BOARD OF DIRECTORS WORKSHOP/SPECIAL MEETING

Friday, October 22, 2010

MINUTES

CALL TO ORDER

The Workshop/Special Meeting of the Santa Clara Valley Transportation Authority’s (VTA) Board of Directors was called to order by Chairperson Liccardo at 9:09 a.m. in the Board of Supervisors’ Chambers, County Government Center, 70 West Hedding Street, San José, California.

1. ROLL CALL

<table>
<thead>
<tr>
<th>Attendee Name</th>
<th>Title</th>
<th>Status</th>
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<tbody>
<tr>
<td>Margaret Abe-Koga</td>
<td>Vice Chairperson</td>
<td>Present</td>
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<tr>
<td>Marshall Anstandig</td>
<td>Alternate Board Member</td>
<td>NA</td>
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<tr>
<td>Nora Campos</td>
<td>Alternate Board Member</td>
<td>Absent</td>
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<tr>
<td>Dean Chu</td>
<td>Ex-Officio Board Member</td>
<td>Absent</td>
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<td>Don Gage</td>
<td>Board Member</td>
<td>Present</td>
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<td>Rose Herrera</td>
<td>Board Member</td>
<td>Present</td>
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<td>Ash Kalra</td>
<td>Board Member</td>
<td>Present</td>
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<tr>
<td>Liz Kniss</td>
<td>Board Member</td>
<td>Present</td>
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<td>Rich Larsen</td>
<td>Board Member</td>
<td>Absent</td>
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<tr>
<td>Sam Liccardo</td>
<td>Chairperson</td>
<td>Present</td>
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<td>Jamie Matthews</td>
<td>Alternate Board Member</td>
<td>Absent</td>
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<tr>
<td>Pete McHugh</td>
<td>Alternate Board Member</td>
<td>Present</td>
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<td>Chris Moylan</td>
<td>Board Member</td>
<td>Present</td>
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<tr>
<td>Chuck Page</td>
<td>Board Member</td>
<td>Present</td>
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<tr>
<td>Nancy Pyle</td>
<td>Board Member</td>
<td>Present</td>
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<tr>
<td>Chuck Reed</td>
<td>Board Member</td>
<td>Absent</td>
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<tr>
<td>George Shirakawa</td>
<td>Alternate Board Member</td>
<td>NA</td>
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<td>Perry Woodward</td>
<td>Board Member</td>
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<tr>
<td>Ken Yeager</td>
<td>Ex-Officio Board Member</td>
<td>Present</td>
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* Alternates do not serve unless participating as a Member.

A quorum was present.

Member Kniss took her seat at 9:10 a.m.
2. **Measure A Sales Tax Revenue Bonds**

Kim Koenig, Fiscal Resources Manager, provided the staff report. She noted VTA is advancing the bond issue to take advantage of the favorable interest rate environment.

Board Member Kalra and Ex-Officio Board Member Yeager took their seats at 9:15 a.m.

Board Member Herrera questioned remaining funds and whether they would be brought back before the Board to set priorities. Ms. Koenig noted the bond proceeds could be used for any eligible Measure A projects. She stated the Board has already set the priorities for these funds, with the number one priority being the BART project. Ms. Koenig stated bond proceeds would also be used on the work being performed on the Bus Rapid Transit (BRT) program.

M/S/C (Herrera/Kniss) 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.


Board Member Gage, Chairperson of the Ad-Hoc FRC, stated the Board and staff received the report submitted by Harvey M. Rose Associates, LLC (Harvey Rose) just prior to the current board meeting and have not had enough time to fully review the report. Board Member Gage recommended acceptance of the reports and to defer Board action to the November 2010 board meeting.

Board Member Gage stated difficult choices would need to be made to ensure vital services continue for VTA customers. He noted the budget is an important issue for all concerned and should not be rushed. Board Member Gage expressed his appreciation for the work performed by Harvey Rose.

Michael T. Burns, General Manager, thanked Board Member Gage for his leadership on the Ad-Hoc FRC. Mr. Burns thanked Vice Chairperson Abe-Koga, Board Member Herrera, and the Stakeholders for their participation and efforts.

Mr. Burns stated: 1) The Committee has provided a structure and/or guidance for staff to proceed with the budget preparations for FY12 and FY13; 2) The approval of this plan would demonstrate to outside agencies, in particular the Federal Transit Administration (FTA), that VTA has a plan for dealing with the long-term financial problems that exist at

**NOTE:** M/S/C MEANS MOTION SECONDED AND CARRIED AND, UNLESS OTHERWISE INDICATED, THE MOTION PASSED UNANIMOUSLY.
VTA; 3) VTA had two very good quarters at the end of the last fiscal year, significantly changing VTA’s economic situation for the better; 4) The longer-term issue still exists and VTA is still subject to very volatile revenue swings given its dependence on sales tax revenues; 5) The Committee’s decision to recommend ranges for providing a framework going forward provides a lot of flexibility; and 6) The Harvey Rose report will provide key input to budget preparations for FY12 and FY13, as well as the regularly updated Short Range Transit Plan (SRTP).

Mr. Burns noted his appreciation for the Board’s policy-level focus, guidance, and recognition that long term structural issues still exist within VTA’s budget.

Mr. Burns reported: 1) Bob Kuo, a VTA financial consultant who assisted with the Ad-Hoc FRC, would provide the Board with a background review and information the committee was utilizing as they looked at the various ways to approach this issue; 2) Jim Lawson, Executive Policy Advisor and Staff Liaison to the Ad-Hoc FRC, would describe the process and the recommendations from the Committee; and 3) Harvey Rose would provide a presentation on the results of its analysis of VTA’s 10-year financial projections.

Alternate Board Member McHugh concurred with Board Member Gage’s recommendation to take action at the November board meeting. He stated that VTA would be well served by an analysis and a reconciliation of the data from both Harvey Rose and VTA.

Mr. Burns requested that this agenda item be moved to the December 2010 board meeting due to the extensive effort staff would be putting into the bond effort at the time of the November 2010 board meeting.

Bob Kuo, VTA Financial Consultant, provided a PowerPoint presentation that highlighted: 1) Background on VTA Budget; 2) Key Financial Trends: a) Operating Revenues; b) Operating Expenses; c) Operating Reserve Level; and 3) Review of 10-year Financial Projections.

Mr. Lawson also reviewed the Annual Deficit Reduction Targets by Category, Recommendations and Next Steps.

Chairperson Liccardo thanked Mr. Lawson for his leadership and hard work in guiding this process.

Board Member Kniss acknowledged the tremendous amount of work involved in the Ad-Hoc FRC process. She commented on the following slides:

- Slide #12, **Fare Revenue** – the revenue is projected to double between 2010 and 2019, while historically it remained flat.
- Slide #17, **Change in Service Levels**: hours of service was substantially reduced.
- Slide #18, **Number of Employees** – number of employees were substantially reduced, inquired where reductions occurred.
- Slide #19, **Total Cost of Wages & Benefits**; Slide #20, **Compensation per Employee**; and Slide #21, **Average Wages per Employee** - expressed concern about the significant cost increases.
- Slide #22, **Top Operator Hourly Wage Rates Adjusted to Reflect Cost of Living in Bay Area** – the slide needs to be simpler.
- Slide #26, **Inflation – 2001 to 2009** – expressed concern about the change in the level of inflation, noting it was high at 18 percent.
- Slide #32, **Key Assumptions Operating Revenue** – the travel demand model projection of a 40 percent ridership increase is surprising and inquired the source of the projected increase.

Board Member Kniss confirmed with Mr. Lawson that Slide #12, **Fare Revenue**, and Slide #32, **Key Assumptions Operating Revenue**, go together. She stated: 1) The doubling of the revenue suggests these projections are beyond optimistic; 2) The Board of Directors must question how staff arrived at these figures; 3) Discussions will be held outside of the board meeting; 4) She would be troubled if the public thought that as a member of VTA’s Board of Directors she believed those numbers; 5) The Board needs to do its job and look at the data in a realistic manner; and 6) Slide #12, **Fare Revenue**, reflects that by 2020 there will be an incredible increase in ridership and a fare revenue that reaches almost $100 million.

Board Member Kniss reported the information presented at the October 21, 2010, Administration and Finance Committee on this topic was quite different. She requested that staff explain the travel demand model. Board Member Kniss stated each slide shows an upward slant with no dips and questioned where the vagaries are built in.

Mr. Lawson stated: 1) Staff has also indicated it has a concern about these projections; 2) Staff can explain how the numbers were derived; 3) Staff anticipates a population
growth in Santa Clara County and a growth in ridership with the opening of the BART extension in Santa Clara County; 4) One has to achieve what one believes to be reasonable balance between the investment and the infrastructure, the projections of the population, and what is a best guess estimate; and 5) The intention was to present a balanced report that is not overly optimistic and at the same time not overly pessimistic.

Board Member Moylan referenced Slide #12, Fare Revenue, and noted the importance of being cautious with projections.

Board Member Moylan suggested the level of reserves should be based on the fluctuations of VTA’s revenue source. This way, VTA has the flexibility to handle the economic fluctuations that last more than one year.

Board Member Gage stated the most important thing the Ad-Hoc FRC accomplished was to establish the key principles. He noted prioritizing the key principles provides a basis on which the Board can make its decisions.

Vice Chairperson Abe-Koga stated she would like to see a focus on how to build more consistency into VTA’s revenue streams. She noted she supports the creation of a revenue enhancement committee.

Board Member Pyle stated she would like to see the figures that appear to be disproportionate attached to trends or factors that will play a role in the projected increased fare revenue.

Board Member Page stated he would like to see what the fare revenues are based upon. He suggested it would be beneficial if staff provide the Association of Bay Area Governments (ABAG) projections for the Board to use as a reference tool. Mr. Lawson stated staff will do their best to provide the ABAG projections to the Board.

Board Member Kniss, noting the importance of transportation for seniors, stated she would like to see transportation options for seniors incorporated into the report. Mr. Lawson stated Staff will do their best to provide the information requested.

Chairperson Liccardo stated it would be helpful if staff could provide to the Board the work it has prepared on ridership projections and demographics.

Mr. Lawson introduced Stephen Foti, Principal, Harvey M. Rose Associates, LLC (Harvey Rose), a performance auditing and management consulting firm.

Mr. Foti reported that Working Partnerships, USA requested Harvey Rose prepare an independent analysis of very specific areas of the financial plan and final status of the VTA organization.
Mr. Foti provided a PowerPoint presentation entitled “Limited Scope Analysis of the Santa Clara Valley Transportation Authority’s 10-Year Financial Projections,” and discussed Harvey Rose’s Findings:

Finding 1: VTA’s baseline assumptions and methodologies are narrowly defined, affecting reliability and allowing major swings in projections as key financial data becomes available.

Finding 2: VTA has considerable flexibility to use funds for operations that are anticipated for capital projects.

Finding 3: VTA did not recognize $16.28 million in unbudgeted resources; and, had funded excess reserves amounting to $40.1 million as of June 30, 2010.

Finding 4: VTA’s pension systems are comparable to those for other transit operators, but $749,000 in annual savings could be achieved by pre-paying VTA’s annual contribution. Savings from establishing a two-tiered system would be minimal until all current employees were replaced in 20 years.

Mr. Foti also discussed Harvey Rose’s recommendations for each Finding.

Board Member Kniss noted it would have been better to receive the Harvey Rose report prior to the October 21, 2010, Administration & Finance meeting to provide the Board ample time to review the report. Mr. Foti expressed his apologies and noted Harvey Rose was working with a limited timeline.

Board Member Gage thanked Mr. Foti. He noted the Board needs to look at every option possible to make VTA a viable organization. Board Member Gage stated this item would be brought back to the Board after the documentation had been reviewed by staff.

Board Member Herrera stated the document from Harvey Rose is very good information to digest. She stated the prepayment of ATU and Calpers annual retirement contribution, referenced on Slide #23, is an excellent suggestion that has already been implemented by the City of San José.

Chairperson Liccardo stated it would be helpful to the Board to understand why Harvey Rose chose variable results over constant growth factors. He noted his concern with assuming constant numbers, because of the changes in: 1) demographics; 2) population age; 3) choices in consumption due to age; and 4) sales tax trends changing due to more purchase transactions on the Internet. Chairperson Liccardo also expressed concern with comparing VTA with other agencies or entities without knowing the financial situation of the other agencies. He questioned why Harvey Rose believes the 15 percent operating reserves to be too conservative.
Mr. Foti clarified Harvey Rose is not suggesting an assumption of constant numbers. He also noted he does not believe a 15 percent reserve is too conservative, but instead is at the high end of what is recommended by the Government Finance Officers Association. Mr. Foti commented VTA is being extremely conservative with the reserves for both workers compensation and compensated absences. He noted setting the reserves at the 90 percent level is extremely conservative and far outside the prevailing practices throughout the State of California.

Board Member Gage stated staff needs to look at the timeframe required and its ability to react within that timeframe, because changes do not take place immediately and serious issues could arise if enough money has not been set aside to handle a peak or a valley. He then stated reaction time needs to be part of the Board’s consideration when it reviews this item.

Board Member Moylan stated that by applying the principle of basing the amount reserved upon the volatility of the revenue source of the expenditure, perhaps the less volatile funds can be decreased and the more volatile fund can be increased. Board Member Moylan expressed support for all of the Ad-Hoc FRC’s principles except Principle Number 1, “Operating Reserve at 15 percent,” because the percentage of reserves should be based on revenue source fluctuations.

Public Comment

Francene Weisert Anderson, Vice President Transportation Authority Engineers & Architects Association Union (TAEA), referenced staff’s PowerPoint presentation, Review of Ad Hoc Financial Recovery Committee Recommendations, and requested the Board look at Slide #6, VTA Transit Labor Costs Budget ($253M)*, and Slide #7, VTA Transit Benefits Budget ($102M)*. She drew the Board’s attention to the note at the bottom of each page stating: “*All employees including amounts reimbursed by capital projects.” Ms. Weisert Anderson encouraged the Board to request staff separate the amount reimbursed by capital projects and have that amount reflected in a separate section of the graph. She stated that her requested correction is important, because Principles 4, 5 and 6 of the Guiding Principles, all affect staff wages. Ms. Weisert Anderson continued that VTA employees created an all volunteer sustainability committee that has saved VTA millions of dollars. Ms. Weisert Anderson stated employees are VTA’s intellectual capital and are important in helping VTA find the money.

Bonnie Gonzalez, representing VTA Service Employees International Union (SEIU) 521, requested the Board look at using excess reserves from the Workers Compensation and General Liability Funds to help address budget challenges. She suggested funding liabilities at a lower level so that excessive reserves are not built up and ongoing savings
are achieved. Ms. Gonzalez encouraged the Board and staff to work with employees and to look into these options as VTA plans for the FY12 and FY13 budgets.

Tami Dhanota, VTA SEIU 521 member and stakeholder member on the Ad-Hoc FRC, reported: 1) The Ad-Hoc FRC process has been an enlightening experience: 2) The unions believe in the future of VTA and will continue to be part of the solution; 3) Union members contributed their own money to study the budgeting process and records provided by VTA staff in order to understand the numbers, see the bigger picture, and find budget solutions; and 4) Union members fully support Harvey Rose’s recommendations, because it is a true audit by an outside agency providing a view of VTA’s actions from an outside prospective.

Ms. Dhanota referenced concessions made by the union members based upon budget figures not fully disclosed by staff. She urged the implementation of an internal efficiencies committee, as recommended by Harvey Rose, stating employees are proven participants in the solution.

Maria Valero, representing VTA SEIU 521, stated the SEIU members believe in and are dedicated to VTA and will continue to work with management and the board members to protect the integrity of this organization. She stated SEIU asks that VTA management and the Board continue to be flexible and collaborative as VTA works through its financial challenges.

Steve Barber, representing VTA SEIU 521, stated his support of the Harvey Rose recommendations and encouraged the Board to begin prepaying VTA’s annual contribution to both pension plans.

Phil Asgedom, SEIU 521 Representative speaking on behalf of VTA SEIU 521 Member Ruth Farnsworth, encouraged the Board to follow-up on the proposals contained in the Harvey Rose report.

Raj Sehdev, VTA TAEA member and stakeholder member on the Ad-Hoc FRC, encouraged the Board to establish an internal efficiencies group to include management and employees represented by the unions at VTA. Board Member Gage addressed Mr. Sehdev’s comments and noted an internal efficiencies group is being taken into consideration.

M/S (Gage/Herrera) 1) to accept the reports presented; and 2) for staff to meet with Harvey Rose and bring this item back to the Board for discussion at its December 2010 meeting.

NOTE: M/S MEANS MOTION SECONDED.
Chairperson Liccardo requested that the Board receive the report at this time and accept it at a future date when the Board has had a chance to review the document. Board Members Gage and Herrera accepted the change to the motion.

Board Member Herrera commented on Mr. Sehdev’s request to establish an internal efficiencies group. She stated, from her experience, employees can offer the best suggestions on how to save money and create efficiency. Board Member Herrera requested this information be reflected in the minutes and be discussed at the December board meeting.

Board Member Moylan stated he would appreciate seeing the back-up numbers for the projected ridership increase as well as the 2.25 percent projected sales tax increase. He expressed interest in learning if the 2.25 percent was tied into some hard numbers or if there was wiggle room. Chairperson Liccardo confirmed with Board Member Gage that this was also included in his motion.

Board Member Herrera requested staff present additional information on those reserves not discussed during the Ad-Hoc FRC meetings at the December board meeting.

M/S/C (Gage/Herrera) to: 1) withdraw the previous motion; 2) receive the staff and Harvey Rose reports; 3) recommend staff meet with Harvey Rose; and 4) recommend staff consider the comments made at this meeting as they prepare the final recommendation for Board consideration in December 2010.

5. ANNOUNCEMENTS

There were no Announcements.

6. ADJOURNMENT

On order of Chairperson Liccardo and there being no objection, the meeting was adjourned at 11:22 a.m.

Respectfully submitted,

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