

ADMINISTRATION & FINANCE COMMITTEE

Thursday, January 20, 2011
12:00 PM

VTA Conference Room B-104
3331 North First Street
San Jose, CA

AGENDA

CALL TO ORDER

1. ROLL CALL

2. PUBLIC PRESENTATIONS:

This portion of the agenda is reserved for persons desiring to address the Committee on any matter not on the agenda. Speakers are **limited to 2 minutes**. The law does not permit Committee action or extended discussion on any item not on the agenda except under special circumstances. If Committee action is requested, the matter can be placed on a subsequent agenda. All statements that require a response will be referred to staff for reply in writing.

3. ORDERS OF THE DAY

CONSENT AGENDA

- 4.** Approve the Regular Meeting Minutes of October 21, 2010.
- 5.** INFORMATION ITEM - Review the Monthly Legislative History Matrix.
- 6.** INFORMATION ITEM - Receive a Report on Santa Clara Valley Transportation Authority Investments for the Month of November 2010.
- 7.** ACTION ITEM - Approve the 2011 Administration and Finance (A&F) Committee Meeting Schedule.

REGULAR AGENDA

- 8.** ACTION ITEM - Conduct voting to determine the Committee's vice chairperson for calendar year 2011.

9. ACTION ITEM - Authorize the General Manager to execute a contract with the County of Santa Clara to provide 1,850 quarterly transit stickers for use by homeless and at risk of being homeless individuals in the amount of \$111,000 per year. The contract will be effective April 1, 2011 for a period not to exceed three years.

OTHER ITEMS

10. INFORMATION ITEM - Receive a report on the FY 2012 and FY 2013 Biennial Budget Assumptions.
11. INFORMATION ITEM - Actuarial Valuation of VTA's Other Post Employment Benefits as of July 1, 2010.
12. Items of Concern and Referral to Administration.
13. Review Committee Work Plan.
14. Committee Staff Report. (J. Smith)
15. Chairperson's Report. (Kniss)
16. Determine Consent Agenda for the February 3, 2011 Board of Directors Meeting.
17. ANNOUNCEMENTS
18. ADJOURN

NOTE COMMITTEE MEMBERS: In order to establish a quorum for this meeting, members are asked to call the Board Secretary's Office at (408) 321-5680 or E-mail: bd.sec.polling@vta.org before 5:00 p.m. on the day prior to the meeting. Thank you for your cooperation.

In compliance with the Americans with Disabilities Act (ADA), those requiring accommodations or accessible media for this meeting should notify the Board Secretary's Office 48 hours prior to the meeting at (408) 321-5680 or e-mail: board.secretary@vta.org, TDD (408) 321-2330. VTA's Homepage is located on the Web at: <http://www.vta.org/> or visit us on Facebook <http://www.facebook.org/scvta>.

Disclosure of Campaign Contributions to Board Members (Government Code Section 84308) In accordance with Government Code Section 84308, no VTA Board Member shall accept, solicit, or direct a contribution of more than \$250 from any party, or his or her agent, or from any participant, or his or her agent, while a proceeding involving a license, permit, or other entitlement for use is pending before the agency. Any Board Member who has received a contribution within the preceding 12 months in an amount of more than \$250 from a party or from any agent or participant shall disclose that fact on the record of the proceeding and shall not make, participate in making, or in any way attempt to use his or her official position to influence the decision. A party to a proceeding before VTA shall disclose on the record of the proceeding any contribution in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any Board Member. No party, or his or her agent, shall make a contribution of more than \$250 to any Board Member during the proceeding and for three months following the date a final decision is rendered by the agency in the proceeding. The foregoing statements are limited in their entirety by the provisions of Section 84308 and parties are urged to consult with their own legal counsel regarding the requirements of the law.

All reports for items on the open meeting agenda are available for review in the Board Secretary's Office, 3331 North First Street, San Jose, California, (408) 321-5680, the Monday, Tuesday, and Wednesday prior to the meeting. This information is available on VTA's website at <http://www.vta.org/> and also at the meeting.

**NOTE: THE BOARD OF DIRECTORS MAY ACCEPT, REJECT OR MODIFY
ANY ACTION RECOMMENDED ON THIS AGENDA.**

ADMINISTRATION & FINANCE COMMITTEE

Thursday, October 21, 2010

MINUTES

CALL TO ORDER

The Regular Meeting of the Administration and Finance Committee (A&F) was called to order at 12:07 p.m. by Chairperson Kniss in Room B-104, VTA River Oaks Campus, 3331 North First Street, San Jose, California.

1. ROLL CALL

Attendee Name	Title	Status
Don Gage	Board Member	Absent
Liz Kniss	Chairperson	Present
Chuck Reed	Board Member	Present
Perry Woodward	Vice Chairperson	Absent
Nora Campos	Alternate Board Member	NA
Pete McHugh	Alternate Board Member	Present
George Shirakawa	Alternate Board Member	NA

* 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

There were no Orders of the Day.

CONSENT AGENDA

4. Regular Meeting Minutes of September 16, 2010

M/S/C (McHugh/Reed) to approve the Regular Meeting Minutes of September 16, 2010.

5. Monthly Legislative History Matrix

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

6. Monthly Investment Report – August 2010

M/S/C (McHugh/Reed) to review the Report on Santa Clara Valley Transportation Authority Investments for the month of August 2010.

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

7. **Quarterly Attendance Report**

M/S/C (McHugh/Reed) to review the 2010 Quarterly Attendance Report for the VTA Board of Directors, Ad-Hoc Committees, Board Standing Committees, and Board Advisory Committees.

REGULAR AGENDA

8. **Fiscal Year 2010 Quarterly Statement of Revenues and Expenses for the Period Ending June 30, 2010**

Carol Lawson, Fiscal Resources Manager, reported that VTA's Fiscal Year (FY) to date Total Revenues is below budget estimates by \$2.6 million due to unfavorable variances in Sales Tax Revenues, Fares, the Transportation Development Act (TDA), and Measure A Sales Tax Operating Assistance.

The revenue shortfall was partially offset with Federal Operating Grants by using 10 percent of the American Recovery and Reinvestment Act (ARRA) funds for operating and reprogramming unused capital grants and supplemental ARRA funds to preventive maintenance.

Ms. Lawson commented that VTA's FY to date Total Expenses were \$15 million below budget due to favorable variances in Labor Costs, Professional and Special Services, Other Services, Fuel, Reimbursement, Paratransit, and Debt Service.

Ms. Lawson stated that VTA's FY 2010 Actual surplus to reserves was \$16 million; therefore, ending at 15 percent operating reserve level.

Joseph Smith, Chief Financial Officer, stated VTA as a whole worked together to aggressively manage expenditures and adjust the budget.

The Committee complimented staff and VTA Board Members for their diligent work during these hard economic times. Their efforts enabled VTA to end FY 10 in a better financial position than anticipated.

Michael T. Burns, General Manager, expressed appreciation to the entire organization for working collaboratively to address the budget concerns.

M/S/C (McHugh/Reed) to review and accept the Fiscal Year 2010 Quarterly Statement of Revenues and Expenses for the period ending June 30, 2010.

9. **VTA Permit Fee Schedule**

Bill Kindricks, Business Relations Manager, reported VTA's Permit Policy and Permit Fee Schedule includes the following proposed changes:

- Revision of VTA Background Security Check Standards;
- Update of VTA Permit Fee Schedule, revising fees and adding fees for service impacts; and
- Adjustment of fees consistent with the VTA revised allocated rates.

Upon query from Board Member Reed, Mr. Kindricks responded that the proposed Permit Fee Schedule is based upon the fully allocated costs for issuing permits, performing inspection services, and other permit related services. Costs to be charged for various labor services will be calculated on a fully allocated cost basis.

M/S/C (McHugh/Reed) to approve submitting a recommendation to the Board of Directors to adopt a resolution amending the VTA Permit Fee Schedule, adjusting fees to be collected for Restricted Access Permits and Construction Access Permits to be consistent with the revision of VTA allocated rates.

Board Member Reed indicated he would abstain from **Agenda Item #10**. Contract Award for Operations Insurance Broker.

The quorum was lost and a Committee of the Whole was declared.

10. Contract Award for Operations Insurance Broker

Nanci Eksterowicz, Risk Manager, reported that VTA utilizes the services of a licensed insurance broker for the procurement and management of the insurance policies that comprise VTA's Operations Insurance Program. The Operations Insurance Program is marketed annually with the policies renewing on July 1st. The current broker contact with Alliant Insurance Services expires on January 31, 2011.

VTA issued a Request for Proposals (RFP) on July 28, 2010 and received several proposals. VTA's selection panel selected three vendors and recommended Alliant Insurance Services for contract award based on performance, experience, and competitive pricing.

The Committee of the Whole recommended forwarding the item for consideration at the November 4, 2010 VTA Board of Directors Regular Meeting: Authorize the General Manager to execute a three year fixed fee contract for \$213,060; with two additional one year options at \$80,609 for the first optional extension and \$75,862 for the second extension; for a grand total of \$369,531; with Alliant Insurance Services to provide insurance brokerage and loss control service for VTA operations.

The quorum was re-established.

11. Measure A Bond Financing

Mr. Burns noted the Measure A Bond Financing is an action item scheduled for VTA's Board Workshop/Special Meeting on Friday, October 22, 2010. Mr. Burns stated this will ensure a good position for VTA.

Kim Koenig, Fiscal Resources Manager, reported the recommendation is to authorize the General Manager to issue up to \$800,000,000 of Measure A Sales Tax Revenue Bonds, which the proceeds will be used to finance certain Measure A capital expenditures, provide a debt service reserve fund, and to pay the costs of issuance.

Ms. Koenig commented on significant achievements of the BART Silicon Valley Rapid Transit (SVRT) Program including: 1) 65 percent design completion, 2) federal environmental clearance, and 3) the passage of the 2008 Measure B Sales Tax, which is a dedicated funding source for the operations and maintenance of the BART extension to Santa Clara County.

Ms. Koenig continued that development of procurement documents for design build contracts associated with the Berryessa Extension (SVBX) are underway and will result in the release of the first Request for Qualifications (RFQ) on October 21, 2010, which will be followed by a Request for Proposals (RFP) in early 2011.

The significant progress in the SVRT Program places VTA in an excellent position to accelerate the bonding plans before the end of 2010 than issue bonds in FY 2012 and FY 2013.

Ms. Koenig commented on the following advantages to VTA and the Measure A Program:

- Historically low interest rates based on current market conditions;
- Issue Build America Bonds (“BABs) with a 35 percent federal subsidy prior to the expiration of the authorization of BABs on December 31, 2010;
- Lock in a Measure A funding rate that is significantly lower than assumed for the New Starts financial plan and reducing interest rate risk for the Measure A Program; and
- Strengthen VTA’s case to the Federal Transit Administration (FTA) for the Full Funding Grant Agreement by having the local match funds available, which will attract more favorable construction bids.

Ms. Koenig stated that staff proposes to structure the 2010 Bonds as a combination of fixed rate BABs and tax exempt bonds, which will mature not later than 2036. Staff recommends the use of a negotiated sale for the 2010 Bonds in order to take advantage of low interest rates and BABs authorization.

Ms. Koenig reported that staff issued a task order for Ross Financial to provide financial advisory services as well as contracts with Orrick, Herrington & Sutcliffe LLP and Fulbright & Jaworski LLP for the Bond and Disclosure Counsel, which are included in VTA’s legal services pool. The combined fees will be funded from the 2010 Bond proceeds.

The following underwriters will market and place the 2010 Bonds and are firms included in VTA’s Investment Banking Pool: Barclays Capital and Citigroup Capital Markets and J.P. Morgan, Morgan Stanley, De La Rosa & Co., Stone & Youngberg. Ms. Koenig stated the underwriting fees plus expenses will be funded from the bond proceeds.

Ms. Koenig commented on the following attachments to the Measure A Bond Financing:

- Supplemental Indenture - supplements the Master Indenture by establishing the terms of the 2010 Bonds including provisions related to BABs and the treatment of the federal subsidy payments, principal payment dates, redemption provisions, maturities, and reserve fund requirement;
- Purchase Contract - sets forth the price to be paid for the 2010 Bonds, the interest rates that the bonds will bear and all closing conditions, including required legal opinions and certifications;
- Official Statement – includes a description of the bonds, the purpose of the bonds, what is pledged as security for repayment of the bonds and the risks inherent in owning the bonds. And contains legal issues relevant to the bonds. The final OS will not be completed until after the 2010 Bonds are sold;
- Continuing Disclosure Agreement – summarizes specific operating and financial information that VTA will provide on a continuing basis.

Ms. Koenig continued that the Board of Directors could either choose not to issue the 2010 Bonds or sell the 2010 Bonds using a competitive sale method. However, this would increase the cost of funds for the Measure A Program due to the expiration of the

35 percent Federal Government subsidy as well as potential increases in long term interest rates.

Ms. Koenig stated a competitive sale will prevent VTA the flexibility to respond to market demand or change the allocation between tax exempt and BABs, which would result in a less cost effective financing. The estimated cost of issuance for the 2010 Bonds is approximately \$3 million, which will be funded from the bond proceeds and amortized over the life of the bonds.

Mr. Burns stated that the intent is to take advantage of the opportunities that would be beneficial to both VTA and the Measure A Program, such as securing low interest rates and utilizing the BABs 35 percent federal government subsidy.

Upon query from Board Member Reed, Ms. Koenig responded that if the federal government reneges on its contract to provide the 35 percent subsidy, VTA believes the risk to be remote.

Kathleen Leek, Bond Counsel, responded that VTA has the ability to redeem the bonds in the event that there is a change in tax law, noting all the available protections are incorporated within the documents. Ms. Leek noted that the issuance of BABs implies with it that the public agency takes the risk if the federal government reneges on its contract to provide the subsidy; however, this is understood by the issues in the market place.

Board Member Reed queried about the spend down requirements regarding the federal tax code. Ms. Koenig responded that VTA has to show a reasonable expectation that VTA will be able to spend the bond proceeds within certain time frames, which may be between three and five years and is set once the bonds are issued.

Ms. Koenig reported if VTA does not meet the spend down requirements then the interest earned on the bonds that is over and above what VTA is paying is rebated to the Internal Revenue Service (IRS). Ms. Koenig stated that staff does not anticipate this scenario occurring since VTA will be earning less on the bond funds than what VTA is paying.

Ms. Koenig continued that VTA will spend the funding on good expenditures, such as the Measure A Program projects, Bus Rapid Transit (BRT), and other allowable projects.

Alternate Board Member McHugh expressed his support, noting the huge benefits of moving forward with the recommendation to issue the Measure A Bond Financing.

Board Member Reed suggested that the arbitral provisions within the memorandum be reworded for the October 22, 2010 Board of Directors Workshop/Special Meeting. Mr. Burns responded that staff will provide an explanation at the Board Workshop/Special Meeting scheduled on Friday, October 22, 2010.

M/S/C (McHugh/Reed) to approve submitting a recommendation to the Board of Directors to adopt a Resolution authorizing the General Manager or his designee to take all necessary actions to offer, via negotiated sale, up to \$800,000,000 of Measure A Sales Tax Revenue Bonds, Series 2010 (the "2010 Bonds") in the form of tax-exempt bonds and/or Build America Bonds ("BABs") to finance certain Measure A capital expenditures, provide a debt service reserve fund, and to pay the costs of issuance.

12. **Santa Clara Valley Transportation Authority (SCVTA) - Amalgamated Transit Union (ATU), Local 265 Pension Plan Amendments**

Bill Lopez, Chief Administrative Officer, reported the proposed plan amendments to the SCVTA – ATU Pension Plan will ensure the Plan is tax compliant as required by the Internal Revenue Service (IRS). The Proposed Plan Amendments will be submitted with the request for a favorable Determination Letter from the IRS. VTA’s Board of Pensions has agreed to enter into the Voluntary Correction Program, which permits plans to retroactively correct certain compliance issues without penalty.

Mr. Lopez noted the recommendation also allows the Board to authorize all future Plan amendments required by the IRS that do not affect the level of the pension benefit to ensure the Plan is tax compliant.

The Proposed Plan Amendments have tentatively been agreed upon and are subject to ratification by the ATU Board on Thursday, October 21, 2010 and VTA’s Board of Directors on Thursday, November 4, 2010.

M/S/C (Reed/McHugh) to approve submitting a recommendation to the Board of Directors to approve the Proposed Plan Amendments to the Santa Clara Valley Transportation Authority - Amalgamated Transit Union, Local 265 Pension Plan. In addition, authorize all future Plan amendments as required by the Internal Revenue Service (IRS) to ensure the Plan’s tax compliance.

OTHER ITEMS

13. **Items of Concern and Referral to Administration**

There were no Items of Concern and Referral to Administration.

14. **Committee Work Plan**

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

15. **Committee Staff Report**

Mr. Smith noted the Measure A Bond Financing item would be forwarded for consideration to VTA’s Board of Director Workshop/Special Meeting on Friday, October 22, 2010.

Mr. Smith confirmed that the Board Members received the following Measure A Bond Financing Attachments:

- Attachment 2B – Fourth Supplemental Indenture (Draft dated 10/14/10);
- Attachment 2C – Purchase Contract (Draft dated 10/14/10);
- Attachment 2D – Preliminary Official Statement * (Draft dated 10/11/10);
- Attachment 2E – Continuing Disclosure Certificate (Draft dated 10/10/10); and
- Attachment 2F – Resolution.

Mr. Smith noted that VTA received an unqualified opinion on VTA’s financial statements for FY 2010 from the external auditors. VTA’s credit rating is scheduled to be reviewed on October 28, 2010 with the pricing transaction in November 2010.

Upon query from Board Member Reed, Mr. Burns responded that VTA has been very conservative on sales tax revenue projection analysis.

Ms. Koenig referenced the Measure A Bond Financing, noting VTA's indenture allows for a 1.3 coverage, which means the sales tax is 130 percent greater than the debt service.

Jim Lawson, Executive Policy Advisor, noted the importance that projections are not accurate; therefore, staff recommends that the Board adopt principles to act on to meet VTA's financial goals.

16. Chairperson's Report

There was no Chairperson's Report.

17. Determine Consent Agenda for the November 4, 2010 Board of Directors Meeting

CONSENT: Agenda Item #8. Review and accept the Fiscal Year 2010 Quarterly Statement of Revenues and Expenses for the period ending June 30, 2010;

Agenda Item #9. Adopt a resolution amending the VTA Permit Fee Schedule, adjusting fees to be collected for Restricted Access Permits and Construction Access Permits to be consistent with the revision of VTA allocated rates;

Agenda Item #11. Adopt a Resolution authorizing the General Manager or his designee to take all necessary actions to offer, via negotiated sale, up to \$800,000,000 of Measure A Sales Tax Revenue Bonds, Series 2010 (the "2010 Bonds") in the form of tax-exempt bonds and/or Build America Bonds ("BABs") to finance certain Measure A capital expenditures, provide a debt service reserve fund, and to pay the costs of issuance; and

Agenda Item #12. Approve the Proposed Plan Amendments to the Santa Clara Valley Transportation Authority - Amalgamated Transit Union, Local 265 Pension Plan. In addition, authorize all future Plan amendments as required by the Internal Revenue Service (IRS) to ensure the Plan's tax compliance.

REGULAR: Agenda Item #10. Authorize the General Manager to execute a three year fixed fee contract for \$213,060; with two additional one year options at \$80,609 for the first optional extension and \$75,862 for the second extension; for a grand total of \$369,531; with Alliant Insurance Services to provide insurance brokerage and loss control service for VTA operations.

18. Announcements

Chairperson Kniss reminded the Committee Members of VTA's Board of Director Workshop/Special Meeting scheduled on Friday, October 22, 2010 at 9:00 a.m. held at the County Government Center in the Board of Supervisors Chambers.

Chairperson Kniss reminded the Committee to bring the two Measure A Bond Attachment booklets to VTA's Board of Directors Workshop/Special Meeting.

19. ADJOURNMENT

On order of Chairperson Kniss and there being no objection, the Committee meeting was adjourned at 12:55 p.m.

Respectfully submitted,

Michelle M. Garza, Board Assistant
VTA Office of the Board Secretary



Date: January 10, 2011
 Current Meeting: January 20, 2011
 Board Meeting: February 3, 2011

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief External Affairs Officer, Greta Helm

SUBJECT: Monthly Legislative History Matrix

FOR INFORMATION ONLY

BACKGROUND:

For your information, I am attaching our Monthly Legislative History Matrix, which describes the key transportation-related bills that are being considered by the California State Legislature during the 2011-2012 session. It indicates the status of these measures and any adopted VTA positions with regard to them.

DISCUSSION:

On January 3, Gov. Jerry Brown was sworn into office, and lawmakers returned to Sacramento to resume both the 2011-2012 regular legislative session and an emergency session on the state's budget called by former Gov. Arnold Schwarzenegger. With the Legislative Analyst's Office projecting an 18-month General Fund deficit of approximately \$28 billion, Gov. Brown and the Legislature will spend most of January trying to come up with solutions to fix the problem. The new Governor has said he wants to address the state's fiscal challenges within 60 days.

The Legislative Analyst's Office estimates that \$6 billion of the \$28 billion deficit can be attributed to the current fiscal year, while the remainder is the projected shortfall for FY 2012. In terms of the current-year budget, the Legislative Analyst's Office says about one-third of the solutions enacted last October will fall short. For example, it points out that California will likely receive only about \$1.9 billion in new federal aid, significantly less than the \$5.4 billion assumed in the current-year budget. At the same time, the Legislative Analyst's Office believes because well over two-thirds of the FY 2011 solutions are one-time or temporary in nature, the state will face sizable annual budget problems through FY 2016, suggesting a difficult path ahead for Gov. Brown and legislative leaders. Of note is the fact that \$8 billion in temporary sales, income and vehicle taxes are set to expire at the end of FY 2011.

What will happen to transportation during the budget discussions is unclear. In March 2010, Schwarzenegger and lawmakers enacted a complicated restructuring of state transportation funding sources. This three-bill “swap” package eliminated the state sales tax on gasoline and replaced it with a 17.3-cent increase in the per-gallon gasoline excise tax. The revenues from the gasoline excise tax increase were dedicated as follows: (a) to pay for debt service for highway bonds; and (b) to provide money for the State Transportation Improvement Program (STIP), local streets and roads, and the State Highway Operation and Protection Program (SHOPP). The distribution of these revenues was structured in such a way as to ensure that the STIP and local streets/roads would be allocated at least the same amount of money that they would have received had the old Proposition 42 gasoline sales tax not been eliminated.

In the case of public transit, the swap retained the sales tax on diesel fuel for the Public Transportation Account in order to provide ongoing funding for the State Transit Assistance Program (STA). Beginning in FY 2012, the state diesel sales tax rate will increase to 6.75 percent, in conjunction with a corresponding drop in the per-gallon diesel fuel excise tax to ensure that consumers feel no impact at the pump. Transit bond debt service (including debt service for high-speed rail bonds) will have first call on the revenues generated by the diesel sales tax. Any remaining revenues will be split 75 percent to STA, and 25 percent to intercity rail and other miscellaneous state transit programs.

The primary objective of the swap was to enable transportation revenues to be used to help close General Fund shortfalls. Through the complicated restructuring of state transportation funding sources, lawmakers were able to circumvent voter-approved restrictions that applied to gasoline sales tax revenues, as well as create a revenue stream that could be used to pay for debt service for highway-related general obligation bonds and to make loans to the General Fund.

However, on November 2, 2010, California voters approved two ballot measures that will impact the swap. Proposition 22, which was sponsored by a coalition consisting of the California Transit Association, the League of California Cities and the California Alliance for Jobs, puts in place stronger protections that are intended to prevent the state from taking, diverting or borrowing local government and transportation money to address General Fund deficits. Meanwhile, Proposition 26 makes it more difficult to increase revenues for transportation. This ballot measure generally says any action on the part of the state or a local government that increases any levy or charge paid by a taxpayer that does not result in a direct benefit to that taxpayer is a “tax” and, therefore, requires a two-thirds vote. Proposition 26 also prohibits the Legislature from engaging in the practice of raising one tax while simultaneously reducing another through a simple majority vote, an approach that lawmakers used to enact the transportation funding swap. Under Proposition 26, such “revenue-neutral” tax swaps require a two-thirds vote. Because these provisions are retroactive to January 1, 2010, and the transportation funding swap was enacted by a simple majority vote, the swap is in jeopardy unless the Legislature re-adopts it by a two-thirds vote before November 2, 2011.

Various legal opinions suggest that Proposition 22 prevents the state from borrowing transportation revenues for the General Fund, as was assumed in the FY 2011 spending plan. This means about \$400 million in loans from the Highway Users Tax Account (HUTA) to the General Fund that have not yet been executed would be impacted by Proposition 22. Another

key legal assumption is that the budgeted use of transportation funds to offset General Fund debt service costs related to transportation bonds is impermissible under Proposition 22, which would subtract \$400 million from the General Fund's bottom line in FY 2011 and \$1 billion annually thereafter. In response, Gov. Brown, in his budget submittal to the Legislature on January 10, put back on the table a proposal that was originally surfaced by Schwarzenegger that calls for transferring vehicle weight fee revenues, which the Department of Finance believes are not protected by Proposition 22, from the State Highway Account to the General Fund. This maneuver would achieve an estimated \$756 million in General Fund savings in FY 2011 and \$866 million in FY 2012. Revenues from the 17.3-cent increase in the state gas tax resulting from the transportation funding swap would then be used for transportation programs to backfill for the shifting of vehicle weight fee money to the General Fund.

In the case of Proposition 26, attorneys for the California State Association of Counties (CSAC), the League of California Cities and the California Transit Association contend that if the Legislature does not re-approve the transportation funding swap by a two-thirds vote before November 2011, the 17.3-cent-per-gallon increase in the gasoline excise tax would disappear, but the sales tax on gasoline would not come back. Likewise, the 1.75-percent increase in the diesel sales tax would go away and the cut to the diesel fuel excise tax would not be restored. The result would be a loss of \$2.5 billion in funding beginning in November 2011.

In response, a coalition consisting of CSAC, the League of California Cities, the California Transit Association, the California Alliance for Jobs, Transportation California, the Associated General Contractors (AGC), and the Regional Council of Rural Counties is drafting a legislative package for adoption in early 2011 that would: (a) reaffirm the transportation funding swap by a two-thirds vote; (b) address the General Fund's needs by supporting the proposed vehicle weight fee shift; and (c) in light of Proposition 22 legal interpretations, revise the distribution of revenues from the 17.3-cent gasoline excise tax and 1.75-percent diesel sales tax increases to achieve the same fiscal results that were anticipated with the enactment of the transportation funding swap. All of these elements are reflected in Gov. Brown's recommended budget plan.

In terms of policy legislation, given that the deadline for introducing new bills is not until February 18, only a couple of measures dealing with transportation have surfaced. One of note is AB 31 (Beall), which requires the cities and counties in the Central Valley to prepare and adopt a master plan for development of the areas surrounding their proposed high-speed rail stations.

Prepared By: Kurt Evans, Government Affairs Manager
Memo No. 2794

LEGISLATIVE HISTORY
2011 – 2012 State Legislative Session
December 22, 2010

State Assembly Bills

State Assembly Bills	Subject	Last Amended	Status	VTA Position
AB 3 (Miller) Motor Vehicles: Confidential Home Addresses	Requires a person who requests the confidentiality of his or her home address to provide the Department of Motor Vehicles (DMV) with a current employment address for purposes of processing the service and collection of a traffic, parking or toll road violation.	As Introduced	Assembly Desk	
AB 31 (Beall) High-Speed Rail: Local Master Plans	Establishes the High-Speed Rail Local Master Plan Pilot Program. Requires the cities and counties in the Central Valley that have an approved station for California's high-speed rail system to participate in the program. Requires the planning agency of each participating jurisdiction to prepare and adopt a master plan for development of the areas surrounding its high-speed rail station. Requires the master plan to include incentives for encouraging investment and coherent growth in the areas surrounding the high-speed rail system. Requires each participating jurisdiction to collaborate with the California Air Resources Board (CARB) to develop incentives to encourage development while concurrently reducing greenhouse gas emissions.	As Introduced	Assembly Desk	
AB 57 (Beall) State Highway System Planning	When carrying out long-term state highway system planning to identify future highway improvements, requires Caltrans to consult with metropolitan planning organizations (MPOs).	As Introduced	Assembly Desk	

State Senate Bills

State Senate Bills	Subject	Last Amended	Status	VTA Position
	None Introduced Yet.			

**CALIFORNIA STATE LEGISLATURE
2011 Regular Session Calendar**

DAY	JANUARY
1	Statutes signed into law in 2010 take effect.
3	Legislature reconvenes.
10	Budget must be submitted by the Governor to the Legislature on or before this date.
21	Last day to submit bill requests to the Legislative Counsel's Office.

DAY	FEBRUARY
18	Last day for new bills to be introduced.

DAY	MARCH
	No Deadlines.

DAY	APRIL
14	Spring Recess begins upon adjournment.
25	Legislature reconvenes from Spring Recess.

DAY	MAY
6	Last day for policy committees to hear and report fiscal bills introduced in their house of origin.
13	Last day for policy committees to hear and report to the floor non-fiscal bills introduced in their house of origin.
27	Last day for fiscal committees to hear and report to the floor bills introduced in their house of origin.

DAY	JUNE
3	Last day for bills to be passed out of their house of origin.
15	Budget must be passed by midnight.

DAY	JULY
8	Last day for policy committees to hear and report bills introduced in the other house.
15	Summer Recess begins upon adjournment, provided that the budget bill has been enacted.

DAY	AUGUST
15	Legislature reconvenes from Summer Recess.
26	Last day for fiscal committees to hear and report to the floor bills introduced in the other house.

DAY	SEPTEMBER
2	Last day to amend bills on the Assembly and Senate floors.
9	Last day for each house to pass bills. Interim Recess begins at the end of this day's session.

DAY	OCTOBER
9	Last day for the Governor to sign or veto bills passed by the Legislature before September 9, and in his possession after September 9.

DAY	JANUARY 2012
1	Statutes signed into law in 2011 take effect.
4	The 2011-2012 regular legislative session reconvenes.



Date: January 3, 2011
 Current Meeting: January 20, 2011
 Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief Financial Officer, Joseph T. Smith

SUBJECT: Monthly Investment Report - November 2010

FOR INFORMATION ONLY

BACKGROUND:

Santa Clara Valley Transportation Authority funds are invested in accordance with the asset allocation and diversification strategies described in the Investment Policies amended February 5, 2009.

DISCUSSION:

General Economic Conditions

Real gross domestic product (GDP) – the output of goods and services produced by labor and property located in the United States – increased at an annual rate of 2.6% in the third quarter of 2010, according to the “final” estimate released by the Bureau of Economic Analysis. In the second quarter of 2010, real GDP increased 1.7%.

The increase in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, and federal government spending that were partly offset by a negative contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

The unemployment rate in Santa Clara County was 10.8% in November 2010, up from the 10.6% in October 2010, compared with an unadjusted unemployment rate of 12.4% for California. The Nation’s private-sector payroll employment added 39,000 jobs in November and the unemployment rate edged up to 9.8%; it was 9.6% in each of the prior 3 months. The economy needs to create about 150,000 jobs a month just to keep pace with the additional numbers coming into the labor force.

General Market Conditions

The Dow Jones Industrials lost 1.0% while S&P 500 Index gained 0.01% for the month of November. The small-cap stocks fared better than large-cap stocks. In terms of style, large-cap growth stocks fared slightly better than value stocks. The top performing industries were energy, consumer discretionary, and producer durables. The worst performing sectors were healthcare, utilities, and consumer staples.

VTA Enterprise Funds

VTA Enterprise Funds are invested in one of four portfolios managed by Payden & Rygel, LAIF or an interest bearing checking account. Investment performances for Payden managed funds are included in the following table. The current yield for funds invested in LAIF is 0.5% and VTA's checking accounts is 0.1%.

The Payden composite portfolio underperformed the policy benchmark by 0.1% (-0.5% versus -0.4%) total market return in the current month but outperformed the benchmark performance on calendar year-to-date by 0.1% (3.8% versus 3.7%). The current yield for the Payden long-term portfolio is 2.1%, mid-term portfolio is 1.6%, and short-term portfolio is 0.8%.

Market performance for each Payden account is summarized in the following table.

		Investment Performance as of November 2010							
Asset Class	Fund Manager	Nov	Y-T-D	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	I-T-D
Long-Term Fixed Income	Payden & Rygel	-0.7%	6.4%	-0.1%	4.5%	5.5%	5.6%	5.5%	5.2%
	<i>Barclays Cap US Govt. Intermediate Index</i>	<i>-0.6 %</i>	<i>6.4%</i>	<i>0.1%</i>	<i>4.4%</i>	<i>5.5 %</i>	<i>5.8%</i>	<i>5.4%</i>	<i>5.2%</i>
Mid-Term Fixed Income ¹	Payden & Rygel	-0.3%	2.5%	0.2%	2.1%	-	-	-	2.9%
	<i>Merrill Lynch 1 to 3 Year Treasury Index</i>	<i>-0.2%</i>	<i>2.6%</i>	<i>0.2%</i>	<i>1.7%</i>	-	-	-	<i>2.0%</i>
Short-Term Fixed Income ²	Payden & Rygel	0.0%	0.6%	0.2%	0.6%	1.9%	3.1%	-	2.5%
	<i>iMoneynet Money Market Index</i>	<i>0.0%</i>	<i>0.1%</i>	<i>0.0%</i>	<i>0.1%</i>	<i>1.1%</i>	<i>2.6%</i>	-	<i>2.1%</i>
Composite Portfolio Returns		-0.5%	3.8%	0.1%	2.8%	3.7%	4.3%	4.7%	4.6%
<i>Policy Benchmark Returns</i>		<i>-0.4 %</i>	<i>3.7%</i>	<i>0.1%</i>	<i>2.6%</i>	<i>3.4%</i>	<i>4.1%</i>	<i>4.5%</i>	<i>4.5%</i>

¹ Implemented February 11, 2009

² Implemented February 14, 2003

VTA Retirees' Other Post Employment Benefits (OPEB) Trust

VTA's adopted Investment Policy requires the following asset allocation for Retirees' OPEB funds:

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	35-70%	40%	48%
Domestic Large Cap Index	25-60%	58%	50%
Cash	0-5%	2%	2%

The Retirees' OPEB composite portfolio outperformed the policy benchmark by 0.1% (-0.1% versus -0.2%) total market return in the current month but underperformed their benchmark by 1.3% on calendar year-to-date (8.3% versus 9.6%). The current yield for the fixed income portfolio is 4.8%. Market performance by money manager is summarized in the following table.

Investment Performance as of November 2010									
Asset Class	Fund Manager	Nov	Y-T-D	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	I-T-D
Fixed Income	Dodge & Cox	-0.2%	7.0%	0.6%	6.5%	7.8%	7.0%	6.9%	7.1%
<i>Barclays Cap US Aggregate Bond Index</i>		-0.6%	7.7%	-0.1%	6.0%	6.4 %	6.2%	6.2%	6.5%
Large Cap Index	State Street	0.0%	7.9%	13.1%	10.0%	-5.1%	1.1%	0.9%	0.1%
<i>S&P 500 Index</i>		0.0%	7.9%	13.1%	9.9 %	-5.2%	1.0%	0.8%	-0.1%
Composite Portfolio Returns		-0.1%	8.3%	7.8%	9.3%	1.4%	4.4%	5.0%	4.7%
<i>Policy Benchmark Returns</i>		-0.2 %	9.6 %	7.7%	9.8%	1.5%	4.2%	4.0%	3.7%

Dodge & Cox - The Fixed Income portfolio manager outperformed their benchmark by 0.4% in the current month but underperformed their policy benchmark by 0.7% in the calendar year-to-date. In November, the portfolio's shorter duration position added to relative returns as rates rose month-over-month. U.S. Treasury (UST) rates rose across the yield curve between 3 and 30 basis points, with the 5-year UST rising the most. The portfolio's corporate sector overweight detracted from the year-to-date relative returns.

A 7.75% annual return assumption is used in the annual actuarial analysis for the Retiree's OPEB. The results of the actuarial analysis determine VTA's annual contribution rates. Any difference between actual investment returns and the 7.75% assumed annual return is recognized in the same year. The annual returns for the Retiree's OPEB portfolio have been equivalent to or exceeded the 7.75% assumed rate of return 3 out of 9 years.

Historic Portfolio Performance (calendar year) for the last six calendar years:

Year	Performance	Year	Performance
2004	7.6%	2007	6.1%
2005	3.9%	2008	-21.0%
2006	11.7%	2009	22.2%

SCVTA-ATU, Local 265 Pension Plan Assets

It is the policy of the SCVTA-ATU Board of Pension to have a well-managed investment program that provides for the financial needs of the pension plan and allows the investments to be appropriately diversified and prudently invested to protect the safety of the principal while maintaining a reasonable return. Assets are invested within the following investment guidelines:

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	28-38%	34%	33%
Domestic Large-Cap Value	12-22%	21%	17%
Domestic Large-Cap Index	8-18%	16%	13%
Domestic Small-Cap Value	2-12%	9%	7%
Int'l Equity Developed Markets	9-19%	16%	14%
Int'l Equity Emerging Markets ³	2-10%	0%	5%
US Core Real Estate	5-15%	3%	10%
Cash	0-5%	1%	1%

³ The initial funding of \$12 million was deposited to this account on December 1, 2010.

The following table provides a summary of performance by money manager for the current month and calendar year-to-date.

		Investment Performance as of November 2010							
Asset Class	Fund Manager	Nov	Y-T-D	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	I-T-D
Fixed Income	Dodge & Cox	-0.3%	7.0%	0.4%	6.6%	7.9%	7.1%	7.0%	7.3%
<i>Barclays Cap US Aggregate Bond Index</i>		-0.6%	7.7%	-0.1%	6.0%	6.4%	6.2%	6.2%	5.8%
Large-Cap Value Stocks	Boston Pa/Robeco	-0.4%	6.5%	12.2%	8.4%	-3.6%	3.0%	5.5%	7.2%
<i>Russell 1000 Value Index</i>		-0.5%	7.1%	10.4 %	9.0%	-7.1%	-0.3%	1.6%	3.7%
Large-Cap Index	State Street	0.0%	7.9%	13.1%	10.0%	-5.1%	1.1%	0.9%	3.2%
<i>S&P 500 Index</i>		0.0%	7.9%	13.1%	9.9%	-5.2%	1.0%	0.8%	3.1%
Small-Cap Value Stocks	Wedge ⁴	3.6%	15.9%	18.8%	22.1%	-1.9%	0.0%	9.3%	8.4%
<i>Russell 2000 Value Index</i>		2.5%	15.0%	18.0%	23.7%	-0.8%	1.7%	8.7%	8.6%
Int'l Equity Dev. Markets Growth	MFS ⁵	-2.7%	7.5%	11.0%	9.5%	-	-	-	-3.1%
<i>MSCI AC World ex-US Growth Index</i>		-2.7%	6.3%	11.1%	9.0%	-	-	-	-7.3%
US Core Real Estate	UBS ⁶	0.0%	5.4%	5.4%	-	-	-	-	5.4%
<i>NCFEIF NFI-ODCE ⁶</i>		0.0%	5.5%	5.5%	-	-	-	-	5.5%
Composite Portfolio Returns ⁷		-0.3%	9.0%	8.3%	10.5%	3.1%	6.2%	7.4%	7.7%
<i>Policy Benchmark Returns</i>		-0.5 %	7.7 %	6.4%	9.0 %	-0.6%	3.6%	4.8%	4.9%

⁴ Hired April 1, 2009. Prior manager is Brandywine with the same benchmark.

⁵ Hired December 14, 2007. Prior managers were Putnam and Fidelity with MSCI EAFE as their benchmark.

⁶ Hired July 1, 2010. UBS Realty Investors LLC with NCFEIF NFI-ODCE as their benchmark. Performance will be available 45 days after quarter ended.

⁷ Investment performances by prior managers are included in composite returns and historical policy benchmark returns.

The SCVTA-ATU Pension Plan composite portfolio outperformed the policy benchmark by 0.2% (-0.3% versus -0.5%) total market return in the current month and outperformed the policy benchmark by 1.3% on calendar year-to-date (9.0% versus 7.7%). The current yield of Dodge & Cox/Fixed Income portfolio is 4.9%.

Dodge & Cox - The Fixed Income portfolio manager outperformed their benchmark by 0.3% in the current month but underperformed their benchmark by 0.7% calendar year-to-date. In November, the portfolio's shorter duration position added to relative returns as rates rose month-over-month. U.S. Treasury (UST) rates rose across the yield curve between 3 and 30 basis points, with the 5-year UST rising the most. The portfolio's corporate sector overweight detracted from the year-to-date relative returns.

ROBECO - The Domestic Large Cap Value Equity manager outperformed their policy benchmark by 0.1% total market return in the current month but underperformed their policy benchmark by 0.6% calendar year-to-date. The portfolio has a quality bias and quality stocks have underperformed in 2010 year-to-date.

WEDGE - The Domestic Small Cap Value Equity manager outperformed their policy benchmark by 1.1% total market return in the current month and by 0.9% calendar year-to-date. For the month of November, the portfolio benefited from good stock selection and overweighting in both the capital goods and industrial services sectors. Stock selection in energy and basic materials sectors detracted from performance during the month.

MFS - The International Growth Equity manager matched their policy benchmark's total market return in the current month but outperformed by 1.2% calendar year-to-date. Stock selection in health care and transportation contributed to the portfolio's relative performance while stock selection in utilities, communications, and special products and services detracted from the relative performance.

UBS - The US Core Real Estate manager underperformance their policy benchmark by 0.1% in the third quarter (July-September 2010) and the same for the calendar year to date. The valuation of the US Core Real Estate portfolio and benchmark are on a quarterly basis (generally 45 days after the end of each quarter).

An 8.0% annual return assumption is used in the annual actuarial analysis for the SCVTA-ATU Pension Plan Investment Portfolio. The results of the actuarial analysis determine VTA's annual contribution rates. Any difference between actual investment returns and the 8.0% assumed annual return is amortized over a period of five years. The annual returns for the SCVTA-ATU pension plan portfolio have been equivalent to or exceeded the 8.0% assumed rate of return 5 out of 11 years.

Historic Portfolio Performance (calendar year) for the last six calendar years:

Year	Performance	Year	Performance
2004	12.2%	2007	5.8%
2005	7.2%	2008	-19.8%
2006	14.6%	2009	25.7%

ATU Spousal Medical Trust Fund, Dental, and Vision Plan

Asset allocation for the ATU Spousal Medical Trust Fund (including funds for dental and vision plans) is provided for in the SCVTA-ATU Pension Plan Investment Policy.

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	30-50%	41%	38%
Domestic Large Cap Index	50-70%	56%	60%
Cash	0-5%	3%	2%

The ATU Spousal Medical Trust Fund composite portfolio outperformed their policy benchmark by 0.1% (-0.1% versus -0.2%) total market return in the current month but outperformed the policy benchmark by 0.1% on calendar year-to-date (8.4% versus 8.3%). The current yield for the fixed income portfolio is 4.9%.

		Investment Performance as of November 2010							
Asset Class	Fund Manager	Nov	Y-T-D	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	I-T-D
Fixed Income	Dodge & Cox	-0.4%	7.2%	0.9%	7.1%	7.6%	6.6%	-	5.8%
<i>Barclays Cap US Aggregate Bond Index</i>		<i>-0.6 %</i>	<i>7.7%</i>	<i>-0.1%</i>	<i>6.0%</i>	<i>6.4%</i>	<i>6.2%</i>	<i>-</i>	<i>5.4%</i>
Large-Cap Index	State Street	0.0%	7.9%	13.1%	10.0%	-5.1%	1.1%	-	3.2%
<i>S&P 500 Index</i>		<i>0.0%</i>	<i>7.9%</i>	<i>13.1%</i>	<i>9.9%</i>	<i>-5.2 %</i>	<i>1.0%</i>	<i>-</i>	<i>3.2%</i>
Composite Portfolio Returns		-0.1%	8.4%	7.7%	9.6%	1.6%	4.3%	-	5.0%
<i>Policy Benchmark Returns</i>		<i>-0.2%</i>	<i>8.3%</i>	<i>7.7%</i>	<i>8.8%</i>	<i>-0.1%</i>	<i>3.4%</i>	<i>-</i>	<i>4.4%</i>

Dodge & Cox - The Fixed Income portfolio manager outperformed their policy benchmark's 0.2% total market return in the current month but underperformed by 0.5% calendar year-to-date. In November, the portfolio's shorter duration position added to relative returns as rates rose month-over-month. U.S. Treasury (UST) rates rose across the yield curve between 3 and 30 basis points, with the 5-year UST rising the most. The portfolio's corporate sector overweight detracted from the year-to-date relative returns.

Other Data

The valuation of VTA's securities is provided by Interactive Data Corporation (IDC), Merrill Lynch Securities Pricing Service and Bloomberg Generic Pricing Service. These firms are the leading providers of global securities data. They offer the largest information databases with current and historical prices on securities traded in all major markets.

This report complies with VTA's adopted investment policies. Based on budgeted revenues and expenditures as well as actual transfers to/from reserves, there are sufficient funds available to meet expenditure requirements for the six months ending May 31, 2011.

Prepared By: Manny Bagnas, Investment Services Manager
Memo No. 2799

VTA INVESTMENT COMPOSITE PORTFOLIO PERFORMANCE

MONEY MANAGERS' TOTAL MARKET RETURN - TRADE DATE

FOR THE MONTH OF NOVEMBER 2010

SUMMARY: November 30, 2010

<u>Description</u>	<u>Total Market Value</u>		<u>November Total Market Return</u>		<u>Total Market Return</u>	
	<u>(1)</u> <u>Prior</u> <u>Month</u>	<u>Current</u> <u>Month</u>	<u>\$Unrealized</u> <u>Gain/Loss</u>	<u>%Unrealized</u> <u>Gain/Loss</u>	<u>VTA</u> <u>Calendar</u> <u>YTD</u>	<u>Benchmark</u> <u>Calendar</u> <u>YTD</u>
1 - Fixed Income Long-Term Investment Pool	225,078,511	223,818,213	-1,260,298.45	-0.7%	6.4%	6.4%
1 - Fixed Income Mid-Term Investment Pool	246,325,622	245,612,523	-713,099.00	-0.3%	2.5%	2.6%
2 - Fixed Income Short-Term Investment Pool	19,652,670	19,647,336	-5,334.00	0.0%	0.6%	0.1%
3 - Fixed Income Collateral Investment Pool (3)	7,122,309	7,082,069	-40,240.00	-0.6%	2.3%	1.9%
4 - VTA Bond Funds with Fiscal Agents (2)	54,166,892	724,661,145				
5 - Funds with LAIF Investment Pool	3,200,000	31,900,000				
6 - Funds with Union Bank-Congestion Management	14,043,949	13,826,044				
7 - Funds with Union Bank-Measure B	11,515,882	11,326,646				
8 - Funds with Union Bank DDA account	6,447,525	3,020,272				
Total VTA Funds	587,553,360	1,280,894,248				
1 - Retirees' OPEB - Fixed Income	54,851,096	54,727,814	-123,282.00	-0.2%	7.0%	7.7%
2 - Retirees' OPEB - State Street - Index	78,681,782	78,694,402	12,620.00	0.0%	7.9%	7.9%
Total Retirees' OPEB Funds	133,532,878	133,422,216				
1 - VTA/ATU Pension Fund-Fixed Income	118,883,744	118,572,262	-311,482.00	-0.3%	7.0%	7.7%
2 - VTA/ATU Pension Fund-Stock Large Cap Value	72,794,285	72,505,224	-289,061.00	-0.4%	6.5%	7.1%
3 - VTA/ATU Pension Fund-State Street - Index	54,228,727	54,237,425	8,698.00	0.0%	7.9%	7.9%
4 - VTA/ATU Pension Fund-Stock Small Cap Value	31,863,461	33,002,963	1,139,502.00	3.6%	15.9%	15.0%
5 - VTA/ATU Pension Fund- Int'l - Equity Growth	58,073,034	56,502,023	-1,571,011.00	-2.7%	7.5%	6.3%
6 - VTA/ATU Pension Fund- US Core Real Estate (4)	10,542,421	10,542,421				
Total Pension Fund	346,385,672	345,362,318				
1 - ATU Spousal Med Fund - Dodge & Cox - Index	5,542,472	5,521,868	-20,604.00	-0.4%	7.2%	7.7%
2 - ATU Spousal Med Fund-State Street - Index	7,404,918	7,406,106	1,188.00	0.0%	7.9%	7.9%
Total ATU Spousal Funds	12,947,390	12,927,974				
Total Investments	1,080,419,300	1,772,606,756				

Legend:

- (1) Total includes contributions / withdrawals made during current month.
- (2) Bonds Reserves and/or Debt Service Funds
- (3) Funded June 21, 2010 by transferred \$6.8 Million (Par Value) US Treasury Bond from Payden Long Term portfolio.
- (4) Funded July 1, 2010 - Performance reported quarterly.

VTA INVESTMENT COMPOSITE PORTFOLIO PERFORMANCE.

PER GENERAL LEDGER BALANCE - SETTLEMENT DATE

FOR THE MONTH OF NOVEMBER 2010

SUMMARY: November 30, 2010

<u>Description</u>	(1)		<u>Fiscal 11</u>	<u>Fiscal 11</u>	<u>Change for the Month</u> <u>Realized</u> <u>Earnings - \$</u>
	<u>Oct-10</u> <u>Book Value</u> <u>/Cost</u>	<u>Nov-10</u> <u>Book Value</u> <u>/Cost</u>	<u>Year-to-Date</u> <u>Oct 10 Realized</u> <u>Earnings - \$</u>	<u>Year-to-Date</u> <u>Nov 10 Realized</u> <u>Earnings - \$</u>	
VTA FUNDS					
1 - Fixed Income - Long-Term Investment Pool	212,576,218	217,242,298	5,524,814	5,958,297	433,483
2 - Fixed Income - Mid-Term Investment Pool	241,887,382	242,411,192	1,449,084	1,999,183	550,099
3 - Fixed Income - Short-Term Investment Pool	29,551,241	19,583,329	133,374	140,554	7,180
4 - Fixed Income - Collateral	6,768,125	6,768,126	69,963	79,771	9,808
5 - VTA Bond Funds with Fiscal Agent (2)	54,166,892	724,661,145	46,659	73,468	26,809
6 - Funds with LAIF Investment Pool	3,200,000	31,900,000	32,373	40,466	8,093
7 - Funds with Union Bank-Congestion Management	14,043,949	13,826,044	4,752	6,054	1,302
8 - Funds with Union Bank-Measure B	11,515,882	11,326,646	3,882	4,837	955
9 - Funds with Union Bank Pooled DDA account	6,447,525	3,020,272	827	1,130	303
Total VTA Funds	580,157,214	1,270,739,052	7,265,728	8,303,760	1,038,032
RETIREES' OPEB FUNDS					
1 - Retirees' OPEB -Fixed Income	50,620,746	50,818,668	850,175	1,038,463	188,288
2 - Retirees' OPEB -State Street - Index	85,208,619	85,208,619	0	0	0
Total Retirees' OPEB Funds	135,829,365	136,027,287	850,175	1,038,463	188,288
ATU PENSION FUNDS					
1 - VTA/ATU Pension Fund -Fixed Income	110,231,880	110,720,578	2,111,434	2,523,935	412,501
2 - VTA/ATU Pension Fund -Stock Large Cap Value - ROBECO	64,373,141	65,994,455	1,620,494	3,241,798	1,621,304
3 - VTA/ATU Pension Fund -State Street - Index	59,091,135	59,091,135	0	0	0
4 - VTA/ATU Pension Fund -Stock Small Cap Value - WEDGE	26,102,151	24,588,565	1,488,316	2,011,713	523,397
5 - VTA/ATU Pension Fund -Int'l - Equity Growth - MFS	56,787,856	56,787,856	0	0	0
6 - VTA/ATU Pension Fund -US Core Real Estate - UBS (3)	10,000,000	10,000,000	0	0	0
Total ATU Pension Funds	326,586,163	327,182,589	5,220,244	7,777,446	2,557,202
ATU SPOUSAL MEDICAL PLAN FUNDS					
1 - ATU Spousal Med Fund -Dodge & Cox - Index	4,327,234	4,327,234	0	0	0
2 - ATU Spousal Med Fund -State Street - Index	8,207,187	8,207,187	0	0	0
Total ATU Spousal Plan Funds	12,534,421	12,534,421	0	0	0
Total Investments	1,055,107,163	1,746,483,349	13,336,147	17,119,669	3,783,522

Legend:

(1) Total includes contributions / withdrawals made during current month.

(2) Bonds Reserves and/or Debt Service Funds

(3) Start Funding 7/1/2010



Date: December 1, 2010
 Current Meeting: January 20, 2011
 Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Board Secretary, Sandra Weymouth

SUBJECT: 2011 A&F Committee Meeting Schedule

Policy-Related Action: No

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Approve the 2011 Administration and Finance (A&F) Committee Meeting Schedule.

BACKGROUND:

The VTA Board of Directors Administration and Finance (A&F) Committee meets the third Thursday of every month. The following meeting dates are proposed for 2011 based upon the previous year's schedule. The Administration and Finance Committee generally meets at VTA River Oaks Campus, 3331 North First Street, Conference Room B-104, at noon, or as otherwise posted.

Thursday, January 20, 2011	12:00 p.m.
Thursday, February 17, 2011	12:00 p.m.
Thursday, March 17, 2011	12:00 p.m.
Thursday, April 21, 2011	12:00 p.m.
Thursday, May 19, 2011	12:00 p.m.
June 2011 (No Meeting Scheduled)	
July 2011 (No Meeting Scheduled)	
Thursday, August 18, 2011	12:00 p.m.
Thursday, September 15, 2011	12:00 p.m.
Thursday, October 20, 2011	12:00 p.m.
Thursday, November 17, 2011	12:00 p.m.
Thursday, December 15, 2011	12:00 p.m.

FISCAL IMPACT:

There is no Fiscal Impact.

Prepared by: Michelle M. Garza
Memo No. 2362



Date: September 20, 2010
 Current Meeting: January 20, 2011
 Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Board Secretary, Sandra Weymouth

SUBJECT: Elect Standing Committee Vice Chairperson

Policy-Related Action: No

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Conduct voting to determine the Committee's vice chairperson for calendar year 2011.

BACKGROUND:

The VTA Administrative Code has established four board standing committees that review items and provide recommendations to the full board on matters within their respective assigned areas of responsibility. The four standing committees are: Administration and Finance (A&F); Transit Planning and Operations (TPO); Congestion Management Program and Planning (CMPP); and Audit.

The VTA Board Chairperson nominates, for Board approval, committee members for each standing committee chairperson position. The Board approves the appointment of the standing committee chairpersons at its first meeting of the calendar year, which is normally January. Standing committee chairpersons serve a one-year term, except for the Audit Committee chairperson, which serves for two years.

At the first meeting of the calendar year, each standing committee elects from its membership a vice chairperson. The vice chairperson performs the duties of the chairperson in the event of the chairperson's absence or inability to act, and while so acting, has all of the authority of the chairperson. The vice chairperson position serves a one-year term, which coincides with the calendar year and the Committee chairperson's term. The vice chairperson is eligible for election to successive terms and only members, not alternates, are eligible to serve. The affirmative vote of a majority of the total authorized committee membership, which is three

members, is required to elect the vice chairperson. The term of office for the newly elected vice chairperson commences immediately following completion of the voting.

FISCAL IMPACT:

There is no financial impact.

Prepared by: Stephen Flynn, Sr. Management Analyst
Memo No. 2649



Date: January 10, 2011
 Current Meeting: January 20, 2011
 Board Meeting: February 3, 2011

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief Financial Officer, Joseph T. Smith

SUBJECT: Universal Pass for Life Improvement and Transportation (UPLIFT) Transit Pass Program for Homeless Individuals

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

ACTION ITEM

RECOMMENDATION:

Authorize the General Manager to execute a contract with the County of Santa Clara to provide 1,850 quarterly transit stickers for use by homeless and at risk of being homeless individuals in the amount of \$111,000 per year. The contract will be effective April 1, 2011 for a period not to exceed three years.

BACKGROUND:

In November 2007, the Board of Directors authorized the General Manager to negotiate and execute a contract with the County of Santa Clara to provide Eco Pass type transit passes for the homeless. VTA and the County negotiated the Universal Pass for Life Improvement and Transportation (UPLIFT) transit pass agreement as a pilot program. The program requires the County to administer eligibility and requires passes to be issued only to individuals receiving case management services from shelters. The role of the shelters is critical in ensuring the benefits of the program are provided to those in need, and to leverage the value of the transit passes by packaging them with other services. The passes are in the form of stickers valid for a quarter and affixed to the Homeless Management Information Card with photo identification issued to the individuals.

DISCUSSION:

The UPLIFT transit pass program is intended to help transition once homeless individuals to

permanent housing. The County has communicated its desire to continue the program for an additional 3 years and has also requested the ability to issue passes to individuals who are at risk of being homeless, provided they are recipients of case management services. The County will continue to administer the program providing overall coordination and guidance, with the shelters providing intake, distribution, and case management services. All other terms and conditions of the existing contract will apply.

ALTERNATIVES:

The Board could choose to end the program and not renew the contract with the County of Santa Clara.

FISCAL IMPACT:

VTA will continue to receive \$111,000 per year in fare revenues for the duration of the contract.

Prepared by: Ali Hudda, Deputy Director of Accounting
Memo No. 2901



Date: December 28, 2010
 Current Meeting: January 20, 2011
 Board Meeting: N/A

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief Financial Officer, Joseph T. Smith

SUBJECT: FY 2012 & FY 2013 Biennial Budget Assumptions

FOR INFORMATION ONLY

BACKGROUND:

In order to facilitate the preparation of the FY 2012 and FY 2013 Biennial Budget, several major assumptions relating to the economy, revenues, service levels, and other factors that affect costs are proposed. In addition to the general assumptions listed below, the biennial budget will be developed using the Expenditure Prioritization, Key Financial Principles and Deficit Reduction Targets as approved by the Board of Directors.

The FY 2012 and FY 2013 Recommended Budget will be published and distributed in April 2011 with Board of Directors' action scheduled for June 2011.

DISCUSSION:

Staff will use these working budget assumptions as guidelines to develop the recommended FY 2012 and FY 2013 budgets. These assumptions also represent the financial constraints on VTA's operations and the service and expenditure levels planned for these two years. The final assumptions used in the FY 2012 and FY 2013 Recommended Budget may change as additional information is received.

1. Wages and Benefits:

- i All currently negotiated contracts expire before or during the next biennial budget cycle.

AFSCME-June 2011
 SEIU-June 2011

TAEA-June 2011
 ATU-February 2013

- i Currently negotiated wage increase for ATU of 3% effective June 11, 2012 will be reflected as well as provisions for step increases for ATU employees in pay progression.
- i Reflect no wage increase for AFSCME, SEIU, and TAEA. Budgeting of additional costs, if any, for new contracts will be addressed upon contract ratification by the Board.
- i Funding for merit increases for non-represented employees, if any, will be managed through vacancy savings.
- i Projected health insurance premium increase of 9% for FY 2012 and 10% for FY 2013 based on employee benefits broker's estimate.
- i Pension and Retiree Health contributions as a percentage of wages:

Plan	FY12	FY13
ATU Pension	18.0%	18.0%
CalPERS-Employer portion	13.349%	13.8%
CalPERS-Employee portion (paid by VTA)	7.0%	7.0%
Retirees' Other Post Employment Benefits (OPEB) Trust	11.7%	11.7%

- i All other benefits projected to increase at rate of inflation where appropriate.

2. VTA Investment Portfolio interest rate:

Fiscal Year	Interest Rate
FY12	1.86%
FY13	2.37%

3. Sales tax growth:

Based on the most recent information, including FY 2011 1st QTR actual sales tax data received December 15th; projected growth rates for sales tax revenue have been updated as follows.

Fiscal Year	Recommended Growth Assumption	Moody's Analytics (2010) - Trend		
		Pessimistic	Most Likely	Optimistic
FY11	6.88%	6.30%	7.25%	7.66%
FY12	3.49%	2.15%	3.13%	3.56%
FY13	5.78%	4.80%	5.78%	6.21%

The FY 2011 recommended growth assumption is based on projections from Beacon Economics provided in September 2010, adjusted for actual first quarter FY 2011 receipts.

The FY 2012 recommended growth assumption is based on Moody's Analytics' baseline trend forecast adjusted upward slightly to correct for a mismatch between economic recovery timing projections of Moody's vs. Beacon.

The FY 2013 recommended growth assumption is based on Moody's baseline trend forecast.

As updated information becomes available, including actual 2nd QTR sales tax receipts and updated forecasts from Beacon Economics, the projected growth rates for all three fiscal years will be finalized prior to distribution of the FY 2012 and FY 2013 Recommended Budget.

4. Measure A Operating Assistance:

18.45% of Measure A Sales Tax Revenues.

5. Low sulfur diesel fuel price:

Diesel prices are highly unpredictable. While the volatility over the last two years has lessened greatly from the fluctuations seen in 2008, diesel prices have varied from a low of \$1.28 (including tax) in February of 2009 to a high of \$2.69 this fall. The average price per gallon paid in FY 2010 was \$2.31. Current year-to-date FY 2011 average through 12/13/10 is \$2.56. Due to the volatility of the item, the price per gallon assumption for FY 2012 and FY 2013 will be determined as close to the publication of the Recommended Budget as possible.

6. Fares:

There are no plans to increase fares at this time.

7. Bus and Light Rail Ridership:

Overall, FY 2010 system ridership (bus and rail) decreased by 7.8% from the previous year. Bus ridership totaled 32.0 million, a 7.3% decrease and light rail ridership 9.7 million, a 1.7% decrease. Fiscal Year 2011 system ridership through November is down 4.4% from FY 2010 levels. However, the trend of declining ridership may be slowing somewhat. Although November average weekday system ridership showed a decline of 2.9%, this was vastly improved from the average decline over the previous 18 months of 6.4%.

VTA's ridership is heavily correlated with employment levels in the County. Since the beginning of FY 2010 Santa Clara County unemployment has averaged 11.5%. The average for the previous 24 months was 6.9%. However, there is cause for cautious optimism on this front as the October 2010 unemployment rate was down to 10.6%, the first time the jobless rate dipped below 11% since May 2009. Our economist, Beacon Economics, projects employment to rise by 2.45% and 2.31% in FY 12 and FY 13, respectively with unemployment levels at 8.6% by the end of FY 12 and 7.7% by the end of FY13.

Based on the factors above, current projected growth rates for ridership are as follows:

Fiscal Year	Ridership Growth
FY11	-3.0%
FY12	0.0%
FY13	1.0%

8. Total Miles & Hours for Bus & LR and Fleet Size:

Current service levels including the recently introduced Express Light Rail service.

9. State Transit Assistance (STA) funding level:

Beginning in FY 2012, the state diesel sales tax rate will be increased to 6.75% in conjunction with a corresponding drop in the per-gallon diesel fuel excise tax to ensure that consumers feel no impact at the pump. High-speed rail/transit bond debt service will have first call on the revenues generated by the diesel sales tax. Any remaining revenues will be split 75% to STA and 25% to intercity rail and other miscellaneous state transit programs. The intent is to ensure, at a minimum, an annual STA Program of \$350 million. According to the latest MTC estimates, VTA’s share of a \$350 million program would be approximately \$13.6 million in FY 2012.

10. Federal Operating Grants Preventative Maintenance funding level:

Although the Federal Transit Administration (FTA) Section 5307 grant program is designed primarily to fund capital acquisitions, funds can also be awarded for preventive maintenance activities in support of operations. Due to the recent economic downturn, VTA has used 100% of available Section 5307 funds for preventive maintenance the last three years to offset the loss of Sales Tax Revenues and STA funding. Beginning in FY 2012 VTA will begin a gradual reduction of this practice towards the goal of reaching historical levels (35%) by FY 2018. The proposed Section 5307 funding split for operations support and capital replacement is as follows:

Fiscal Year	% Operations Support	% Capital Replacement
FY12	90%	10%
FY13	80%	20%

11. Capital Program funding level:

The FY 2012 and FY 2013 VTA Transit Capital Program will be structured to optimize the use of grant funds to the greatest extent possible. Debt Reduction Funds will be used to provide any required local matching funds for grants. Projects not eligible for grants will be prioritized based on pre-determined scoring criteria that give the greatest emphasis to maintaining the existing infrastructure, support functions, and service network. The level of local funding available for non-grant eligible projects will be

limited to the positive operating balance in excess of the 15% Operating Reserves goal, if any.

12. Operating Reserves funding level:

Operating Reserves will be designated at 15% of Recommended Budget expenditures. Any positive operating balance in excess of the 15% goal will be designated to the Debt Reduction Fund for use in funding the local portion of future year capital expenditures.

13. Harvey M. Rose, LLC Recommendations:

The October 2010 Harvey Rose report commissioned by Working Partnerships, USA included recommendations for VTA in the areas of projections, capital project funding, reserve funding, and pension costs. The table below reflects the Harvey Rose recommendations as well as the VTA staff recommendations as they relate to the assumptions used for the FY 2012 and FY 2013 Biennial Budget.

Harvey Rose, LLC Recommendation	Budget Assumption
Present a range of forecasts for Board consideration	The sales tax growth rates presented in #3 above include the staff recommendation as well as the pessimistic, most likely and optimistic projections.
Use FTA Section 5307 and 5309 funds for preventive maintenance	Begin gradual return to mix of 35% preventive maintenance (operations support) and 65% capital replacement for Section 5307 funds.
Increase use of Measure A funds for VTA operating costs	Maintain current policy to fund at 18.45% level
Set Workers' Compensation and General Liability confidence levels at 50% instead of 90%	Workers' Compensation and General Liability confidence levels at 60% based on historic claims experience*
Release surplus in Workers' Compensation and General Liability Reserves	<ul style="list-style-type: none"> - Consider funding holiday for FY12 & FY13 - Use any excess Workers' Compensation and General Liability Reserves to make one-time payment to OPEB/Pension funds to reduce unfunded or other liabilities*
Eliminate Compensated Absence Reserve	<ul style="list-style-type: none"> a) Use any excess Compensated Absence Reserve to make one-time payment to OPEB/Pension funds to reduce unfunded or other liabilities* or, b) Eliminate need for Compensated Absence Reserve
Pre-pay annual pension contribution	Pre-pay pension and/or OPEB contributions to reduce interest charges

*These assumptions will be used to begin the budget preparation but are subject to change depending on need and conditions at the time the budget is adopted.

Prepared By: Carol Lawson, Fiscal Resources Manager, Budget
Memo No. 2786



Date: January 10, 2011
 Current Meeting: January 20, 2011
 Board Meeting: February 3, 2010

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
 Administration & Finance Committee

THROUGH: General Manager, Michael T. Burns

FROM: Chief Financial Officer, Joseph T. Smith

SUBJECT: Actuarial Valuation of VTA's Other Post Employment Benefits (OPEB) as of July 1, 2010

FOR INFORMATION ONLY

BACKGROUND:

VTA provides retiree health care as a post employment benefit to its employees as provided for in the collective bargaining agreements and the resolution of benefits for non-represented employees. VTA has been performing actuarial valuations of this obligation since 1996 to determine the financial condition and contribution requirements of the Plan. VTA has been pre-funding its share of retiree health benefits and has accumulated \$119.7 Million in assets as of June 30, 2010.

DISCUSSION:

EFI Actuaries, a firm specializing in actuarial services, has prepared the actuarial valuation report of VTA's Other Post Employment Benefits Plan as of July 1, 2010. The plan's unfunded actuarial accrued liability (UAAL) is \$106.3 Million and funded ratio is 53%, as compared to \$121.1 million and 46.3% respectively as of July 1, 2008. The assumed rate of return on investments is 7.75%.

The current funding policy includes a level percentage of payroll amortization methodology, with a remaining period of 18 years as of July 1, 2010. Under this approach, the amortization payment is expected to increase each year in line with the expected growth in the total payroll—currently 3.25% each year.

Under level percentage of payroll amortization, the current payment toward the UAAL may be less than the interest of the unfunded liability if the amortization period is greater than a period of about 17 years. This is sometimes known as negative amortization.

To avoid the possibility of negative amortization, EFI Actuaries have suggested that VTA consider an alternate funding policy wherein the UAAL is amortized as a level dollar amount. Under level dollar amortization, the UAAL amortization payment is calculated to be the same dollar amount each year. With this methodology there will always be a “principle” payment made towards the unfunded liability each year, regardless of the length of the remaining amortization period, thus negating the potential for negative amortization.

This method is consistent with the amortization method used by the VTA-ATU Pension Plan and will not result in any negative amortization. Staff concurs with the suggestion.

EFI Actuaries have also computed VTA’s Annual Required Contribution (ARC) under GASB 45, which will require VTA to contribute \$16.1 Million in FY2011, as compared to \$15.1 million in FY 2010. This represents an increase of \$1.0 Million primarily due to the change in amortization method. The contribution amount is included in the approved FY 2011 VTA Transit Enterprise Operating Budget.

Prepared By: Ali Hudda, Deputy Director of Accounting
Memo No. 2876