

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

February 12, 2009

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. Rindone moved approval of the minutes of the January 8, 2009, Executive Committee meeting. Mr. McLean seconded the motion, and the vote was 6 to 0 in favor.

C. COMMITTEE DISCUSSION ITEMS

1. MTS: Natural Gas Hedge Program (FIN 300)

Mr. Cliff Telfer, MTS Chief Financial Officer (CFO), introduced Mike McDonald and Sharon McDonald of McDonald partners and explained that they were hired to review MTS's options for participating in a natural gas hedging program to help stabilize its budget. He explained that the expense for compressed natural gas (CNG) comprises 5 percent of MTS's operating budget and that 76 percent of MTS's buses are powered by CNG fuel with very volatile prices.

Mr. McDonald reviewed MTS's exposure to fuel price volatility and the goals of a hedge program. He explained that the goals of MTS's program would be to stabilize the budget without adverse operational impact and with minimal administrative burden and acceptable risk exposure. He stated that the program should also have a competitive implementation process. He provided an overview of SDG&E's Core Aggregate Transfer (CAT) Program, hedging options, recommended hedging strategies, factors influencing the success of the hedge, and implementation steps.

Mr. McDonald also reviewed the pros and cons of various hedging strategies and recommended the Commodity Swap strategy, which has a flexible term and quantity (set monthly), is very efficient, has minimal administrative burden, has sufficient providers to ensure competitive pricing, and meets the goal of achieving budget stability. He added that a properly drafted contract would eliminate any margin requirements. He then reviewed the mechanics of executing a Commodity Swap and stated that the risk associated with volume is very low because MTS's usage of CNG is pretty consistent.

Mr. McDonald advised the Committee that MTS should adopt a hedge policy to guide staff in executing these actions and added that the policy should give authority to the CEO and CFO to execute these swaps because of the need for immediate action in response to quickly changing prices.

In response to a question from Chairman Mathis, MTS CEO Mr. Jablonski stated that Finance and Procurement staff would handle the administrative duties associated with this program. He added that the consultant would be more involved at the beginning of this process and less later on in the process. He also advised Chairman Mathis that because the term and quantity of this swap vehicle are set monthly, MTS would be able to quickly adjust these factors in response to service-level fluctuations.

In response to a question from Ms. Lightner, Mr. Telfer explained that MTS's expense for CNG fuel increases by \$80,000 for each one-cent increase in the price of CNG. In response to a question from Mr. Roberts, Ms. McDonald stated that MTS could use this program to purchase all or a portion of its CNG fuel. Mr. Roberts expressed concern that MTS might find itself paying above-market prices for CNG fuel. Mr. McDonald pointed out that the goal of the program is to stabilize the budget, and Mr. Jablonski stated that, under the recommended swap option, MTS can go back to buying on the spot market at any time. Mr. Telfer pointed out that this will enable MTS to protect itself from drastic upswings in CNG prices. Mr. McDonald advised Mr. Roberts that there is not a direct relationship between CNG and LNG fuel.

In response to a question from Ms. Lightner, Mr. McDonald stated that he recommends doing the swap for a one-year period. He added that additional complexities would arise if MTS decided to do a program for a longer period of time.

Mr. Jablonski stated that this would be a good year to try this program as it doesn't appear that CNG fuel prices will be dropping. He stated that if they did drop, it would not be a significant drop and would have minimal impact on MTS's budget. He added that the program is flexible enough to respond to changing fuel prices to MTS's advantage. Mr. Jablonski reported that McDonald Partners developed the hedging program currently being used by the Los Angeles County Metropolitan Transportation Authority.

Action Taken

Mr. Rindone moved to forward a recommendation to the Board of Directors to approve the (1) Natural Gas Hedge Program; (2) Core Aggregate Transfer (CTA) Program; and (3) Natural Gas Hedge policy, including the designation of the CEO and Chief Financial Officer as the administrators of the policy and authorize administrators to execute hedges in accordance with this policy; and (4) direct staff to report to the Executive Committee any significant activities related to this program. Mr. McLean seconded the motion, and the vote was 6 to 0 in favor.

5. MTS: Report on Sales Tax Revenue Projections (FIN 340)
(Taken Out of Order)

Mr. Marney Cox, SANDAG Chief Economist, projected a two percent growth rate in sales tax revenues for FY 2010. Mr. Jablonski reported that the County of San Diego is projecting a one percent drop and referred to the County's letter regarding this matter, which was placed at the table prior to the start of the meeting. He added that the Budget Development Committee and staff have decided to adopt an assumption for the FY 2010 budget of zero percent growth for sales tax revenues. He added that sales tax revenues plus TransNet funding comprises 40 percent of MTS's revenue.

Mr. Cox reviewed a number of charts showing various indicators that he used to arrive at his projection for sales tax growth. These charts reflected information on retail sales, employment, job growth, unemployment, disinflation, cost of construction, home pricing trends, housing reverse-wealth effect, public debt, federal funds rates, U.S. money supply, borrowing from the Federal Reserve, venture capital funds, and population growth.

Mr. Cox pointed out that San Diego tends to be first into any recession and first to show signs of recovery. He added that San Diego is starting to show signs of recovery. He also stated that the money in the economic stimulus package is equal to the amount of money in the economy now. In response to a question from Mr. Roberts, Mr. Cox stated that his margin of error.

Mr. Jablonski reported that if MTS assumes no increase in sales tax revenues, it will face a \$14 million shortfall in its FY 2010 budget, and if a two-percent increase in sales tax revenues is assumed, then the shortfall becomes \$12 million. He added that if MTS increases pass prices by \$2.00, it will be able to keep an additional eight buses in service.

Action Taken

Chairman Mathis moved to receive a report regarding FY 2010 local sales tax projections. Mr. Rindone seconded the motion, and the vote was 6 to 0 in favor.

3. MTS: Compass Card Implementation (CIP 11457)
(Taken Out of Order)

Mr. James Dreisbach-Towle, SANDAG Program Analyst, reported that software issues have been identified in connection with on-bus card readers for the Compass Card program. He reported that these issues apply only to the standalone units on contract buses and are in the process of being corrected. He reported that software patches have been installed on ten buses, which are now being tested before the remainder of the patches are installed. He added that the testing should be completed by the end of next week. He also reported that difficulties were encountered with the tap on and tap off requirement as it related to certain monthly passes. He reported that the tap off requirement has been dropped for all of these passes, and a Cubic software engineer has been designated to

review MTS business rules to ensure that they are compatible with the Compass Card. He added that this engineer is also responsible for reviewing all of the devices associated with this program.

Mr. Dreisbach-Towle advised Mr. Roberts that MTS, SANDAG, and North County Transit Marketing Departments have developed more than 100 pieces of educational materials for this program, which will be distributed to the public as phases of this program are introduced. Mr. Jablonski assured Mr. Roberts that MTS will be flexible with its customers during the introduction of the Compass Card and as customers are getting accustomed to this new program. He stated that security officers will carry reminder cards that can be handed out to customers to remind them to tap on and off.

Public Comment

Clive Richard: Mr. Richard stated that a bus rider recently told him that he was asked by a bus driver to get off the bus when the validator on the bus could not read his Compass Card. Mr. Richard stated that not all MTS employees have gotten the message that MTS is being flexible with its customers regarding the Compass Card implementation.

Action Taken

Mr. Roberts moved to receive a report on development and implementation of the Compass Card fare system. Mr. McLean seconded the motion, and the vote was 6 to 0 in favor.

2. MTS: El Cajon Transit Demolition Project Status – Memorandum of Understanding (MOU) Expiration/New Proposal (CIP 11217)

Mr. Wayne Terry, Chief Operating Officer – Trolley, reviewed the history of the original plan to demolish the building located at the El Cajon Transit Center. He showed visuals of the center, the building, and the required repairs that would have to be made if the building were not demolished. He also reported that the annual maintenance cost was approximately \$37,200. He then reported that the contractors' bid for demolishing this building (\$294,000) was more than double the engineer's estimate of \$120,000. He then reviewed the terms of the agreement with Kobey Corporation/BriceHouse Starboard LLC that was developed as an alternative to demolishing the building. He also reviewed the proposed facility improvements, all to be done without cost to MTS. He reported that MTS will actually save \$114,000 for the initial five-year term of the lease. He added that liquidated damages of \$5,000 per month would be due from MTS should it enter into a development agreement for this site prior to the end of the lease. He stated that these costs could be absorbed by the developer. Mr. Jablonski stated that there is a minimal chance that any development opportunities for this site will be realized prior to the end of the lease.

In response to a question from Ms. Lightner, Mr. Jablonski stated that MTS has facilities personnel and supervisors who are in this area maintaining the platform.

He stated that they will monitor maintenance efforts in this building to ensure they are adequate.

Action Taken

Mr. Rindone moved to (1) authorize the CEO to execute a letter (Attachment A of the agenda item) to SANDAG to let the MOU (MTS Doc. No. L0862.0-09) between SANDAG and MTS (for construction and construction management services) expire on March 31, 2009, and request that SANDAG return the remaining funds to MTS Capital Improvement Project 11217 (Blue and Orange Line Station Improvements); and (2) authorize the CEO to execute a multiyear contract (Attachment B of the agenda item) with The Kobey Corporation, in partnership with BriceHouse Starboard LLC (the Partnership), to provide the structural capital improvement necessary to house, maintain, and manage an on-site convenience store, including accessible public restroom facilities. Mr. McLean seconded the motion, and the vote was 6 to 0 in favor.

4. MTS: Economic Stimulus Update (AG 210)

Ms. Sharon Cooney, Director of Government Affairs, reported that the Conference Committee has submitted a 150-page economic stimulus bill to the House of Representatives for a vote on Friday or Saturday. She estimated that the bills originally approved by the House and Senate would result in funding for MTS of \$70 million or \$46 million, respectively, and broke down how that funding would be allocated between 5307 Urbanized Area, 5309 Rail Mod, and 5311 Rural funding programs. She added that funding would be distributed based on current formulas designated by Safetee-Lu.

Ms. Cooney advised the Committee that reconciliation still needs to be completed, and the Federal Transit Administration (FTA) will be developing administration guidelines. She also reported that the bill requires that funding recipients quickly report the projects for which the funding would be used and that recipients spend the funding within 2½ to 3 years. Ms. Cooney then reviewed the preliminary list of projects that MTS staff identified for this purpose. Ms. Tiffany Lorenzen, General Counsel, reported that the Chief Deputy Counsel of the FTA said that there would be no changes in FTA regulations. Ms. Cooney also reported that no local match is required in connection with the use of this funding, and the funding must be spent on new projects.

Mr. Jablonski stated that all projects on the list are things that MTS really needs to do and can be "shovel ready" in a short time frame. He added that more detail on the Blue Line improvements would be presented at an upcoming Board meeting. He added that it is also possible to use this funding to purchase buses or light-rail vehicles. He added that, by exercising an option with Utah, light-rail vehicles could be ordered within 30 days and would arrive in January 2011.

Public Comment

Clive Richard: Mr. Richard stated that he was glad to see that staff was preparing for the receipt of this funding.

Action Taken

Mr. McLean moved to receive an update on federal economic stimulus legislation and staff's efforts to prepare for possible implications for the agency. Mr. Selby seconded the motion, and the vote was 6 to 0 in favor.

G. PUBLIC COMMENTS
(*Taken Out of Order*)

Clive Richard: Mr. Richard stated that he was glad that MTS is informing the public that service changes are imminent due to dropping funding levels.

The Executive Committee convened to Closed Session at 11:01 a.m..

6. MTS: CLOSED SESSION – PUBLIC EMPLOYEE PERFORMANCE EVALUATION
(CHIEF EXECUTIVE OFFICER) Pursuant to California Government Code Section 54957

The Executive Committee reconvened to Open Session at 11:32 a.m.

Oral Report of Final Actions Taken in Closed Session

Ms. Tiffany Lorenzen, MTS General Counsel, reported the following: Agenda Item C6: The Committee received a report and moved to forward a recommendation to the Board as follows: That Mr. Jablonski's performance was excellent this past year, but due to budget issues and the current fiscal emergency, the Executive Committee recommendation was for no salary increase and no bonus.

D. REVIEW OF DRAFT February 19, 2009, BOARD AGENDA

Mr. Rindone reminded everyone that there would be an 8:00 a.m. Finance Workshop prior to the Board meeting on February 19.

Recommended Consent Items

6. MTS: Mission Valley East Legal Services – Contract Amendment (CIP 10426.12)

Recommend that the Board of Directors authorize the CEO to execute MTS Doc. No. M6655.9-07 (in substantially the same form as Attachment A of the agenda item) with Hecht, Solberg, Robinson, Goldberg, and Bagley, LLP for legal services on the Mission Valley East Light Rail Transit Project.

7. MTS: San Diego and Arizona Eastern (SD&AE) Railway Company Quarterly Reports and Ratification of Actions Taken by the SD&AE Railway Company Board of Directors at its February 3, 2009, Meeting (SDAE 710)

Recommend that the Board of Directors (1) receive the San Diego and Imperial Valley Railroad, Pacific Southwest Railway Museum Association, and Carrizo

Gorge Railway, Inc. quarterly reports (Attachment A of the agenda item); (2) ratify actions taken by the San Diego and Arizona Eastern Railway Company Board of Directors at its meeting on February 3, 2009 (Attachment A of the Agenda Item); and; and (3) authorize Carrizo to decrease its insurance requirements from \$50 million to \$10 million as it is not currently operating freight in the U.S. (Insurance requirements would increase accordingly upon resumption of U.S. freight operations.)

8. SDTI: Neleco, Inc. "Superlube" Rail Lubricant – Contract Amendment (Option Year Two) (OPS 970.6)

Recommend that the Board of Directors authorize the CEO to execute SDTI Doc. No. C.O.018.2-05 (Attachment A of the agenda item) with Neleco, Inc. to exercise option year two to provide Synco SuperLube Rail Lubricant.

9. MTS: Increased Authorization for Legal Services – Law Offices of Michael E. Ripley (LEG 491)

Recommend that the Board of Directors authorize the CEO to execute MTS Doc. No. G1080.3-07 (in substantially the same form as Attachment A of the agenda item) with the Law Offices of Michael E. Ripley for legal services and ratify prior amendments entered into under the CEO's authority.

10. SDTI: Copier Lease – Contract Award (OPS 970.6)

Recommend that the Board of Directors authorize the CEO to award a contract (MTS Doc. No. L0856.0-09) to Canon Business Solutions (in substantially the same format as Attachment A) to lease 12 copiers to support administrative functions throughout SDTI for a period not to exceed five years.

11. MTS: Federal Transit Administration 5311 Program of Projects (OPS 950.7)

Recommend that the Board of Directors approve Resolution No. 09-8 (Attachment A of the agenda item) authorizing the use of \$256,744 of Federal Transit Administration Section 5311 funds for operating assistance in nonurbanized areas.

12. MTS: Lease with U.S. Navy for Regional Transit Management System Repeater Site on Mount Soledad (OPS 901)

Recommend that the Board of Directors authorize the CEO to execute a five-year lease (Attachment A of the agenda item) with three 5-year options with the U.S. Navy for its Regional Transit Management System repeater site on Mount Soledad.

13. MTS: Office of Homeland Security Grant Applications (AG 210.9)

Recommend that the Board of Directors approve Resolution 09-9 (Attachment A of the agenda item) authorizing the CEO to submit applications for fiscal year 2008-2009 California Transit Security Grant Program – State Transit Assistance Agencies funding.

14. MTS: Fiscal Year 2010 Capital Improvement Program Revision (FIN 340)

Recommend that the Board of Directors (1) approve the fiscal year 2010 Capital Improvement Program with the amended federal and nonfederal funding levels (Attachment A of the agenda item). As the federal appropriation figures are finalized and/or other project funding sources become available, allow the Chief Executive Officer (CEO) to identify and adjust projects for the adjusted funding levels (any adjustments in excess of \$500,000 would be brought to the Board's attention); (2) forward a recommendation to the SANDAG Board of Directors to approve the submittal of the adjusted federal Section 5307 and 5309 applications for the MTS fiscal year 2010 CIP (shown in Attachment A of the agenda item) now that federal appropriations have been finalized; and (3) forward a recommendation to the SANDAG Board of Directors to approve the amendment of the Regional Transportation Improvement Program in accordance with the fiscal year 2010 CIP recommendations.

Recommended Consent Items

There was no additional discussion of the recommended Consent Items.

Recommended Board Discussion Items

There was no discussion of recommended Discussion Items.

E. REVIEW OF SANDAG TRANSPORTATION COMMITTEE AGENDA

Chairman Mathis reported that the next Transportation Committee meeting will be held February 20, 2009, and no agenda has yet been issued.

F. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

There were no Committee Member communications.

H. NEXT MEETING DATE:

The next meeting is scheduled for Thursday, March 5, 2009, at 9:00 a.m., in the Executive Conference Room.

I. ADJOURNMENT

Chairman Mathis adjourned the meeting at 11:33 a.m.



Chairman

Attachment: A. Roll Call Sheet

gail.williams/minutes

**EXECUTIVE COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) 2/12/09

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

RECESS

RECONVENE

CLOSED SESSION 11:01 a.m.

RECONVENE 11:32 a.m.

ADJOURN 11:33 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
LIGHTNER <input checked="" type="checkbox"/> (Young) <input type="checkbox"/>		
MATHIS <input checked="" type="checkbox"/>		
MCLEAN <input checked="" type="checkbox"/> (Rindone) <input type="checkbox"/>		
RINDONE (VC) <input checked="" type="checkbox"/> (McLean - CPT) <input type="checkbox"/>		
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>		
SELBY <input checked="" type="checkbox"/> (Ryan) <input type="checkbox"/>		
Transportation Committee Rep Slot (Mathis)		

SIGNED BY OFFICE OF THE CLERK OF THE BOARD

Gail Williams

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL

T. J. [Signature]