

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

April 12, 2007

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

Finance Workshop

1. Roll Call

Chairman Mathis called the meeting to order at 8:58 a.m. A roll call sheet listing Board member attendance is attached.

2. MTS: FY 2008 Budget Development (FIN 310.1, PC 50601)

Chairman Mathis turned the meeting over to Vice Chair Rindone, who introduced Mr. Larry Marinesi, MTS Budget Manager. Mr. Marinesi provided the Board with an update on the development of the FY 2008 budget. He reviewed projected revenues by type and operator, nonoperating revenues, and a combined revenue/expense schedule showing a balanced budget. Mr. Marinesi also reviewed the expense portion of the budget in greater detail by operator and within the administrative function of MTS. He also provided summary information on positions within MTS showing a net addition of 8.2 full-time equivalents. The Board was then presented with information on the energy portion of the budget, and Mr. Marinesi reported that 80 percent of SDTC's fleet is now running on compressed natural gas. Mr. Marinesi also showed the Board where changes were made to address the budget deficit that existed during the first phases of the budget development process and provided a brief overview of projected FasTrak (used for I-15 Inland Breeze) and State Transit Assistance (STA) funding. Mr. Marinesi reported that the Budget Development Committee provided guidance to shift STA funds, if additional STA funding is received, into the FY 2009 Capital Improvement Program.

Mr. Paul Jablonski, MTS Chief Executive Officer, stated that MTS is making progress in its capital program. He stated that he had hoped to have \$25 million to \$30 million in capital funding by this point in time, and MTS actually has \$32 million. He stated that MS needs \$55 million per year.

Mr. Monroe congratulated Mr. Jablonski and staff on balancing the budget. He expressed his concern about the decrease in the amount budgeted for materials in light of MTS's aging fleet, inflation, and recent decreases in the Miles Between Road Calls performance indicator. Mr. Cliff Telfer, Chief Financial Officer, reported that the reduction in materials is primarily the result of SDTC's successful preventive maintenance program, which has reduced the quantity of materials needed, and the consolidation of the purchasing function, which has led to the more efficient and cost effective purchase of those materials.

In response to a question from Mr. Monroe, Mr. Telfer stated that detailed information regarding the proposed additional positions was presented to the Budget Development Committee. In response to Mr. Monroe's request, Mr. Jablonski reviewed the justifications for the additional positions included in the budget. In response to another question from Mr. Monroe, Mr. Jablonski explained that, even though the Comprehensive Operational Analysis has been completed, continual monitoring and gathering of performance data is needed in order to refine that service, and additional staffing is needed to cover that function. He stated that gathering this data involves in-field work, which is one of MTS's biggest limitations. He stated that the efficiencies gained from doing this work should more than pay for the cost of the position. Mr. Conan Cheung, Director of Planning and Scheduling, reminded the Board that MTS now has an expanded service area to monitor with the incorporation of National City and contract services into the system. He stated that additional monitoring needs to be done weekdays, nights, and weekends, which his staff is currently doing in addition to their regular workweek schedules. He stated that service needs to be continually monitored in order to optimize the system.

Mr. Jablonski also reviewed changes that are being considered for consolidating the handling of complaints and for project management of projects being engineered by SANDAG.

In response to a question from Mr. Ewin, Mr. Jablonski explained that most issues with SANDAG have been resolved in terms of which functions are performed by which agency, and that MTS does not anticipate having to increase staffing every year. He stated that MTS continues to look for ways to make its current operation run more efficiently by consolidating functions between the three agencies. He stated that MTS also looks at functions that may be brought in-house or contracted out to a third party if deemed more cost effective to do so. Mr. Ewin stated that he would like to see the following information presented during the next Finance Workshop: Compensation costs (salaries, benefits, and cost to administer the program) and total cost by functional area, e.g. marketing, finance, etc. Mr. Rindone suggested that next year's budget include narrative justifications for each proposed new position. Mr. Jablonski stated that this information would be simple to include and added that staff members must justify these positions to him before they are included in the budget.

Mr. Rindone pointed out that the next Finance Workshop will be held May 10, 2007.

Public Comment

There was no Public Comment on this item.

Action Taken

Mr. Ewin moved to receive a report on the FY 2008 operating budget. Ms. Atkins seconded that motion, and the vote was 12 to 0 in favor.

Vice Chair Rindone turned the meeting back over to Chairman Mathis.

Board Meeting

4. a. Roll Call

Chairman Mathis called the meeting to order at 9:49 a.m. A roll call sheet listing Board member attendance is attached.

b. Approval of Minutes

Mr. Ewin moved to approve the minutes of the March 22, 2007, Board of Directors meeting. Mr. Emery seconded the motion, and the vote was 12 to 0 in favor.

c. Public Comment

Chuck Lungerhausen: Mr. Lungerhausen requested sponsorship donations for the 2007 MS Walk. He then asked the Board why he has not seen mixed consists on the trolley line in the last couple of weeks.

Clive Richard: Mr. Richard presented the GAO Report, Performance and Accountability, Transportation Challenges Facing Congress and the Department of Transportation Testimony Before the Subcommittee on Transportation, Committee on Appropriations, House of Representatives, and asked that it be made part of the record. He stated that this report discusses the challenges faced by transit in the coming years. He pointed out that the Highway Trust Fund is projected to have a \$14 billion deficit by 2012. He stated that other challenges discussed in the report include maintaining and improving mobility, aging infrastructure, transportation safety, human capital, transportation security, and emergency preparedness and response. He pointed out that many of the people who depend on public transportation could be stranded during an emergency.

CONSENT ITEMS

6. MTS: Investment Report (FIN 300, PC 50601)

Recommend that the Board of Directors receive this report for information.

7. MTS: Batteries for Automobiles and Buses – Contract Award (OPS 960.6, PC 50312)

Recommend that the Board of Directors authorize the CEO to award a contract to Broding's Battery Warehouse, Inc. (MTS Doc. No. B0481.0-07, in substantially the same form as Attachment A of the agenda item) for procurement of automotive and bus batteries.

8. MTS: Increased Authorization for Legal Services (LEG 491, PC 50633)

Recommend that the Board of Directors authorize the CEO to execute a contract amendment to MTS Doc. No. G1073.0-07 with the law firm of Butz Dunn DeSantis Bingham, APC for legal services, in substantially the same form as attached to the agenda item (Attachment A) and ratify a prior amendment entered into under the CEO's authority.

Recommended Consent Items

Ms. Atkins moved to approve Consent Agenda Item No. 6, 7, and 8. Mr. McLean 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 9:58 a.m.

- a. MTS: CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Pursuant to California Government Code Section 54956.9(a): Stella Reed v. MTS et al.
(San Diego Superior Court Case No. GIC 878186)

The Board reconvened to Open Session at 10:41 a.m.

Oral Report of Final Actions Taken in Closed Session

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

- a. The Board received a report from outside counsel. City of San Diego representatives were not present for the discussion of this item. The City of National City representative was absent.

NOTICED PUBLIC HEARINGS

There were no Noticed Public Hearings.

DISCUSSION ITEMS

30. MTS: Credit Agreement (FIN 300, PC 50601)

Mr. Tom Lynch, MTS Controller, explained that the proposed MTS credit agreement would establish a line of credit with which to finance working capital that is needed to cover expenses that arise prior to the receipt of subsidy revenues. He stated that operating expenses occur relatively evenly throughout the year, while funding is received primarily toward the end of the year. He reviewed the specifics of the credit agreement, including the term, interest rate, and fee. He reported that the agreement also includes an Unused Credit Facility Fee. Ms. Tiffany Lorenzen, MTS General Counsel, reported that the agreement itself, which is attached to the agenda item, is in semifinal form. She stated that MTS bond counsel is reviewing the agreement and will be providing MTS with advice on the terms and conditions of the agreement. Mr. Jablonski pointed out that the funding referenced by staff is the federal funding that is used for capital purposes and for the preventive maintenance program, both with ongoing monthly expenses. He reported that this is a more cost effective alternative than Revenue Anticipation Notes (RANs), which MTS previously used to address this timing issue.

Mr. Young agreed that this was a prudent step to take and asked how Bank of America was selected. Mr. Lynch stated that MTS currently has its bank accounts with Bank of America,

which was selected through a competitive bidding process three years ago. He reported that there are two years left on their contract with MTS. Mr. Young questioned Bank of America's commitment to the Community Reinvestment Act (CRA) and asked if staff had reviewed that element of the contract. Mr. Young suggested that, as the Board goes forward, it should look for information on how Bank of America is meeting its responsibility in this area. Mr. Roberts stated that Bank of America has a stellar record in this regard. Mr. Young reported that, during a recent analysis done by the City/County's Reinvestment Task Force, it was determined that there were other financial institutions with better records. Mr. Ewin suggested that, when the current contract expires and is rebid, the Board request that information on community reinvestment be provided by bidders. He also stated that many local banks don't have the type of services that MTS needs, and Bank of America community reinvestment statements are typically something to emulate. He requested that staff let him know as access to the line of credit is triggered and commended staff for identifying this alternative approach. Mr. Jablonski stated that the information requested by Mr. Ewin could be included in MTS's monthly investment report. Mr. Lynch reported that he expects MTS's balance would probably be in the \$2 million to \$3 million range with a high of \$10 million. Ms. Atkins agreed with Mr. Young's statements about the CRA.

In response to a question from Mr. Ewin, Mr. Lynch reported that there are no compensating balance requirements.

Action Taken

Ms. Atkins moved to approve Resolution No. 07-5 (in substantially the same form as Attachment A) authorizing the CEO to execute a credit agreement with Bank of America (in substantially the same form as Attachment B of the agenda item) for up to \$20 million. Mr. McLean seconded the motion, and the vote was 12 to 0 in favor.

31. MTS: Audit Review Process (ADM 110.7, PC 50101)

Chairman Mathis reported that the Executive Committee had a lengthy discussion about a potential audit review process. He summarized that discussion for the Board as follows: 1) An audit committee should be formally established, and the Executive Committee could assume that responsibility; (2) an audit committee would need to provide due diligence in the process but members do not need to be experts. Committee members need to have a basic understanding of governmental financial reporting and auditing; (3) a process for oversight should be established, and that process should be followed; (4) an appropriate level of professional skepticism should be used; and (5) the committee would present an annual report to the Board on how it discharged its duties. Chairman Mathis pointed out that, generally, the questions outlined in the letters attached to the agenda item reflect the types of things that would be reviewed as part of the oversight function. He further advised the Board that there is no legal requirement to carry out this function and some jurisdictions have elected not to. Mr. Mathis stated that the Executive Committee recommends that it assume responsibility as the Audit Oversight Committee (AOC), and that the AOC work with MTS's external auditor to set up a process. He stated that the Executive Committee would seek outside independent advice as needed using MTS procurement procedures.

In response to a question from Mr. Young, MTS's outside auditor, Mr. Gary Caporicci, Caporicci & Larson, stated that having the Executive Committee also serve as the AOC is acceptable

under general accepted accounting practices. Mr. Caporicci stated that many publicly held corporations have separate audit committees, but, in government agencies, it is common practice to combine functions within one committee. Ms. Lorenzen reviewed the duties of the Executive Committee for Mr. Young, which are set forth in Policy No. 22, Rules of Procedure for the MTS. Mr. Young questioned why MTS would not have a separate committee for audit oversight purposes. Mr. Mathis explained that the Executive Committee is already meeting as a representing body of the full Board and has traditionally conducted in-depth review of issues prior to review by the full Board. He added that trying to form an entirely separate committee with separate meetings presents administrative challenges. He stated that the Board has a standing committee with the necessary qualifications to handle the additional responsibilities of an audit oversight committee. Mr. Caporicci, in response to a question from Mr. Young, reported that such a structure would not increase accountability.

Ms. Atkins stated that she thought the Board was taking a proactive stance regarding this matter. She stated that many public agencies, although not required by the Sarbanes-Oxley Act of 2002, are starting to form audit committees. She added that whether or not a separate committee is formed, it doesn't negate the responsibility of the full board. She also reminded the Board that it will still have to receive the Comprehensive Annual Financial Report. Ms. Atkins also suggested that MTS move forward with a whistleblower policy. Mr. Young agreed that MTS should move forward with an AOC, but asked the Board to consider whether the Executive Committee should be given that responsibility. Mr. Ewin suggested that the Board proceed with the assignment of audit oversight responsibilities to the Executive Committee as well as the responsibility to create a structure for the AOC, which would be brought back to the Board. Mr. Ewin reminded the Board that MTS is doing this in preparation for the next audit year and it should move forward quickly. Mr. Faulconer suggested that the Board defer assignment of audit committee duties to the Executive Committee but go ahead with asking the Committee to develop the structure. He asked if MTS issues bonds, and Mr. Jablonski stated that MTS has bonded for rail cars, revenue anticipation notes, and pension obligation bonds. Mr. Emery questioned the practicality of forming a separate committee and stated that it may be difficult to find three to five individuals who are willing and have the time to serve in such a capacity and participate in separate meetings. He pointed out that the Board has five people in the Executive Committee who are willing to do so. Mr. Rindone pointed out that the Executive Committee would be able to bring in outside expertise to assist as needed and that this would not relieve the Board of its responsibility.

In response to a question from Mr. Monroe, Ms. Lorenzen stated that the two letters attached to the agenda item were incorrectly label as Closed Session. Mr. Monroe felt they should be handled as Closed Session items because they are considered Attorney-Client Privilege. Ms. Atkins stated that one of those letters, which was from the City of San Diego's attorney, was presented in open session at the City's audit committee meeting, which was an open session.

Public Comment

Clive Richard: Mr. Richard stated that he thought it would be difficult to get a quorum for a separate audit committee meeting. He stated that the Board already has a committee that spends a lot of time discussing MTS issues, and this would only be one more item for them to handle. He felt MTS should move forward.

Action Taken

Mr. Emery moved to (1) direct the Executive Committee to establish the guidelines and responsibilities of the Audit Oversight Committee based on recommendations from outside counsel and the external auditors and return to the Board with a recommendation, at which time a discussion will be held regarding the composition of the Committee itself. Mr. Young seconded the motion, and the vote was 12 to 0 in favor.

32. MTS: C Street Master Plan Update (ADM 124, PC 50451)

Mr. Brandon Farley, MTS Senior Transportation Planner, provided the Board with an overview of recent discussions regarding the C Street Master Plan. He reported that staff was recently involved in a meeting with the Centre City Development Corporation's (CCDC) C Street Master Plan Technical Advisory Committee, during which the concept of a downtown loop was introduced by the Downtown San Diego Partnership. He reviewed the four different C Street options as detailed in his Power Point presentation. As part of Option No. 1, he presented the Board with current day traffic-volume information as well as projections for 2030. He also presented information on MTS's inbound capacity and actual ridership as well as ridership projections for 2030. Mr. Farley briefly discussed the need for four-car trains and reviewed a list of stations that would need adjustments before they would be able to accommodate these trains.

Chairman Mathis advised the Board that Mayor Sanders has requested that MTS commission a study of the downtown loop proposal. He advised the Board that he felt that any study done by MTS would be viewed with skepticism since MTS is a stakeholder in the end result. He felt the study should be commissioned by CCDC. He stated that this message will be conveyed to the Mayor unless the Board disagrees. Mr. Jablonski stated that he is fairly certain about MTS's position on this alternative. Mr. Roberts requested that staff look into what is causing the dramatic increase in the traffic projections for 7th and 8th Avenues, while increases projected for 6th Avenue are minimal.

Public Comment

Chuck Lungerhausen: Mr. Lungerhausen referred to the recent newspaper article in which the concept of a downtown loop was introduced. He stated that this article did not indicate how MTS's additional costs would be funded. He also feels that relocating the trolley to the north side of C Street in order to provide traffic lanes for cars and trucks on the south side of the street is a step backwards for pedestrians in downtown. He stated that putting more vehicles on C Street is not the answer for downtown's future and the goal of using less fuel.

Clive Richard: Mr. Richard declined to speak.

Duncan McFetridge and Jana Clark, Save Our Forests and Ranchlands (SOFAR): Mr. McFetridge encouraged the Board to delay action on this matter. He stated that any action may infringe on the Settlement Agreement between his organization and the City of San Diego regarding the Downtown Community Plan. He stated that, under this settlement, SOFAR would conduct a study for state-of-the-art transit for downtown San Diego. He also stated that any action taken by the Board may preempt the Independent Transit Planning Review study being conducted by SANDAG. He asked how San Diego could have affordable housing without an

adequate transit structure. Ms. Clark presented information on land consumption with projected growth and data regarding transit-oriented communities.

Joy Sunyata: Ms. Sunyata thanked MTS for keeping its system in such excellent operation. She requested that auto traffic not be allowed on C Street.

Mr. Faulconer thanked MTS staff for their cooperation and professionalism on this project and requested that action on this issued be delayed until the May 10 Board meeting in order to allow time to get a recommendation on how the C Street Master Plan intersects with the Settlement Agreement. Mr. Roberts asked that staff extend a personal invitation to the Downtown Partnership for this meeting. Mr. Cheung stated that CCDC could also be invited to the meeting to present detail about the study. In response to a question from Mr. Monroe, Mr. McFetridge estimated that SOFAR's study should be completed in about six months. Mr. Faulconer stated that he would personally relate to the Mayor where MTS is in the process of addressing this issue.

In response to a question from Mr. Monroe, staff reported that running three-car trains on part of the route and two-car trains on the downtown portion would require additional operators and twice as many trolley cars. Chairman Mathis stated that, in addition, this would disrupt the current advantage that the Trolley has with regard to green lights at street corners.

Chairman Mathis asked if Board members had any objections to MTS continuing to support Option No. 1. No objections were expressed.

Action Taken

Mr. Faulconer moved to defer action on this item to the May 10, 2007, Board meeting. Mr. Ewin seconded the motion, and the vote was 10 to 0 in favor.

REPORT ITEMS

45. This number was not used.

46. MTS: Airport Transit Plan (SRTP 840.9.1, PC 50451)

This item was deferred.

60. Chairman's Report

Chairman Mathis referred to the History of San Diego Highway Development report at each Board member's place and stated that, for the first time, there is a section on MTS. He also displayed a recent article featuring Mr. Emery.

61. Chief Executive Officer's Report

Mr. Jablonski reported that several staff members, along with Mr. Roberts, traveled to Los Angeles Metropolitan Transit Authority to discuss and tour their joint development projects. He also reported that the April 19, 2007, Executive Committee meeting is being cancelled.

62. Board Member Communications

Ms. Lorenzen reported that the April 26, 2007, Board meeting will consist of five administrative hearings, and no other agenda items will be heard. She stated this will be an open meeting dedicated totally to the hearings.

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, April 26, 2007, at 9:00 a.m. in the same location.

65. Adjournment

Chairman Mathis adjourned the meeting at 12:14 p.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: A. Roll Call Sheet

gail.williams/minutes