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. INFORMATION ITEM - Review Sales Tax Projections. (Mark Mullen – Moody’s Analytics)
5. INFORMATION ITEM - Review Contracted Transit Service. (Bill Lieberman - Jacobs)
   • Alternative Service Deliveries
6. ACTION ITEM - Forward a recommendation to VTA’s Board of Directors regarding SB 83 Traffic Congestion: Motor Vehicle Registration Fees.
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: 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 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.
Outlook for Sales Tax Revenues

MARK MCMULLEN, DIRECTOR

Prepared for SCVTA Stakeholders Group, March 10, 2010
The Great Recession Is Over…

Recessions since World War II

<table>
<thead>
<tr>
<th>Peak</th>
<th>Trough</th>
<th>Duration in Months</th>
<th>Peak-to-Trough % Change</th>
<th>Jobless Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Recession Peak to Trough</td>
<td>Expansion Trough to Peak</td>
<td>Real GDP</td>
</tr>
<tr>
<td>Dec-07</td>
<td>Aug-09</td>
<td>20</td>
<td>73</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Mar-01</td>
<td>Nov-01</td>
<td>8</td>
<td>120</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Jul-90</td>
<td>Mar-91</td>
<td>8</td>
<td>92</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Jul-81</td>
<td>Nov-82</td>
<td>16</td>
<td>12</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Jan-80</td>
<td>Jul-80</td>
<td>6</td>
<td>58</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Nov-73</td>
<td>Mar-75</td>
<td>16</td>
<td>36</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Dec-69</td>
<td>Nov-70</td>
<td>11</td>
<td>106</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Apr-60</td>
<td>Feb-61</td>
<td>10</td>
<td>24</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Aug-57</td>
<td>Apr-58</td>
<td>8</td>
<td>39</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Jul-53</td>
<td>May-54</td>
<td>10</td>
<td>45</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Nov-48</td>
<td>Oct-49</td>
<td>11</td>
<td>37</td>
<td>-1.7%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td>10</td>
<td>57</td>
<td>-2.0%</td>
</tr>
</tbody>
</table>

Sources: NBER, BEA, FRB, BLS, Moody’s Economy.com
...As Household Credit Conditions Turn

Delinquent consumer trades

Sources: Equifax, Moody’s Economy.com
Policymakers Stabilize the Banking System…

Difference between 3-mo Libor and Treasury bill yields

Sources: Federal Reserve Board, Moody’s Economy.com
...And Fiscal Stimulus Provides a Vital Boost

Contribution to real GDP growth, %

Source: Moody's Economy.com
U.S. Households Are Fixing Their Finances...

Contribution to personal saving rate, 4-qtr MA

Source: Moody's Economy.com
...and Consumption Patterns Are Changing...

San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area

% share of population 65 years and older (R)

VTA 1976 Half Cent Sales Tax, % share of retail sales (Census Basis) (L)

FROM MOODY'S ECONOMY.COM
...So Spending Will Not Lead Economy

Average % change

Sources: BEA, BLS, FRB, Fiserv
Sales Tax Collections Have Bottomed Out

1976 Half Cent Sales Tax revenues, fiscal years, $ millions

Source: Moody’s Economy.com
Vehicle sales, mil (L)

Spent-up/pent-up vehicle demand, mil (R)

Sources: BLS, Moody’s Economy.com
Little Growth Following the Recovery

% change year ago, fiscal years

FROM MOODY'S ECONOMY.COM
Registration Fees: Fewer New Vehicles on the Road

CA new vehicle registrations

% change yr ago (R)

Thousands (L)

Sources: Polk, Moody's Economy.com
Recent Performance. San Jose is beginning to transition from recession into recovery. Industrial production levels are higher than they were during the trough reached in the middle of the year. However, job losses continue, led by weaknesses in food and tech manufacturing and the continued contraction of residential and commercial construction. Tech firms are offsetting some job losses with the continued hiring of computer systems design workers.

The housing market has registered some improvements—house prices have increased since the beginning of 2009, and sales levels are higher than a year earlier. However, weaknesses are still visible in the form of growing late-stage mortgage delinquencies and foreclosures.

Tech. Growth in SANJ's sizable tech industry will spill over into other industries and help the metro area to enter into a recovery in 2010. Currently, tech companies in Silicon Valley are directly hiring workers for new Internet-based platforms for corporate databases and consumer games. Tech companies are also increasing demand for temporary workers for both technical and administrative positions—a positive signal of future hiring intentions.

Improvements in financial markets in 2010 will help SANJ tech industries grow, although in new directions from the recent past. Venture capital investments in the metro area have increased since the second quarter of 2009 according to the PWC/NVCA/MoneyTree Report. Recent investments have been geared towards renewable energy technologies and networking equipment and away from software design.

Office space. SANJ's office markets will take longer to recover than its tech industries. Tech firms were quick to jettison excess workers and office space during the recession in order to maintain profitability. The contraction of demand beginning in the first half of 2008 coincided with the completion of several new office buildings. As a result, office vacancies have soared to above 22%—the highest in the Bay Area.

The initial recovery of office-using employment in 2010 will help to slowly revive demand for construction. While the oversupply of office buildings will dampen interest in new construction in the near term, SANJ will avoid the large-scale loss of office-using employment that it experienced at the end of the tech boom of the 1990s. The most recent peak-to-trough loss of office-using employment is forecast to total 5% by Moody's Economy.com—a fifth of the loss registered during the prior recession. The initial recovery of office-using employment in 2010 will help to slowly revive demand for construction. While the oversupply of office buildings will dampen interest in new construction in the near term, SANJ will avoid the large-scale loss of office-using employment that it experienced at the end of the tech boom of the 1990s. The most recent peak-to-trough loss of office-using employment is forecast to total 5% by Moody's Economy.com—a fifth of the loss registered during the prior recession.

Housing. The housing market in SANJ will backpedal in 2010 from recent improvements. Continued job losses and the growing volume of late-stage mortgage delinquencies will increase the number of distress house sales in early 2010. As a result, house prices will fall by 20% from current levels by the middle of next year.

Renewed house price depreciation in the near term will increase house sales. Rising prices slowed the rate of growth of house sales in the second half of 2009. The near-term boost in housing affordability will help previously discouraged homebuyers, as will the recently extended and expanded federal tax credit for first-time buyers.

San Jose's economy will slowly begin to emerge from recession in 2010 before growing at a faster rate in 2011. Job losses will linger into the first half of 2010, as will new declines in house prices. Longer term, SANJ's cluster of leading technology companies, its ability to create innovative new companies, and its highly educated population will remain major boosts for the metropolitan area. High costs will act as a drag on growth, keeping SANJ's performance average at best.

Eduardo J. Martinez
December 2009
EMPLOYMENT & INDUSTRY

**TOP EMPLOYERS**
- Cisco Systems, Inc. 17,200
- Stanford University Hospital, Linear Accelerator 16,600
- Stanford University 9,821
- Lockheed Martin Corporation 8,000
- Intel Corporation 6,720
- IBM Corporation 6,650
- Santa Clara Valley Medical Center 4,063
- Applied Materials, Inc. 4,000
- Yahoo, Inc. 4,000
- Kaiser Permanente 3,696
- Sun Microsystems, Inc. 3,500
- eBay, Inc. 3,010
- Fujitsu America, Inc. 3,000
- Google, Inc. 2,882
- Hitachi America Ltd. 2,800
- Symantec Corporation 2,542
- VMware, Inc. 2,500
- Xilinx, Inc. 2,440
- Network Appliance, Inc. 2,324

**LEADING INDUSTRIES**

<table>
<thead>
<tr>
<th>NAICS Industry</th>
<th>Employees (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5415 Computer Systems Design and Related Svcs.</td>
<td>51.0</td>
</tr>
<tr>
<td>3344 Semi. &amp; Other Elect. Component Manuf.</td>
<td>47.1</td>
</tr>
<tr>
<td>3341 Computer and Peripheral Equipment Manuf.</td>
<td>36.9</td>
</tr>
<tr>
<td>7221 Full-Service Restaurants</td>
<td>29.5</td>
</tr>
<tr>
<td>7222 Limited-Service Eating Places</td>
<td>24.2</td>
</tr>
<tr>
<td>6221 General Medical and Surgical Hospitals</td>
<td>23.4</td>
</tr>
<tr>
<td>5613 Employment Services</td>
<td>22.1</td>
</tr>
<tr>
<td>6113 Colleges, Universities &amp; Professional Schools</td>
<td>21.6</td>
</tr>
<tr>
<td>5417 Scientific Research and Development Services</td>
<td>20.1</td>
</tr>
<tr>
<td>5617 Services to Buildings and Dwellings</td>
<td>15.2</td>
</tr>
<tr>
<td>5191 Other Information Services</td>
<td>14.9</td>
</tr>
<tr>
<td>4451 Grocery Stores</td>
<td>14.1</td>
</tr>
<tr>
<td>4234 Prof. &amp; Comm. Equip. &amp; Supp. Merch. Whlsrs.</td>
<td>13.8</td>
</tr>
</tbody>
</table>

**INDUSTRIAL DIVERSITY**

<table>
<thead>
<tr>
<th>Most Diverse (U.S.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to U.S. 85%</td>
</tr>
<tr>
<td>Due to U.S. 381</td>
</tr>
<tr>
<td>SAJ 100</td>
</tr>
</tbody>
</table>

**INDUSTRIAL DIVERSITY**

<table>
<thead>
<tr>
<th>Least Diverse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not due to U.S. 20%</td>
</tr>
<tr>
<td>Not due to U.S. 8%</td>
</tr>
<tr>
<td>SAJ 100</td>
</tr>
</tbody>
</table>

**HOUSE PRICES**

<table>
<thead>
<tr>
<th>Price Range (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>87-90</td>
</tr>
<tr>
<td>91-93</td>
</tr>
<tr>
<td>94-96</td>
</tr>
<tr>
<td>97-99</td>
</tr>
<tr>
<td>100-102</td>
</tr>
<tr>
<td>103-105</td>
</tr>
<tr>
<td>106-108</td>
</tr>
<tr>
<td>109-111</td>
</tr>
<tr>
<td>112-114</td>
</tr>
<tr>
<td>115-117</td>
</tr>
</tbody>
</table>

**PER CAPITA INCOME**

<table>
<thead>
<tr>
<th>Income Range (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>59,338</td>
</tr>
<tr>
<td>43,221</td>
</tr>
<tr>
<td>39,430</td>
</tr>
</tbody>
</table>

**COMPARATIVE EMPLOYMENT AND INCOME**

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of Total Employment</th>
<th>Average Annual Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>SAJ 0.0%</td>
<td>CA 0.2%</td>
</tr>
<tr>
<td>Construction</td>
<td>SAJ 4.8%</td>
<td>CA 5.2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>SAJ 18.4%</td>
<td>CA 9.5%</td>
</tr>
<tr>
<td>Durable</td>
<td>SAJ 92.3%</td>
<td>CA 63.2%</td>
</tr>
<tr>
<td>Nondurable</td>
<td>SAJ 7.7%</td>
<td>CA 36.8%</td>
</tr>
<tr>
<td>Transportation/Utilities</td>
<td>SAJ 1.5%</td>
<td>CA 3.4%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>SAJ 4.4%</td>
<td>CA 4.7%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>SAJ 9.2%</td>
<td>CA 11.0%</td>
</tr>
<tr>
<td>Information</td>
<td>SAJ 4.6%</td>
<td>CA 3.2%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>SAJ 3.6%</td>
<td>CA 5.7%</td>
</tr>
<tr>
<td>Prof. and Bus. Services</td>
<td>SAJ 19.5%</td>
<td>CA 15.0%</td>
</tr>
<tr>
<td>Educ. and Health Services</td>
<td>SAJ 11.7%</td>
<td>CA 11.5%</td>
</tr>
<tr>
<td>Leisure and Hosp. Services</td>
<td>SAJ 8.5%</td>
<td>CA 10.5%</td>
</tr>
<tr>
<td>Other Services</td>
<td>SAJ 2.8%</td>
<td>CA 3.4%</td>
</tr>
<tr>
<td>Government</td>
<td>SAJ 10.7%</td>
<td>CA 16.8%</td>
</tr>
</tbody>
</table>

**MIGRATION FLOWS**

**INTO SAN JOSE, CA**
- Oakland, CA 8,000
- San Francisco, CA 7,979
- Los Angeles, CA 3,224
- Sacramento, CA 2,383
- Stockton, CA 2,377
- Modesto, CA 1,738
- Santa Cruz, CA 1,678
- Merced, CA 1,645
- San Diego, CA 1,540
- Salinas, CA 1,251

**Net In-migration** 63,406

**FROM SAN JOSE, CA**
- Oakland, CA 9,984
- San Francisco, CA 8,615
- Sacramento, CA 3,073
- Los Angeles, CA 2,424
- Stockton, CA 2,402
- Santa Cruz, CA 1,663
- San Diego, CA 1,471
- Merced, CA 1,420
- Modesto, CA 1,389
- Salinas, CA 1,158

**Net Out-migration** 63,393

**Total Migration** 13

**CREDIT QUALITY**

<table>
<thead>
<tr>
<th>Rating</th>
<th>County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aa2</td>
<td>SAJ</td>
</tr>
</tbody>
</table>

Sources:
- Moody’s Economy.com & BLS, 2008
- IRS (top), 2008
- Census Bureau, 2008
- Bureau of Economic Analysis, 2007
**SAN JOSE**

**Labor Market Lags Initial Signs of Recovery**

Unemployment rate, %

- California
- San Jose
- U.S.

**San Jose Internet Firms Avoid Larger Job Losses**

Employment, % change yr ago, NSA

**Foreclosures Will Push Down San Jose Prices Again**

Case-Shiller® Home Price Index, 2000Q1=100

Sources: Fiserv, FHA, Moody’s Economy.com

**Office Building Construction Slows in Face of Falling Demand**

Office-using employment, % change yr ago

12-mo MA (R)

Office construction permits, $ mil, 12-mo moving sum (L)

Source: Construction Industry Research Board

SAJ’s internet-related firms will be among the first companies to add workers during the initial stages of the recovery. Social networking leader Facebook Inc. will triple its office space within SAJ next year in order to accommodate its growing number of workers and new business ventures. Search engine leader Google Inc. is actively acquiring smaller tech companies in Silicon Valley in search of new internet-based data sharing technologies. This growth will fuel the need for computer engineers and help to create a floor for the currently depressed office market.

SAJ will avoid a repeat of the earlier outmigration that occurred at the end of the tech boom. The housing-related makeup of the most recent recession is softening the demographic impact for SAJ. After reaching its peak in 2000, employment fell by 20% through 2004. The peak-to-trough drop through 2010 is forecast by Moody’s Economy.com to be only 6%. The relative strength of tech companies in Silicon Valley and the absence of near-term job opportunities in hard-hit housing metro areas will act as a strong retention for skilled workers in SAJ.
Research Objectives

This VTA research focused on Express Bus.

- Quantify possible cost savings
- Determine staffing required to monitor contracts
- Are private providers involved in service planning?
- What lessons can be learned from others?
Research Components

- Literature review
- Public agency interviews
- Local employer on-line survey
- Private provider interviews
Research Components

- Public Agency Interviews
  - Metropolitan Transit System (San Diego, CA)
  - North County Transit District (Oceanside, CA)
  - Regional Transportation District (Denver, CO)
  - SamTrans (San Mateo County, CA)

- Local Employer Survey
  - Survey conducted by VTA staff
  - 7 eligible respondents

- Private Provider Interviews
  - 5 respondents
The Big Picture

- 60% of US transit agencies contract out some service
- 30% contract out some or all fixed-route service
- Contracting especially advantageous for peak-hour, long-haul lines in low-density areas

- VTA currently contracts some transit services:
  - Paratransit
  - ACE Shuttles
  - Light Rail Shuttles
  - Caltrain
  - ACE
  - Capitol Corridor
Service Delivery Mode

- 6 alternative outsourcing models
  - Service Contracting
  - Franchising
  - Brokering
  - Concession
  - Entrepreneur
  - Open Market
- Most in US follow Service Contracting model
- “Entrepreneur” scenario in Santa Clara County (private employers independently provide competing service)
Reasons for Contracting

- Desire to expend public dollars efficiently
- Literature revealed that promoting efficiency and saving costs are main motivators
- 3 of 4 public agencies contacted are motivated by economics; 4th agency (Denver RTD) is legislative
- Employers view providing free transit service as an employee benefit
- Employers utilize contracting because they don’t have the expertise in-house and don’t want to develop it
- Expand the transit system
Contracting Arrangements

- **Fixed Price**: fixed dollar amount allocated to private provider for a given service level; adjustments in miles or hours at a corresponding price
  - Incentive for provider to become more efficient
  - Possibility of reducing quality
  - Spreads risk well between agency and provider
  - Used by NCTD, MTS, RTD, SamTrans and local employers that were surveyed
  - Favored by private providers

- **Cost Plus**: private provider paid for miles/hours operated + management fee
  - Flexible to changing service but more difficult to track costs
  - Little incentive for provider to become more efficient

- **P3**: agency sets standards for service, buses, secures other tax benefits for operator
Unadjusted Cost Savings

- Literature cites savings of 10%-40% per unit of service
- Three agencies contacted saved 32%-38% of fully allocated operating costs
- Cost differences are the result of reduced operator wages, benefits, and work rules

HOWEVER, These costs do not include overhead such as:
  - Management
  - Planning
  - Accounting
Adjusted Cost Savings/Contract Mgmt

- 3 agencies average 5+ FTE monitoring the contracts
- Employers need 1-2 FTE, depending on size of contract
- Smaller contracts = higher ratio of FTEs per unit of service (diseconomies of scale)
- Contract management costs
  - VTA’s fully allocated rate: $245,000/year/FTE
  - Staff of 5: ~$1.35 million
  - Equivalent to 5-15% of expected cost savings
- Conclusion: Even with management expenses, cost savings still potentially substantial
  - (still not included is service planning, marketing, etc.)
Service Planning

- Service planning, operations planning, long-range planning handled by agency staff and most employers, not by service providers.
- Some agencies welcome suggestions by providers or operators, but not actively solicited.
- One employer does give provider general schedule parameters and asks provider to develop its best operating plan.
- One provider reported active involvement in service planning as part of “managed contract” arrangements.
- Fares generally set by public agencies; employer-provided usually free.
Vehicles and Amenities

- Agencies contacted utilize conventional buses for contract service
- Employers prefer smaller buses or vans, often with amenities
- Private providers offer what’s specified in the contract
- Independent “entrepreneur” providers sometimes use upscale vehicles with amenities
Labor Considerations

- Labor protections provided by Section 13c of Urban Mass Transportation Act
- Contracting often limited to service expansion or through attrition
- Several public agencies included in their contracts recognition of current union and hiring of existing O&M staff
- Private operators generally do not have unions
Lessons Learned

- Any cost reduction is due to lower wage rates, benefits and fewer work rules for contracted drivers and mechanics.
- Service contracting is the most common outsourcing model in use, though brokering could be advantageous if partnerships can be forged with employers.
- Major disadvantage of outsourcing is potential loss of control, depending on the contract parameters.
Lessons Learned

- Set up the competitive process early; it’s lengthy and needs to be well thought out in advance
- Communicate early and often with affected unions and employees about possible competitive processes
- Set realistic expectations
- The quality of the service you get depends on your due diligence in researching providers’ past performance and contract oversight
- Engage private providers as partners, not adversaries; communicate with them openly and regularly
- Establish solid contract monitoring procedures
- Consider all possible outcomes and structure the contract with the flexibility to make adjustments
- Elicit feedback from customers as well as staff
SB 83 – Vehicle Registration Fee

SB 83

- Statute authorizes VTA to place an annual fee of up to $10 on motor vehicles registered within the county for transportation programs and projects.

- Fee requires a ballot measure with a simple majority voter approval.

- Fee can only pay for programs/projects bearing a relationship or benefit to the owners of motor vehicles paying the fee.

- Programs and projects must be consistent with regional transportation plan and requires specified findings of fact.

- Governing board must adopt an expenditure plan detailing the programs and projects that would result.

Expenditure Plan

The expenditure plan may include the following eligible categories:

1. Matching fund for other grant sources.
2. Congestion mitigation programs such as HOV/HOT lanes, local streets and roads rehabilitation, bicycle and pedestrian improvements, signal coordination and roadway operational improvements, traveler information systems, intelligent transportation systems and transit service expansion.
3. Automobile-related pollution mitigation programs.

Expected Revenues - $14 Million Annually

Requested Actions

1. Recommend the VTA Board of Directors authorize up to $30,000 to contract with a polling firm to determine the feasibility of placing a $10 vehicle registration fee on the ballot for residents of Santa Clara County.

2. Direct staff to develop an expenditure plan to detail the programs and projects that would be developed through the potential vehicle registration fee.

3. Return to the Board in mid-2010 with the draft expenditure plan and the polling results to determine whether or not to place the vehicle registration fee on the November 2010 ballot.