



**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AD-HOC FINANCIAL RECOVERY COMMITTEE**

Wednesday, May 26, 2010

3:00 P.M.

VTA River Oaks Campus
Auditorium
3331 North First Street
San Jose, CA

AGENDA

- 1. CALL TO ORDER/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 the next agenda. All statements that require a response will be referred to staff for reply in writing.
- 3. CHAIRPERSON'S REPORT**
- 4. Review Stakeholder Ideas for Financial Recovery.** (*Deferred from the May 5, 2010 Ad-Hoc Financial Recovery Committee Meeting.*)
- 5. Review Financial Assumptions.**
- 6. Review Recommendations for Financial Recovery.**
- 7. ADJOURN**

NOTE COMMITTEE MEMBERS: In order to establish a quorum for this meeting, members are asked to call Board Office at (408) 321-5680 or E-mail: board.secretary@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 or TDD (408) 321-2330. VTA's Homepage is located on the web at: <http://www.vta.org>

NOTE: THE COMMITTEE MAY TAKE ACTION ON ANY ITEM IDENTIFIED ON THE AGENDA.

To: VTA Ad-Hoc Financial Recovery Committee Members and Stakeholders
From: Cindy Chavez
Subject: Feedback on Chairperson Gage's Recommendations and Additional Suggestions
Date: April 28th, 2010

COMMENTS ON AD-HOC COMMITTEE PURPOSE AND GOALS:

In recent meetings it has been suggested that the Ad-Hoc Financial Recovery Committee must identify \$40M in deficit reduction strategies for recommendation to the VTA Board in our final report. According to staff, the basis for this \$40M figure is the Short Range Transit Plan (SRTP). There are several significant problems with using the SRTP as the basis for our work. First, nowhere in the SRTP is it clearly indicated that we are facing a structural deficit of \$40M. I understand that MTC requires the SRTP to reflect a balanced budget. However, unlike MTC, the Ad-Hoc Committee needs a clear understanding of the *imbalance* of VTA's budget in order to do its work.

Second, there have been several important developments affecting the short and long-term budget picture that occurred after the SRTP came out. Sales tax projections have improved \$37M for the current biennial budget, a state deal was struck on transit assistance, VTA received additional stimulus funds from the Oakland Airport Connector project, etc. The Ad-Hoc Committee and Stakeholders must have a clear picture of the problem we are trying to solve, if we are going to match solutions to fit this problem. With this in mind, I request that staff provide a clear, up-to-date analysis of the ongoing deficit facing VTA and the assumptions that we are basing this deficit on.

Finally, some words of caution about basing our recommendations on the *long-term* projections we've been given. First, it is extraordinarily difficult to make long-term projections regarding the fiscal environment that local governments will face. Anyone attempting to do so 20 years ago would probably have missed the dot.com boom, the dot.com bust, the housing bubble, and the Great Recession. Even more challenging is the attempt to make such projections at a time of massive economic and political change – such as the current period. Even the short term future includes significant uncertainties such as the impact of the new Federal Transportation Reauthorization Bill and the impact of the federal healthcare bill.

Moreover, the long-term sales tax projections we have been presented with are unsustainable and unrealistic. The effort to project sales tax receipts decades into the future ignores the fact that if sales tax policies are not dramatically altered during this period, these revenue declines will not only make VTA a non-sustainable entity but also the State of California and almost every city government. To use an analogy, the sales tax projections are like an attempt by the Golden Gate Bridge Authority to calculate the effects on bridge maintenance of water levels increasing 5 feet a year – without recognizing that if water levels increase 100 feet, then the bridge will be unnecessary because the entire Bay Area will be underwater.

Rather than focus on future time periods that are unknowable and trends that are unsustainable, I suggest the Ad-Hoc Committee devote most of its energies to two productive approaches.

- 1) What proposals can we advance that will help VTA function during the short and mid-term period – when projections do not have a fantasy quality?
- 2) How can we play a constructive role in the fiscal policy reforms that will have to be enacted as sales taxes cease to be a viable source of revenue? These reforms from current policy could include expansions in the base for sales tax collections and revisions to federal policy emphasizing support of transit operations as a quintessential Green Industry.

Finally, let me observe that by focusing on the short and middle term, we will be functioning in a policy arena in which it is conceivable that the multiple constituencies associated with VTA might reach agreement. If we focus on a doomsday scenario for the long-term, we simply guarantee we will be examining strategies so devastating to key groups that agreement becomes impossible.

COMMENTS ON SPECIFIC PROPOSALS:

Below are some comments on the specific ideas contained in the memo drafted by Chairperson Gage. I've also included several additional budget ideas.

REVENUES:

ECO Pass: Rather than transitioning away from the ECO Pass, VTA should explore strategies to restructure and expand the ECO Pass program to potentially generate additional revenue. As was expressed at our last meeting, there are organizations not currently participating that might be interested in joining the program if it were structured differently. It is worth looking closely into options to revamp the ECO Pass program in order to preserve existing participants and expand the program. Staff analysis should include a customer survey to determine what ridership retention rate is realistic were the ECO Pass program to be discontinued.

Ballot Measure: I support looking at a future ballot measure to assist with transit operations. However, an extension of the Measure A ballot initiative will not help VTA's fiscal position until 2037. By the time this extension would have an impact, the public finance landscape may look very different, and a sales tax measure may not be as useful. We need to focus on revenue generation strategies that help with operations in the nearer term. Any polling that is conducted for a local vehicle registration fee (SB83) should include questions about other possible initiatives to raise operating revenue.

SB83 (Vehicle Registration Fee): The key question related to this measure – how much of the revenue generated could be used to reduce VTA's operating deficit – has yet to be answered. The Ad-Hoc Committee and Stakeholders need as much clarity as possible on eligible uses before we can make a recommendation on how to move forward on this issue. Who has analyzed SB83 for eligible uses? Have any attorneys looked at it with an eye toward maximizing operations funding? Has the Legislative Analyst done an analysis? Also, are we currently dedicating any discretionary funds to cities for roads which could be replaced by these SB83 funds? In my opinion, unless a significant amount of the \$14M in new revenue would be eligible for operations, then it is not worth asking the voters for a fee increase at this time. We need to focus our requests of the voters on legislation that will help with our immediate problem, the operating deficit.

Benefit Assessments: VTA should explore implementation of benefit assessment districts around transit stations. According to discussion at an earlier Ad-Hoc Committee meeting, VTA's enabling legislation does provide the authority to create assessment districts in transit areas, a strategy that could yield \$10-15M annually.

Maximize Funding From Healthcare Reform Bill: Maximize funding opportunities available through the recent federal healthcare legislation. Specifically, the health bill includes a program to provide reimbursement to employment-based health plans for part of the cost of providing retiree health benefits, a provision which could result in a significant reduction in retiree health costs for VTA. VTA should stay on top of the procedures to apply for this money (procedures should be available by June 2010, at the latest) and explore other opportunities for funding available through this bill. More generally, the agency should conduct an overall assessment the impact of the federal healthcare legislation on VTA's projected operating costs.

Maximize Capital Funding for Operations: Last month, Senator Sherrod Brown introduced federal legislation that would give transit agencies more flexibility to use federal funds for transit operations in order to avert service cuts and layoffs. A similar bill has been introduced in the House. VTA should track this legislation closely and prepare a plan to maximize capital funding for operations to the extent feasible under the new law, should it pass. We may be able to supplant additional capital assistance funding with potential upcoming federal TIGER II project dollars.

Measure A Operating Assistance: Last December, to address worse-than-expected sales tax receipts, the VTA Board approved a recommendation to reschedule the purchase of BRT vehicles in the Measure A Transit Improvement Program to 2012 and redirect \$25M to operating assistance. Since that time, the short-term deficit picture has improved substantially. Instead of facing an additional \$70M combined shortfall for FY2010 and FY2011, new projections show a \$6M surplus (due to \$37M in unanticipated sales tax revenue, \$12M from the Oakland Airport Connector project, and \$15M in state transit assistance). Despite this vastly improved forecast, VTA should continue to redirect the additional \$25M in Measure A assistance to the operating budget for several reasons. First, it is unclear how well this improved forecast will hold up, having an additional \$25M cushion in these volatile times is a plus. Second, it is my understanding that there are no capital projects that would be held up as a result of this money being transferred (the BRT system will not be ready to use the buses that are to be purchased before 2012). Finally, this action will boost VTA's operating reserves up to the Board policy of 15%. Otherwise, projections show reserves at 7.2%.

TRANSIT SERVICE:

Service Reductions: Current VTA service levels are at their lowest level in 20 years.¹ Further service reductions - even for low-performing routes - are a complicated and potentially risky strategy, given that service reductions can *contribute* to the creation of low-performing routes. We have to be careful not to reduce service to the point where VTA is no longer a viable

¹ Current levels of service (as measured by scheduled total hours), extrapolated out for a full year, are lower than service levels of any fiscal year dating back to at least 1988, according to VTA Bus and LRT system FACT sheets.

transportation option for riders. On certain routes we need to ensure service, regardless of productivity, particularly routes that provide access to emergency care.

Contracted Service: New and existing transit service should be done in-house to avoid the balkanization of the transit system. VTA should maintain an integrated, mutually supportive transit system, so that all parts work in a way that strengthens the entire system. Furthermore, contracting-out is a high risk strategy that can go massively wrong, as we've seen in jurisdictions around the country. Take the City of Whittier, CA, who brought their contracted bus service back in-house in the late 1990s after receiving numerous complaints about poor service quality and incurring unexpected costs. The accident rate for the private service was significantly higher than when the city did the job, raising liability claims. Moreover, the private company cut corners on routine bus maintenance and safety checks, resulting in higher than expected costs for vehicle repairs.

Or, consider the experience of Washington DC schools, where in 1999 the district discovered that 20% of the bus drivers hired by their school bus contractor had been charged with serious criminal offenses, including one driver that was convicted of bomb possession, and another that had been in multiple previous accidents injuring a total of 13 children. Rather than pursuing opportunities to contract-out more services, VTA should systematically explore contracting-in as a cost saving strategy (see contracted services section below).

COST STRUCTURE:

Reduce Overall Cost Structure: It is important to recognize that VTA union members have agreed to numerous cost structure changes to save the agency money in recent years, even opening closed contracts to do so. In 2004, ATU opened its contract 1 year early and agreed to increase employee contributions to healthcare, increased retiree contributions to healthcare, agreed to defer a previously negotiated wage increase, and agreed to create a Transitional Work Program for injured workers that significantly reduced workers comp costs. In 2009, ATU again opened its contract (which had just been ratified) and agreed to a similar series of cost savings strategies.

Also, as part of this most recent deal, many ATU members (retirees and current employees) are already going to be paying significantly more than \$35/month (starting in 2012) for their healthcare, if they want to maintain their current health plan (PacifiCare). While it is impossible to predict what the cost increase will be in 2 years, if this change were to happen today, retirees would be paying roughly \$235 more per month for their plans. It is only Kaiser members who will continue to pay \$35/month.

Reduce Staff Levels/Reducing Wages/Modifying Benefits: In staff's analysis of the cost savings potential of different labor strategies, in addition to breaking out the cost savings potential of administrative staff cuts vs. total cuts, it makes sense to provide cost savings broken up by represented and non-represented employees. This is a more informative way to break out our options, because these proposed changes either require negotiation or they do not, depending on the employee group we are talking about.

Board Policy: Any tenets for negotiation should be considered through a joint labor-management committee. Sacrifices need to be shared fairly and equally by those covered by labor agreements, non-represented employees, as well as consultants.

- 2-Tier: A 2-tier program will not help solve the fiscal crisis, since VTA should be hiring very few, if any, new employees until the budget is under control. Staff estimates that 2-tier retirement will result in \$1-\$10M in savings. Please provide supporting data showing the basis for this number.

Third Party Evaluation:

Management/operations audits that are inclusive of both staff and customers should be considered by the VTA Board, as these evaluations could yield good ideas. To cite a couple of example recommendations brought up by Chair Gage:

- Moving complaint calls to 511: Moving these calls to an automated service would have a potentially negative impact on our customers' experience. During these tough times, when we are trying to retain and build ridership, this may not be strategic. Also, this would be a jurisdictional issue that would have to be negotiated with ATU.
- Reducing advertising/marketing: Would this negatively impact revenue?

CONTRACTED SERVICES:

- **Contract Re-Bidding:** It is not a bad idea to re-bid all contracted services on a continual basis.
- **Regional Partners:**
 - Ensure that VTA is collecting full compensation on transfers from our regional partners (Caltrain, ACE, etc.).
 - Given Samtrans' plan to reduce their contribution to Caltrain by 70%, VTA must consider reducing its contribution as well.
- **Contracting-in Policy:** Create a systematic contracting-in policy to bring services that VTA can do more cost-effectively back in-house. Specifically, do a thorough exploration of the cost savings potential of:
 - Bringing all full-time, long-term consultants (consultants working for more than 2 years with VTA) in-house as VTA employees. This recommendation includes capital project consultants as well as operations consultants. Capital costs are linked to the operating budget. To the extent that we can lessen capital costs, more capital dollars can be shifted to operations without negatively impacting our commitment to invest in capital infrastructure.
 - Bringing the AlliedBarton security contract back in-house after this contract expires in 2011. There is value in VTA having its own security operation (as BART does) which would be designed to meet the needs of VTA and its patrons, rather than the needs of the security agency we contract with.
 - Contracting-in any ongoing work related to the BART expansion and other major capital projects.

On a related note, please provide the current VTA policy or principles on contracting-out or confirm that no such policy exists.

- **Implement Sunshine Requirements:** Public access should be granted to any record produced or collected under a contract entered into by VTA to the same extent as if the record were maintained by the city and subject to the California Public Records Act.

OPERATIONAL CHANGES:

Reduce contractor costs: Ask existing VTA contractors for a 10% contract reduction similar to what the City of Oakland successfully negotiated with their vendors. Implement strategies to encourage this reduction (this could include implementation of a pre-qualification standard for future contracts that considers how vendors responded when they were asked to open their contract).

Retiree Health Benefits: Offer an in-lieu fee to retirees who transfer onto their partners' health coverage. This would save VTA from paying the cost of retiree healthcare for these employees.

VTA as its own MPO: VTA should analyze the steps necessary and the fiscal impact of becoming its own Metropolitan Planning Organization (MPO). Santa Clara County accounts for more than 25% of the population in the 9-county Bay Area, but holds only 2 out of 19 seats on the Metropolitan Transportation Commission (our current MPO for all 9 counties).

Review of VTA's Revised 10-Year Financial Projections

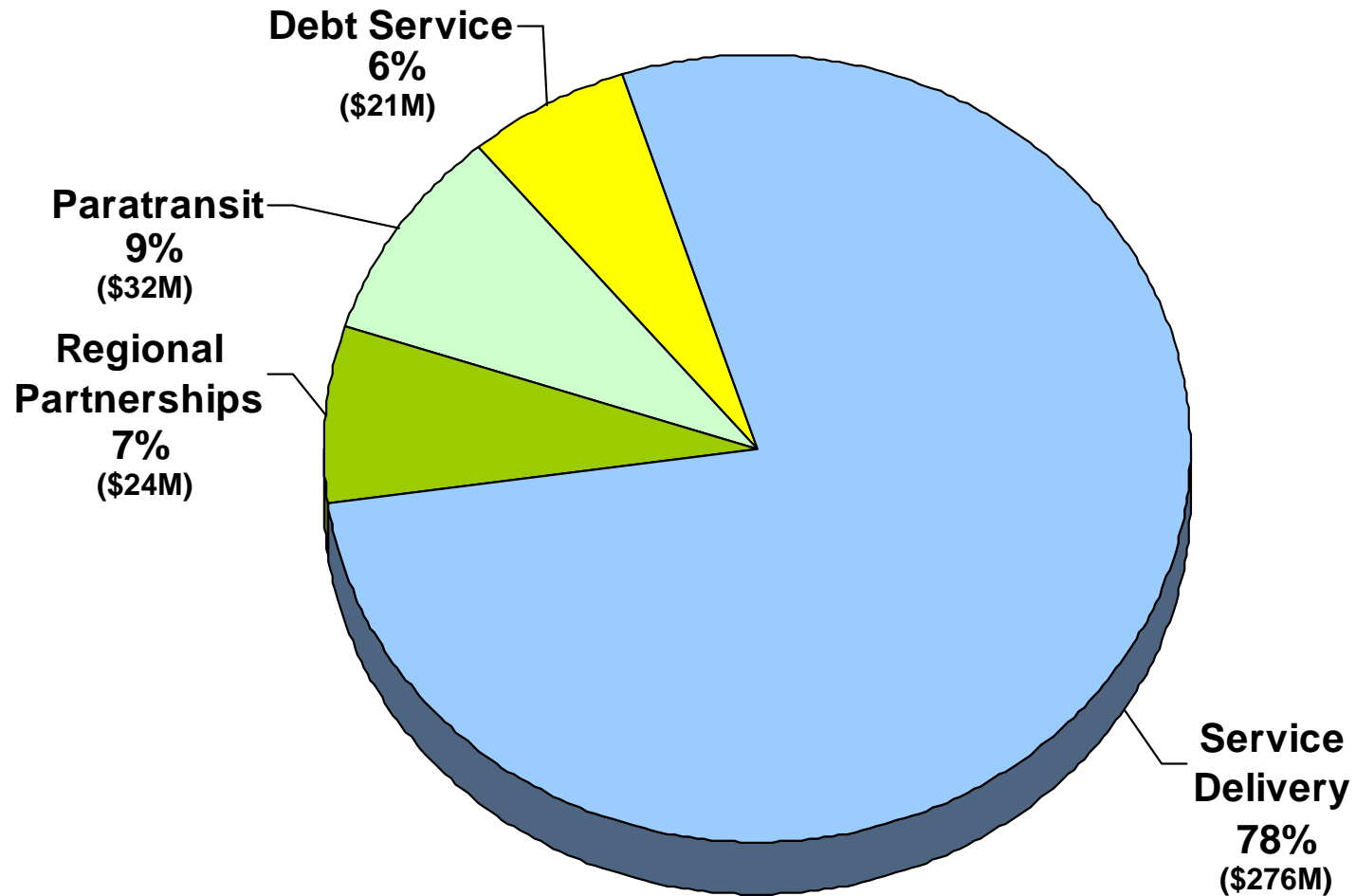
Ad Hoc Financial Recovery Committee

May 26, 2010

Background on Composition of VTA's Operating Budget

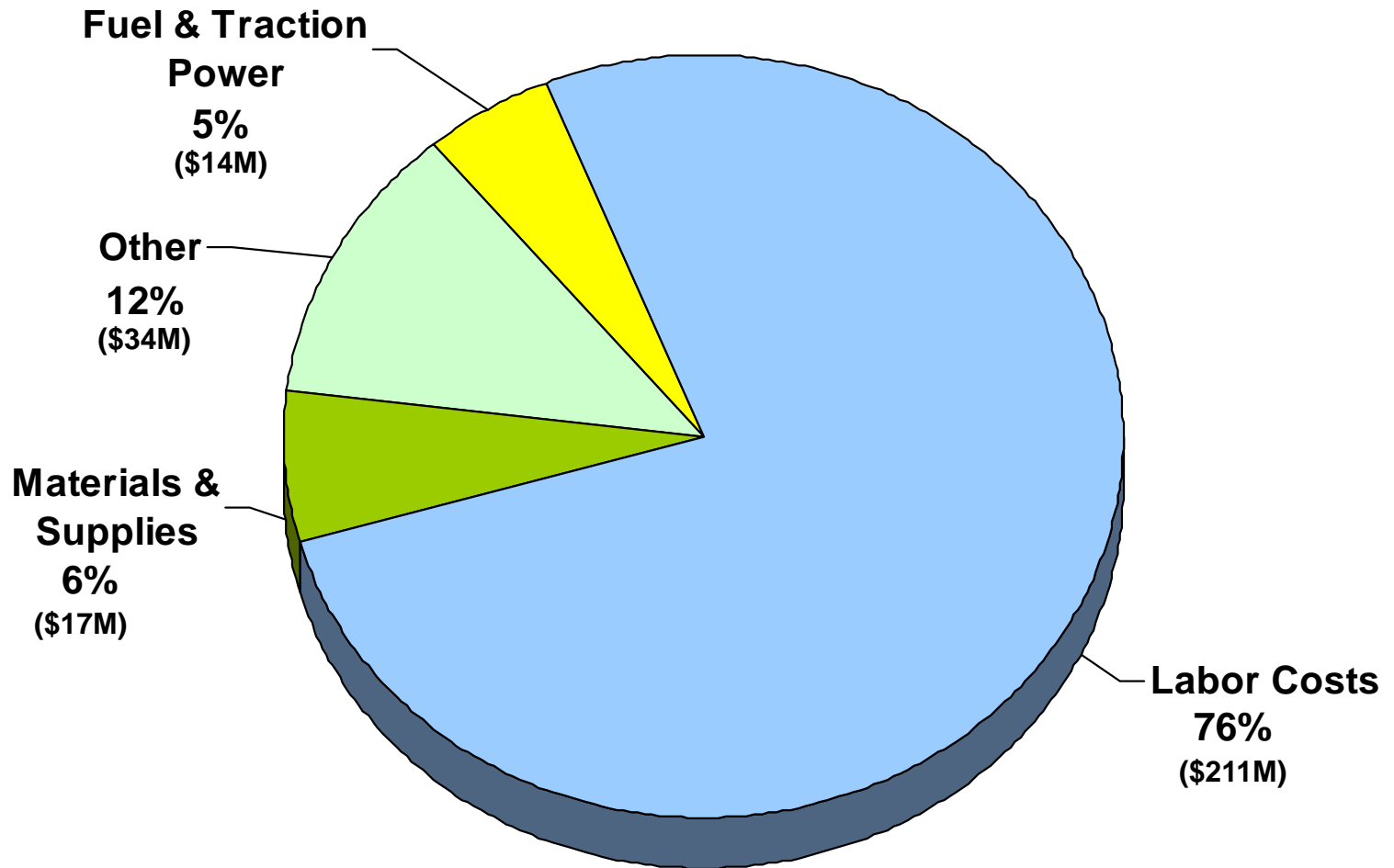
VTA Transit

Budgeted Operating Expenses (\$353M)



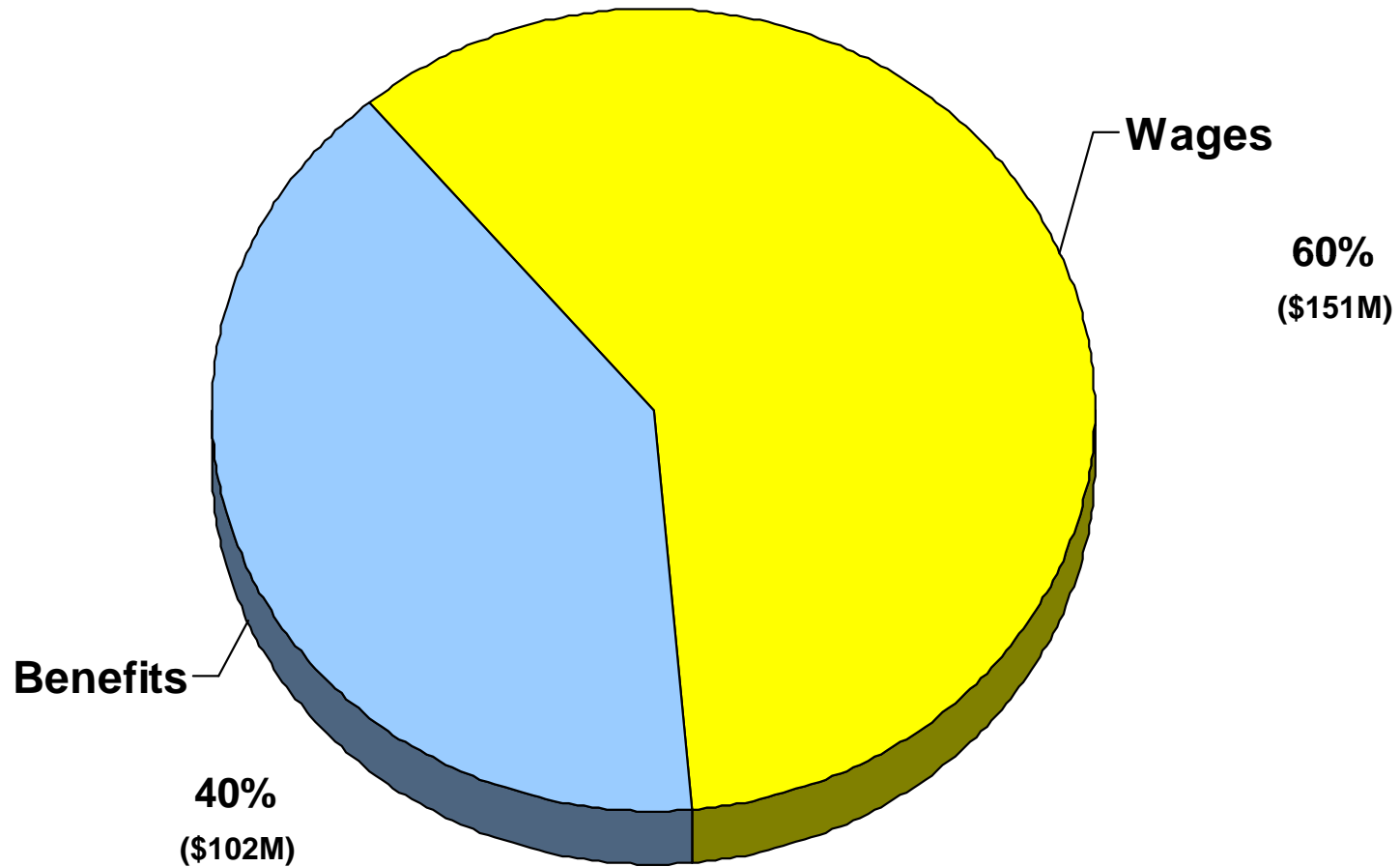
VTA Transit

Service Delivery Budget (\$276M)



VTA Transit

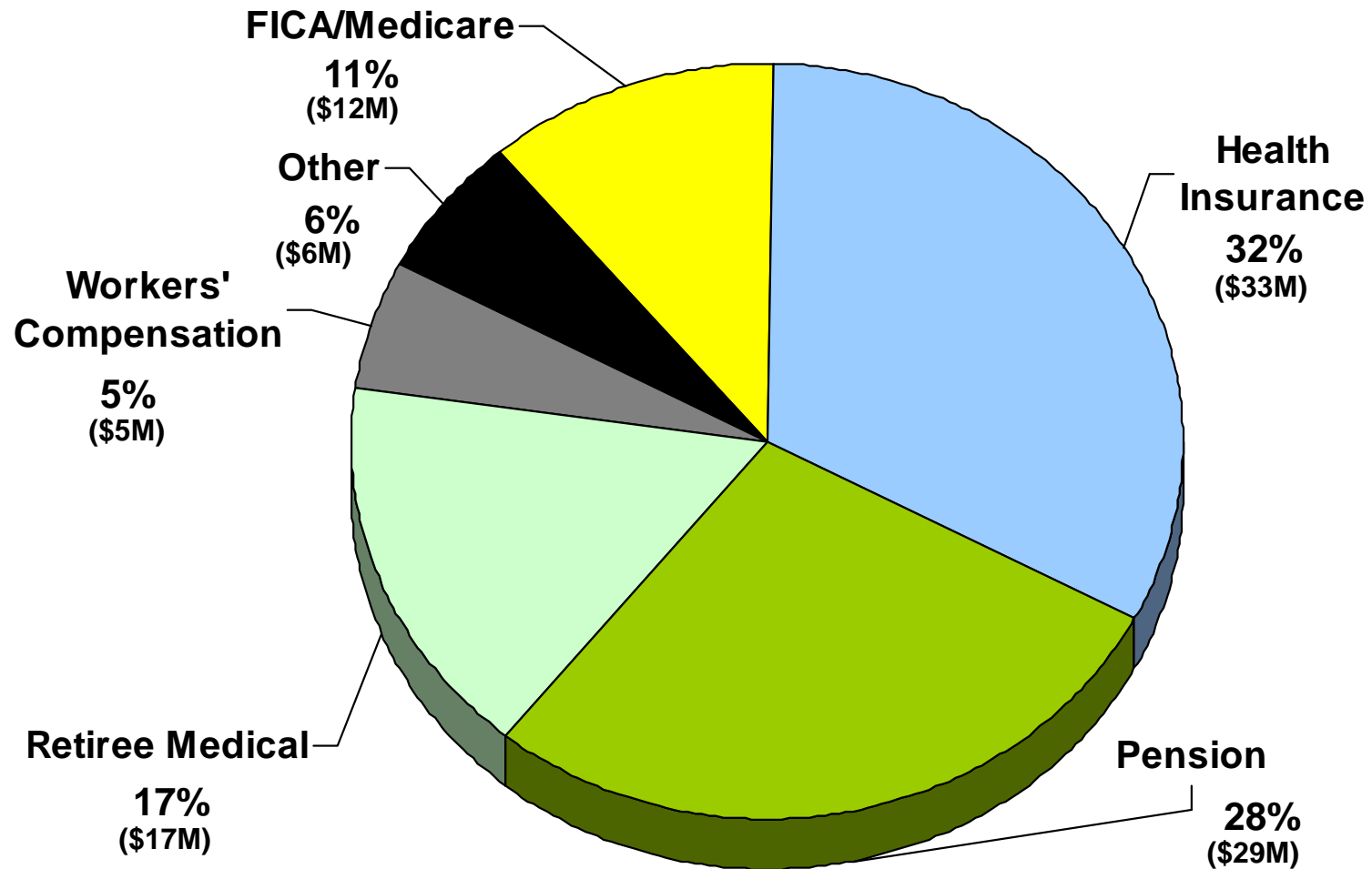
Labor Costs Budget (\$253M)*



* All employees including amounts reimbursed by capital projects

VTA Transit

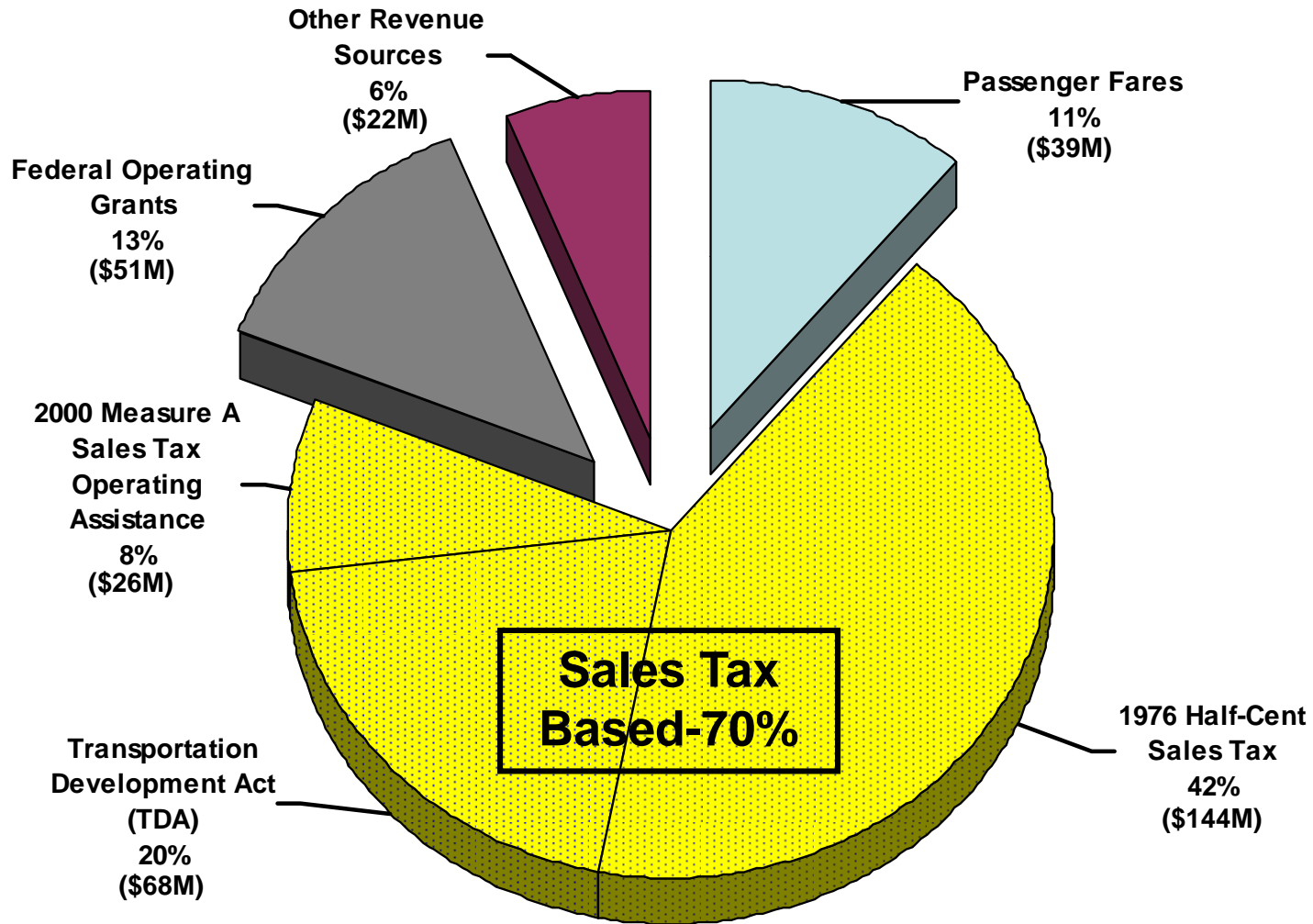
Benefits Budget (\$102M)*



* All employees including amounts reimbursed by capital projects

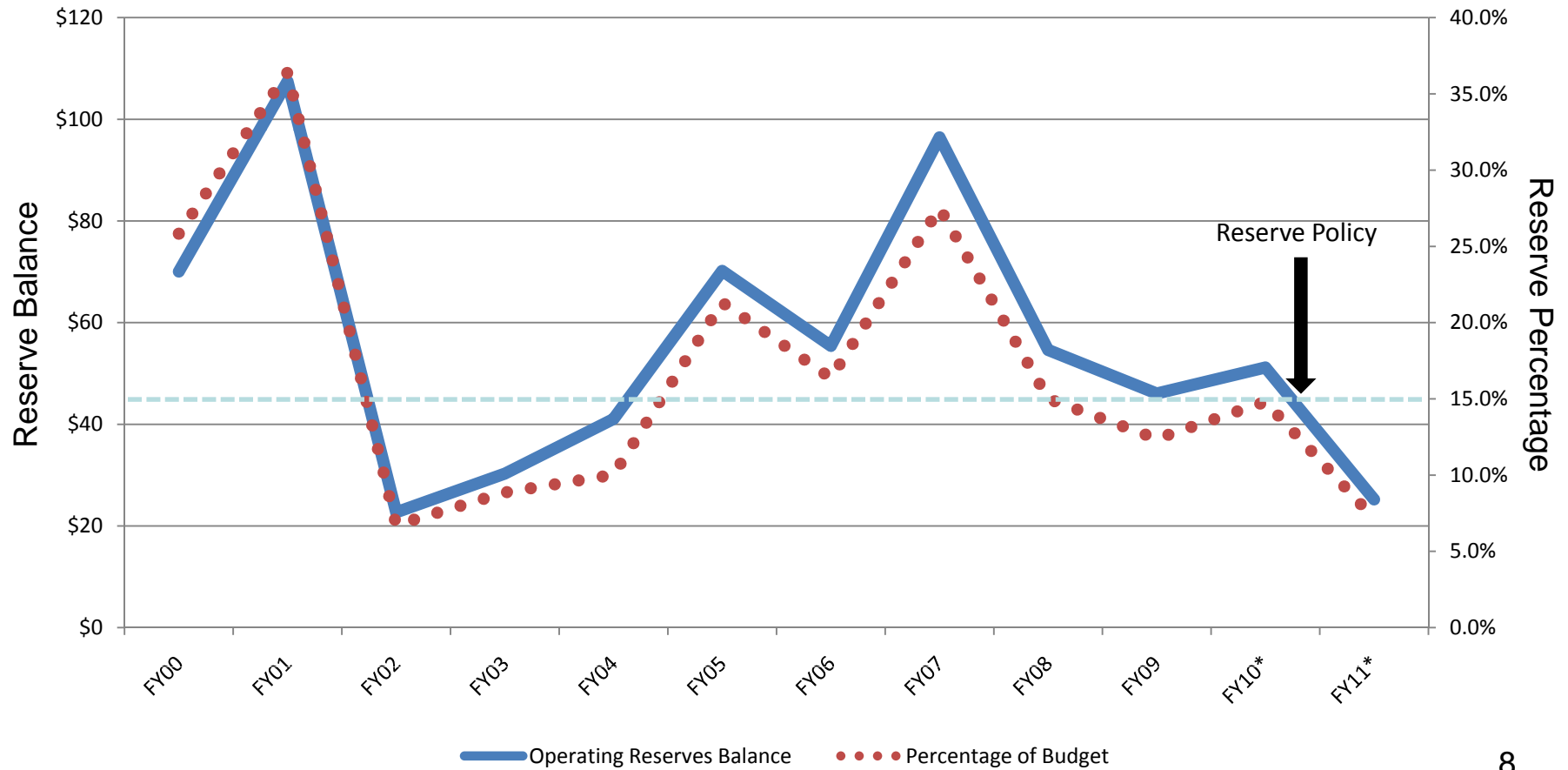
VTA Transit

Budgeted Operating Revenues (\$350M)



Operating Reserve Review

Historic Operating Reserves
(In millions)



*Projected

Sales Tax Revenue History

Operating Revenue from 1976, Measure A Operating Assistance and Transportation Development Act
(\$ in millions)

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10 Budget	FY11 Budget
Revenues	\$239	\$192	\$204	\$212	\$235	\$275	\$277	\$236	\$238	\$232
% Change vs. Prior Year		(20%)	6%	4%	11%	17%	0.7%	(15%)	0.8%	(3%)

Review of Assumptions Behind 10-Year Projections

Key Assumptions

Service Levels

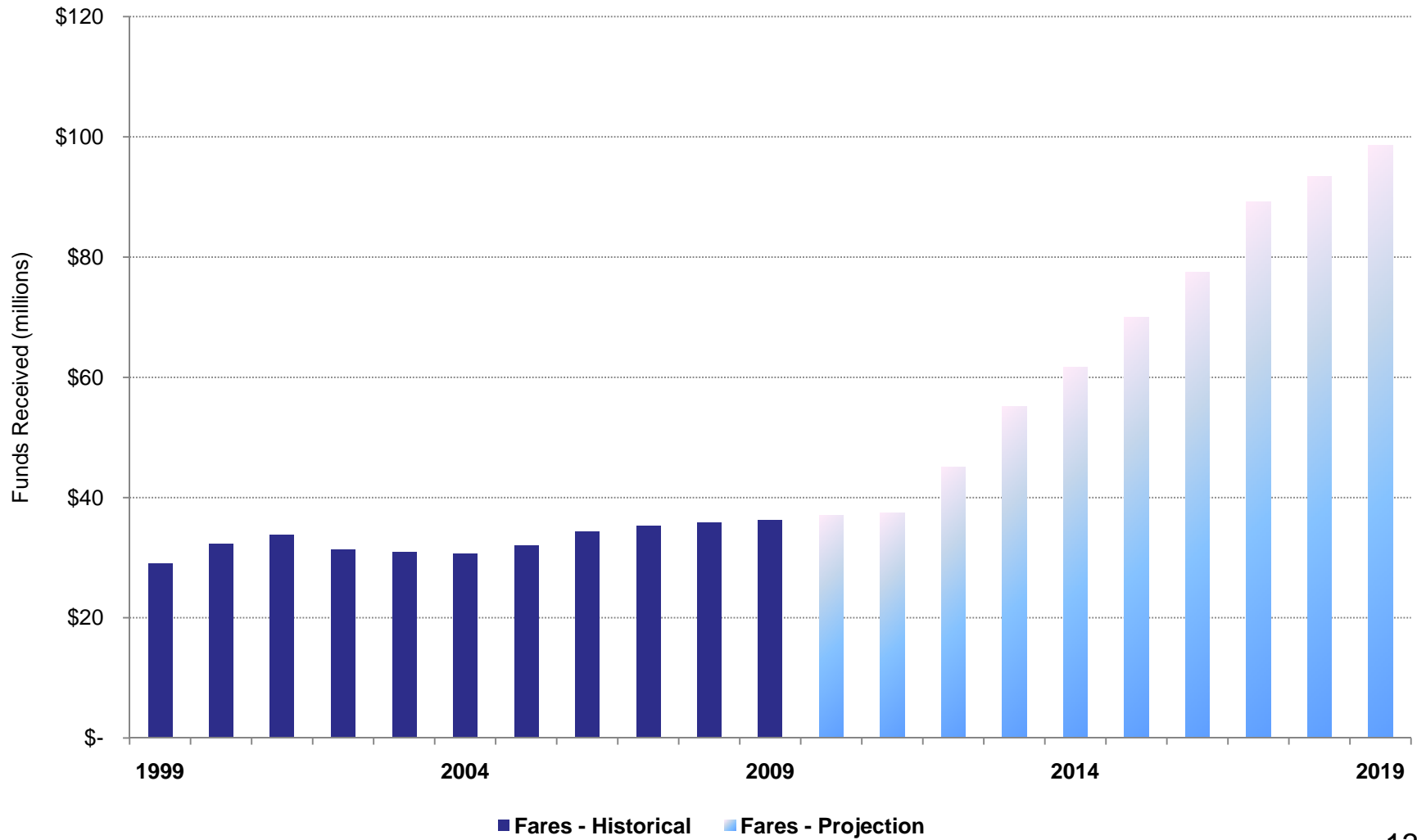
Vehicle Revenue Hours of Service (000's)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Bus	1,274	1,212	1,150	1,150	1,150	1,150	1,150	1,150	1,238	1,271
LR	136	129	122	122	122	122	122	122	137	137

Key Assumptions Operating Revenue

Revenue Source	Assumed Changes from FY12 – FY19	% of VTA's Operating Budget
Fares	<ul style="list-style-type: none"> <input type="checkbox"/> 40% increase in ridership by FY19 based on travel demand model <input type="checkbox"/> Fares adjusted every 2 years to reflect inflation 	11%
State Transit Operating Assistance (STA)	<ul style="list-style-type: none"> <input type="checkbox"/> Originally assumed \$28.7M per year beginning in FY12 <input type="checkbox"/> Now assume \$13.5M in FY12, \$12M in FY13 (state estimates) and CPI growth thereafter 	0%
Federal funds for Preventive Maintenance (PM)	<ul style="list-style-type: none"> <input type="checkbox"/> Originally assumed 100% devoted to operating (not to bus replacement) <input type="checkbox"/> Now assume 10% less in PM per year beginning in FY12 until reach 50% PM/50% capital in FY16, and 35% PM/65% capital in FY17 and beyond (historical level) 	13%

Fare Revenue



Operating Revenue Assumptions, cont.

Revenue Source	Assumed Growth from FY12 – FY19	% of VTA's Operating Budget
Sales Tax (1976; Measure A; TDA)	<ul style="list-style-type: none"> <li data-bbox="527 540 1650 634">❑ 2.25% annual sales tax revenue growth rate assumed during 10-year period (vs. CPI of 3.27%) <li data-bbox="527 695 1650 789">❑ Primary determinant of sales tax revenues is disposable personal income <ul style="list-style-type: none"> <li data-bbox="625 849 1650 943">➤ During last 25 years, sales tax grew at 4.1% per year vs. disposable income at 6.1% per year <li data-bbox="625 1003 1650 1097">➤ Forecast for disposable income growth below 4% per year <li data-bbox="625 1157 1650 1187">➤ Erosion of sales tax base 	70%

VTA Operating Expense Assumptions

10 Year Projection – Assumed Growth Rates

Cost Category	Growth Rate Based On	% of VTA's Budget
Wages**	San Jose CPI*	43%
Health (active and retired employees)	San Jose CPI	14%
Other Fringes	San Jose CPI	14%
Materials and Supplies	San Jose CPI	5%
Other Costs (e.g. paratransit, regional partners)	San Jose CPI	21%
Electricity & Fuel	California commodity-specific forecasts	4%

* San Jose-All Urban Consumers annual average growth rate forecast of 3.27% during projection period

** FY12 also assumes increased wage costs due to end of furloughs and wage increase deferrals

Updated VTA 10-year Operating Projection

Annual Surplus/(Deficit) (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Revenues	346.04	322.36	348.07	362.99	368.73	372.91	391.98	400.56	416.96	437.97
Expenses	340.91	348.33	380.10	399.88	401.70	417.71	449.15	465.60	467.35	487.43
Surplus/(Deficit)	5.13	(25.97)	(32.03)	(36.89)	(32.97)	(44.80)	(57.17)	(65.04)	(50.39)	(49.46)

Operating Reserves (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Ending Operating Reserves	51.18	25.21	(6.82)	(43.71)	(76.68)	(121.48)	(178.65)	(243.69)	(294.08)	(343.54)
Reserve as % of Operating Expenses	14.8%	7.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**10-Year Projections:
What If Sales Tax Revenues Grow
Faster?**

“What If” Sales Tax Growth Keeps Pace with Inflation (3.5% per year growth)

Annual Surplus/(Deficit) (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Revenues	362.56	342.27	361.16	374.09	382.51	398.07	424.13	438.42	458.43	483.40
Expenses	340.91	348.33	380.10	399.88	401.70	411.14	437.55	449.76	445.38	465.87
Surplus/(Deficit)	21.65	(6.06)	(18.94)	(25.79)	(19.19)	(13.07)	(13.42)	(11.34)	13.05	17.53

Operating Reserves (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Ending Operating Reserves	67.70	61.64	42.70	16.91	(2.28)	(15.35)	(28.77)	(40.11)	(27.06)	(9.53)
Reserve as % of Operating Expenses	20%	18%	11%	4%	N/A	N/A	N/A	N/A	N/A	N/A

**“What If” Assume Historical Rate
of Sales Tax Growth Since 1976
(4.74% per year growth)**

**Annual Surplus/(Deficit)
(\$ in Millions)**

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Revenues	364.58	347.23	369.43	386.21	398.25	418.30	447.75	467.10	492.06	522.39
Expenses	340.91	348.33	380.10	399.87	401.70	411.09	437.56	449.76	445.39	465.87
Surplus/(Deficit)	23.67	(1.10)	(10.67)	(13.66)	(3.45)	7.21	10.19	17.34	46.67	56.52

**Operating Reserves
(\$ in Millions)**

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Ending Operating Reserves	67.70	66.60	55.93	55.80	61.30	104.25	139.57	185.16	252.22	308.74
Reserve as % of Operating Expenses	20%	19%	15%	14%	16%	28%	34%	44%	59%	66%

Conclusions

- ❑ **Overall, VTA's financial projection methodology and assumptions are reasonable**
 - **Projections identify significant operating shortfalls within 3 years, even using optimistic assumptions about fare revenue and sales tax revenue**
- ❑ **Use FY2011 to develop and implement plans for FY2012 and beyond**
- ❑ **Develop Board financial policy and spending prioritization guidance to help VTA formulate its plans**