evaluate and select projects for the Transportation Fund for Clean Air Program Manager Fund.

On order of Chairperson Williams, there being no objection, the Committee of the Whole accepted the Orders of the Day.

CONSENT AGENDA

6. **Regular Meeting Minutes of November 16, 2006**

On order of Chairperson Williams, there being no objection, the Committee of the Whole deferred the Regular Meeting Minutes of November 16, 2006.

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

Report on Santa Clara Valley Transportation Authority Investments for the month of October 2006.

8. 2006 Year-End Attendance Report

On order of Chairperson Williams, there being no objection, the Committee of the Whole received the 2006 Year-End Attendance Report for the VTA Board of Directors, Board Standing Committees, and Board Advisory Committees.

9. 2007 Administration and Finance Committee (A&F) Meeting Schedule

On order of Chairperson Williams, there being no objection, the Committee of the Whole deferred the 2007 Administration and Finance Committee Meeting Schedule.

REGULAR AGENDA

7. Report on Santa Clara Valley Transportation Authority Investments for the month of October 2006

Roger Contreras, Chief Financial Officer, provided a brief overview of the Report on Santa Clara Valley Transportation Authority Investments for the month of October 2006. Mr. Contreras reported that VTA's restricted portfolio gained .46 percent and unrestricted portfolio cash reserve added .44 percent to the total market return for the month of October 2006. VTA's restricted funds year to date yielded 3.34 percent and unrestricted cash reserve year to date yielded 4.08 percent.

Mr. Contreras reported that VTA's Pension Plan portfolio return gained 2.7 percent for the month of October, which equals the October Benchmark return. Year to date, VTA's Pension Plan portfolio has gained 10.7 percent of its total market value compound to the benchmark calendar year to date of 12 percent. Mr. Contreras stated that VTA has exceeded its Pension Plan annual return goal of eight percent.

Mr. Contreras reported that Fidelity Management Trust Company has changed its name to Pyramis Global Advisors Trust Company effective October 1, 2006. Pyramis has informed VTA that London based European equity portfolio manager, James Rutherford would leave at the end of 2006. Pyramis would replace Mr. Rutherford with two managers.

Mr. Contreras stated that as a result of the changes to Pyramis, Mercer Investment Consulting has downgraded Pyramis rating from A minus to B since the replacement managers do not have the same level of experience as James Rutherford. Mr. Contreras commented that the B rating is the lowest in the rating system. Mercer Investment Consulting has recommended to terminate Pyramis and for VTA to seek a new investment manager. Therefore, staff has started the interview process for a new investment manager. Staff's decision to terminate Pyramis is to prevent problems that may occur later in the future.

Mr. Contreras reported that VTA has increased the Retiree Health Care Program by 2.3 percent, while the composite benchmark increased 2.2 percent of its market value. The Retiree Health Care program has an annual return goal of 7 percent with the year to

date portfolio performance increase of 9.2 percent of its total market value, which is above the composite benchmark increase of 8.8 percent.

Chairperson Williams asked if there was an immediate concern with VTA's Pension Plan Portfolio investment manager. Mr. Contreras responded that staff does not have immediate concerns but noted that staff would continue to monitor future developments.

On order of Chairperson Williams, there being no objection, the Committee of the Whole reviewed the Report on Santa Clara Valley Transportation Authority Investments for the month of October 2006.

10. 2007 State Legislative Program

Kurt Evans, Government Affairs Manager, provided a brief overview of the 2007 State Legislative Program. Mr. Evans commented that the VTA Board of Directors annually adopts a State Legislative Program to provide direction for its legislative and policy activities in Sacramento. Mr. Evans continued that the 2007 State Legislative Program is divided into the following 12 sections: 1) Infrastructure Bonds, 2) Existing Transportation Funding Sources, 3) Future Transportation Investments, 4) Project Delivery, 5) California Public Utilities Commission (CPUC), 6) State Transportation Improvement Program, 7) High-Speed Rail, 8) Multimodalism, 9) Transit-Oriented Development (TOD), 10) Transportation and Social Equity, 11) Transportation and the Environment, and 12) Sponsored Bills.

Mr. Evans reported that VTA will monitor the development of bills related to Infrastructure Bonds and the implementation of Proposition 1B. These bills would layout the financial strategy for the distribution of the bonds proceeds among the various program categories. Mr. Evans stated that Proposition 1B was approved by the voters on the November 7, 2006 ballot and authorizes the State to sell \$19.925 billion in general obligation bonds over the next ten years to fund the following transportation purposes: Congestion Reduction, Highway Improvements, and Local Roads; Public Transportation; Goods Movement; Air Quality; and Safety and Security. Mr. Evans commented that 13 different program categories would receive funding under Proposition 1B.

Mr. Evans commented that implementation of Proposition 1B involve following three different arenas: the California Transportation Commission (CTC), the FY 2008 State Budget Process, and the Legislature.

Mr. Evans commented that VTA must remain vigilant in protecting transportation funding. Mr. Evans referenced Proposition 1A, which limits the ability of the Governor and the California State Legislature to use Proposition 42 funds for non-transportation purposes. Mr. Evans commented that Proposition 1A: 1) allows suspension of Proposition 42, but considers a suspension as a loan that requires repayment within three years, 2) allows Proposition 42 suspensions to occur only twice in any ten consecutive fiscal years, 3) prohibits a second suspension until the first loan has been repaid in full, and 4) provides a constitutional guarantee to repay all prior year Proposition 42 loans to the General Fund.

Mr. Evans stated that Proposition 1A does not completely protect against the possible diversion of Proposition 42 gasoline sales tax revenue spillover funds to non-transportation purposes.

Mr. Evans commented on Project Delivery, noting that VTA supports legislative proposals and policies that: 1) enhance the ability of local project sponsors and Caltrans to effectively manage and expedite project delivery, 2) allow local transportation entities to engage in public-private partnerships to deliver transportation projects, 3) preserve and expand the ability of project sponsors to utilize the design-build method of contracting for transportation projects.

Mr. Evans commented that VTA has historically supported the concept of a high-speed rail line connecting Northern and Southern California as a way to relieve highway and air traffic congestion between the Bay Area and Los Angeles. VTA partnered with four other organizations to establish the Silicon Valley High-Speed Rail Coalition to advocate for high-speed rail and for a Pacheco Pass alignment into the Bay Area.

Mr. Evans stated that VTA would continue to participate in the Silicon Valley High-Speed Rail Coalition to: 1) support full funding for the activities of the California High-Speed Rail Authority in the FY 2008 State budget, 2) support moving forward with the high-speed rail bond ballot measure in November 2008, and 3) advocate for a southern alignment into the Bay Area for high-speed rail with a preference for an environmentally sensitive route through the Pacheco Pass that does not negatively impact Henry Coe State Park.

Mr. Evans stated that VTA would seek to sponsor or co-sponsor the following measures: 1) partnering with the Santa Cruz Metropolitan Transit District and other interested public transit operators on legislation to re-institute the Yield-to-Buses Demonstration Program, and 2) amending VTA's High-Occupancy Toll (HOT) lane enabling statutes to allow VTA to issue bonds backed by revenues generated by the HOT lanes that are implemented in Santa Clara County, and allow VTA to enter into public-private partnerships for the implementation of HOT lanes in Santa Clara County.

Chairperson Williams inquired about the rates to use the HOT lane. John Ristow, Programming and Project Development Deputy Director, responded that VTA is a joint power in the I-680 Sunol Grade HOT lane project, which considers capping the rate to \$8 per trip. The rate will depend on the demand. If participation is high the price will go up. If participation is low the price will drop.

Mr. Evans continued that VTA would seek to sponsor or co-sponsor the following measures: 3) partnering with the Orange County Transportation Authority on legislation to clarify the process for reimbursing local agencies that use the "pre-award authority" mechanism in existing law to advance their own dollars to jump-start their State Transportation Improvement Program (STIP) projects, and 4) amending VTA's enabling statutes to allow VTA to impose local transportation sales taxes in one-eighth cent increments versus quarter-cent increments.

Chairperson Williams queried about the funding distribution to the 13 different program categories in Proposition 1B. Mr. Evans responded that under Proposition 1B the method

for distributing bond revenues to the individual program categories varies. The intent under the bond legislation is for the CTC to adopt an initial program of projects by March 1, 2008. The Regional Agencies will submit project lists to the CTC. The nine county regions in the Bay Area will submit project lists to the Metropolitan Transportation Commission (MTC). The CTC will receive project lists from Caltrans and MTC for the nine county regions in the Bay Area.

Chairperson Williams stressed the importance for VTA to have a strategy in place to ensure that VTA receives its fair share of the funds for projects.

Board Member Gage stated that part of the problem is that VTA does not have enough representation on MTC.

Jim Lawson, Government Affairs Manager and Staff Liaison, responded that staff is currently working with Ken Yeager, Santa Clara County Board of Supervisor, and John McLemore, Cities Association representative, regarding VTA's representation on MTC. Mr. Lawson stated that staff would continue to provide updates to the Committee.

On order of Chairperson Williams, there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to approve the 2007 State Legislative Program for the Santa Clara Valley Transportation Authority (VTA).

11. **Amendment No. 10 of the County 1996 Measure B Master Agreement for Caltrain projects and Authority for the General Manager to Amend a Cooperative Agreement with the Peninsula Joint Powers Board to Advance Construction of Palo Alto and Caltrain Station Improvements**

Jack J. Collins, Chief Construction Officer, provided a brief overview of the Amendment No. 10 of the County 1996 Measure B Master Agreement for Caltrain projects and Authority for the General Manager to Amend a Cooperative Agreement with the Peninsula Joint Powers Board to Advance Construction of Palo Alto and Caltrain Station Improvements.

Mr. Collins commented that the 1996 Measure B Transportation Improvement Program (MBTIP) included Caltrain Service Improvements, but three Caltrain station and track improvement projects were placed on a deferred list due to the economic downturn. Mr. Collins stated that in June 2005, the VTA Board of Directors and the Santa Clara County Board of Supervisors approved MBTIP funding for design of the Pedestrian Underpasses at the Palo Alto and California Avenue Stations, if future revenues were available to construct the two projects. The San Martin Station Parking Expansion was approved in June 2006 by the Santa Clara County Board of Supervisors to receive funding from the 1996 MBTIP for construction to start in the Spring 2007.

Mr. Collins continued that updated revenues and program expenditures included in the "December 2006 Semi-Annual Report" for the 1996 MBTIP resulted in an estimated MBTIP program ending balance of \$19.2 million. Staff recommends moving forward with the two remaining deferred Caltrain Improvement Projects and cap the Santa Clara County share for the two projects at \$13.85 million.

Mr. Collins stated that the Peninsula Corridor Joint Powers Board (JPB) has been preparing construction documents to improve the station platforms at both the Palo Alto Station and the California Avenue Station; therefore, if constructions of the improvements are coordinated between the interested parties then significant savings could be achieved to construct the two remaining deferred projects. The balance of project funding would be programmed by the JPB.

Mr. Collins stated that the County 1996 Measure B Master Agreement for the Caltrain Projects is on the January 9, 2007 Santa Clara County Board of Supervisors Meeting Agenda for consideration. If the Board of Supervisors approves the additional 1996 Measure B funding for the two remaining deferred Caltrain projects then VTA would execute the amendment to the Master Agreement and enter into a cooperative agreement with the JPB for the added project funding.

On order of Chairperson Williams, there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to approve Amendment No. 19 to the Master Agreement with the County of Santa Clara defining the Baseline Scope, Schedule, and Cost Estimate for two Caltrain Pedestrian Underpass projects at the Palo Alto Station and the California Avenue Station, in accordance with Article V of the Master Agreement. Delegate authority to the General Manager to amend a cooperative agreement with the Peninsula Corridor Joint Powers Board (JBP) in the amount of \$13.85 million for construction of Pedestrian Underpasses at the Palo Alto Station and the California Avenue Station contingent upon the County of Santa Clara Board of Supervisors approving 1996 Measure B funding for the two projects.

12. Amendment No. 20 to the Master Agreement – 1996 Measure B Program Completion Agreement

Mr. Collins provided a brief overview of Amendment No. 20 to the Master Agreement – 1996 Measure B Program Completion Agreement. Mr. Collins commented that the Master Agreement between the County of Santa Clara and VTA for the implementation of the Santa Clara County 1996 MBTIP established the roles and responsibilities of the two agencies.

Mr. Collins stated that the 1996 Measure B sales tax ceased on March 30, 2006, noting that many of the project activities are continuing after the expiration of the sales tax. VTA staff has been working with County Measure B staff to develop final payment amounts to cover final negotiated 1996 Measure B Program related costs that could be incurred after December 31, 2006.

Mr. Collins commented that VTA staff and County staff are nearing completion of negotiations on the terms of a Completion Agreement, which is intended to be the final amendment to the Master Agreement. VTA would receive the remaining amounts of all approved 1996 MBTIP Project budgets, less the MBTIP funds paid by the County to VTA through December 31, 2006, and the net remaining Measure B funding for Fund Swap Projects and Ancillary Programs administered by VTA. VTA would be paid approximately \$4 million by the County to cover the potential risk of future events

associated with the incomplete MBTIP projects; therefore, VTA would assume any and all risk in completing the Program.

Mr. Collins continued that VTA would have an obligation to the County to complete the following elements: 1) to pay the currently identified costs to complete authorized MBTIP Projects, including Fund Swap funded Projects and Ancillary Programs; 2) to pay future potential costs, identified or unidentified, associated with authorized MBTIP Projects, even if they exceed the currently approved budgets of those projects; and 3) to pay for completion of highway landscaping projects previously identified in Swap Fund Implementation Letter 2004-01.

Mr. Collins stated that if additional savings and/or residual sales tax revenues are realized then VTA would apply funds according to the following priorities: reimburse VTA the amount of \$1.05 million, representing one-half of the difference between the actual and estimated VTA indirect costs of non-rail MBTIP projects applied as approved in Amendment No. 18 to the Master Agreement through fiscal year 2005 and 2006; pay to the County Roads and Airports Department the amount of \$1.5 million for Expressway projects; and fund additional Caltrain projects and/or Pavement Management projects, at the discretion of the VTA Board of Directors.

Chairperson Williams referenced a pedestrian overcrossing safety concern located at Monterey Road and Blossom Hill and queried if the project would be eligible for funding consideration from the additional savings and/or residual sales tax revenues. Mr. Collins responded that if funding was available after applying the additional savings and/or residual sales tax revenues to VTA's priority list then the project could be considered.

Mr. Collins stated that it would be best to determine other potential funding resources to address the pedestrian overcrossing project.

Chairperson Williams stressed the importance to look for opportunities to complete additional projects, especially safety concern projects with additional funding, if available.

On order of Chairperson Williams, there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to authorize the General Manager to negotiate and amend the Master Agreement with the County of Santa Clara related to the 1996 Measure B Transportation Improvement Program to define the financial terms and responsibilities to complete the Program.

13. Cooperative Funding Agreement with the Alameda County Transportation Authority (ACTA) and City of Fremont for Final Engineering Services for the I-880/Mission Boulevard Interchange Project

Mr. Collins provided a brief overview of the Cooperative Funding Agreement with the Alameda County Transportation Authority (ACTA) and City of Fremont for Final Engineering Services for the I-880/Mission Boulevard Interchange Project. Mr. Collins commented that in December 2002, VTA purchased Right-of-Way located in Fremont and San Jose from Union Pacific Railroad (UPRR) for planned transportation improvements in the Silicon Valley Rapid Transit Corridor (SVRT) including the

extension of Bay Area Transit District (BART) service from Fremont into Silicon Valley. VTA is obligated to relocate UPRR operations, freight tracks, and other railroad facilities off the acquired property onto adjacent UPRR property including the freight alignment crossing Mission Boulevard and Warren Avenue in the City of Fremont.

Mr. Collins commented that the Alameda County Transportation Authority (ACTA), Caltrans, and the City of Fremont are currently planning roadway improvements at the I-880/Mission Boulevard Interchange in Fremont that affect the UPRR freight relocation being planned by VTA at the same location. In an effort to coordinate the freight and roadway designs, and to achieve other mutual benefits, VTA entered into a Cooperative Funding Agreement with ACTA for Preliminary Engineering (PE) design services related to the I-880/Mission Boulevard Interchange Project in February 2006. Mr. Collins stated that ACTA and the City of Fremont have requested that VTA continue to lead and coordinate the final engineering activities for the coordinated improvements.

Mr. Collins commented that the recommended three-party Cooperative Funding Agreement would be between VTA, ACTA, and the City of Fremont and would provide that ACTA and the City of Fremont contribute funds to pay for one-half of the costs VTA would incur in completing the final design of the project improvements. Mr. Collins stated that based on preliminary engineering estimates the estimated total cost of the project is \$130 million with VTA's share for the final design cost estimated at \$4.45 million, ACTA's share at \$3.2 million, and the City of Fremont's share at \$1.25 million.

Mr. Collins continued that the recommended Cooperative Funding Agreement with ACTA and the City of Fremont would provide that VTA take the lead on the environmental clearance for the relocation of freight facilities, while ACTA and the City of Fremont would be responsible for obtaining the necessary environmental clearances for the other elements of the work.

Mr. Collins stated that this is a win-win situation and would achieve mutual benefits for all parties.

Mr. Collins commented that there is a shortfall in the overall construction funding in the amount of \$15 million; therefore, ACTA and the City of Fremont are looking to reprogram their STIP allocation funds to address the shortfall. However, the reprogramming of the STIP allocation funds only covers about \$7 million of the shortfall. Staff anticipates that the final design would provide better estimates that would allow the project to move forward into final construction.

On order of Chairperson Williams, there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to authorize the General Manager to execute a Cooperative Funding Agreement with Alameda County Transportation Authority (ACTA) and City of Fremont (City) in an amount not to exceed \$8.9 million for Final Engineering Services related to the I-880/Mission Boulevard Interchange Project. Under the proposed agreement, VTA's financial obligation would be limited to \$4.45 million and would substantially complete final engineering for new Union Pacific Railroad (UPRR) facilities and related improvements that are necessary for

the widening of Mission Boulevard (State Route 262) and for the grade separation of Warren Avenue in Fremont.

14. Revised Scoring Criteria for Transportation Fund for Clean Air Program Manager Fund

On order of Chairperson Williams, there being no objection, the Committee of the Whole deferred the Revised Scoring Criteria for Transportation Fund for Clean Air Program Manager Fund.

15. Santa Clara Station Area Plan Phase II

John Ristow provided a brief overview of the Santa Clara Station Area Plan Phase II. Mr. Ristow commented that the recommendation is to amend the VTA Capital Budget by increasing both total expenditures and revenue by \$700,000 each to reflect the Phase II of the Santa Clara Station Area Plan. Mr. Ristow commented that the Metropolitan Transportation Commission's (MTC) Transit-Oriented Development (TOD) policy goal is to capitalize on investments in new transit corridors by promoting mixed-use neighborhoods near new transit stations.

Mr. Ristow commented that VTA and the cities of San Jose and Santa Clara formed a partnership to pursue funding as part of the MTC TOD policies funding to complete a Station Area plan for the Santa Clara Transit Center. Mr. Ristow stated that in September 2005 the partnership received \$600,000 grant from MTC and contributions of \$50,000 each from the cities of San Jose and Santa Clara, which would be used to conduct a study on land uses around the Santa Clara BART Station.

Mr. Ristow commented that as the lead agency responsible for developing the Station Area Plan, VTA retained Dyett & Bhatia to assist in development of the Santa Clara Station Area Plan. Dyett & Bhatia is on the pre-approved list of consultants to provide urban design and transit-oriented land use studies for the 2000 Measure A Transit Improvement Program and the VTA Joint Development Program (JDP).

Mr. Ristow continued that the Technical Advisory Committee (TAC), which is composed of 16 City Member Agencies, the Department of Transportation (Caltrans), and VTA representatives will review the land use information. Mr. Ristow noted that the next public meeting is scheduled in February 2007.

On order of Chairperson Williams, there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to amend the VTA Capital Budget by increasing both total expenditures and revenue by \$700,000 each to reflect the Phase II of the Santa Clara Station Area Plan.

16. Transfer of Guadalupe Corridor Easements to Various Public Utility Companies and Private Property Owners

Mr. Ristow provided a brief overview of the Transfer of Guadalupe Corridor Easements to Various Public Utility Companies and Private Property Owners. Mr. Ristow commented that the recommendation is to execute Easement Deeds to various utility companies and private property owners to complete the transfer of properties acquired in connection with the construction of the Guadalupe Corridor Highway and Light Rail Projects. The Guadalupe Corridor Project included conversion of the Guadalupe Parkway into the new State Route 87 Freeway and the construction of the Guadalupe Light Rail Transit Project in the median of the new freeway. Mr. Ristow stated that the acquisition of the right-of-way was shared between Caltrans, Santa Clara County, the City of San Jose, and VTA.

Mr. Ristow commented that on June 1, 2006, the VTA Board of Directors approved a memorandum that authorized the execution of all necessary agreements with those agencies, which would finalize the transfer of properties and establish conditions for long-term maintenance and use of properties and facilities related to the Guadalupe Corridor Project. Several properties have been identified, which require the conveyance of water line easements for public and private utility purposes and maintenance access.

Mr. Ristow continued that these transactions would complete each agency's legal responsibilities in accordance with a relocation agreement with Pacific Gas & Electric (PG&E) and a court order requiring the City of San Jose and VTA to convey easements to the owners of private water lines adjacent to State Route 87.

On order of Chairperson Williams, there being no objection, the Committee of the Whole approved submitting a recommendation to the Board of Directors to authorize the General Manager to execute Easement Deeds to various utility companies and impacted private property owners at no cost, to complete the transfer of properties acquired in connection with the construction of the Guadalupe Corridor Highway and Light Rail Projects.

OTHER ITEMS

17. Retiree Health Actuarial Report

Mr. Contreras introduced Richard Wright, FSA MAAA Consulting Actuary, who provided a brief overview of the Retiree Health Actuarial Report. Mr. Wright distributed a presentation entitled, "Santa Clara Valley Transportation Authority (VTA) Retiree Health Plan Valuation Report" to the Committee Members. Mr. Wright commented that the Government Accounting Standards Board (GASB) 45 is a new accounting rule regarding accounting for retiree health benefits.

Mr. Wright referenced Slide 3, "Amortization Period Change," and reported that under VTA's current funding method the Unfunded Actuarial Accrued Liability (UAAL) is amortized over 20 years from 2001 and 15 years remain as of July 1, 2006. Mr. Wright commented that VTA has elected to change the amortization method to a rolling 20-year amortization effective July 1, 2006. The new method is consistent with amortization method used for VTA - Amalgamated Transit Union (ATU) pension valuation.

Mr. Wright stated that the amortization amount could be a level dollar amount or a level percent of payroll. VTA amortizes as a level percent of expected payroll. Mr. Wright stated that the new GASB requirements permit 10 – 30 year period.

Mr. Wright referenced Slide 4, “Valuation Results,” and reported that a valuation is completed every two years, which satisfies the GASB requirements and the last valuation was completed in 2004. The valuation results are that there was a decrease in active employees and an increase in retirees. The present value of benefits has increased from approximately \$181 million to approximately \$241 million. This represents the value of benefits that VTA would provide to all current active employees and retirees.

Mr. Wright stated that the expected value of the medical costs are allocated to past service costs, which is the Actuarial Accrued Liability (AAL). This increased from approximately \$145 million to approximately \$201 million. The assets set aside increased from approximately \$62 million to approximately \$79 million; therefore, the unfunded AAL has increased from approximately \$84 million to approximately \$121 million. Mr. Wright commented that the funding contribution increased from approximately \$12 million to approximately \$14 million, which is an increase in percentage of payroll from 8.3 percent to 9.2 percent.

Mr. Wright referenced Slide 5, “Assumption Changes/Highlights,” and reported that the actuarial liability increased by \$55 million. The increase of medical cost increased liability by approximately \$27 million. VTA changed demographic assumptions related to retirement in the pension valuation, which increased liability by approximately \$16 million.

Mr. Wright stated that there was a slight decrease in liability, which resulted in savings of \$1 million due to the \$25 per month charge to new administrative retirees.

Mr. Wright referenced Slide 6, “Sensitivity of Discount Rate,” and reported that VTA assumes that the funding set aside to fund the plan would earn 7 percent per year; however, under the new GASB 45 rule, the unfunded AAL must use the interest rate of return related to short-term investments, which is 5 percent. Mr. Wright stated that the Annual Required Contribution (ARC) calculated at 7 percent is approximately \$14 million and 9.2 percent as percentage of payroll.

Mr. Wright referenced Slide 7, “History of Contributions and Rates,” and reported that from 2001 to 2003 there was a large increase in retiree health costs.

Mr. Wright referenced Slide 8, “History of Unfunded Liabilities,” and reported that the unfunded liabilities have been steady for the last four years but increased due to the change in the interest rate and increase in retiree medical premiums.

Mr. Wright referenced Slide 9, “History of Funding Status,” and reported that there was a decline in funding status in 2002 due to the interest rate and premium changes; however, the funding has increased since the plan contributions have been coming in.

Mr. Wright referenced Slide 10, “What is GASB 45?,” and reported that all government agencies have to account for retiree health benefits as Other Post-Employment Benefits

(OPEB). The new GASB 45 accounting standard is to measure the obligation of OPEB benefits, which are considered to be part of the compensation for services rendered.

Mr. Wright stated that the benefits are earned during the period of employment and employers need to recognize the obligation over the same period. Mr. Wright reported that VTA is already accruing in a similar manner to GASB 45, while most agencies were accounting on a pay as you go basis.

Mr. Wright referenced Slide 11, "Financial Statement Items," and reported that the key components of GASB 45 are that the ARC would be on the income statement and the balance sheet would include the Net OPEB obligation number, which is the difference between the ARC and what was actually contributed.

Mr. Wright stated that GASB 45 is important since VTA would apply the new account rule and it becomes effective next fiscal year.

Mr. Contreras stated that the information reported in the financial statements would disclose the unfunded liabilities, actuarial liability, funded status, plan provisions, assumptions, and methods.

Mr. Wright referenced Slide 12, "What is GASB 45?," and reported that related to the new GASB 45 accounting rule the implicit rate subsidy must also be valued.

Mr. Wright stated that the premium rates paid for an active employee are higher because the retired employees are included in the costs. The new GASB 45 rule requires that the organization recognize the cost of the retired employees since they are included in the plan.

Mr. Wright referenced Slide 13, "Value of Implicit Rate Subsidy," and reported that the value of implicit rate subsidy would increase the AAL by approximately \$25 million and would increase the ARC from approximately \$14 million to approximately \$16 million.

Mr. Contreras clarified that the new GASB 45 would apply to VTA next fiscal year and VTA's cost would increase \$2.5 million.

Chairperson Williams inquired if there was a way to separate the active employees from the retired employees in the plan. Mr. Contreras responded that the goal is to separate so that the costs could be identified separately; however, from VTA's financial point of view the cost is still owed since it is VTA's obligation to pay for the expense.

Suzanne Gifford, Legal Counsel, stated that the insurance premium for health insurance would be higher if the coverage pool was for older individuals; therefore, including younger individuals in the coverage pool pulls the insurance premium rate down.

Mr. Wright referenced Slide 14, "GASB 45 Liability – Effect of Amortization Period on ARC," and reported that the new GASB 45 allows up to a 30 year amortization period. VTA's current ARC as percentage of payroll is 9.2 percent; however, if the value of implicit rate subsidy is included then the ACR increases to 10.9 percent. Mr. Wright

stated that if VTA uses the 30-year amortization period then VTA's ACR is calculated to be 9.1 percent.

Mr. Wright referenced Slide 15, "VTA Funded Status and Cost Compared to Other Public Entities," and reported that VTA uses a 20-year amortization period with a 4 percent pay as you go cost as a percentage of payroll and an ARC of 9 percent results in 40 percent funding status, which is consistent with counties in Northern California.

Mr. Wright stated that the ARC is dependent on what was funded to date. Mr. Wright noted that VTA is ahead of the requirements since VTA had started funding in the mid 1990's and VTA's plan is 50 percent funded. Mr. Wright stated that VTA has done a good job of funding the benefit plans.

Mr. Contreras stated that VTA's annual contributions would increase approximately \$2.5 million from \$11.1 million to \$13.6 million. Staff would like to determine if there would be savings throughout the year then allocate the savings to fund for the additional costs to the annual contributions. If there are no savings to allocate for the additional costs then staff would come back to the Committee in May 2007.

Board Member Gage queried if the employee would contribute to the annual contributions in the future. Mr. Contreras responded that it would depend upon negotiations between management and VTA's employees.

Mr. Contreras stated the benefit costs are a national problem and have escalated tremendously. He noted that through negotiations VTA's employees now pay a co-payment of \$25 for medical premiums. Mr. Contreras commented that in the private sector employees pay a tremendous amount for their co-payment for medical premiums. Mr. Contreras noted that benefit costs are a national problem and staff would review in the future as costs escalate.

Mr. Contreras noted that in addition to the \$2.5 million required next fiscal year for VTA's annual contributions there would be another increment included in FY 08/FY 09 budget process; therefore, VTA's annual contributions could be approximately \$16 million.

Chairperson Williams suggested and noted the benefits for VTA to implement a "Wellness" program in the organization. Chairperson Williams expressed concern regarding escalating benefit costs and encouraged staff to work on providing "Wellness" programs for VTA's employees. Mr. Lawson responded that the General Manager has expressed an interest in "Wellness" programs and staff has taken preliminary steps to review "Wellness" information.

Mr. Lawson stated that staff would come back to the Committee with additional information.

On order of Chairperson Williams, there being no objection, the Committee of the Whole received the Retiree Health Actuarial Report.

18. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

19. Committee Work Plan

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

20. Committee Staff Report

Mr. Lawson provided a brief report highlighting: the Mandatory Mobility Securement Policy scheduled for implementation on January 1, 2007, the Civic Center Station reopening scheduled for Friday, December 22, 2006, the Santa Clara Light Rail Station in downtown San Jose closure for five months for renovations and improvements, and VTA's Free New Year's Eve Service starting from 7:00 p.m. on December 31, 2006 until 3:59 a.m. on January 1, 2007.

21. Chairperson's Report

Chairperson Williams expressed appreciation and thanked staff for their diligent work, dedication, and efforts throughout the year.

Chairperson Williams stated that the Capitol Corridor has outperformed all expectations and reported that the Capitol Corridor would be celebrating 15 years of service this December. Chairperson Williams expressed appreciation to the Capitol Corridor for the increase in service trips to five from Sacramento to San Jose.

Chairperson Williams wished the Administration and Finance Committee Members, VTA staff and others a Merry Christmas and Happy New Year.

22. Determine Consent Agenda for the January 4, 2007 Board Meeting

CONSENT: None

REGULAR: Agenda Item # 10., Approve the 2007 State Legislative Program for the Santa Clara Valley Transportation Authority (VTA); **Agenda Item # 11.**, Approve Amendment No. 19 to the Master Agreement with the County of Santa Clara defining the Baseline Scope, Schedule, and Cost Estimate for two Caltrain Pedestrian Underpass projects at the Palo Alto Station and the California Avenue Station, in accordance with Article V of the Master Agreement. Delegate authority to the General Manager to amend a cooperative agreement with the Peninsula Corridor Joint Powers Board (JBP) in the amount of \$13.85 million for construction of Pedestrian Underpasses at the Palo Alto Station and the California Avenue Station contingent upon the County of Santa Clara Board of Supervisors approving 1996 Measure B funding for the two projects; **Agenda Item # 12.**, Authorize the General Manager to negotiate and amend the Master Agreement with the County of Santa Clara related to the 1996 Measure B Transportation Improvement Program to define the financial terms and responsibilities to complete the Program; **Agenda Item # 13.**, Authorize the General Manager to execute a Cooperative Funding Agreement with Alameda County Transportation Authority (ACTA) and City of Fremont (City) in an amount not to exceed \$8.9 million for Final Engineering Services related to the I-880/Mission Boulevard Interchange Project. Under the proposed

agreement, VTA's financial obligation would be limited to \$4.45 million and would substantially complete final engineering for new Union Pacific Railroad (UPRR) facilities and related improvements that are necessary for the widening of Mission Boulevard (State Route 262) and for the grade separation of Warren Avenue in Fremont; **Agenda Item # 15.**, Amend the VTA Capital Budget by increasing both total expenditures and revenue by \$700,000 each to reflect the Phase II of the Santa Clara Station Area Plan; and **Agenda Item # 16.**, Authorize the General Manager to execute Easement Deeds to various utility companies and impacted private property owners at no cost, to complete the transfer of properties acquired in connection with the construction of the Guadalupe Corridor Highway and Light Rail Projects.

2. CLOSED SESSION at 1:50 p.m.

Conference with Labor Negotiators
[Government Code Section 54957.6]

VTA Designated Representatives:

Roger Contreras, Chief Financial Officer
Bill Lopez, Chief Administrative Officer
Robert Escobar, Manager, Office of Employee Relations

Employee Organization:

American Federation of State, County, and Municipal Employees (AFSCME)

RECONVENED TO OPEN SESSION at 1:57 p.m.

3. CLOSED SESSION REPORT

Conference with Labor Negotiators
[Government Code Section 54957.6]

VTA Designated Representatives:

Roger Contreras, Chief Financial Officer
Bill Lopez, Chief Administrative Officer
Robert Escobar, Manager, Office of Employee Relations

Employee Organization:

American Federation of State, County, and Municipal Employees (AFSCME)

There was no reportable action taken during Closed Session.

23. Announcement

There were no Announcements.

24. ADJOURNMENT

On order of Chairperson Williams, there being no objection, the Committee of the Whole meeting was adjourned at 1:58 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant
VTA Board of Directors