

ADMINISTRATION & FINANCE COMMITTEE

Thursday, January 15, 2009

MINUTES

On General Consensus and there being no objection, the Committee appointed Board Member Gage as Chairperson Pro Tempore.

CALL TO ORDER

The Regular Meeting of the Administration and Finance Committee (A&F) was called to order at 12:00 p.m. by Chairperson Pro Tempore Gage in Room B-104, VTA River Oaks Campus, 3331 North First Street, San Jose, California.

1. ROLL CALL

| Attendee Name | Title | Status | Arrived |
|----------------------|------------------------|---------------|----------------|
| David Casas | Board Member | Absent | |
| Don Gage | Board Member | Present | |
| Liz Kniss | Board Member | Absent | |
| Chuck Reed | Board Member | Present | |
| Nora Campos | Alternate Board Member | Absent | |
| Chris Moylan | Alternate Board Member | Present | |

* Alternates do not serve unless participating as a Member.

A quorum was present.

2. PUBLIC PRESENTATIONS

There were no Public Presentations.

3. ORDERS OF THE DAY

Chairperson Pro Tempore Gage noted the request of Administration and Finance (A&F) Committee Chairperson Liz Kniss to defer the following Item to the February 19, 2009 A&F Committee Meeting: **Agenda Item #10**, Election of the A&F Committee Vice Chairperson for 2009.

Chairperson Pro Tempore Gage moved the following Items to the end of the Agenda: **Agenda Item #4**, Closed Session and **Agenda Item #5**, Closed Session Report.

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

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

The Agenda was taken out of order.

Agenda Item #4., Closed Session and **Agenda Item #5.**, Closed Session Report were moved to the end of the Agenda.

4. RECESS TO CLOSED SESSION

Anticipated Litigation--Conference with Legal Counsel

Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9: (Three cases)

5. CLOSED SESSION REPORT

CONSENT AGENDA

6. Regular Meeting Minutes of December 18, 2008

M/S/C (Reed/Moylan) to approve the Regular Meeting Minutes of December 18, 2008.

7. 2008 Year End Attendance Report

M/S/C (Reed/Moylan) to review the 2008 Year End Attendance Report.

8. Monthly Investment Report - November 2008

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

9. Monthly Legislative History Matrix

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

REGULAR AGENDA

10. (Deferred to the February 19, 2009 A&F Committee Meeting.)

Conduct voting to determine the A&F Committee's Vice Chairperson for calendar year 2009.

11. Amendment to VTA Unrestricted and Restricted Funds Investment Policy

Joseph Smith, Chief Financial Officer and Staff Liaison, reported on amendments to VTA's Unrestricted and Restricted Funds Investment Policy concern Section 18 – Performance Standards. VTA's Unrestricted and Restricted Funds are currently invested in three separate portfolios, which include investments with the State of California Local Agency Investment Fund (LAIF), and two investment accounts with a fixed income money manager.

The two investment accounts held with the fixed income money manager are differentiated by investment horizons with one fund dedicated for VTA's short-term cash requirements and the other for long-term requirements. Mr. Smith noted staff recommended the addition of a new fixed income portfolio with an investment horizon of one to three years.

Mr. Smith reported VTA's short-term funds index will be iMoneynet Money Market Index, mid-term funds index will be Merrill Lynch one to three years Treasury Index, and intermediate long-term funds index will be Barclays' Capital U.S. Government Intermediate Index.

M/S/C (Reed/Moylan) to approve submitting a recommendation to the Board of Directors to approve recommended changes to the Investment Policy for VTA Unrestricted and Restricted Funds.

12. 2010 Census Partnership

Greta Helm, Chief External Affairs Officer, reported VTA received a request from the County of Santa Clara to participate in a Partnership Network that includes all the major stakeholders within the County regarding the 2010 Census.

Ms. Helm stated a significant portion of VTA's future funding will be impacted by the results of the 2010 Census, noting that population is used as a formula-based factor to determine transportation programs at the state and federal levels.

Bernice Alaniz, Marketing and Public Affairs Deputy Director, reported VTA would support the County Census outreach efforts by providing transit advertising space, printing, and posting multilingual Census outreach materials. VTA would allocate a portion of its own allocated interior car card transit advertising space on both bus and light rail vehicles and post outreach messages on the exterior of buses, at light rail stations, and at bus shelters. VTA will provide a value of \$86,000 in advertising space generally utilized for VTA campaigns, media trades, and partnerships. The outreach campaign is scheduled to begin October 2009 and end April 2010.

Alternate Board Member Moylan queried when the County Census data would be available. Ms. Alaniz responded staff will follow up with the information to report back to the Board Members.

On order of Chairperson Pro Tempore Gage and there being no objection, the Committee reviewed the 2010 Census Partnership.

Board Member Reed recused himself per Government Code Section 84308 from the following Agenda Items: **Agenda Item #13**, Authorize the General Manager to execute an agreement with WEDGE Capital Management, LLP (WEDGE) for the management of the Domestic Small Cap Value Equity portfolio portion of VTA/ATU Pension Plan assets; and **Agenda Item #14**, Authorize the General Manager to increase the contract authority for technology general consulting services by the amount of \$3.9 million for a new total contract authority of \$13.5 million.

Board Member Reed recused himself and left his seat at 12:14 p.m., the quorum was lost, and a Committee of the Whole was declared.

13. Contract for Small Cap Investment Managing Firm

Joseph Smith, Chief Financial Officer and Staff Liaison, reported Mercer Investment Consulting recommended the termination of Brandywine as VTA's current Small Capital Investment Managing firm for the Amalgamated Transit Union (ATU) Pension Plan as a

result of overall long-term under performance and a portfolio structuring analysis.

Mr. Smith commented the VTA/ATU Board of Pension supported the recommended termination and authorized a replacement search at its September 9, 2008 meeting.

VTA requested Mercer search for a Domestic Small Capital Equity Value manager and provide the credentials of the selected Investment Management Firms to VTA/ATU Pension Board. The Pension Board selected the top three candidates for interviews based on the organization and performance. Interviews were evaluated by a panel consisting of two VTA management representatives and two ATU representatives utilizing the following factors and criteria:

- Impression of the Project Manager;
- Quality of the Team's Oral Presentation;
- Content of the Team's Oral Presentation;
- Answers to Questions;
- Project Manager's ability to work with VTA; and
- Overall Impression of the Team.

VTA's interview panel recommended WEDGE as the preferred Small Capital Investment Managing firm primarily for its solid management performance through a variety of market environments. Mr. Smith reported WEDGE's stock selection strategy is well balanced between quantitative and qualitative analysis.

On order of Chairperson Pro Tempore Gage and there being no objection, the Committee of the Whole approved forwarding the item without a recommendation to the Board of Directors for consideration at the February 5, 2009 VTA Board of Directors Regular Meeting and authorize the General Manager to execute an agreement with WEDGE Capital Management, LLP (WEDGE) for the management of the Domestic Small Cap Value Equity portfolio portion of VTA/ATU Pension Plan assets. Board Member Reed recused.

14. General Tech Consulting Contract Authority Amendment

Gary Miskell, Chief Information Officer, reported that VTA issued a Request for Proposal (RFP) in March 2005 to solicit bids from firms for specialized technical consulting services. VTA's review panel consisting of Technology, Operations, and Contracts staff evaluated the proposals and selected 16 firms. Mr. Miskell stated in September 2005, the Board of Directors authorized \$3 million in contract authority for a period of five years for the 16 firms selected.

Mr. Miskell noted the Board approved an increase of \$3.4 million in August 2006 and \$3.2 million in March 2008 for a total current contract authority of \$9.6 million. The request for \$3.9 million will have a new total contract authority of \$13.5 million. The \$3.9 million contract increase will allow the Technology Department and Congestion Management Agency to continue contracting with the 16 selected firms until the contract authority expires in September 2010.

Mr. Miskell stated budget appropriations for existing projects and programs are available in VTA's FY 2009 Adopted Transit Enterprise and Valley Transportation Plan (VTP) Highway Improvement Program Fund Budgets. Appropriations for future projects and programs will be included in VTA's Recommended FY 2010 and FY 2011 Biennial Budget.

On order of Chairperson Pro Tempore Gage and there being no objection, the Committee of the Whole approved forwarding the item without a recommendation to the Board of Directors for consideration at the February 5, 2009 VTA Board of Directors Regular Meeting and authorize the General Manager to increase the contract authority for technology general consulting services by the amount of \$3.9 million for a new total contract authority of \$13.5 million. Board Member Reed recused.

Board Member Reed took his seat at 12:21 p.m. and the quorum was declared.

OTHER ITEMS

15. Actuarial Valuation of VTA's Other Post Employment Benefits (OPEB) as of July 1, 2008

Ali Hudda, Deputy Director of Accounting, reported VTA provides retiree health care as a post employment benefit to its employees. VTA has performed actuarial valuations of the obligation since 1996. VTA has prefunded its share of retiree health benefits and accumulated \$104.4 million in assets as of June 30, 2008.

Mr. Hudda stated the Governmental Accounting Standards Board (GASB) has issued Statement No. 45, an accounting rule regarding accounting for retiree health benefits. 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. Mr. Hudda stated VTA adopted and implemented GASB 45 in FY 2008.

Mr. Hudda reported Bickmore Risk Services, a firm specializing in actuarial services, prepared VTA's Actuarial Valuation Report regarding VTA's Retiree Medical Plan as of July 1, 2008. The Plan's Unfunded Actuarial Accrued Liability (UAAL) is \$121 million and funded ratio is 46.3 percent, as compared to 42 percent as of July 1, 2007.

Mr. Hudda introduced Jeff Furnish, Bickmore Risk Services representative, who directed attention to the presentation entitled, "Santa Clara Valley Transportation Authority (VTA) Retiree Medical Valuation Report," highlighting: Government Accounting Standards Board (GASB) 45 at VTA for 2008 – 2009 Fiscal Year; Implicit Rate Subsidy; Assumption Changes; Financial Statement Items; Valuation Results; What are Other Agencies doing; and VTA Funded Status.

Mr. Furnish reported GASB 45 requires pension style prefunding for OPEB benefits. VTA began funding its retiree medical benefits on an actuarial basis similar to GASB 45 in 1993, while most other agencies were funding on a pay as you go basis. Mr. Furnish stated VTA's assets exceed \$100 million as of July 1, 2008 and have been transferred to an irrevocable trust.

Mr. Furnish commented on the Implicit Rate Subsidy, which is the cost to the employer that is caused by the presence of retired employees in the health and dental insurance group maintained for current employees. GASB 45 requires Implicit Rate Subsidy to be included in the calculation of OPEB liability. Carriers are charges same group insurance premiums for pre-Medicare retirees and active members. Retirees cost more than active employees because they are older. GASB requires accounting for and prefunding disclosure of the Implicit Rate Subsidy.

Mr. Furnish commented VTA's assumed rate of return increased from 7 percent to 7.75 percent based on the expectation of long-term asset return, which is the rate used by the California Public Employees' Retirement System (CALPERS).

Bickmore Risk Services valuation computed VTA's Annual Required Contribution (ARC) will have to increase from \$15.4 million in FY 2008 to \$15.6 million in FY 2009 assuming amortization of the Unfunded Actuarial Accrued Liability (UAAL) over a rolling 20 year period.

Board Member Reed expressed his appreciation to VTA's previous Board of Directors and staff on their decision to prefund the retiree health obligation.

On order of Chairperson Pro Tempore Gage and there being no objection, the Committee received the report on the Actuarial Valuation of VTA's Other Post Employment Benefits (OPEB) as of July 1, 2008.

16. Brief Report on Advisory Committee Enhancement Process

Jennie Loft, Public Information Officer, reported in August 2008, VTA's Advisory Committee Enhancement process was initiated by Michael T. Burns, General Manager, to engage the Advisory Committee members in the development process to improve and maximize the role between the Committees and the Board of Directors.

Ms. Loft noted each Advisory Committee established a subcommittee to develop proposals, recommendations, and a draft mission statement for consideration by the full Committee. The draft mission statement for each Committee will be incorporated into the bylaws for the Committee and forwarded for consideration to the Board of Directors at the conclusion of the Advisory Committee Enhancement process.

Ms. Loft reported the Advisory Committee Enhancement Task Force will review the roles and duties of all of VTA's Advisory Committees; define each Committee's role and responsibilities to maximize the contribution of each Committee to the Board of Directors; provide input on the development of the Board of Directors 2009 Consolidated Work Plan based on each Committee's duties, responsibilities, and areas of expertise as defined in its bylaws; and submit any Task Force recommendation to the individual Committees for review and consideration.

Stephen Flynn, Senior Management Analyst, noted the Task Force is scheduled to meet on Thursday, January 29, 2009 at VTA River Oaks Campus in Conference Room B-104.

Alternate Board Member Moylan stressed the importance of the Policy Advisory Committee (PAC) role and fiduciary responsibility to the Board of Directors.

Chairperson Pro Tempore Gage recommended at the conclusion of the Advisory Committee Enhancement process, the proposed changes for VTA's Advisory Committees be forwarded for discussion at a Board of Directors Workshop meeting prior to the Regular Board of Directors meeting for consideration and adoption.

On order of Chairperson Pro Tempore Gage and there being no objection, the Committee received the report on the Advisory Committee Enhancement Process.

17. Items of Concern and Referral to Administration

There were no Items of Concern and Referral to Administration.

Kurt Evans, Government Affairs Manager, commented on the Federal Economic Stimulus Bill and the State Budget. Mr. Evans stated the goal, from an economic stimulus standpoint, is to focus on some California consensus principals, noting the California Department of Transportation (Caltrans) is taking the lead on the effort.

Mr. Evans noted at the local level, staff is currently working with the cities and County to ensure that everything is in place when information becomes available regarding federal legislation and transportation funding from the State.

18. Committee Work Plan

On order of Chairperson Pro Tempore Gage and there being no objection, the Committee reviewed the Committee Work Plan.

19. Committee Staff Report

Joe Smith, Chief Financial Officer, provided an update on VTA's sales tax receipts for the 1st quarter of FY 2009, which was 4 percent less compared to FY 2008. Mr. Smith noted the financial impacts to VTA's FY 2010 and FY 2011 Biennial Budget, noting VTA is working aggressively to manage the shortfalls.

20. Chairperson's Report

Chairperson Pro Tempore Gage noted the economical challenges of the coming year.

21. Determine Consent Agenda for the February 5, 2009 Board Meeting

CONSENT: Agenda Item #11, Approve recommended changes to the Investment Policy for VTA Unrestricted and Restricted Funds;

Agenda Item #13, Authorize the General Manager to execute an agreement with WEDGE Capital Management, LLP (WEDGE) for the management of the Domestic Small Cap Value Equity portfolio portion of VTA/ATU Pension Plan assets;

Agenda Item #14, Authorize the General Manager to increase the contract authority for technology general consulting services by the amount of \$3.9 million for a new total contract authority of \$13.5 million; and

Agenda Item #15, Actuarial Valuation of VTA's Other Post Employment Benefits (OPEB) as of July 1, 2008.

REGULAR: None

22. Announcements

There were no Announcements.

4. RECESSED TO CLOSED SESSION at 1:05 p.m.

Anticipated Litigation - Conference with Legal Counsel

Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9: (Three cases)

RECONVENED TO OPEN SESSION at 1:24 p.m.

5. CLOSED SESSION REPORT

Anticipated Litigation - Conference with Legal Counsel

Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9: (Three cases)

There was no reportable action taken during Closed Session.

23. ADJOURNMENT

On order of Chairperson Pro Tempore Gage and there being no objection, the meeting was adjourned at 1:24 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant
VTA Board of Directors