

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

September 18, 2008

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

A. ROLL CALL

Chairman Mathis called the meeting to order at 9:05 a.m. A roll call sheet listing Executive Committee member attendance is attached.

B. APPROVAL OF MINUTES

Mr. Emery moved approval of the minutes of the August 14, 2008, Executive Committee meeting. Mr. Ewin seconded the motion, and the vote was 5 to 0 in favor.

C. COMMITTEE DISCUSSION ITEMS

The Board convened to Closed Session at 9:06 a.m.
(Taken Out of Order)

2. MTS: Closed Session – Conference with Rail Property Negotiators Pursuant to California Government Code section 54956.8
Property: Assessor Parcel Nos. 461-320-7, 12, 20, 21, and 29, San Diego, California
Agency Negotiators: Tiffany Lorenzen, MTS General Counsel and Tim Allison, Manager of Real Estate Assets
Negotiating Parties: Potential Qualified Developers
Under Negotiation: Price and Terms of Payment

The Board reconvened to Open Session at 10:12 a.m.

Oral Report of Final Actions Taken in Closed Session

Ms. Tiffany Lorenzen, MTS General Counsel, reported the following:

- a. The Committee received a report and gave direction to agency negotiators.
1. MTS: GASB 45 Actuarial Valuation of Postemployment Welfare Benefits (FIN 370)
Ms. Linda Musengo, Finance Manager, advised the Committee that MTS is now subject to new reporting requirements regarding healthcare-cost accrued liabilities. She stated that every government agency is subject to these same requirements. She stated that entities are not required to fund their liability for healthcare costs, but there would be a cash impact if the Board decided to fund part or all of the liability anyway. Ms. Musengo introduced Jim Whelpley of Rael and Letson, an

actuary and benefit consulting firm. He provided Committee members with a list of definitions for Government Accounting Standards Board (GASB) 43 and 45 and a Glossary of Retiree Health Valuation Terms.

Ms. Musengo explained for Mr. Monroe that these new standards are coming about as a result of recent concerns expressed by the Securities and Exchange Commission about the lack of transparency in financial statements for publicly traded companies. She reported that the Financial Accounting Standards Board approved new standards to address that concern. She stated that, over the years, it has been found that the same standards should be followed by public agencies as well. She stated that health care benefits represent the same type of liability as pension fund liabilities.

Mr. Whelpley reviewed the new disclosure requirements mandated under GASB 43 and 45. He pointed out that the benefits could be funded in an irrevocable trust such as the one that CalPers offers. He then explained that California (AB) Bill 2544 mandates that there be parity between the portion of health care benefit covered by the company for current employees compared to the portion covered for retired employees, which will cause costs to increase. He stated that this bill pertains only to those employees in the CalPers plan. He stated that parity would need to be achieved for existing and retired MTS and San Diego Trolley employees, and MTS could do that over a number of years. He also stated that increasing the portion of health care coverage covered by the company may encourage more employees to participate in the health plan when they retire. Mr. Cliff Telfer, Chief Financial Officer, stated that meetings are currently being held to review options for getting employees currently covered by CalPers into a different health care plan.

Mr. Whelpley then provided a projection of retiree counts. He also explained gross versus net cash flow and provided projections of each. He also reviewed funding options. He stated that, if the liability is funded at 100 percent with the California Employees' Retiree Benefit Trust, their projected return of 7.75 percent could be used as a discount rate. He then provided Committee members with the projected annual required contribution under three different funding scenarios. He also presented a graph that illustrated the cost of pay-as-you-go versus full funding. This chart showed that MTS would save money until approximately 2020 with a pay-as-you-go plan. After 2020, the cost would be less if the liability had been funded. Mr. Jablonski pointed out that none of the figures presented take into consideration the loss of the use of about \$2 million a year for 12 years.

Mr. Whelpley stated that the next step is to consider whether or not to fund and at what level or consider changes to cost sharing or the design of the basic benefits. He stated that, with no plan changes, the next actuarial valuation would be as of June 30, 2009. Ms. Musengo stated that actuarial studies are required every two years, but if significant changes are made to the plan, an actuarial study would have to be done when the changes are made.

In response to a comment by Mr. Jablonski, Ms. Musengo stated that the total liability for health benefits would be included in a disclosure note in the financial statement in addition to information about the agency's funding status. Mr. Jablonski stated that this disclosure may make MTS appear less creditworthy. Mr.

Telfer stated that this depends on whether or not other public agencies are funding this particular liability. Mr. Gary Caporicci of Caporicci and Larson, MTS's auditors, reported that very few agencies are funding this liability. He stated that of their 480 clients in California, only 5 are funding. Mr. Caporicci reiterated that there are no penalties for not funding this liability; it is strictly a transparency issue.

Mr. Emery pointed out that MTS is currently experiencing funding shortfalls. Mr. Jablonski stated that because MTS has issued Pension Obligation Bonds, it should be concerned about its credit rating. He pointed out he didn't feel ready to make a decision at this point in time. He added that if MTS avoids the changes mandated by AB 2544, its annual required contribution would be less. Mr. Jablonski stated that because of quorum issues, this item will be brought to the October 16, 2008, Board meeting rather than the September meeting.

Action Taken

Mr. Monroe moved to receive a report for information. Mr. Rindone seconded the motion, and the vote was 6 to 0 in favor

D. RECOMMENDED BY THE EXECUTIVE COMMITTEE FOR THE BOARD CONSENT AGENDA

1. SDTI: SD 100 Light Rail Vehicle Repairs Sole-Source Contract Award (OPS 970.6)

That the Board of Directors (1) find that there is only a single source of procurement for repairs to Siemens Transportation Systems, Inc. (Siemens) SD 100 Light Rail Vehicle (LRV) No. 2052; (2) find that Siemens is the sole-source provider for the structural repair service for SDTI LRV No. 2052; and (3) under the provisions of MTS Board Policy No. 52 (4E), authorize the CEO to award a sole-source, fixed-price contract to Siemens to repair SDTI LRV No. 2052.

Chairman Mathis provided an overview of the accident that caused this damage. Mr. Jablonski stated that insurance will cover the cost.

Action Taken

Mr. Emery moved to approve placing Agenda Item D1 on the Consent portion of the September 25, 2008, Board agenda. Mr. Rindone seconded the motion, and the vote was 6 to 0 in favor.

E. REVIEW OF DRAFT AUGUST 21, 2008, BOARD AGENDA

Recommended Consent Items

There were no additional Consent Items to discuss.

Recommended Board Discussion Items

There was no discussion of recommended Discussion Items.

F. REVIEW OF SANDAG TRANSPORTATION COMMITTEE AGENDA

Ms. Sharon Cooney, Director of Government Affairs and Community Relations, reported on two items on the Transportation Committee agenda for Friday, September 19, 2008.

Coordinated Plan: Ms. Cooney reported that the Coordinated Plan being presented is the Plan SANDAG developed with MTS input. She stated that staff is in agreement with the Plan.

Senior Minigrant Program: Ms. Cooney reminded Committee members that MTS (including existing service) was found to be eligible for this program during a Transportation Committee meeting on March 28, 2008. She stated that MTS, with the help of SANDAG staff, prepared applications to compete for the \$1.1 million designated under TransNet II for this program. She stated that since the submittal of that application, the Selection Committee and the Independent Taxpayer Oversight Committee have ruled that MTS is not eligible for these funds. She reported that the Selection Committee decided that the funding is only for service that is exclusively for seniors. She added that this is a 40-year program, and a policy decision needs to be made regarding eligibility for the program. She stated that MTS needs to make it known that its service should be eligible. Ms. Cooney pointed out that the MTS routes referenced in the application make 71,000 senior trips annually. She stated that she felt that SANDAG's Coordinated Plan demonstrates that MTS should be eligible based on existing ridership.

Mr. Monroe stated that the criteria used to determine eligibility were that funding should be for new routes only that are exclusively for seniors. He stated that MTS needs to fight for eligibility for the years ahead. He stated that if these criteria are spelled out in TransNet II, that language could be changed by the SANDAG Board of Directors. Ms. Cooney stated that she didn't think there was specific language in TransNet II regarding this issue. Chairman Mathis stated that he didn't think the criteria were consistent with the intent of TransNet II. Mr. Jablonski stated that MTS is trying to create new funding opportunities. He stated that this program funds new service while MTS is faced with cutting existing service. He reminded the Committee that these criteria were decided upon after the Transportation Committee meeting during which MTS was determined to be eligible. Mr. Emery requested a copy of the minutes from that March Transportation Committee.

G. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Change in Meeting Time for October 2, 2008, Executive Committee meeting: Mr. Rindone requested that the next Executive Committee meeting be held at 8:00 a.m.

SAFETEA-LU: Mr. Monroe reported that it appears that the next transportation funding bill may be incorporated into the green house gases/energy bill.

LOSSAN: Mr. Rindone reported that he attended a LOSSAN meeting on September 5. He stated that LOSSAN continues to support the concept of double tracking in the LOSSAN Corridor. He stated that this is the ultimate solution as evidenced by the recent head-on collision of two trains in the Los Angeles area. He stated that it is very difficult to find funding, but that LOSSAN continues to work toward that goal. Mr. Roberts reported that the high speed rail proposal will support the concept of double tracking. Mr. Jablonski stated that Positive Train Control could have prevented the head-on accident because any

train that runs a red light would be automatically shut down under this system. He stated that this type of system costs about \$1 million per mile of track to install.

California Budget: Ms. Cooney provided an overview of the state budget, which proposes \$406 million for State Transit Assistance (STA) funding. She reported that the Governor has said that he will veto the budget, but the legislature may be able to override the veto. She added that the Governor has Trailer Bills on his desk that he could use to "blue pencil" this item back to \$306 million. She stated that \$306 million is what MTS used to determine its STA funding for the FY 2009 budget.

Cell and Texting Policy: In response to a question from Mr. Monroe, Mr. Jablonski stated that MTS does have a cell phone and texting policy. He stated that this policy has been reissued every six months for the last three years. Mr. Rindone suggested that the full Board be apprised of this fact.

H. PUBLIC COMMENTS

Margo Tanguay: Mr. Tanguay reported on a recent Garrison Keillor program she saw on PBS about New York City subway operators. She stated that it was a tribute to public transportation.

I. NEXT MEETING DATE:

The next meeting is scheduled for Thursday, October 2, 2008, at 8:00 a.m., in the Executive Conference Room.

J. ADJOURNMENT

Chairman Mathis adjourned the meeting at 11:13 a.m.



Chairman

Attachment: A. Roll Call Sheet
gail.williams/minutes

**EXECUTIVE COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 9/18/08

CALL TO ORDER (TIME) 9:05 a.m.

RECESS _____

RECONVENE _____

CLOSED SESSION 9:06 a.m.

RECONVENE 10:12 a.m.

ADJOURN 11:13 a.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ATKINS	<input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
EMERY	<input checked="" type="checkbox"/> (Cafagna) <input type="checkbox"/>		
EWIN	<input checked="" type="checkbox"/> (Clabby) <input type="checkbox"/>		10:32 a.m. during AI C1
MATHIS	<input checked="" type="checkbox"/>		
MONROE	<input checked="" type="checkbox"/> (McLean) <input type="checkbox"/>		
RINDONE	<input checked="" type="checkbox"/> (Emery) <input type="checkbox"/>	9:06 a.m. during AI C2	
ROBERTS	<input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:06 a.m. during AI C2	

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL:

[Signature]