

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

November 10, 2005

Board of Directors Meeting Room, 10th Floor
1255 Imperial Avenue, San Diego

MINUTES

1. Roll Call

Chairman Williams called the meeting to order at 9:06 a.m. A roll call sheet listing Board member attendance is attached.

2. Approval of Minutes

Mr. Ewin moved to approve the minutes of the October 27, 2005, Board of Directors meeting. Mr. Rindone seconded the motion, and the vote was 9 to 0 in favor.

3. Public Comments

Shahin Enayati: Mr. Enayati presented materials to the Board about EnviroBinz recycling containers, which they suggested be placed at MTS bus stops and trolley stations. Mr. Lewis requested that staff report back to the Board about such a program.

Don Stillwell: Mr. Stillwell thanked MTS's planners for making changes to Route No. 13. He requested that additional modifications be made. He also spoke in support of the changes being considered under the Comprehensive Operational Analysis (COA) for Route Nos. 13 and 14.

CONSENT ITEMS (*Taken Out of Order*)

6. MTS: Adoption of 2006 MTS Executive Committee and Board of Directors Meeting Schedule (ADM 110, PC 50101)

Recommend that the Board of Directors adopt the Amended 2006 Executive Committee and Board of Directors Meeting Schedule (Attachment A of the agenda item).

7. MTS: An Ordinance Amending Ordinance No. 4, an Ordinance Establishing a Metropolitan Transit System Fare-Pricing Schedule (ADM 110.3, PC 50451)

Recommend that the Board of Directors (1) read the title of Ordinance No. 4, An Ordinance Establishing a Metropolitan Transit System Fare-Pricing Schedule; (2) waive further readings of

the ordinance; (3) introduce the ordinance for further consideration at the next Board meeting; and (4) direct publication of an ordinance summary.

8. MTS: Mission Valley East Light Rail Transit Project – General construction Consultant Contract Amendments (CIP 10426.7)

Recommend that the Board of Directors authorize the Chief Executive Officer (CEO) to (1) execute Contract Amendment No. 5 to Work Order No. 03.11 (MTS Document No. L0492.8.01), with PGH Wong Engineering, in substantially the same form as Attachment A of the agenda item, to continue to provide contract change order review, systems submittal review, and systems construction management support for the Mission Valley East Light Rail Transit Project until 2005, in an amount not to exceed \$10,500; and (2) ratify the previous approval of the CEO for Contract Amendment Nos. 1, 2, and 4 (Attachments B, C, and D of the agenda item), in the total amount of \$180,180 for a contract work order total of \$440,680.

9. MTS: Appointment of New Board Chairperson (ADM 110, PC 50101)

Recommend that the Board of Directors receive an update on the status of the nominations for Chairperson of the MTS Board of Directors.

Recommended Consent Items

MTS General Counsel Tiffany Lorenzen read the title of Ordinance No. 4, which was being recommended for amendment under Agenda Item No. 7.

Mr. Clabby moved to approve Consent Agenda Item Nos. 6, 7, 8, and 9. Ms. Atkins seconded the motion, and the vote was 11 to 0 in favor.

5. Closed Session Items (ADM 122)

The Board convened to Closed Session at 9:15 a.m.

- a. MTS: CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION Pursuant to Government Code Section 54956.9(a) Save Our Heritage Organisation (SOHO) v. City of San Diego, Et Al. Superior Court Case No. GIC 834743.
- b. MTS: CONFERENCE WITH REAL PROPERTY NEGOTIATORS PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 54956.8. Property: Grossmont Center Station Parking Lot. Assessor Parcel Nos.: 490-22-39, 490-200-40, and 490-270-23. Agency Negotiators: Tim Allison, Paul Jablonski, Sharon Cooney, and Tiffany Lorenzen. Negotiating Parties: Fairfield Residential, LLC, and City of La Mesa. Under Negotiation: Instructions to Negotiators will include Price and Terms of Payment.

The Board reconvened to Open Session at 10:09 a.m.

Oral Report of Final Actions Taken in Closed Session

Ms. Lorenzen reported the following:

On Item 5a, the Board received a report and gave direction to outside counsel. Representatives from the City of San Diego were not present for this item.

On Item 5b, the Board received a report and gave direction to agency negotiators. The representative from the City of La Mesa was not present for this item.

NOTICED PUBLIC HEARINGS

There were no Noticed Public Hearings.

DISCUSSION ITEMS

30. SDTC: Retirement Plans Actuarial Valuation as of January 1, 2005 (OPS 960.5, PC 50601)

Mr. Cliff Telfer, MTS Interim Chief Financial Officer, reported that EFI Actuaries prepared the actual valuation and introduced Mr. Bob McCrory to review the results. Mr. McCrory reviewed the history of the Plan's costs from 1994 to 2005 pointing out that costs peaked in 2003 as a result of benefit improvements and poor market returns and decreased in 2004 and 2005 as a result of investment gains, the smoothing of assets, and the issuance of Pension Obligation Bonds (POBs). He reviewed current costs including reasons for the decrease in costs from \$7,135,333 on January 1, 2004 (19.691 percent of payroll) to \$ 3,873,406 (11.112 percent of payroll) on January 1, 2005. He stated that cost changes were primarily affected by demographics, benefit changes, and investment returns. Mr. Telfer reported that POB payments are projected to be \$4.9 million and are not included in the aforementioned cost.

Mr. McCrory also briefly reviewed projected future costs if the return on the market return on Plan assets is eight percent, the current actuarial assumption, and if market return is seven percent. He reported that future costs are likely to increase to over 14 percent of pay, partly because SDTC is hiring older employees and there is less time to fund pensions for these employees. Mr. McCrory stated that realizing a seven rather than eight percent return on investment can cause an increase in costs of 50 percent.

Mr. Roberts requested that future valuations and reports factor in and provide cost information on POB payments and asked staff for an estimate. Mr. Telfer indicated that he would provide that information during the discussion of Agenda Item 45 because he did not have information at hand. Mr. Ewin requested that both dollar and percent of payroll figures be provided. The Board briefly discussed the importance of understanding the variability of Plan costs so these costs could be appropriately addressed within the budget. Mr. Ewin stated that the expenditures are fairly fixed – that how those expenditures are funded is the variable element. He suggested that the Board develop strategies for dealing with long-term issues.

Mr. Roberts agreed that smoothing strategies should be explored and added that consideration should also be given to establishing reserves to cover spikes in cost. He added that the reserves don't necessarily have to be within the Plan. Mr. Jablonski stated that there are a couple of ways that funds may become available for reserves, and that the Board would then need to decide to either use those funds to establish a reserve account or pay down POB debt.

In response to a question from Mr. Monroe, Mr. McCrory stated that employees make no contributions to this Plan. Mr. Monroe stated that many companies are changing their benefit plans in order to maintain viable businesses. He asked if, in the future, MTS is going to consider if this is the type of plan it wants to have. Mr. McCrory stated that defined-benefit plans are the most cost efficient type of retirement plan.

In response to another question from Mr. Monroe, Mr. McCrory stated that an eight percent interest rate assumption is lower than most investment managers are forecasting. Mr. Rindone stated that he was alarmed at the substantial cost increase that can result from varying levels of interest return. He requested that the Chairman look into having more frequent updates on this matter, possibly at a subcommittee or Executive Committee level. He requested that a recommendation be made to the Board on how best to monitor this matter.

In response to a question from Mr. Monroe, Mr. Telfer reported that the SDTC plan is funded at almost the same level as CalPERS for MTS and SDTI employees. He advised the Board that benefits are costly. In response to a question from Mr. Clabby, Mr. Telfer stated that it is very hard to forecast employee retirements. The Board briefly discussed why costs are higher when older persons are hired. Mr. Telfer explained that, even though someone hired at age 39 will receive a lower benefit at retirement than someone hired at age 32, there is less time to fund that benefit, which results in a higher cost to the Plan. He added that this higher cost exceeds the lower benefit paid to the older employee. Mr. Jones requested that staff provide a memo to Board members showing why this is true. In response to a question from Mr. Ewin, Mr. McCrory stated that SDTC's current policy is to amortize over a 30-year period with level payments.

Mr. Cafagna stated that SDTC's Plan is lower at 2 percent at 50 than plans of other public agencies, which provide 2.7 percent to 3 percent at age 50. He stated that MTS would be doing well to maintain this plan at this level for the next 50 years. He added that there will be pressure on the Board to improve this plan to more closely match other agencies and this needs to be discussed, specifically how improved benefits would affect MTS's budget.

Action Taken

Mr. Cafagna moved to receive a report on the retirement plan's actuarial valuation as of January 1, 2005, and adopt the pension contribution rate of 11.112 percent for the SDTC pension plans in FY 2006. Mr. Clabby seconded the motion, and the vote was 12 to 1 with Mr. Maienschein casting the dissenting vote.

31. MTS: East Village Budget Transfers (CIP 10494)

Mr. Jim Linthicum, SANDAG Director of Transit Engineering and Construction, introduced this item and advised the Board that they have been working closely with the Centre City Development Corporation to develop East Village rail and make improvements mostly along Park Boulevard. He reported that five projects were identified, two of which have been completed. He added that, due to high construction costs, only two of the remaining three projects can be funded (rail and urban improvements from G Street to Broadway and reconstruction of rail through the Smart Corner development). He added that the Orange to Blue Line Connection Project is being deferred. He introduced Mr. Eric Adams, SANDAG Engineer, who provided Board members with an overview of the recommended East Village budget transfers and work completed along Park Avenue to date.

In response to a question from Mr. Lewis, Mr. Adams reported that any work to move telephone poles underground would be completed by San Diego Gas & Electric.

Action Taken

Mr. Ewin moved to (1) execute Amendment No. 1 to the East Village Transit Improvements Memorandum of Understanding (MOU) between MTS and the Centre City Development

Corporation (CCDC), in substantially the form as shown on Attachment A of the agenda item, pending approval of the CCDC and the Redevelopment Agency Boards. This amendment would increase the CCDC funding for East Village transit and urban improvements up to an amount not to exceed \$2,000,000; and (2) transfer the remaining balances in the MTS projects, City College Station Realignment (CIP 10494) and 12th Avenue Corridor Improvements (CIP 11046) and the additional \$2 million from the East Village MOU amendment into the San Diego Association of Governments (SANDAG) East Village CIP Project 10492, as shown on Attachment B of the agenda item. This action funds the construction of rail and urban improvements for G Street to C Street on Park Boulevard, urban improvements on C Street between Park and 11th Avenue, and rail construction through the Smart Corner development, as shown in Attachment B of the agenda item. Mr. Roberts seconded the motion, and the vote was 11 to 0 in favor.

32. MTS: Ten-Year Capital Financial Analysis (FIN 310.1, PC 50902)

This item was deferred.

REPORT ITEMS

48. SDTI: Centralized Train Control Status Review (OPS 970.2, CIP 11425)
(*Taken Out of Order*)

Mr. Peter Tereschuck, President-General Manager of SDTI, introduced this item and reported that the implementation of this Centralized Train Control (CTC) project has both security and service quality implications. He introduced Bart Blakesley, Macro Corporation, to provide the Board with an overview of this project. Mr. Blakesley explained the purpose of a CTC and displayed a system overview diagram. He reviewed the parameters of the Minimum Operating Segment (MOS) and showed its relativity to the Green and Orange Lines. He reviewed the features provided by Centralized Train Control and the features provided by the remote control of traction power. Mr. Blakesley then reviewed the integration of fire/life safety into the CTC and how the system interfaces to provide passenger information at stations and to other regional traveler information systems. He then reviewed the schedule for implementation, which would start in the third quarter of 2007 and be completed in FY 2008. Mr. Rindone stressed the importance of modernizing and improving the operation and safety of the system with projects such as this one.

In response to a question from Mr. Lewis, Mr. Tereschuck reported that all necessary personnel are already in place. In response to a question from Ms. Zarate, Mr. Tereschuck explained that the system will not be able to detect if a person is on the track although it will be able to detect other types of obstructions, particularly metal objects. Mr. Tereschuck reported that the trains will still be manually controlled by the train operator, not by central control.

In response to another question from Mr. Lewis, Mr. Tereschuck reported that the cost of the entire project will be approximately \$8 million over the two- to three-year period. Mr. Jablonski stated that, while this is a great project that is long overdue, he anticipated the cost may be closer to \$10 million, which would be 40 percent of MTS's entire capital program. He stated that MTS will soon reach the point where it will have to choose between doing this project or buying buses and repairing infrastructure.

Action Taken

Ms. Atkins moved to receive this report for information. Mr. Cafagna seconded the motion, and the vote was 12 to 0.

45. SDTC: Pension Investment Performance for Third Quarter 2005 (FIN 310.1, PC 50601)

Mr. Bruno Grimaldi, R. V. Kuhns & Associates, Inc., provided a review of SDTC pension plan performance through the third quarter 2005. He reported that, since inception and the inception of the pension obligation bonds (POBs), the pension plan has outperformed the assumed rate of return. He reported that for the last year, the plan returned 13.07 percent compared to the policy index of 11.72 percent. He reported that the plan has ten different investment managers and is well diversified.

Mr. Grimaldi stated that two managers have been on "watch status" – Kayne Anderson SMid Cap Value and Nicholas Applegate International Growth. He reported that he holds monthly conference calls to monitor the performance of each these funds. He added that Nicholas Applegate has significantly improved its performance since they were placed on watch status, and he will be recommending they be removed from watch status. He reported that Kayne Anderson has not shown improvement and will be dropped if they show no improvement in the next three to four months. In response to a question from Mr. Roberts, Mr. Grimaldi provided specific information on the performance of these two managers.

In response to Mr. Roberts' question during Agenda Item 30, Mr. Telfer reported that POB payments represent 15 percent of payroll over and above the 11.112 percent current cost as of January 1, 2005.

In response to a question from Mr. Jones, Mr. Telfer stated that the pension plan is a Taft Hartley Trust, and, therefore, the Board of Trustees consists of three representatives from SDTC management and three representatives from each of its two labor unions.

Action Taken

Mr. Jones moved to receive this report for information. Mr. Cafagna seconded the motion, and the vote was 12 to 0.

46. MTS: Operations Budget Status Report for September 2005 (FIN 310.1, PC 50601)

Mr. Larry Marinesi, MTS Budget Manager, reviewed financial results for FY 2006 through September 2005. He reviewed net operating subsidy variance, combined transit operators actual to amended budget, and reviewed elements of the subsidy variance. He reported that combined energy expenses exceeded budget by \$675,000. He also reported that SDTI security exceeded budget by \$204,000 due to increased security levels after the London bombings in July. He also reviewed the impact of energy costs on operations. He stated that, while diesel prices have decreased, CNG is expected to increase in the coming winter months.

The Board briefly discussed the possibility of having monthly financial reports on the Consent Agenda and a quarterly verbal report. Mr. Rindone stated that SB 1703 turned the MTS Board into an operating board and, as such, it should have monthly reports.

Mr. Roberts stated that he thought that MTS's farebox recovery rate was higher than indicated in the financial report. Mr. Rindone pointed out that as MTS expands its system, debt is expanded as well. Mr. Jablonski reported that farebox recovery for SDTI is over 50 percent while farebox recovery for SDTC is in the lower 30s range.

Action Taken

Mr. Cafagna moved to receive the MTS Operations Budget Status Report for September fiscal year 2006. Mr. Ewin seconded the motion, and the vote was 10 to 0.

47. MTS: August and September Monthly Performance Indicators
(OPS 920.1, 960.5, 970.5, PC 50451)

There was no presentation on this item.

Action Taken

Ms. Zarate moved to receive this report for information. Mr. Cafagna seconded the motion, and the vote was 9 to 0.

60. Chairman's Report

There was no Chairman's Report.

61. Chief Executive Officer's Report

There was no CEO's Report.

62. Board Member Communications

Interviews of Chairman Position Candidates: Mr. Rindone reported that Ms. Lynn Schenk will be interviewed on November 18, and Ms. Julianne Nygaard and Mr. Harry Mathis will be interviewed as part of the Executive Committee meeting on December 1, 2005. He added that this item will be taken to the full Board after the interviews. Mr. Ewin stated that he appreciated the work of the Executive Committee and presented ten suggested interview questions. Mr. Rindone welcomed these questions and stated that other Board members' suggestions would also be welcomed.

63. Additional Public Comments on Items Not on the Agenda

There were no additional public comments.

64. Next Meeting Date

The next regularly scheduled Board meeting is Thursday, December 8, 2005, at 9:00 a.m. in the same location.

65. Adjournment

Chairman Williams adjourned the meeting at 12:07 a.m.

Chairman
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: A. Roll Call Sheet
gail.williams: MINUTES - Board 09-22-05