

JOINT MEETING OF THE BOARD OF DIRECTORS FOR THE
METROPOLITAN TRANSIT SYSTEM (MTS),
SAN DIEGO TRANSIT CORPORATION (SDTC), AND
SAN DIEGO TROLLEY, INC. (SDTI)

August 20, 2009

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

1. Roll Call

Chairman Mathis called the Board meeting to order at 9:06 a.m. A roll call sheet listing Board member attendance is attached. Mr. Mathis welcomed Mary England (representing Lemon Grove).

2. Approval of Minutes

Mr. Ewin moved to approve the minutes of the July 16, 2009, MTS Board of Directors meeting. Mr. McClellan seconded the motion, and the vote was 11 to 0 in favor.

3. Public Comments

Clive Richard – Mr. Richard thanked staff for their efforts in making the September service changes, which he stated makes it easier for him to get home. He added that transit in general has missed getting riders to major destinations, but these changes have improved the timing of making connections.

4. Transportation Security Administration (TSA) Presentation

Mr. Mathis informed that Board that the TSA presentation is being rescheduled.

CONSENT ITEMS

6. MTS: Audit Report - Accounts Receivable and Cash Receipts

Action recommends receiving an audit report (attached to the agenda item) on MTS's accounts receivable and cash receipts process.

7. MTS: Adoption of Local California Environmental Quality Act (CEQA) Guidelines

Action recommends: (1) adopting proposed local California Environmental Quality Act (CEQA) Guidelines; (2) amending Board Policy No. 2 entitled "Environmental Quality"; and (3) adopting Resolution No. 09-21 (attached to the agenda item).

8. MTS: San Diego and Arizona Eastern (SD&AE) Railway Company Quarterly Reports and Ratification of Actions Taken by the SD&AE Board of Directors at its July 28, 2009, Meeting

Action recommends: (1) receiving the San Diego and Imperial Valley Railroad, Pacific Southwest Railway Museum Association, and Carrizo Gorge Railway, Inc. quarterly reports; and (2) ratifying actions taken by the SD&AE Railway Company Board of Directors at its meeting on July 28, 2009 (attached to the agenda item).

9. MTS: Investment Report - June 2009

Action recommends receiving a report for information (attached to the agenda item).

10. MTS: Grossmont Substation Rehabilitation MOU and Funds Transfer

Action recommends: (1) authorizing the CEO to execute a Memorandum of Understanding (MOU) for a fund transfer to the San Diego Association of Governments (SANDAG) to rehabilitate the Grossmont substation under SANDAG's construction contract No. 5000956, which would include construction management services; and (2) forwarding a request to the SANDAG Transportation Committee to transfer \$88,000 from Grant No. CA-03-0525 and \$107,000 from Grant No. CA-03-0655 to Capital Improvement Program 1142100 to exercise an option for rehabilitation of the Grossmont substation (attached to the agenda item).

11. MTS: Capital Rural Reserves Transportation Development Act Funds

Action recommends approving the transfer of Transportation Development Act (TDA) capital rural reserve funds held at SANDAG to MTS FY 2010 operations.

12. MTS: Minor Service Adjustments

Sharon Cooney, MTS Director of Governmental Affairs, clarified for Board member Sherry Lightner that the Super Loop frequency was changed from ten minutes because the route was evaluated after startup, and a few minor changes were made to accommodate noise complaints by neighbors, adjust times to meet actual scheduling, and address bus bunching. Ms. Cooney confirmed that the route continues to be evaluated and will continue once USCD's next semester begins. Mr. Mathis added that the adjustments were made as fine-tuning, and there were no policy changes.

Action recommends receiving a report (attached to the agenda item) on minor service adjustments to be implemented in September 2009.

13. MTS: Gate Turnoff (GTO) Firing Boards - Contract Amendment

Marco Yniguez, MTS Buyer, clarified for Board member Sherri Lightner that there were 14 firing boards received in the first order. Tiffany Lorenzen, General Counsel, added that MTS is hoping to get an additional 104.

Action recommends authorizing the CEO to execute MTS Doc. No. L0883.1-09 with Siemens Transportation Systems for Gate Turnoff (GTO) Firing Boards for SD 100 light rail vehicles (LRVs) (attached to the agenda item).

14. MTS: AT&T CALNET II Telecommunications Contract Renewal

Tiffany Lorenzen, MTS General Counsel, informed the Board that staff is waiting for a couple of procurement documents from the State of California, and the action recommended is contingent upon receiving those signed documents.

Action recommends authorizing the CEO to execute MTS Doc. No. G1279.0-10 with American Telephone and Telegraph (AT&T) for leased-line telecommunications services for MTS, San Diego Transit Corporation (SDTC), and San Diego Trolley, Inc. (SDTI). The contract would fall under the terms and conditions of the State of California's CALNET II Master Services Agreement for modules MSA-1 (voice data and video services) and MSA-2 (long-distance services) for a two-year period with renewable options for up to five years.

Action on Consent Items

Mr. Rindone moved to approve Consent Agenda Item Nos. 6, 7, 8, 9, 10, 11, 12, and 13; Agenda Item No. 14 was approved contingent upon MTS's receipt of signed procurement documents from the State of California. Mr. Ewin seconded the motion, and the vote was 12 to 0 in favor.

CLOSED SESSION

24. Closed Session Items (ADM 122)

The Board convened to Closed Session at 9:06 a.m.

- a. MTS: CLOSED SESSION - CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION Pursuant to California Government Code section 54956.9(a): Tuil v. SDTI, MTS, MTDB (San Diego Superior Court Case No. GIC 37-2008-00078029-CU-NP-CTL)
- b. MTS: CLOSED SESSION - CONFERENCE WITH REAL PROPERTY NEGOTIATORS Pursuant to California Government Code section 54956.8
Property: Assessor's Parcel No. 548-051-17, San Diego, California, Euclid Avenue south of Market Street and north of Naranja Street
Agency Negotiators: Tiffany Lorenzen, MTS General Counsel; Tim Allison, Manager of Real Estate Assets
Negotiating Parties: Jacobs Center
Under Negotiation: Price and Terms of Payment
- c. MTS: CLOSED SESSION - CONFERENCE WITH REAL PROPERTY NEGOTIATORS Pursuant to California Government Code section 54956.8
Property: Assessor's Parcel Nos. 667-020-70, 75, and 76, San Diego, CA, in the Community of San Ysidro
Agency Negotiators: Tiffany Lorenzen, MTS General Counsel; Tim Allison, Manager of Real Estate Assets
Negotiating Parties: United States General Services Administration
Under Negotiation: Price and Terms of Payment

- d. MTS: CLOSED SESSION - CONFERENCE WITH REAL PROPERTY NEGOTIATORS
Pursuant to California Government Code section 54956.8
Property: Assessor's Parcel No. 547-200-51, 52, & 53, City of San Diego at 220
47th Street
Agency Negotiators: Tiffany Lorenzen, MTS General Counsel; Tim Allison, Manager of
Real Estate Assets; Gerald Trimble, Keyser-Marston Associates, Inc.
Negotiating Parties: Creekside Villas
Under Negotiation: Price and Terms of Payment

The Board reconvened to open session at 10:31 a.m.

Oral Report of Final Actions Taken in Closed Session

Ms. Lorenzen reported the following:

- a. The Board received a report and gave direction to outside counsel.
- b. The Board received a report and gave direction to agency negotiators.
- c. The Board received a report.
- d. The Board received a report and gave direction to agency negotiators.

PUBLIC HEARING

25. There were no public hearings conducted.

DISCUSSION ITEMS

30. San Diego Transit Corporation (SDTC): Actuarial Report

Cliff Telfer, MTS CFO, introduced Bob McCrory of EFI Actuaries, who would be giving the Board an update on SDTC's retirement analysis. Mr. Telfer added that today's action includes accepting the report and adopting the contribution rate for SDTC's pension plan (that rate was used when the budget was developed, so there would be no budget impact).

Mr. McCrory reviewed the actuarial valuation of the retirement plans for SDTC as of July 1, 2008. He reviewed the current cost of the plan, where the costs are going, how the nature of the plan has changed and continues to change, and plans for the future. Mr. McCrory stated that as of July 1, 2007, the plan cost approximately 14.3% of pay. As of July 1, 2008, the cost increased to 15.8%. He explained that the majority of the rate increase due to changes in demographics of the workforce (the number of retirements, disabilities, etc.).

Mr. McCrory discussed possible future scenarios. He displayed a chart entitled *Total Cost as a Percentage of Pay*. He stated that during the 08/09 fiscal year, there was a loss of 17% of assets, which is a 25% actuarial loss—this loss will cause a very large increase in the plan's cost (approximately 22% of pay) and will peak around 29% of pay if assumptions used in the actuarial study hold true.

Mr. McCrory discussed the actuarial smoothing method used to reduce cost volatility and funding methods. He also reviewed future economic scenarios and emphasized the need for a comprehensive review of all of the aspects of the plan funding due to economic volatility in the

face of the current financial downturn. Mr. McCrory showed comparisons with other retirement plans. He cautioned members to brace and budget for much greater increases in pension costs than experienced in the past. He stated that a new actuarial study is needed in addition to reviewing new funding methods and assumptions. He reemphasized that: (1) the cost changes from 07/08 were due to retirements; (2) costs going forward will most likely double; and (3) a comprehensive review is needed of the plan to determine mitigation and changes.

Mr. McCrory explained that funding the existing group of inactive members of the plan with a decreased payroll makes it more volatile because gains and losses are spread over a narrower payroll base. He added that SDTC's plan is relatively old in comparison to other plans and, therefore, different assumptions and approaches should be reviewed.

Mr. McCrory clarified for Mr. Young that next year's contribution would be about 23% of pay, which is about \$2 million more with a 30-year payoff. He also clarified for Mr. Young that a possible mitigation measure might be to regard the 2008/09 loss as an extraordinary event and take the loss or a portion of it out of the equation and amortize it slowly over a long period of time as a smoothing effect to lessen the impact. Mr. McCrory also described other possible mitigation measures. Mr. Young stated that the Board should work closely with staff regarding this issue. Mr. McCrory suggested examining all contributors to the pension payment and gave examples of policies that can increase plan costs.

Mr. Young asked if there is currently a committee or working group to address these issues. Mr. Mathis responded that Mr. Jablonski is focusing on these issues and will bring a report back on proposals and policy changes if necessary. Mr. Jablonski stated that a number of these issues have already been and will continue to be brought to the Budget Committee and Executive Committee; he added that the good news is that better-than-average returns are anticipated.

Mr. McCrory clarified for Mr. Ewin that smoothing keeps money away from the earning pool needed to cover the rest of the coverage. He also explained the amount of funding needed on hand to cover current retirees on an ongoing basis and stated that the funded ratio theoretically should be at 100%.

Mr. Ewin stated that the Board is responsible for making up the difference in the plan regardless of how it's done (either paying now or later). He added that he appreciates Mr. Young's comments, and that this is a significant aspect of MTS's future budget. If the returns needed cannot be generated on a consistent basis, that gap is going to broaden because the obligation remains. Mr. McCrory clarified that layoffs typically make the situation worse because the payroll base is decreased but retirees continue to stay on the plan.

Mr. McClellan stated that so far, the return has been about 10% and may continue in that direction. He suggested that Mr. Jablonski try to find some funding to add as soon as possible, which could lessen the pain considerably in the future.

Mr. Cunningham wondered if an offset to payroll costs versus less staff paying into the plan would make it advantageous. He added that it seems that early retirement incentives fail in one way or another even when carefully laid out. Mr. Cunningham asked members to consider looking at offering other benefits to employees in exchange for taking early retirements, which could save costs. He complimented Mr. McCrory on his great presentation.

Mr. McCrory showed a slide outlining comparisons to CalPERS with other transit districts.

Mr. Telfer reminded members that MTS still has the pension obligation bonds, which will take about 15% of funding for another 25 years.

Action Taken

Mr. Cunningham moved to receive the actuarial report and adopt the annual pension contribution rate of 15.82% of payroll for SDTC with the understanding that staff will work on a mitigation strategy to the greatest extent possible. Mr. Ovrum seconded the motion, and the vote was 11 to 0 in favor.

REPORT ITEMS

45. SDTC: Pension Investment Status

Mr. Telfer introduced Bruno Grimaldi and Jeremy Miller of RV Kuhns & Associates. Mr. Telfer stated that this report will be a follow-up to the last presentation and will review the status of the investments over the last year.

Mr. Miller referred to *Capital Markets Review as of June 30, 2009* on page 4 of the attachment to the agenda item entitled *San Diego Transit Corporation Employees Retirement Plan Quarter ended June 30, 2009*. He stated that there is cautious optimism in regard to federal interest rates and fiscal stimulus, which has helped the economy; however, unemployment is at 9.5% and consumer and public debt levels are high. Mr. Miller reviewed the trailing-period performance noting that there is still a need for recovery. He added that these have been unprecedented times and hopefully it will not continue going forward. Mr. Miller stated that the good news is that the last quarter of 2009 shows large, positive returns. Mr. Miller also reviewed the charts outlined in the *Capital Markets Review as of June 30, 2009*. He described the methodology of diversifying funds and how it can be advantageous to smooth out returns.

Mr. Grimaldi reviewed the charts within the *San Diego Transit Corporation Employees Retirement Plan Quarter ended June 30, 2009*. He explained the equity market rally that took place this year. Mr. Grimaldi stated that it is critical to note that when looking at the return of the plan since inception in October 1982, it has performed remarkably well over the past 25 years considering that the last ten years included the dot-com burst, 9/11, and the recent market turmoil. He reiterated that he is cautiously optimistic that we are moving in the right direction.

Mr. Grimaldi clarified for Mr. Rindone that every 18 months a study is conducted to determine new classes within the market place. Mr. Telfer added that some managers have been changed and added during the last study, and that market conditions are considered when determining from which manager to pull funds to pay benefits.

Mr. Rindone asked that studies be conducted more frequently due to the volatility of the market as he is concerned that every 18 months is too long to wait to make a move. Mr. Mathis clarified that staff is working on this issue regularly employing short-term flexibility, and that Mr. Grimaldi was referring specifically to a process they go through every 18 months. Mr. Telfer added that quarterly meetings take place to look at the plan's managers, and Mr. Miller reiterated that the formal process will be conducted more often than every 18 months.

Action Taken

Mr. Ovrum moved to receive the report. Mr. Cunningham seconded the motion, and the vote was 12 to 0 in favor.

46. MTS: Natural Gas Hedge Program

Mike Thompson, MTS Assistant Budget Manager, reviewed the Natural Gas Hedge Program, which was approved by the Board in February 2009. Mr. Thompson stated that the program consists of pursuing the Core Aggregate Transfer (CAT) Program to enable MTS to competitively purchase compressed natural gas (CNG) directly from suppliers instead of through SDG&E, and also includes the Commodity Swap Program to hedge future CNG rates from market volatility. Mr. Thompson explained the steps that were taken for competitive bids for gas suppliers, which resulted in awarding the contract to British Petroleum. In the first two months of the contract, staff projects an approximate rate savings of \$200,000 over the previous SDG&E rates. Mr. Thompson added that MTS entered into swap agreements with three financial institutions, and Barclays was awarded the contract, which includes a CNG price of \$1.29 per therm (\$.06 lower than MTS's budgeted rate of \$1.35 per therm). He stated that based on this savings and savings from the CAT Program, staff anticipates a total savings of approximately \$500,000 versus budget for fiscal year 2010.

Action Taken

Mr. Rindone moved to receive the report. Mr. Ewin seconded the motion, and the vote was 11 to 0 in favor.

47. MTS: Super Loop Pilot Update

This item was deferred.

48. MTS: Operations Budget Status Report for May 2009

The staff report was waived.

Action Taken

Mr. Ewin moved to receive the report. Mr. McClellan seconded the motion, and the vote was 12 to 0 in favor.

60. Chairman's Report

There was no Chairman's report.

61. Audit Oversight Committee (AOC) Chairman's Report

There was no AOC Chairman's report.

62. Chief Executive Officer's Report

There was no CEO's report.

63. Board Member Communications

There were no Board member communications.

64. Additional Public Comments on Items Not on the Agenda

There were no additional public comments.

65. Next Meeting Date

The next regularly scheduled Board meeting is Thursday, September 10, 2009.

66. Adjournment

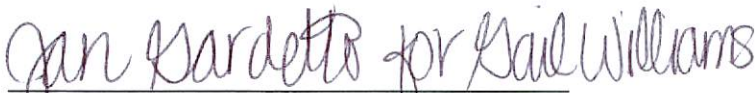
Chairman Mathis adjourned the meeting at 11:44 a.m.



Chairperson
San Diego Metropolitan Transit System

Filed by:

Approved as to form:



Office of the Clerk of the Board
San Diego Metropolitan Transit System



Office of the General Counsel
San Diego Metropolitan Transit System

Attachment: Roll Call Sheet

**METROPOLITAN TRANSIT DEVELOPMENT BOARD
ROLL CALL**

MEETING OF (DATE): 8/20/09 CALL TO ORDER (TIME): 8:57 a.m.
 RECESS: None RECONVENE: _____
 CLOSED SESSION: 9:06 a.m. RECONVENE: 10:31 a.m.
 PUBLIC HEARING: _____ RECONVENE: _____
 ORDINANCES ADOPTED: _____ ADJOURN: 11:48 a.m.

| BOARD MEMBER | (Alternate) | PRESENT (TIME ARRIVED) | ABSENT (TIME LEFT) |
|--------------|---|---------------------------|-----------------------|
| BOYACK | <input checked="" type="checkbox"/> (Cunningham) <input type="checkbox"/> | 8:55 a.m. | |
| EWIN | <input checked="" type="checkbox"/> (Allan) <input type="checkbox"/> | 8:51 a.m. | |
| FAULCONER | <input type="checkbox"/> (Emerald) <input type="checkbox"/> | | |
| GLORIA | <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/> | 8:53 a.m. | 11:44 a.m. |
| JANNEY | <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/> | 8:40 a.m. | |
| LIGHTNER | <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/> | 8:43 a.m. | |
| MATHIS | <input checked="" type="checkbox"/> (Vacant) <input type="checkbox"/> | 8:52 a.m. | |
| MCCLELLAN | <input checked="" type="checkbox"/> (Hanson-Cox) <input type="checkbox"/> | 8:51 a.m. | |
| OVROM | <input checked="" type="checkbox"/> (Denny) <input type="checkbox"/> | 8:51 a.m. | |
| RINDONE | <input checked="" type="checkbox"/> (Castaneda) <input type="checkbox"/> | 9:00 a.m. | |
| ROBERTS | <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/> | 8:40 a.m. | |
| RYAN | <input type="checkbox"/> (B. Jones) <input checked="" type="checkbox"/> | 8:51 a.m. | |
| SELBY | <input type="checkbox"/> (England) <input checked="" type="checkbox"/> | 8:52 a.m. | |
| YOUNG | <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/> | 9:15 a.m. | 11:15 a.m. |
| ZARATE | <input type="checkbox"/> (Parra) <input type="checkbox"/> | | |

SIGNED BY THE OFFICE OF THE CLERK OF THE BOARD

Jan Gardetto for Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL

[Signature]