

EXECUTIVE COMMITTEE MEETING FOR THE  
METROPOLITAN TRANSIT SYSTEM (MTS),  
SAN DIEGO TRANSIT CORPORATION (SDTC),  
AND SAN DIEGO TROLLEY, INC. (SDTI)

April 17, 2008

MTS  
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

Chairman Mathis called the meeting to order at 9:03 a.m. A roll call sheet listing Executive Committee member attendance is attached.

B. APPROVAL OF MINUTES

Mr. Ewin moved approval of the minutes of the April 3, 2008, Executive Committee meeting with one correction – deletion of the line “with Mr. Rindone casting the dissenting vote.” on page 2. Mr. Emery seconded the motion, and the vote was 5 to 0 in favor.

C. COMMITTEE DISCUSSION ITEMS

1. SDTC: Pension Obligation Bonds (OPS 960.6)

Mr. Cliff Telfer, MTS CFO, reminded the Executive Committee that MTS issued about \$77.5 million in pension obligation bonds (POBs) in 2004. He stated that about one-half of these bonds were variable-rate demand bonds. He stated that in August, MTS executed a swap to achieve a synthetic fixed rate of 4.424 percent for its variable-rate bonds, which worked out very well until the current liquidity problems in the market.

Mr. Keith Curry, of Public Financial Management (PFM), explained that staff would like to replace MBIA, MTS’s POB insurer, with a letter of credit to reduce the market’s impact on MTS’s variable-rate bonds. It was reported that the debt would be restructured through a refunding with a cost of between \$75,000 and \$120,000. Mr. Curry explained that problems have developed because rating agencies are revisiting the capital charge requirements on bond insurers and have reduced the ratings on some bond insurance providers. He added that Fitch Ratings downgraded MBIA from AAA to AA , and Moody’s and Standard & Poors have placed MBIA on negative outlook.

Mr. Curry reviewed how using a liquidity facility provided by Dexia allows bondholders to exit their bonds. If new bondholders cannot be found, Dexia is required to extend liquidity and buy the bonds. He reported that before this happens, MTS’s remarketing agent (UBS) would extend its capital and hold the bonds. He also explained how MTS is experiencing “leakage” of approximately 163 basis points over its assumed fixed rate, which makes the effective cost of funds 6.05 percent rather than the anticipated 4.42 percent. He stated that, on a simple

annualized basis, this could amount to an additional \$632,000 in interest costs per year. He added that PFM's goal is to restructure the debt through refunding in order to eliminate MBIA and replace the bond insurer with a letter of credit provided by Dexia, MTS's current liquidity provider. He added that Dexia is currently in the credit review process. Once this is complete, PFM anticipated a quick effort to document a new transaction and market the bonds under the new credit support structure.

Mr. Curry reported that MTS could remarket the bonds into a traditional fixed-rate mode; however, it would incur a swap termination cost of approximately \$2.3 million. He stated that he feels that it would be more cost effective to continue the swap until its expiration in 2012 and consider a fixed-rate remarketing at that time.

In response to a question from Chairman Mathis about risks for MTS, Mr. Curry stated that there should be minimal risk to MTS because there is a lot of demand for good paper and because he felt the market would right itself. In response to a question from Mr. Ewin regarding MTS's experience with Dexia, Mr. Curry reported that they are a national leading bank with very high credit rating and no mortgage exposure. Mr. Rindone stated that he thought MBIA had extended additional capital. Mr. Curry stated that they have done that on at least three occasions, but the rating agencies keep raising the standard.

In response to a question from Mr. Monroe, Mr. Telfer stated that MTS has incurred \$150,000 in cost to date as a result of this liquidity problem, and this cost will be covered from savings in other line items of the budget. Mr. Curry assured Mr. Rindone that PFM is monitoring market and bond insurance activities on a daily basis and sometimes twice a day and is always looking at alternative strategies. Mr. Rindone felt the Executive Committee should be provided with an update in 60 days or less.

In response to a question from Mr. Jablonski, MTS CEO, Mr. Telfer reported that fixed rates are currently around 5 percent and variable rates are around 4.42 percent. Mr. Curry reported that the effective rate of MTS's bonds last week was 6.05 percent. Mr. Jablonski asked if it would be more cost effective to pick this option to address the problem or wait another quarter to make a decision even though MTS would lose \$150,000 in interest. Mr. Curry stated that if things were to return to normal, it might be a good strategy to wait. He added that he felt there was a 30 percent chance that MBIA would restore itself in the 60 to 90 day timeframe.

#### Action Taken

Mr. Ewin moved to direct the Chief Financial Officer to (1) work with Public Financial Management to replace MBIA, MTS's pension obligation bond insurer, with a letter of credit to reduce the impact on MTS's variable rate caused by the current liquidity problems within the bond markets and (2) report back to the Executive Committee in no less than 60 days. Mr. Rindone seconded the motion, and the vote was 6 to 0 in favor.

2. MTS: Report from the Budget Development Committee (FIN 310)

Mr. Jablonski stated that the Budget Development Committee did a detailed review of the expense side of the proposed FY 2009 budget at its last meeting. He stated that there are two things that are currently affecting MTS's budget: 1) the State's budget, for which there is nothing new to report until the May revise; and (2) sales tax revenues, primarily Transportation Development Act (TDA). He added that, as reported in January, MTS is down approximately \$6.5 million as a result of projections for reduced sales tax revenues and that the downward curve of these projections has slightly flattened. He reminded Committee members that there is a Finance Workshop at 8:00 a.m. before the Board meeting on April 24, 2008. Mr. Rindone, Chairman of the Budget Development Committee, felt that there could be additional budget hits as a result of the State's \$20 billion budget shortfall.

Mr. Marinesi, MTS Budget Manager, reviewed the FY 2009 Operating Budget Summary and the four categories that are being reviewed for balancing the budget. Mr. Jablonski pointed out that nonfare revenue adjustments and personnel adjustments comprise 60 percent of the options being considered and are being given a higher priority than service and fare adjustments because service and fare adjustments have already been made and because of the importance of maintaining the system developed during the Comprehensive Operational Analysis (COA). Mr. Marinesi then reviewed the savings that would result from the four options being considered.

Mr. Jablonski reviewed the Sorrento Valley Coast Connection short-term funding proposal by SANDAG, which involves implementing a \$1.00 one-way fare that would generate \$194,000. He added that this action would result in a nine-month program and, at the end the program, companies in Sorrento Valley could implement a van pool program. He stated that this proposal would cover the loss of Air Pollution Control Funding. Ms. Sharon Cooney, MTS Director of Government Affairs and Community Relations, stated that when the funding is gone, the service will stop. She added that North County Transit understands MTS's position on this issue and is supportive. She added that after the fare, there is still a \$3.75 subsidy per passengers for this service, and ridership may be lost as a result of implementing the fare. She added that North County Transit is considering raising the Coaster fare also.

Mr. Rob Schupp, Director of Marketing and Communications, reviewed revenue opportunities that might result from changing MTS's shelter advertising contract with CBS Outdoor or by pursuing other related opportunities. He reviewed the current contract and the proposed contract. Mr. Schupp reported that MTS is hiring an expert to help MTS assess the current market for going out to bid. Mr. Jablonski stated that the Budget Development Committee has identified someone who could provide this expertise. Mr. Schupp stated that it is hoped that MTS could end up with more dynamic street furniture as a result of whatever option is selected. In response to a question from Mr. Ewin, Mr. Jablonski stated that he thought there were enough players in the advertising market if MTS were to go out to bid but was not sure the market was good enough to go out to bid at this time.

Mr. Roberts pointed out that some shelters have advertising displays and some do not because of community objections. He stated that the shelters with advertising

are subsidizing those without advertising. He stated that this inequity should be reduced or eliminated in order to maximize revenue from shelter advertising. Chairman Mathis stated that communities that have prohibited advertising on shelters could be approached about changing their position on this issue.

Mr. Roberts added that CBS Outdoor may not want to continue its contract with MTS, and MTS may have the opportunity to take over ownership of the shelters. Mr. Jablonski stated that staff and the Budget Development Committee will explore all options.

Mr. Jablonski then reviewed budget-balancing options that involve personnel adjustments. He reported that merit increases, albeit reduced, are being recommended for continuation because of previous actions MTS has taken regarding MTS's programs that benefit employees. He also reported that Ms. Cooney will continue to carry out Director of Planning duties for at least the next year. In response to a question from Mr. Monroe, Mr. Jablonski reported that if positions become vacant that are not currently frozen, those positions would be filled.

The Committee then discussed the concept of increasing the eligibility age for senior fares to 65 years. Mr. Marinesi pointed out that no other transit agencies in California have an eligibility age of 60 like MTS does. He stated that Sacramento requires a person to be 62 to qualify for a senior fare, and all other agencies use 65. He pointed out that the eligibility age was part of TransNet II, which would have to be amended in order to make this change. He stated that while the Budget Development Committee and the Board endorsed this idea during budget discussions last year, SANDAG would have to implement the change. Mr. Monroe suggested that staff add a more drastic option that would make this option more palatable. Mr. Roberts stated that he thought there was very little chance this effort would be successful and added that it would be politically unpopular.

Mr. Ewin asked how long MTS could stay in business if sales tax revenues don't rebound and expenses don't change for two years. Mr. Jablonski stated that if MTS expenses continue to increase at a rate of three percent a year and MTS continues to have a \$12 million problem a year, then the answer would be two years. Chairman Mathis stated that if the situation doesn't change, MTS will be facing choices like deferring maintenance, additional staff-level adjustments, etc. He added that he doesn't feel that SANDAG understands this matter.

Mr. Jablonski then provided an overview of the option for increasing trolley fares. He reported that MTS forces a lot of transfers on the trolley and therefore favors the idea of a \$2.50 fare that allows transfers at any station where lines come together. Mr. Rindone stated that some riders are paying a fare for one station and then riding through many stations without paying an additional fare. Mr. Jablonski pointed out that many riders have converted to monthly passes since January so that 75 percent of MTS's riders are now pass holders. Mr. Jablonski reviewed the fare options being considered and discussed the benefits of having the fare structure be as simple as possible. Chairman Mathis requested that staff add an additional option category for a flat fare of \$2.50.

In response to Mr. Ewin's suggestion that La Mesa be given the same type of zone as given to downtown San Diego, Mr. Roberts stated that these zones are meant for higher density, highly urbanized areas and was not in favor of changing that criteria.

Mr. Jablonski stated that rail systems are generally zone based. Mr. Tereschuck, SDTI General Manager, stated that this approach is used because of the number of stops and the distance of the system. Mr. Jablonski stated that he thought there were more transfers between trolleys than between buses.

The Committee then discussed service-adjustment options (Tier I and II) being considered. Mr. Jablonski stated that Tier I service adjustments would have minimal impact on the system as a whole, while Tier II would have some impact, and Tier III, not part of the presentation, would impact the system as a unit. He stated that Tier III would be considered last. Ms. Cooney stated that staff will continue to refine these scenarios and added that many of the service adjustments in Tier I are changes that would be recommended anyway. Mr. Jablonski pointed out that providing only hourly service on weekends may eliminate all riders except those who are truly transit-dependent.

Mr. Jablonski advised the Committee that MTS is currently \$2 million under budget for FY 2008 and may be able to reduce reserve usage for budget balancing purposes to \$3.5 million by the end of the year.

#### Public Comment

*Clive Richard:* Mr. Richard made the following points: He supported the concept of a day pass for trolley usage. He criticized the recent "compromise" regarding State funding, which basically cut funding for mass transit. He felt that the service adjustments for Route No. 14 would basically cause the route to fail and be ultimately eliminated.

#### Action Taken

Mr. Emery moved to receive a report on the FY 2009 budget development. Mr. Ewin seconded the motion, and the vote was 6 to 0 in favor.

#### D. REVIEW OF DRAFT APRIL 24, 2008, BOARD AGENDA

##### Recommended Consent Item

##### 6. MTS: Job Access and Reverse Commute Grant (AG 210.9)

Recommend that the Board of Directors approve Resolution 08-6 (Attachment A of the agenda item) authorizing the CEO to submit applications for fiscal year 2006 Job Access and Reverse Commute for Non-Urban (Rural) Areas – Federal Transit Administration funding 5316.

##### Recommended Consent Items

There was no discussion of the recommended Consent Items.

Recommended Board Discussion Items

*Agenda Item No. 32: MTS: Construction and Maintenance Agreement for Park Boulevard Pedestrian Bridge:* In response to a question from Chairman Mathis, Mr. Jablonski reported that the bridge goes over MTS's right of way on 8<sup>th</sup> Avenue. Mr. Peter Tereschuck, SDTI General Manager, reported that Board action would approve a right of entry in order to enable the monitoring of construction, placing of flags, etc. He added that MTS's costs would be covered by the project.

E. REVIEW OF SANDAG TRANSPORTATION COMMITTEE AGENDA

Ms. Cooney reported that the Sorrento Valley Coaster Connection will be on the SANDAG Transportation Committee agenda for April 18, 2008.

F. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

*Ad Hoc Safety Committee:* In response to a question from Mr. Ewin, Mr. Tereshuck reported that the Ad Hoc Safety Committee's first meeting is tentatively scheduled for May 1, 2008. Mr. Jablonski reported that a tentative agenda has been developed and includes administrative items like appointing a chair, naming the committee, and giving direction to staff. He stated that the Security Department will give a report on the background of the Security Department, how it's structured, what its role is, how it functions, and present information on crime statistics. Mr. Ewin stated that crimes against persons and personal property should be differentiated and focused on.

Mr. Rindone stated that the Chair of the Ad Hoc Safety Committee should give updates at the Board meeting as the Chair of the Audit Oversight Committee does.

G. PUBLIC COMMENTS

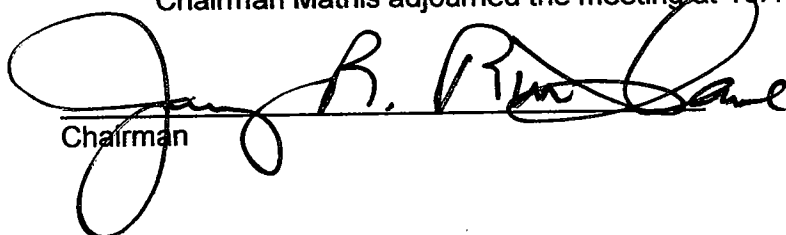
There were no Public Comments.

H. NEXT MEETING DATE:

The next meeting is scheduled for Thursday, May 1, 2008, in the Executive Conference Room.

I. ADJOURNMENT

Chairman Mathis adjourned the meeting at 10:47 a.m.



Chairman

Attachment: A. Roll Call Sheet

**EXECUTIVE COMMITTEE  
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 4/17/08

CALL TO ORDER (TIME) 9:03 a.m.

RECESS \_\_\_\_\_

RECONVENE \_\_\_\_\_

CLOSED SESSION \_\_\_\_\_

RECONVENE \_\_\_\_\_

ADJOURN 10:47 a.m.

| BOARD MEMBER<br>(Alternate)  | PRESENT<br>(TIME ARRIVED) | ABSENT<br>(TIME LEFT)               |
|--|---------------------------|-------------------------------------|
| ATKINS <input type="checkbox"/> (Young) <input type="checkbox"/>             |                           | <input checked="" type="checkbox"/> |
| EMERY <input checked="" type="checkbox"/> (Cafagna) <input type="checkbox"/> |                           |                                     |
| EWIN <input checked="" type="checkbox"/> (Clabby) <input type="checkbox"/>   |                           |                                     |
| MATHIS <input checked="" type="checkbox"/>                                   |                           |                                     |
| MONROE <input checked="" type="checkbox"/> (McLean) <input type="checkbox"/> |                           |                                     |
| RINDONE <input checked="" type="checkbox"/> (Emery) <input type="checkbox"/> |                           |                                     |
| ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>   | 9:15 a.m. during AI C1    |                                     |

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

*Gail Williams*

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:

*Jeff Leary*