

Administration and Finance Committee

Thursday, August 21, 2008

MINUTES

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.

1. ROLL CALL

Attendee Name	Title	Status	Arrived
David Cortese	Alternate Board Member	Absent	
Don Gage	Board Member	Present	
Forrest Williams	Board Member	Present	
Chuck Reed	Board Member	Present	
David Casas	Board Member	Present	
Chris Moylan	Alternate Board Member	Absent	
Pete McHugh	Alternate Board Member	Absent	

* Alternates do not serve unless participating as a Member.

A quorum was present.

2. ADJOURN TO CLOSED SESSION at 12:06 PM

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)

RECONVENED TO OPEN SESSION at 12:20 p.m.

3. CLOSED SESSION REPORT

There was no Closed Session Report.

4. PUBLIC PRESENTATIONS

There were no Public Presentations.

5. ORDERS OF THE DAY

Chairperson Williams stated that there was a recommendation to move **Agenda Item #17.**, VTA Governance, to the next A&F Committee meeting.

M/S/C (Reed/Casas) to keep Agenda Item #17., VTA Governance, on the agenda.

CONSENT AGENDA

6. Regular Meeting Minutes of April 17, 2008

M/S/C (Gage/Reed) to approve the Regular Meeting Minutes of April 17, 2008

7. Regular Meeting Minutes of May 15, 2008

M/S/C (Gage/Reed) to approve the Regular Meeting Minutes of May 15, 2008

8. Board of Directors Committee of the Whole (COW) Meeting Record of July 17, 2008

M/S/C (Gage/Reed) to receive and file the Board of Directors Committee of the Whole (COW) Meeting Record of July 17, 2008.

9. 2008 Quarterly Attendance Report

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

10. Monthly Legislative History Matrix

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

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

11. **Fourth Quarter and FY 2008 Year-End Report of Public Liability/Property Damage Claims Activity**

M/S/C (Gage/Reed) to review the Fourth Quarter and FY 2008 Year-End Report of Public Liability/Property Damage Claims Activity.

12. **Fourth Quarter and FY 2008 Year-End Report of Workers' Compensation Claims and Transitional Work Program**

M/S/C (Gage/Reed) to review the Fourth Quarter and FY 2008 Year-End Report of Workers' Compensation Claims and Transitional Work Program.

13. **Quarterly Purchasing Report - 4th Quarter FY08**

M/S/C (Gage/Reed) to review the Fourth Quarter FY08 Quarterly Purchasing Report.

14. **Monthly Investment Report - June 2008**

M/S/C (Gage/Reed) to review the Monthly Investment Report - June 2008.

REGULAR AGENDA

15. **Banking and Custodial Services Contract**

Kim Koenig, Fiscal Resource Manager, provided an overview of the bank selection process, procurement process, evaluation process and eventual recommendation to extend and renew the contract with Union Bank of California. Ms. Koenig stated that Request for Proposals (RFPs) were issued in April 2008. Seven proposals were received and were narrowed down to two candidates. Interviews were conducted and based on evaluation of the interview process, Union Bank was selected. Ms. Koenig noted that Union Bank has committed to reduce current fees by 25 to 30%. The first year of the contract is estimated to cost \$98,000.

Vice Chairperson Casas queried about what criteria are being implemented in the contract to make sure that if it gets renewed for another 5 years, that a competitive bid can be done again.

Ms. Koenig clarified that the contract is for a period of five years and can be extended on an annual basis for up to five years.

Chairperson Williams inquired what the reduced cost is compared to? Ms. Koenig responded that it is today's current unit cost rate. She also stated that the unit cost is fixed for five years.

Michael T. Burns, General Manager, stated that the staff are always available to provide Vice Chairperson Casas and the members of the committee with a copy of the contract on a regular basis. Vice Chairperson Casas responded that he would like a copy of the contract.

M/S/C (Gage/Reed) to authorize the General Manager to execute a contract with Union Bank of California for commercial banking and custodial safekeeping services in an amount not to exceed \$541,000 for a period of five years; and, further authorize the General Manager to extend such contract on an annual basis for up to an additional five years.

16. Amend CAC Bylaws to Institute a CAC Chairperson Report Requirement at VTA Board Meetings

Jim Lawson, Senior Policy Advisor, stated that at the request of the members of the Citizens Advisory Committee and also at the recommendation of the Bureau of State Audits it is necessary for the Board to approve changes to the Citizen Advisory Committee Bylaws.

M/S/C (Gage/Reed) to adopt a Resolution amending Section 4.1 of the Citizens Advisory Committee bylaws, as indicated, to include as an additional responsibility of the CAC Chairperson to provide to the Board of Directors at each of its meetings a verbal report on the previous CAC meeting and any concerns of the Committee.

17. VTA Governance

Vice Chairperson Casas recommended to focus the discussion on the process. He stated that there should be a clear path to meet with each of the interested parties, get a formal vote by their governing bodies and then providing report and bring summary back to A&F to have a recommendation at the January A&F committee to the board for review in February.

Board Member Reed inquired when the agreement expires. He also asked what mechanisms must be used in terms of the process.

Jim Lawson, Senior Policy Advisor, stated that it would be helpful to the committee, as they move forward, to have a briefing from the General Counsel's office on where they are relative to all of the legal issues. He also stated that staff suggested that at the next meeting, to have a briefing from the General Counsel's office to answer and resolve questions which help them with the timeframe to move forward.

Member Gage inquired on who is going to do the presentation to the cities if they are going to approach the cities and ask them for their opinions.

Vice Chairperson Casas asked Kevin Allmand, Acting General Counsel, if he is prepared to address the briefing (items for discussion). Mr. Allmand responded that he can answer some specific questions in terms of the expiration of the current groupings established in the JPA (Joint Powers Agreement) of 1994 that is a perpetual agreement until it is amended. And the statute provides for that kind of agreement as the means by which to put the groupings together. So it is not fully expired unless it needs to be amended in order to perpetuate change. If it is not amended, it continues as it has since 1994.

Vice Chairperson Casas inquired on what happens with the five city rotating seats if there is an agreement that concludes end of 2009. Mr. Lawson responded that the manner of rotation or selection will have to be reviewed by the city groupings.

Vice Chairperson Casas stated that he will be participating in the presentation to the cities and will be speaking as both former member of the Governance Subcommittee and as a Board Member. He added that he will be inviting Board Member Greg Sellers to present where appropriate. He noted that it is important to have a neutral party do the presentation without bias.

Board Member Gage stated that he wanted the cities to understand what they are voting on. He recommended to set up the meeting with the cities, then staff should bring the information back for review and make the decision to recommend to the Board.

Vice Chairperson Casas asked what they are expecting at the next meeting. Mr. Burns responded that the staff will come back with the briefing on the legal issues.

Chairperson Williams stated that the presentation should be made by Vice Chairperson Casas and Board Member Sellers. He stressed that he wanted to frame the statement of why we are doing it so that the cities can understand and make better decision.

Christopher Moylan, PAC Chairperson and Councilmember of City of Sunnyvale, made a presentation and defined what the problem is. Mr. Moylan noted that the bigger problems are 1) inherent parochialism and 2) lack of regional focus that is inevitably caused by people elected at a small jurisdictional level making decisions on county level. He also noted that alternatives should be presented to the cities. He also suggested that PAC can be used as a way of answering the question of “what do cities want?”

Norman Kline thanked Board Members David Casas and Greg Sellers and the committee members for the recommendation they did. Mr. Kline stated that the PAC and the CAC are much more confident and educated now and have a fine level of understanding of what is necessary to change (if we want to change anything at all). He stated that presenting the recommendation/options to the cities is very difficult. That we need to be a lot more structured in going out to the cities, we need more structure to design some sample resolution, design pros and cons, design in black and white, and to present these to the cities.

On order of Chairperson Williams, there being no objection, the Committee directed staff to come back with a plan that includes the legal steps necessary to implement the proposals and present at the next A&F meeting.

18. Bureau of State Audits Final Report

Michael T. Burns, General Manager, reviewed the Bureau of State Audits (BSA) Final Report which highlighted the following: 1) The report did not recommend significant changes to the VTA governance and endorsed the incremental changes that are already being pursued by the Board; 2) The report indicated that VTA’s financial reporting and planning generally meets best practices in government finance and acknowledged that VTA has made significant strides in terms of implementing the recommendations of the Hay Group; 3) The report included recommendation to continue with the implementation of the Hay Group recommendation; and 4) The report indicated that the project planning practices generally conform to best practices but noted that there is room for improving procedures for estimating project cost and revenues as well as project monitoring.

Mr. Burns stated that VTA has developed a matrix (the "score card") as part of the audit to document actions in response to each of the recommendations. All of the recommendations are summarized in the matrix and will be used in reporting back to BSA. He reviewed the areas that would be addressed which included the following:

- 1) Governance
- 2) Financial Reporting and Planning
- 3) Project Planning

Mr. Burns indicated that the score card will be used with the BSA to show that we followed up on all of the recommendations during the time frame that they have established.

On order of Chairperson Williams, there being no objection, the Committee received the Bureau of State Audits Final Report.

OTHER ITEMS

19. VTA-ATU Pension Plan Actuarial Valuation as of January 1, 2008

Ali Hudda, Deputy Director of Accounting, indicated that this item is to present the results of the VTA-ATU pension plan actuarial valuation which is required under the state law as well as the collective bargaining agreement.

Graham Schmidt, from EFI Actuaries, made a presentation on the VTA-ATU Pension Plan Actuarial Valuation. The presentation/discussion highlighted the following topics:

1. Definition of terms - normal cost, actuarial accrued liability, actuarial value of assets, unfunded accrued liability, and amortization cost.
2. Review of the: a) actuarial valuation as of 1/1/2008; b) assumptions used based on most recent study (covering the period ending 12/31/2006).
3. Plan Costs - past and future
4. Funding Progress - past and future (also discussed funding ratio and current ratio)
5. Peer Group comparison - how VTA Plan compare with other California transit districts in terms of return/inflation assumptions, mortality assumptions, funding ratios and contribution rates

At the end of the presentation, Mr. Schmidt concluded that the VTA assumptions are in line with peer group and that VTA current funding status and contribution rates are comparable to peer group.

On order of Chairperson Williams, there being no objection, the Committee reviewed the VTA-ATU Pension Plan Actuarial Valuation as of January 1, 2008.

20. Bond Refunding Results

Kim Koenig, Fiscal Resources Manager, provided a brief overview and summation of the bond refunding results. Ms. Koenig noted the following: 1) the two transactions for refunding the 2005 and 2006 bonds were completed in the end of June; 2) assuming interest rates had stayed constant, savings in the first month after closing were approximately \$685,232; 3) rates for Ambac continued to stay high so the conclusion was that it was a good decision to go uninsured and drop Ambac; and 4) estimated cost of Ambac penalty is at \$3.4 million.

Chairperson Williams recommended that this report be shared with the entire Board.

On order of Chairperson Williams, there being no objection, the Committee reviewed the Bond Refunding Results.

21. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

22. Committee Work Plan

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

23. Committee Staff Report

Joseph Smith, Chief Financial Officer, updated the Committee that VTA would be redeeming the 1985 Equipment Trust Certificates. He presented an outline of the scope of the transaction as follows:

- \$26.5 million of Ambac insured variable rate bonds outstanding with a variable to fixed interest rate swap in place;
- Final maturity was 6/1/2015;
- Certificates would be redeemed (retired) on September 2, 2008 and associated swap will be terminated;
- Cost to redeem estimated to be \$25 million (when taking into consideration pledged funds on hand with Trustee and swap termination payment to GenRe);
- Reasons for redemption:
 1. Exposure to higher interest rates that could result if Ambac is downgraded further
 2. Current investment yields are less than the cost to keep these funds outstanding
 3. Budgetary savings related to interest expense and associated annual fees (\$5.4 million FY09-FY15: not including the principal repayment of \$26.5M).

24. Chairperson's Report

There was no Chairperson's Report.

25. Determine Consent Agenda for the September 4, 2008 Board Meeting

Consent: Agenda Item #15., Authorize the General Manager to execute a contract with Union Bank of California for commercial banking and custodial safekeeping services in an amount not to exceed \$541,000 for a period of five years; and, further authorize the General Manager to extend such contract on an annual basis for up to an additional five years; **Agenda Item #16.,** Adopt a Resolution amending Section 4.1 of the Citizens Advisory Committee bylaws, as indicated, to include as an additional responsibility of the CAC Chairperson to provide to the Board of Directors at each of its meetings a verbal report on the previous CAC meeting and any concerns of the Committee

Regular: None

26. Announcements

Michael T. Burns, General Manager, announced that Board Member Nora Campos had a baby.

27. ADJOURNMENT

On order of Chairperson Williams, there being no objection, the meeting was adjourned at 1:35 p.m.

Respectfully submitted,

Yolanda Cruz, Assistant Board Secretary
VTA Board of Directors