

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

May 11, 2006

MTS
1255 Imperial Avenue, Suite 1000, San Diego

MINUTES

Finance Workshop – 8:00 a.m.

1. Roll Call

Chairman Mathis called the meeting to order at 8:17 a.m. A roll call sheet listing Board member attendance is attached.

2. MTS: FY 2007 Budget Development (FIN 310.1, PC 50601)

Mr. Larry Marinesi, MTS Budget Manager, provided a recap of budget activities and presentations to the Board to date. He reported on the fuel assumption approved by the Board and its impact on the FY 2007 budget. He also reviewed how the implementation of the service changes approved under the Comprehensive Operational Analysis (COA) will impact the budget. He reported that staff projects \$719,000 in savings for FY 2007 as a result of the COA with full savings being realized in FY 2008. He added that the \$719,000 will be moved into MTS's FY 2008 capital project. Mr. Marinesi also reviewed the Combined Budget Revenue/Expense Schedule and reported that revenues (operating and nonoperating) are projected to exceed expenses by \$2,019,000 for FY 2007.

Mr. Marinesi also reviewed the recommended structure for the FY 2007 Performance Incentive Program (PIP). He stated that the Plan provides the CEO with the flexibility to award the bonus pool in a way that recognizes the contributions made by divisions or departments toward the three basic goals of the program – increases in revenues, savings in expenses (excluding energy), and the meeting of COA performance goals.

Mr. Ewin objected to the structure of the budget portion of the program. He felt that increasing revenues and decreasing expenses should be approached from a net-effect standpoint to encourage staff's pursuit of both goals and to prevent using an increase in expenditures to facilitate an increase in revenues. In response to a question from Mr. Ewin, Mr. Cliff Telfer, MTS Acting Chief Financial Officer, reported that staff is currently looking into hedging arrangements for fuel and pointed out that only 20 percent of MTS's current fleet uses diesel fuel. He added that, if fuel costs exceed budget, staff could cover that cost by recapturing the COA savings transferred into capital. In response to another question from Mr. Ewin, Mr. Marinesi explained that traction power for the trolley is projected at 14.5 cents per kilowatt hour. He added that this rate has been relatively stable and was agreed upon after discussions with utility companies. Mr. Tereschuck stated that utility companies do anticipate a rate increase, and that rate increase was taken into consideration in the development of this projection.

In response to a question from Mr. Monroe, Mr. Conan Cheung, MTS Director of Planning and Performance Monitoring, reviewed how COA service changes would be phased in and confirmed that all route changes being implemented were approved by the Board during the COA.

Mr. Monroe stated that PIP awards should be given for specific performance measures such as miles between road calls, accidents per 1,000 miles, etc. He felt that if budgeting is correctly done, there would be little opportunity for reducing expenses or increasing revenues compared to budgeted amounts. He stated that the revenue and expense goals were not quality-oriented theory. He also stated that MTS should be more project-management oriented, not financial-management oriented. He cited, as an example, a company that trains their operators to drive in a more fuel efficient manner and, as a result, experiences savings in fuel expense.

Mr. Roberts stated his support for using revenue and expense goals and giving the CEO the flexibility to make awards based on the level of contribution towards reaching those goals. He added that the restructured program does not preclude the CEO from making specific bonuses for specific achievements. He added that he would support a net-effect approach. Mr. Mathis expressed his support of this concept. He stated that the objective is to free up funds that can be used to reward employees. Mr. Roberts asked that staff consider a net-effect approach. Mr. Roberts also stated that MTS could consider Mr. Monroe's suggestions for next year's PIP program. Mr. Monroe volunteered to sit on a committee to develop the PIP. Mr. Roberts offered to elect him to such a committee.

Mr. Ewin expressed concern regarding MTS's ability to recapture COA savings that are transferred into the capital program, specifically getting SANDAG support of such an action. Mr. Mathis felt that SANDAG would not want to micromanagement the budget and that MTS can function independently within the confines of its budget.

Mr. Tereschuck, SDTI President-General Manager, assured the Board that the PIP as presented to the Board does not exclude supplemental goals within the organization. He stated that Mr. Jablonski, MTS CEO, constantly challenges the staff to come up with a range of goals to improve the company's performance in all areas. He pointed out that the achievement of these goals directly translates into budget savings. Mr. Emery stated that he would be interested in hearing about these more specific measurements and also stressed that the ultimate goal is to leave the COA savings in the 2007 capital program, which is currently so short of funds. Mr. Ewin requested that staff share with the Board specific strategies and goals for achieving budget and meeting performance objectives.

Action Taken

Mr. Roberts moved to receive a report on the MTS fiscal year 2007 operating budget and approve the following budgetary assumption for the fiscal year 2007: (1) a funding shift of any Comprehensive operational Analysis savings to the FY 2008 Capital Improvement Program with the understanding that, in an emergency, these funds can be recaptured to cover operating costs; and (2) bring Approval of the Performance Incentive Plan back to the Board after consideration is given to Board member comments regarding a net-effect approach to the revenue and expense goals and providing additional information on the performance standards that will be used to achieve the budget objectives. Mr. Ewin seconded that motion, and the vote was 12 to 0 in favor.

3. Public Comment

There was no Public Comment.

Board Meeting – 9:00 a.m.

4. a. Roll Call

Chairman Mathis called the meeting to order at 9:10 a.m. A roll call sheet listing Board member attendance is attached.

b. Approval of Minutes

Mr. Clabby moved to approve the minutes of the April 27, 2006, Board of Directors meeting. Ms. Atkins seconded the motion, and the vote was 12 to 0 in favor.

c. Public Comment

Don Stillwell: Mr. Stillwell presented data that he had gathered demonstrating that 15-minute frequency is not needed on Route No. 13. He suggested using Grossmont Trolley Station instead.

Clive Richard: Mr. Richard objected to banning smoking at bus and trolley stops, but suggested that, if it is deemed necessary to do, initiate a ban within 20 feet of the stop. He stated that SDSU has such a ban within 20 feet of entrances of buildings. Mr. Richard also stated that he experienced a prolonged trip on the trolley because of a door malfunction that caused a delay in the schedule. He wondered if this was a sign of the times and stated that minor problems can have major consequences. He stated that the Board needs to find funding to maintain infrastructure.

CONSENT ITEMS

6. MTS: Increased Authorization for Legal Fees for the San Ysidro Intermodal Transportation Center (CIP 10453.6)

Recommend that the Board of Directors ratify previous actions of the CEO and authorize the CEO to enter into Contract Amendment No. 6 to MTS Document No. L0602.0-02, in substantially the same form as Attachment A of the agenda item, with Best Best & Krieger LLP for legal services for the San Ysidro Intermodal Transportation Center Project.

Recommended Consent Items

Mr. Ewin moved to approve Consent Agenda Item No. 6. Mr. Rindone seconded the motion, and the vote was 13 to 0 in favor.

CLOSED SESSION:

24. Closed Session Items (ADM 122)

The Board convened to Closed Session at 9:17 a.m.

- a. MTS: CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION Pursuant to Subdivision (a) of California Government Code Section 54956.9: OPM, Inc. v. MTDB, et. al., (Superior Court Case No. GIS 80671)
- b. MTS: CONFERENCE WITH REAL PROPERTY NEGOTIATORS Pursuant to Government Code Section 54956.8
Property: Right-of-Way Adjacent to Grossmont Center Station Parking Lot at the intersection of Grossmont Center Drive and Fletcher Parkway
Agency Negotiators: R. Martin Bohl, Paul Jablonski, Tim Allison, Tiffany Lorenzen, and Jerry Trimble
Negotiating Parties: Fairfield Residential, LLC, JP Morgan Chase Bank, and Mass Mutual
Under Negotiation: Instructions to Negotiators will Include Price and Terms of Payment
- c. MTS: CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION
Significant Exposure to Litigation Pursuant to Subdivision (b) of California Government Code Section 54956.9: (One Potential Case)

The Board reconvened to Open Session at 10:29 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.
- b. This item was continued.
- c. The Board received a report and gave direction to General Counsel.

NOTICED PUBLIC HEARINGS

There were no Noticed Public Hearings.

DISCUSSION ITEMS

30. MTS: Update on the Status of the Grossmont Trolley Station Joint Development Project
(LEG 460, PC 50787)

Ms. Tiffany Lorenzen, MTS General Counsel, provided the Board with an update on this project. She reported that the final versions of the Disposition and Development Agreement (DDA) and Ground Lease were provided to Fairfield and its lenders on Friday, April 28, 2006. She reported that the lenders reviewed the documents and submitted a list of issues to be resolved. She stated that staff and outside counsel spent four hours discussing the 40 items listed in their 19-page memorandum. She added that there are five to ten issues that remain, which will be discussed during a conference call tomorrow. She felt that two or three of the issues are still outstanding because the lender's attorney is based in Texas and is unfamiliar with California practices in this regard. She reported that the attorney will be consulting with their law office in California. Mr. Wesley Espinoza, Fairfield Residential, LLC, agreed with Ms. Lorenzen's assessment and added that it is very important to be careful in resolving these issues as all parties will be operating under the provisions of the Ground Lease for 99 years. He stated that he appreciated everyone's patience.

Mr. Ewin requested that the Tasks Remaining Checklist show each task for each party and that each task be checked off as the paperwork is finalized to complete that task. Ms. Lorenzen advised the Board that she has received verbal approval from the property owner to do the necessary soil borings. She stated that the soil borings are necessary before decisions can be made regarding the pedestrian landing bridge. She stated that neither of these two items affect the closing of escrow or the start of construction. She further reported that there are a few issues left to resolve related to the parking license.

In response to a question from Mr. Monroe, Ms. Lorenzen reported that work on the purchase and sales agreement with the City of La Mesa has been put aside until work on the DDA and Ground Lease has been completed. She added that legal counsel for the redevelopment agency has provided MTS with comments. She added that MTS has already discussed issues raised by the City of La Mesa regarding the DDA and Ground Lease, and the appropriate changes have been made to these documents as a result of those discussions.

Public Comment

Clive Richard: Mr. Richard suggested that MTS enter into a covenant rather than just promising to refrain from discrimination in connection with this project. Ms. Lorenzen responded that all discrimination matters are governed by state and federal law.

Action Taken

Mr. Emery moved to (1) receive an update from General Counsel regarding the status of the Grossmont Trolley Station Joint Development Project. Ms. Atkins seconded the motion, and the vote was 13 to 0 in favor.

REPORT ITEMS

45. MTS: Operations Budget Status Report for March 2006 (FIN 310.1, PC 50601)

Mr. Tom Lynch, MTS Controller, provided a financial review through March 2006. He reviewed the Total Combined Net Operating Subsidy Variance and revenues and costs compared to budget.

Action Taken

Mr. Rindone moved to receive the MTS Operations Budget Status Report for March 2006. Ms. Atkins seconded the motion, and the vote was 13 to 0 in favor.

60. Chairman's Report

There was no Chairman's Report.

61. Chief Executive Officer's Report

Green Line Survey: Mr. Tereschuck advised Board members that final SANDAG Service Bureau Green Line Trolley Survey Reports were on the table behind his seat and available for any Board member desiring to have a copy. He indicated that copies made available on previous occasions were draft copies.

62. Board Member Communications

Brown Act: Ms. Lorenzen reported that she could provide, at request by each Board member, a booklet detailing the 2006 Brown Act. She stated that these books are being provided to MTS by outside counsel.

63. Additional Public Comments on Items Not on the Agenda

Judith MacLeod: Ms. MacLeod stated that she has been riding buses for 30 years. She objected to riders being instructed to take taxis when bus services do not meet their needs. She pointed out that riders are typically on fixed incomes. She also stated that televisions on buses distract passengers. She added that, if the televisions are mounted on the right-hand side of the bus, they block a rider's view and ability to identify where to disembark the bus. She added that they also add to noise pollution on the bus. She briefly described how passengers are impacted if they miss their "last" bus.

64. Next Meeting Date

The next regularly scheduled Board meeting is Thursday, May 25, 2006, at 9:00 a.m. in the same location.

65. Adjournment

Chairman Mathis adjourned the meeting at 10:49 a.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