1. CALL TO ORDER AND ROLL CALL

The Board Workshop Meeting for the Santa Clara Valley Transportation Authority (VTA) Board of Directors was called to order by Chairperson Pirzynski at 8:48 a.m. in the Board of Supervisors’ Chambers, County Government Center, 70 West Hedding Street, San José, California.

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<tr>
<th>Attendee Name</th>
<th>Title</th>
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<tr>
<td>Margaret Abe-Koga</td>
<td>Board Member</td>
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<td>Xavier Campos</td>
<td>Board Member</td>
<td>Absent</td>
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<td>Larry Carr</td>
<td>Alternate Board Member</td>
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<td>David Cortese</td>
<td>Board Member</td>
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<td>Jose Esteves</td>
<td>Board Member</td>
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<td>Rose Herrera</td>
<td>Board Member</td>
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<td>Ash Kalra</td>
<td>Vice Chairperson</td>
<td>Present</td>
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<td>Johnny Khamis</td>
<td>Alternate Board Member</td>
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<td>Sam Liccardo</td>
<td>Board Member</td>
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<td>Jamie Matthews</td>
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<td>Chuck Page</td>
<td>Alternate Board Member</td>
<td>Absent</td>
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<td>Joe Pirzynski</td>
<td>Chairperson</td>
<td>Present</td>
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<td>Gail A. Price</td>
<td>Alternate Board Member</td>
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<td>Donald Rocha</td>
<td>Board Member</td>
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<td>David Whittum</td>
<td>Alternate Board Member</td>
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<td>Perry Woodward</td>
<td>Board Member</td>
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<td>Ken Yeager</td>
<td>Board Member</td>
<td>Present</td>
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Chairperson Pirzynski shared words of support and requested a period of silence to honor the victims of the recent tragedy in Boston.

Board Member Rocha took his seat at 8:50 a.m.

Chairperson Pirzynski stated that Agenda Item #4.3, VTA Labor Relations Update, would be heard before Agenda Item #4.2, BART Silicon Valley Parking Technology Recommendations.
2. **PUBLIC COMMENT**

There was no Public Comment.

3. **CLOSED SESSION at: 8:51 a.m.**

3.1. Recess to Closed Session

A. Public Employment

[Pursuant to Government Code Section 54957]
Title of position to be filled: General Manager

3.2. Reconvene to Open Session at: 9:23 a.m.

3.3. Closed Session Report

Chairperson Pirzynski stated there was no reportable action taken during Closed Session.

4. **WORKSHOP ITEMS**

Chairperson Pirzynski stated this was the beginning of the public process for the FY 2014 and FY 2015 recommended biennial budget (Budget). He reported that a Joint Advisory Committee Workshop, scheduled for May 8, 2013, would provide VTA’s advisory committees the opportunity to review and weigh-in on the proposed Budget. In addition, several public meetings will be held in early May to allow staff an opportunity to gather public input and incorporate any suggestions that would improve the Budget.

Michael T. Burns, General Manager, noted this meeting was the first time the Board and the public were reviewing the proposed Budget. Mr. Burns provided a brief overview, noting: 1) VTA is in a sound financial position; 2) The current financial position is based on the principles established by the 2010 Ad Hoc Financial Recovery Committee (2010 Ad Hoc FRC), as well as the participation by VTA employees and contractors who worked with VTA during those difficult times; 3) Positive operating balances are proposed for both years; 4) There are fully-funded reserves; 5) A status of the reserves is included in Appendix B; 6) The Budget includes service increases and no fare increase; 7) The Budget maintains a theme of “State of Good Repair” and uses a significant portion of the debt reduction fund for VTA’s capital program; 8) The Budget presentation would be followed by a discussion; 9) Steve Foti, Harvey M. Rose Associates, LLC (“Harvey Rose”), would provide an independent assessment of VTA’s reserves; and 10) Staff would provide a brief response to the Harvey Rose recommendations. Mr. Burns stated that staff’s plan is to provide a final review of the recommendations the week of April 22, 2013.

4.1. **Fiscal Year 2014 and 2015 Draft Recommended Biennial Budget**

Joseph T. Smith, Chief Financial Officer, provided the staff report.
Mr. Smith introduced Carol Lawson, Fiscal Resources Manager - Budget, and Jim Unites, Deputy Director Operations - Operations Planning Service & Operations Planning. He noted Mr. Unites would address the budget as it relates to service changes.

Mr. Smith provided a brief update on the current financial climate, noting: 1) There has been significant improvement in housing and job growth in Santa Clara County (County); 2) The County continues to lead California in the labor market recovery; 3) Unemployment is 7.4 percent compared to the 10.3 percent two years ago; 4) Taxable spending is up; and 5) There has been a recent increase in spending in the automobile and transportation sector.

Mr. Smith stated that although VTA is currently in a sound financial position, VTA is subject to various swings in revenues and expenditures and has developed various reserves to mitigate these economic downturns, including: 1) the fifteen (15) percent operating reserves; 2) the Sales Tax Stabilization Fund; and 3) the Debt Reduction Fund. Mr. Smith noted the importance for VTA to continue to be diligent.

Mr. Smith stated one of the goals of the budget is to address unfunded liabilities with the: a) ATU Pension Fund; b) Calpers Pension Fund; and c) Other Post Employment Benefits (OPEB) Retirement Fund.

He referred to the 2010 Ad Hoc FRC and noted that it was made up of three (3) Board members and twelve (12) stakeholders. The 2010 Ad Hoc FRC met between January and September 2010 to review detailed financial information and to discuss and develop financial policy issues and proposals. The six (6) Key Financial Principles developed by the 2010 Ad Hoc FRC were: 1) to maintain an operating reserve of fifteen (15) percent; 2) to limit the use of capital funding for operating relating purposes; 3) to control the cost of growth; 4) to achieve internal efficiencies; 5) to negotiate sustainable bargaining agreements; and 6) to evaluate the use of contracted services.

Mr. Smith provided a PowerPoint presentation, entitled Draft Recommended Biennial Budget, Fiscal Years 2014 and 2015, highlighting: 1) Recommended Budget Summary; 2) Financial Climate - Economy; 3) Financial Climate - VTA; 4) Overall Financial Goals; and 5) FY14 and FY15 Budget Objectives.

Mr. Smith reviewed the budget recommendations for the following: 1) VTA Transit; 2) 2000 Measure A; 3) Congestion Management Program; 4) VTA Highway Program; 5) Joint Development Program; 6) Silicon Valley Express Lanes Program; and 7) BART Operating Sales Tax Program. Mr. Smith discussed the key principles, prioritization and budget objectives and advised the Board regarding the budget public meetings.

Steve Foti, Principle, Harvey Rose, noted his firm was commissioned by Working Partnerships to look at the established reserves in light of the overall financial health of the organization. Mr. Foti provided a PowerPoint presentation, entitled Analysis of VTA Reserves, highlighting: 1) Reserve Designations & Fund
Liquidity as of June 30, 2012; 2) Historical Debt Reduction Reserve Balance; 3) OPEB Liability Reduction Reserve; 4) Sales Tax Stabilization Reserve; 5) Internal Service Fund Status; 6) Compensated Absences; 7) Internal Service Fund Reserve Status; 8) Key Recommendations; and 9) Recommendations with Monetary Value.

Mr. Foti discussed the recommendations with monetary value which includes: 1) elimination of local share of capital projects reserve; 2) elimination of debt reduction reserves; 3) elimination of OPEB reduction reserves; 4) transfer of excess funds from Workers’ Comp and general liability; and 5) elimination of compensated absence reserve.

Mr. Smith provided a PowerPoint presentation listing VTA's response to the Harvey Rose Report, highlighting VTA’s analysis and staff recommendation for each of Harvey Rose’s findings. Mr. Smith noted the following: 1) prudent fiscal policy requires reserves; 2) well-funded reserve levels contribute to VTA’s high credit rating; and 3) use of one-time reserve funds for Operations is not sustainable.

Board Member Herrera took her seat at 10:10 a.m.

Michael T. Burns, General Manager, noted: 1) VTA believes it is prudent and sound financial management to fund liabilities; 2) He and Mr. Smith met with the rating agencies the week of April 8, 2013, to give a presentation on VTA’s financial situation; 3) Rating agencies are very familiar with VTA’s volatile revenue sources and look to the reserves as a key input into their rating on VTA’s debt; 4) The Board has historically supported these one-time uses of the reserve funds over the past five years; 5) With the operating balances being proposed, VTA is still operating on a very narrow margin in terms of matching ongoing expenses with ongoing revenues. Mr. Burns noted this needs to be considered as VTA determines whether or not the level of reserves are appropriate; and 6) The state bond funds, almost $50 million that were being proposed for use with the new articulated buses, are going away and there is no likelihood for any replacement funding anytime soon. He noted that is part of what VTA would look to from the debt reduction reserve.

Mr. Burns thanked Harvey Rose for their efforts and the cooperation extended to VTA staff.

Public Comment

Diana Hermone, Recording and Financial Secretary, Amalgamated Transit Union (ATU) Local 265, VTA Bus Operator North Yard, noted: 1) ATU’s appreciation for its positive relationship with the Board and VTA management; 2) referenced a solid history of working together during difficult times, and thanked the Board for their leadership; 3) the unions engaged Harvey Rose to ensure VTA’s success, noted their fate is directly tied to VTA, and encouraged the Board to establish a comprehensive policy on reserves; 4) ATU encourages the Board to: a) restore transit cuts; b) reduce headways; c) provide professional development for
frontline workers; c) provide fair compensation for employees; d) reduce fares for the low-income population; and e) ensure a reasonable balance between prudent reserve levels and the need to ramp-up transit operations.

Tami Dhanoa, Chairperson, Service Employees International Union (SEIU), Local 521: 1) thanked the Board for implementing ideas submitted by Harvey Rose two-years ago that generated real money and helped stabilize VTA; 2) noted SEIU’s appreciation that Harvey Rose’s new recommendations are being heard and that the budget document now includes the full balances of all operating reserves; 3) stated SEIU agrees that the Board should examine what a prudent total level of reserves might be; 4) stated SEIU supports defining one fund with the appropriate level of reserves to protect against multiple risks; and 5) stated the employees will continue to work with VTA to protect the integrity of the organization.

Haniet Bourshrockn, Member SEIU, expressed her support for establishing clear and transparent board policies for reserve levels.

Ron Roberts, Chief Steward, SEIU, expressed his appreciation to Chairperson Pirzynski for meeting with labor representatives earlier in the week. Mr. Roberts noted SEIU supports the Harvey Rose recommendation to establish more transparent Board policies. He discussed the reserve funds and encouraged a review by the Board and staff to determine whether the funds could be freed-up to restore service or to meet other agency needs.

Chris Lepe, Silicon Valley Community Planner, Transform, noted the increase in fares and changes in service since 2000 have had an impact on the working-class and low-income families. Mr. Lepe then: 1) expressed his appreciation over the restoration of some services; 2) recommended subsidized fares for low-income riders and increasing service in areas where farebox recovery can be improved and provide an increase in ridership for VTA; and 3) encouraged the Board to invest in the employees that create a strong agency. He noted operating revenue should not be used for capital.

Chairperson Pirzynski stated, due to a need to stop the meeting at 12 noon, Agenda Item #4.2, BART Silicon Valley Parking Technology Recommendations, and Agenda Item #4.3, VTA Labor Relations Update, would be removed from the agenda so that the Board’s focus could remain on the budget. He noted these items would go back to the committees.

Board Member Liccardo thanked both the members of the public and the employees who spoke before the Board. He strongly endorsed Harvey Rose’s conclusion that VTA should establish a comprehensive, deliberate, transparent policy regarding the use of VTA’s reserves.

Board Member Liccardo expressed his appreciation to Mr. Burns and VTA staff for being as conservative as possible, recognizing revenue sources fluctuate, greatly, particularly sales tax revenue.
Board Member Liccardo referenced an idea put forth several years ago by former VTA Board Member Christopher Moylan, wherein Mr. Moylan suggested that VTA set a sales tax reserve fund that represents two standard deviations from the means so that ninety-five percent of the time VTA would know that it would have enough money to cover whatever the expected transit needs are. He noted his support of that deliberate approach. Board Member Liccardo stated VTA is utilizing that method with its sales tax fund, but not with the other funds.

Board Member Liccardo noted that he strongly supports staff’s recommendation to apply the $20.65 million contained in the Board-approved Other Post Employment Benefit (OPEB) Liability Reduction Fund to pay down the OPEB Liability. He stated the $2 million annual savings could be put back into service. Further, he noted the one-time money should be used to reduce the OPEB Liability.

Board Member Liccardo stated: 1) Every major city in this country is in woeful condition in terms of funding pensions and retiree healthcare; 2) Although VTA has met its annual retirement contribution every year, VTA still has forty percent unfunded liability in one fund and thirty percent in the ATU pension; and 3) Every employee and/or retiree should feel confident that they will have what they are promised and what they bargained for when they retire. He noted the Board should not feel comfortable until those are 100 percent funded.

Board Member Liccardo: 1) expressed his strong support for staff’s recommendation; 2) noted there are sources that can be looked at and there should be a comprehensive policy; and 3) questioned sales tax projections, noting the last couple of years have been great and questioned whether staff has reconciled the long-term view with what is being seen in the short term. Mr. Smith reported VTA will be engaging Moody Analytics to regenerate the model, but noted that at present the view is the same.

Alternate Board Member Khamis noted the importance of saving money for a rainy day. He noted the fiscally responsible thing to do for the health of VTA and its employees is to make sure the employees have health insurance and retirement funds. He noted his support of staff’s recommendation.

Board Member Abe-Koga referenced her position on the 2010 Ad-Hoc FRC. She then: 1) commended all of the groups within VTA, noting that when times were tough everyone came together; 2) noted she wants to improve operations, expanding where possible, but that she believes in reserve funds; 3) expressed support for reserves because it can help the organization during difficult financial times; 4) noted the importance of transparency in the budget process; and 5) stated would like to see all of the funds, including the debt reduction funds, included in a biennial budgeting process and is in support of a comprehensive reserve policy.

Board Member Abe-Koga recommended looking at the trends for the Worker’s Compensation and Leave Compensation funds and to consider lowering those funds.
Alternate Board Member Price concurred with Board Members Abe-Koga and Liccardo regarding the issue of overall reserve policies and the importance of having guiding principles. She noted she concurs with the Harvey Rose recommendations, appreciates VTA staff’s work, and the comments by the employees.

Board Member Herrera expressed her appreciation for the Harvey Rose report. She noted her position on the 2010 Ad-Hoc FRC with Board Member Abe-Koga and then Board Member Don Gage and expressed her appreciation to all of the stakeholder groups for their hard work. She noted VTA is in a much better position.

Board Member Herrera: 1) acknowledged Harvey Rose and noted her respect for what they have to say; 2) referenced the OPEB Liability Fund and stated that saving $2 million per year is very significant; 3) noted that although being funded at 60 percent is very positive, the Board still needs to be concerned with the unfunded 40 percent to ensure that we deliver what is promised; and 4) supports staff’s recommendation.

Board Member Esteves: 1) noted he supports staff’s recommendation; 2) stated one time revenues must not be used for recurring expenses and that VTA must be prudent in its spending; 3) noted his belief that VTA operates with a minimum of services, including not providing restrooms for the public at its stations, and stated the elderly need basic services in order to utilize our system.

Alternate Board Member Whittum noted comparing funding levels with other agencies is irrelevant due to the uncertainty whether the funding levels are adequate. He noted in the face of uncertainty he recommends a fiscally conservative approach. Alternate Board Member Whittum stated he supports: 1) an increase in operations funds to improve service; 2) transparent policies; and 3) looking at the average historical worse case and planning a reserve based upon that. He noted all of that is aimed at preserving what the public is asking for: maintain service and improving service where possible.

Board Member Kalra thanked Mr. Burns, staff, the bargaining units, and Harvey Rose for their efforts in helping to educate the Board on the proposed budget. He noted: 1) a global discussion on reserves, as part of the overall budget process, is healthy and helps to educate everyone; 2) he was heartened to see that many Board members agree that having a comprehensive policy on reserves is a positive thing; 3) the Board needs to be fiscally prudent when looking at reserves, by establishing a well-balanced reserve policy and continuously evaluate the reserves to address fluctuations.

Board Member Kalra noted the Board placed a cap on sales tax stabilization to ensure: 1) a healthy reserve; 2) service levels appropriate for providing a fully functioning transit system; 3) a fully-funded Congestion Management Program; and 4) employees that are happy and made whole for the sacrifices they made to get the agency through hard times.
Board Member Kalra expressed his support for using the $20.65 million contained in the Board-approved Other Post Employment Benefit (OPEB) Liability Reduction Fund to pay down the OPEB Liability, but noted it is important that decisions not be made in a vacuum.

Board Member Cortese: 1) noted he was the only member of the current Board who participated in the original 2003 Ad-Hoc Financial Stability Committee; 2) expressed concern with the regular practice of shifting funds back and forth between Capital and Operations; 3) noted the need for a firewall, except in a fiscal-emergency situation; 4) noted the solution in 2003 was to seek a court order to move Measure A Capital Funds to Operations; 5) questioned the limitations the Board would put on moving those funds; 6) referenced the unfunded projects on the Measure A list, particularly the Eastridge Extension, and noted his reluctance to accept the Harvey Rose Recommendation Number 5, Eliminate the local share of capital projects reserve and re-designate the funds to be used for any operating purpose; and 7) noted that with a comprehensive review, the Board would need to determine how those funds would be designated.

Board Member Cortese stated that if the Board had to take away from projects that are currently unfunded the Board would have the responsibility to fulfill those prior commitments with any available capital or one-time funds.

Board Member Cortese noted the Debt Reduction Reserve and the Compensated Absence Reserve should be reviewed in terms of reduction, because both appear to be overfunded. He noted there are standard numbers for replacement reserves, including federal, state and local, and VTA should not be close to the normal for those types of reserves. Board Member Cortese stated that the OPEB move makes sense at this time.

Board Member Cortese commented that when the Government Accounting Standards Board (GASB) told governmental agencies that liabilities must be shown on the books, with an effort to fund them, they were talking about a long-term process. He noted he does not want VTA’s employees to get the impression that if VTA does not fund a reserve at a 100 percent level, right now, that retiree health benefits scheduled to be paid 10 or 15 years from now are in jeopardy. He noted that is not the case. Board Member Cortese stated that GASB is saying the agency should have the operating ability to pay, the programmatic ability to pay, plus have these reserves set-up. He stated that VTA is setting the gold standard in terms of addressing that issue, but that VTA does not need to do it any more aggressively than what makes prudent sense.

Board Member Cortese stated that the Board has been telling the employees to shoulder the burden since the 2003 Ad Hoc Financial Stability Committee. He noted it was with the understanding that if the employees helped VTA get through the dot-com bust and then later the Wall Street meltdown, VTA would not forget those efforts and would come back and make good on rewarding its employees for their hard work. He noted that several of the speakers had mentioned that and he wanted to not only echo it, but to be a witness that those statements were made at many brown bag lunch meetings over the last dozen years. Board Member
Cortese stated he was sure that more of those kinds of representations were made to the employees during the period that he was not a voting member on the Board. He noted if at some point VTA reduces operating reserves it makes sense to see how we can make this even more of an employer of choice with those dollars.

Board Member Rocha thanked staff and those who addressed the Board. He noted as a new member it was helpful to receive input, direction and advice on a number of issues, especially as they relate to the Budget. Board Member Rocha requested to meet with staff for further clarification of VTA’s policies. Mr. Burns noted that Board Member Rocha’s request for clarification is a highlight of the Harvey Rose’s report.

Board Member Rocha stated he was in support of staff’s recommendation to apply the $20.65 million contained in the Board-approved Other Post Employment Benefit (OPEB) Liability Reduction Fund to pay down the OPEB Liability. He noted he would like to establish policies for target goals rather than making annual decisions on a whim.

Board Member Liccardo provided a list of topics for a future, comprehensive approach Board discussion, including: 1) An update on the amount of unfunded capital projects in the Measure A program, to enable the Board to understand the consequences for moving capital money back and forth; 2) The history of the 18.46% of Measure A funds currently moving from Measure A to Operations; 3) A history of the reserves, including the debt reduction reserve; and 4) The amount the unfunded liability is costing on an annual basis and how it impacts VTA’s operating costs.

Chairperson Pirzynski commended everyone for their extraordinary efforts in making this workshop possible. He then: 1) noted this Board has demonstrated its skill and ability to assimilate very complex information and has also shown a dedication to the agency’s purpose; 2) thanked VTA’s employee groups and the working partnership for engaging Harvey Rose, noting it is always helpful to have multiple sets of eyes reviewing the same data; 3) stated that he agreed with the comments the Board made and noted there was a coherent philosophy among all members of the Board due to their understanding of the organization’s mission; and 4) expressed his appreciation for the professionalism of VTA’s management staff.

Mr. Burns thanked everyone who participated for making this a productive session. He noted the input and suggestions would be taken under consideration. Mr. Burns stated that staff would prepare a formal response to the Harvey Rose report that will be forwarded to the Board. He stated that staff is open to a comprehensive policy and noted this will be a good discussion, including examining reserve levels to determine what is appropriate.

Mr. Burns noted, based on the discussion and if there is no objection, the transfer of the funds from the trust to the OPEB fund would be placed on the agenda for the May 3, 2013, Board meeting. Any new updates regarding the budget will be provided to the Board at its May meeting.
Deferred to the May 3, 2013, Board of Directors meeting.

Referral from the April 4, 2013, VTA Board of Directors regular meeting: Reallocation of Other Post Employment Benefits (OPEB) Liability Reduction Fund to OPEB Trust Fund.

4.2. **Referred to the Silicon Valley Rapid Transit Program Working Committee**

Review the BART Silicon Valley Parking Technology Recommendations.

4.3. **Referred to the May 6, 2013, VTA Board Meeting**

Receive an update regarding Labor Relations.

5. **OTHER ITEMS**

5.1. **ANNOUNCEMENTS**

There were no Announcements.

6. **ADJOURN**

On order of Chairperson Pirzynski and there being no objection, the meeting was adjourned at 11:53 a.m.

Respectfully submitted,

Susan E. Garcia, Board Assistant
VTA Office of the Board Secretary