

Date: January 17, 2008

Committee Meeting Date: January 17, 2008

Board Meeting Date: February 7, 2008

BOARD MEMORANDUM

ACTION ITEM

TO: Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Jerry G. Mikolajczyk
Chief Financial Officer

SUBJECT: Debt Reduction Fund Policies

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

RECOMMENDATION:

Approve the recommended Debt Reduction Fund Policies which authorize the General Manager to establish the Transit Enterprise Debt Reduction Fund and Measure A Debt Reduction Fund. Further grant the General Manager the authorization to use such funds for purposes consistent with the approved policies.

BACKGROUND:

Transit Enterprise Funds

In October 2007, VTA received an updated actuarial analysis of the Self-Insured Workers Compensation Program. Based on changes in law that had not been taken into account by VTA's previous actuary as well as favorable actual experience (versus assumed for actuarial purposes), surplus funds have been released from the Worker's Compensation Reserve and returned to the VTA Transit Enterprise Fund.

Measure A Funds

On August 2, 2007, VTA redeemed \$54.7 million of 2006 Series E Measure A Bonds (2006 Series E Bonds) with cash obtained as a result of an accelerated recovery of more than \$150 million of reimbursement funds from the state's Traffic Congestion Relief Program (TCRP).

On September 25, 2007, VTA refunded (refinanced) \$137.8 million of 2006 Series F and G Measure A Bonds (Refunded Bonds) with the proceeds generated from the sale of \$120 million of 2007 Series A Measure A Sales Tax Revenue Refunding Bonds (2007 Measure A Bonds). The reduction of principal to \$120 million is a result of premiums (in the aggregate amount of \$5.9

million) received on the sale of the 2007 Measure A Bonds as well as the use of debt service reserve funds that were pledged to the Refunded Bonds. The refunding transaction generated a net present value savings of approximately \$11 million to the Measure A Program.

DISCUSSION:

Typically, when a restricted reserve has transferred funds back to the VTA Transit Enterprise Fund, the funds are placed in VTA's unrestricted reserves. However, it is staff's recommendation that the recently released funds from the Worker's Compensation Reserve be placed in a new Transit Enterprise Debt Reduction Fund. Additionally, the redemption of 2006 Series E Bonds and the refunding of 2006 Series F & G Bonds, has resulted in a net surplus in the Measure A fund, which staff recommends be placed in a new Measure A Debt Reduction Fund.

The objective of each Debt Reduction Fund is to enhance VTA's fiduciary governance practices and is a step towards taking actions to mitigate the impacts of increasing levels of unfunded obligations. Funds allocated to the Debt Reduction Funds (including investment earnings on such funds) may, in general, be used to reduce unfunded obligations, long term liabilities, provide cash flow for approved capital asset replacement or improvements that will ultimately be funded from grant or financing activities, or provide funding for transit capital asset replacement or improvements in lieu of financing. Use of such funds would be authorized by the General Manager based on the recommendations of the Chief Financial Officer.

The funds held in the Debt Reduction Funds will be invested according to VTA's Investment Policy.

ALTERNATIVES:

The Board could choose to approve only one of the recommended policies and associated Debt Reduction Funds. Additionally, the Board could choose not to approve either policy or associated Debt Reduction Fund.

FISCAL IMPACT:

Funding for the initial allocations will be provided through a transfer of funds from VTA's Transit Enterprise Fund and Measure A Program Fund for the Transit Enterprise Debt Reduction Fund and Measure A Debt Reduction Fund, respectively. There is no impact on VTA Transit Operating Reserves.

STANDING COMMITTEE DISCUSSION/RECOMMENDATION:

The Administration & Finance Committee considered this item on January 17, 2008 and made the following comments:

- Supported the concept of setting aside funds for the purpose of debt reduction
- Chairperson Williams asked: How much funds were initially being put into the debt reduction funds?

Answer: \$50,000,000 into the VTA Enterprise Operating fun and \$6.6 million into the Measure A Fund

The Administration & Finance Committee did not have a quorum so there was no official recommendation for this item, but has been forwarded to the Board of Directors for consideration.