

ADMINISTRATION & FINANCE COMMITTEE

Thursday, March 20, 2008

MINUTES

1. CALL TO ORDER

The Regular Meeting of the Administration and Finance Committee (A&F) was called to order at 12:02 p.m. by Chairperson Williams in Room 157, County Government Center, 70 West Hedding Street, San Jose, California.

ROLL CALL

Members Present

David Casas, Vice Chairperson
Chuck Reed
Forrest Williams, Chairperson

Members Absent

Don Gage

Alternates Present

Pete McHugh

Alternates Absent

David Cortese
Chris Moylan

* Alternates do not serve unless participating as a Member.

A quorum was present.

Chairperson Williams removed the following Agenda Items from the Agenda: **Agenda Item #2.**, Closed Session and **Agenda Item #3.**, Closed Session Report.

2. ADJOURN TO CLOSED SESSION

Conference with Labor Negotiators
[Government Code Section 54957.6]

VTA Designated Representatives:

Joseph Smith, Chief Financial Officer
Bill Lopez, Chief Administrative Officer
Robert Escobar, Manager, Office of Employee Relations

Employee Organization:

Amalgamated Transit Union (ATU)

There was no Closed Session.

3. CLOSED SESSION REPORT

There was no Closed Session Report.

Board Member Reed arrived at the meeting and took his seat at 12:04 p.m.

4. Election of Vice Chairperson for 2008

Chairperson Williams opened the nominations from the floor for the position of Administration and Finance Committee Vice Chairperson for 2008.

Member Casas nominated himself for the position of Administration and Finance Committee Vice Chairperson for 2008.

M/S/C (Reed/McHugh) to close the nominations and elect Member Casas as Administration and Finance Committee Vice Chairperson for 2008, on a white ballot.

5. PUBLIC PRESENTATIONS

There were no Public Presentations.

6. ORDERS OF THE DAY

Chairperson Williams removed the following Items from the Agenda: **Agenda Item #2.**, Closed Session; and **Agenda Item #3.**, Closed Session Report.

M/S/C (McHugh/Reed) to accept the Orders of the Day.

CONSENT AGENDA

7. Regular Meeting Minutes of November 15, 2007

M/S/C (McHugh/Reed) to approve the Regular Meeting Minutes of November 15, 2007.

8. Regular Meeting Minutes of January 17, 2008

M/S/C (McHugh/Reed) to approve the Regular Meeting Minutes of January 17, 2008.

9. Regular Meeting Minutes of February 21, 2008

M/S/C (McHugh/Reed) to approve the Regular Meeting Minutes of February 21, 2008.

10. Report on Santa Clara Valley Transportation Authority Investments for the Month of January 2008

M/S/C (McHugh/Reed) to review the Report on Santa Clara Valley Transportation Authority Investments for the Month of January 2008.

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

11. 2008 Quarterly Attendance Report

M/S/C (McHugh/Reed) to review the 2008 Quarterly Attendance Report.

12. Monthly Legislative History Matrix

M/S/C (McHugh/Reed) to review the Monthly Legislative History Matrix.

REGULAR AGENDA

13. Contract to Upgrade Ticket Vending Machines to Support TransLink®

Bill Lopez, Chief Administrative Officer, provided a brief report, highlighting that on November 3, 2005 the Board of Directors authorized the execution of a cooperative agreement with the Peninsula Corridor Joint Powers Board (JPB) specifying the funding arrangements and project management responsibilities of each agency for adding TransLink® add-value capabilities to VTA and Caltrain Ticket Vending Machines (TVMs).

Mr. Lopez reported that on January 3, 2008, the Board of Directors authorized VTA staff to request an allocation of \$6,882,201 from the Metropolitan Transportation Commission (MTC) for design and construction work to be performed for the TransLink® TVM Integration Project, which has been awarded by MTC.

VTA recommends negotiating a non-competitive procurement agreement with VenTek Transit to upgrade the TVMs since the current TVM machines have VenTek copyrighted and customized software and hardware; therefore, they are uniquely compatible with the services and products.

Vice Chairperson Casas stated that in 2003 VenTek had some operating losses and queried about their current financial status. Michael T. Burns, General Manager, responded that staff will follow-up with the concerns and report back with the information to the Board.

Vice Chairperson Casas requested that staff provide an analysis of the breakdown cost estimates of sole-sourcing compared to a Request for Proposal (RFP). Vice Chairperson Casas stressed the importance for VTA to justify that assumptions are valid. Mr. Lopez responded that a report with the requested information will be provided to the Committee.

Alternate Board Member McHugh requested a report on the performance bond and on VenTek International's financial reliability.

M/S/C (McHugh/Casas) to approve submitting a recommendation to the Board of Directors to authorize the General Manager to execute a sole-source procurement agreement with Ven Tek Transit, the original equipment manufacturer of VTA's Ticket Vending Machines (TVM's), in an amount not to exceed \$4,500,000 to upgrade 269 TVM's used by VTA and Caltrain to support Translink®; and further, authorize the General Manager to execute a fund transfer agreement with the Metropolitan

Transportation Commission (MTC) to receive grant funding for the TVM Upgrade Project.

14. Advanced Farebox System Consultant Services

Ali Hudda, Deputy Director of Accounting, provided a brief report, highlighting that VTA's current bus fare collection system was procured in 1988; therefore, the fareboxes are obsolete and have exceeded their useful life. Mr. Hudda stated that VTA needs to prepare for accepting electronic payments throughout its transit system.

Mr. Hudda stated that a RFP for Advanced Farebox System Consultant Services was issued on December 14, 2007 and staff received four proposals. Booz Allen Hamilton received the highest score on every selection criterion and was ranked first by the review panel.

Vice Chairperson Casas requested that staff provide the RFP evaluation scoring information to the Committee. Mr. Hudda responded that the information will be provided to the Committee.

M/S/C (Casas/Reed) to approve submitting a recommendation to the Board of Directors to authorize the General Manager to execute a fixed fee contract with Booz Allen Hamilton, Inc. (BAH) for the amount of \$108,010 to perform a needs assessment and develop functional requirements for the replacement or potentially, remanufacturing and upgrading of VTA's bus fare collection system (Phase I). Additionally, to authorize an option in the amount of \$265,390 to provide engineering services in support of procurement, installation, and testing of such equipment (Phase II) for a maximum amount not to exceed \$373,400.

15. Variable Rate Debt Refinancing or Restructuring

Kim Koenig, Department of Finance Fiscal Resources Manager, reported that VTA purchases bond insurance from AAA rating bond insurers, which provides comfort to the investors that they would receive full payment of the bonds they purchased. With the added bond insurance protection the investors were willing to accept lower interest rates, which translated to lower borrowing costs for issuers and interest rate savings for VTA.

Ms. Koenig reported that several of the insurers have been downgraded below AAA by one or more of the rating agencies or are being reviewed for potential downgrades. The 1985 Equipment Trust Certificates (ETCs) and the 2005 Sales Tax Revenue Bonds (2005 Bonds) are currently at greatest risk for higher interest costs resulting from current market conditions since they are insured by Ambac.

Ms. Koenig stated that staff recommends to issue uninsured variable rate refunding bonds for the 2008 Bonds secured by VTA's 1976 ½ cent sales tax and a liquidity agreement with a highly rated bank with a short-term rating of at least VMIG-1/A-1 from Moody's and Standard & Poor's. The proceeds of the 2008 bonds would be used to retire the 2005 Bonds and pay the cost of issue. The existing variable-to-fixed interest rate swap agreements with the 2005 Bonds would remain.

The structure and terms of the 2008 Bonds would remain the same with the exception that the 2008 Bonds would be uninsured and the liquidity agreement would contain termination provisions based on VTA downgrades or insolvency.

By refunding the 2005 Bonds and eliminating the current Ambac penalty rates, the interest rates should decline by two percent or more from current levels; however, the annual fees associated with liquidity and remarketing are anticipated to be greater than those negotiated in 2005, which represents approximately \$1.1 million of increased debt service per year.

Ms. Koenig stated that staff recommends taking a “wait and see” tactic for the 1985 ETCs; however, authority is being requested to amend existing liquidity agreements with VTA’s standby bank and the ability to issue variable rate refunding bonds to refund the 1985 ETCs if necessary.

Staff would only undertake either of the two authorized actions if the current remarketing agent experiences increased difficulty in remarketing the 1985 ETCs and required to draw on the liquidity bank, which would represent an increase of approximately \$78,840 per year in debt service for the 1985 ETCs bonds.

Ms. Koenig commented that VTA’s alternative course of action for the 2005 Bonds is a temporary strategy to amend existing liquidity agreements to remove insurer related termination provisions or to convert from weekly variable rate demand bonds with a term of one year and an interest rate that would be fixed for that period.

Chairperson Williams requested that the Committee receive regular updates on the bond transactions and suggested that an update be provided to the members at a Board of Directors Regular Meeting.

M/S/C (Reed/McHugh) to approve submitting a recommendation to the Board of Directors to adopt a resolution authorizing the General Manager or his designee to agree to the terms of and execute documents relating to a negotiated sale, up to \$201 million of Sales Tax Revenue Refunding Bonds, 2008 Series A (2008 A Bonds) to refund \$199 million aggregate principal amount of VTA’s 1985 Equipment Trust Certificates and 2005 Sales Tax Revenue Refunding Bonds and to pay the costs of issuance; and, further authorize the General Manager or his designee to amend existing liquidity agreements for 1985 Equipment Trust Certificates and 2005 Sales Tax Revenue Refunding Bonds, and/or convert the 2005 Sales Tax Revenue Refunding Bonds to a one-year term mode, as alternative courses of action.

16. Measure A Variable Rate Debt Refinancing or Restructuring

Kim Koenig, Department of Finance Fiscal Resources Manager, reported that currently VTA has \$356 million in bonds outstanding that are secured by the 2000 Measure A ½ cent sales tax. VTA has been significantly impacted by recent events in the municipal market through higher interest rates on the Ambac insured 2006 Series A-D 2000 Measure A Sales Tax Revenue Bonds (2006 Bonds).

Ms. Koenig reported that staff recommends to issue uninsured variable rate refunding bonds (2008 Measure A Bonds) secured by the 2000 Measure A ½ cent sales tax and a liquidity agreement with a highly rated bank with a short term rating of at least VMIG-1/A-1 from Moody's and Standard & Poor's. The proceeds of the 2008 Measure A Bonds would be used to retire the 2006 Bonds and pay the cost of issue.

Ms. Koenig stated that the difference between auction rate bonds and variable rate demand bonds is when auction rate bonds fail to generate enough buyers then existing investors are stuck holding investments they cannot sell; however, if variable rate demand bonds are not remarketed they are purchased by the bank that has agreed to buy them pursuant to an agreement between the bank and VTA.

Vice Chairperson Casas stressed the importance for VTA to do their due diligence and have alternatives in place if needed.

Vice Chairperson Casas stressed the importance for VTA to validate transactions before making decisions. Vice Chairperson Casas requested that in the future with other transactions the external auditor should validate the transactions in the interim of hiring VTA's internal auditor.

Ms. Koenig stated that VTA's financial advisor provides a memorandum for record on all completed transactions and the justification of the process then compares VTA's information with other transactions in the market.

Vice Chairperson Casas requested that staff provide the Committee with the financial advisors memorandum that was sent to VTA's Fiscal Department.

Peter Ross, VTA's External Financial Advisor, commented that he creates a threshold decision for every step in the process to understand the decisions before we make them. Mr. Ross stated that VTA's financial transactions are carefully scrutinized and each step has a series of strategic decisions in place.

M/S/C (Reed/McHugh) to approve submitting a recommendation to the Board of Directors to adopt a resolution authorizing the General Manager or his designee to agree to the terms of and execute documents relating to a negotiated sale, up to \$260 million of Measure A Sales Tax Revenue Refunding Bonds or Notes, 2008 Series A (Measure A 2008 A Bonds) to refund \$236 million aggregate principal amount of Measure A 2006 Series A-D Sales Tax Revenue Bonds and to pay the costs of issuance.

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, Senior Policy Advisor and Staff Liaison, commented on the retirement of Suzanne B. Gifford, General Counsel, noting that Kevin Allmand, will be serving in the capacity as Acting General Counsel, effective Monday, March 17, 2008.

20. Chairperson's Report

Chairperson Williams expressed appreciation and thanked staff for their diligent work related to VTA's variable rate debt.

21. Determine Consent Agenda for the April 3, 2008 Board Meeting

CONSENT: Agenda Item #13. Authorize the General Manager to execute a sole-source procurement agreement with Ven Tek Transit, the original equipment manufacturer of VTA's Ticket Vending Machines (TVM's), in an amount not to exceed \$4,500,000 to upgrade 269 TVM's used by VTA and Caltrain to support Translink®; and further, authorize the General Manager to execute a fund transfer agreement with the Metropolitan Transportation Commission (MTC) to receive grant funding for the TVM Upgrade Project; and **Agenda Item #14.** Authorize the General Manager to execute a fixed fee contract with Booz Allen Hamilton, Inc. (BAH) for the amount of \$108,010 to perform a needs assessment and develop functional requirements for the replacement or potentially, remanufacturing and upgrading of VTA's bus fare collection system (Phase I). Additionally, to authorize an option in the amount of \$265,390 to provide engineering services in support of procurement, installation, and testing of such equipment (Phase II) for a maximum amount not to exceed \$373,400;

REGULAR: Agenda Item #15. Adopt a resolution authorizing the General Manager or his designee to agree to the terms of and execute documents relating to a negotiated sale, up to \$201 million of Sales Tax Revenue Refunding Bonds, 2008 Series A (2008 A Bonds) to refund \$199 million aggregate principal amount of VTA's 1985 Equipment Trust Certificates and 2005 Sales Tax Revenue Refunding Bonds and to pay the costs of issuance; and, further authorize the General Manager or his designee to amend existing liquidity agreements for 1985 Equipment Trust Certificates and 2005 Sales Tax Revenue Refunding Bonds, and/or convert the 2005 Sales Tax Revenue Refunding Bonds to a one-year term mode, as alternative courses of action; and **Agenda Item # 16.** Adopt a resolution authorizing the General Manager or his designee to agree to the terms of and execute documents relating to a negotiated sale, up to \$260 million of Measure A Sales Tax Revenue Refunding Bonds or Notes, 2008 Series A (Measure A 2008 A Bonds) to refund \$236 million aggregate principal amount of Measure A 2006 Series A-D Sales Tax Revenue Bonds and to pay the costs of issuance.

22. Announcement

Michael T. Burns, General Manager, announced that Board Member Gage was appointed Chairperson to VTA's Audit Committee. Mr. Burns reported that the first quarter sales tax receipts have decreased 2.2 million and VTA is running about five percent below budget on the sales tax revenues for the year but will manage the budget to accommodate for the reduction.

23. ADJOURNMENT

On order of Chairperson Williams, there being no objection, the meeting was adjourned at 1:01 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant
VTA Board of Directors