MINUTES

Special Board Meeting
Board of Directors
(BUDGET WORKSHOP)

One Gateway Plaza
3rd Floor Board Room

Called to Order at 9:55 a.m.

Directors Present:

Gloria Molina, Chair
Pam O'Connor, 1st Vice Chair
Antonio Villaraigosa, 2nd Vice Chair
Yvonne B. Burke
John Fasana
David Fleming
Richard Katz
Don Knabe
Bonnie Lowenthal
Ara J. Najarian
Bernard Parks
Zev Yaroslavsky

Officers

Roger Snoble, Chief Executive Officer
Michele Jackson, Board Secretary
Karen Gorman, Ethics Officer
William Waters, Inspector General
County Counsel, General Counsel

1. RECEIVED the **Fiscal Year 2008 proposed budget** for review and consideration.

CEO Roger Snoble, referring to Line 442, said staff continues to address issues of safety, lighting and cleanliness. He offered Metro Rapid Express Line 940, Metro Rapid Lines 710 and 740, Metro Local Lines 40, 115, and 315 and Harbor Transitway Lines 456, 447 and 550 as viable alternatives. Directors Parks and Fleming said they considered the issue unresolved and directed staff to agendize a discussion about the cancellation of Line 442 for the June Operations Committee meeting.

Directors Najarian and Villaraigosa both suggested including in the criteria intangibles such as safety when decisions regarding service changes are being made by Sector Councils.

Mr. Snoble commented that the proposed budget allows Metro to continue on the path to solvency while adding service hours and capacity. He said upgrades to the computerized schedule program and implementation of future phases of Metro Connections would help staff find ways to speed up the system. He noted that the FY 2008 budget still relies on one-time revenues from reserve funds and further deferring capital needs for another year. Metro will live in 2008 on a level of funding nearly identical to the FY 2007 budget and administrative costs will actually be lower.

Executive Officer Michelle Caldwell and Chief Financial Services Officer Terry Matsumoto presented the $3.1 billion budget, which is $85 million less than the 2005 budget. In the FY 2008 budget, local return revenues for municipal operators are up 4%; construction costs increased, and bus and rail operating costs increased only 2.7% despite a 3.5% wage increase. The FY 2008 budget will cover the purchase of 95 additional articulated buses, provide funds for the bus mid-life rebuild program; allow for implementation of 5 new Metro Rapid lines in December 2007; add 17,000 revenue service hours to the Orange Line; and provide for implementing new Transit Access Pass (TAP) operations and a CNG fuel price hedging program.

Mr. Snoble noted that maintenance is still a major risk area as the appropriate number of mechanics has not been added for the upcoming year. He announced good news on the operator side: vacancies for operators have been reduced from 300 last fiscal year to 35 for upcoming fiscal year.

Directors Lowenthal and Burke submitted a motion directing Operations and Budget staff to come up with a plan to fund additional Operations support staff at the level of $4.5 million; to return with recommendations at the June 20 Finance and Budget Committee meeting; and to demonstrate from where within the proposed budget, excluding Operations, the funds are being derived. Director Najarian amended the motion to direct staff to provide a list of support departments charging against core funding budgets (i.e. Planning, Construction and Operations).

Director Villaraigosa suggested using spillover funds to lower the adopted fare increase. He directed staff to look at the uses proposed for spillover funds received and said he wanted to see those funds directed to bus operations. He said that even if any received spillover funds did not impact FY 2008, he wanted to see some options from staff to reduce fare increases in upcoming years.

Mr. Snoble mentioned Metro is lobbying for legislation that might provide a longer term solution, such as fixing Prop 42. He also noted that this year spillover funds are being used for operating.

Director Villaraigosa asked which projects in the capital program were being funded with bond revenues. Chief Planning Officer Carol Inge responded that the Eastside Light Rail Extension, Exposition Light Rail, Bauchet Street Warehouse and heavy railcar refurbishment program all received bond financing. Director Villaraigosa asked how likely it is that the CNG tax credit bill will be extended. He also asked staff to report back on the appropriate mix of cash and debt use.

Chief Financial Services Officer Terry Matsumoto said the CNG tax credit program began in October 2006 and will end in December 2009. He said Metro has received $1.7 million per month of fuel credits for the first 9 months of 2007, totaling about $15 million, and that he anticipated Metro earning $20 million for 2008.

David Fleming inquired about the debt policy and what Metro considers a permissible level of debt-to-spending ratio. Mr. Snoble responded that Metro carried a debt spending level of about 6 to 8 percent. Mr. Matsumoto explained that every category of sales tax revenue has a limit of how much can be used for borrowing. He then added that the program going forward is heavily dependent on debt for the highway area. He ended by saying that Metro is using debt financing at about half of the Board-approved borrowing capacity. Mr. Snoble noted that borrowing is used for longer term projects. Director Yaroslavsky commented on the fact that the agency was teetering on the brink of bankruptcy in the mid-1990s when the second largest line item in the budget was debt service.

Mr. Matsumoto added that the Proposition C bond allows up to 40 percent of discretionary funds for debt service.

He said we are currently using approximately 20 percent. Metro has approximately $200 million invested in the Metro Gold Line and that Metro still owes at least 2/3 of that plus interest.

Director Burke expressed concern about the length of time that buses are financed and increasing age of the bus fleet. More focus should be placed on continually maintaining buses.

Director Parks, referring to the $240 million allocated for construction projects, asked for a breakdown of new, existing, and/or on-going construction and renovation projects. Ms. Caldwell said that the projects are listed on page 24 of the Budget Book. Director Parks asked if it is possible to include the deficiencies that would result if new projects were deferred. Ms. Caldwell responded that staff can provide this information. Director Parks requested a report on debt service, policy for each fund, and the amount of the existing debt. He inquired about the debt policy per revenue stream and whether it would be better to have an overall percentage of debt instead of by revenue stream. Mr. Matsumoto stated that Prop A 35% can only be used for rail. It has the highest debt policy limit because it is intended for construction purposes. Others have low components. Prop A 40% has no new debt. Ten percent of this year's budget is for debt service. Director Parks questioned buying a portion of the fleet with cash and a portion with debt. Mr. Matsumoto stated that in regards to the portion of the current bus buy that was approved in April, it would cost 50% of the purchase cost on 20% cash funding, balance paid by grant, based on a 12-13 year debt which matches the life of the asset. Director Parks also asked about whether building facilities that house the buses is a better use of debt financing versus spending cash. Mr. Matsumoto stated that the agency debt finances various facilities activities such as the Bauchet Street facility across the street. Director Parks requested a report back on the use of debt financing for major facility renovations.

Director Parks also requested more information on the fuel price hedging issue and possible liability. He asked if there is a new contract pending for Security, and if it is part of this year's budget. Carolyn Flowers, Interim Chief Operations Officer, stated that staff will be working on the new procurement for Security during late summer, and it will be considered by the Board in early fall. Director Parks asked about reserves, including how it is drawn down and whether the Board has access to it. Mr. Matsumoto explained that it is not part of the current appropriation request. Accessing the reserves will require a Board action.

He added that reserves are funds that will be programmed for future transit investments. Board policy calls for a 5% operating reserve. Before this budget was released, staff had intended that the CNG money the agency is receiving on a one-time basis for the next three years would begin to fund that reserve.

Director Parks asked about the amount being spent on consulting. Ms. Caldwell directed him to page 38, line 26 of the Budget Book, noting that the professional services category includes right of way landscape maintenance, elevator/escalator maintenance, among other categories, not just consultants. Director Parks requested a breakdown of the consultants.

Director Parks inquired about the increase in Public Liability/Property Damage on page 13 of the staff presentation.

Mr. Matsumoto responded that this includes general liability for bus accidents and other incidents. Results of bus accidents that may have occurred several years ago may be reflected in the current estimate.

Director Parks asked if pending litigation would impact the budget. Charles Safer, County Counsel, responded that pending litigation would not impact the budget this fiscal year.

Director Fasana stated that the biggest problem is how we come out of gridlock. The agency should not just be looking at the bottom 25 bus lines. Staff needs to look for additional revenues such as tolling. Mr. Snoble stated that staff could come back with some proposals regarding tolling.

Director Yaroslavsky mentioned a grant for which the agency was not able to successfully complete. He noted a possible connection between the agency's failure to receive the grant and the controversial issue of congestion pricing. Mr. Snoble said staff was aware of the grant but the agency does not have any existing plan in the region for tolling. The cities being considered have tolling facilities. Ms. Inge stated that Federal officials noted that the tolling aspect of the agency's grant application needed greater emphasis. Director Yaroslavsky wants to have a meeting to discuss these types of issues. Director Molina said she would work with Mr. Snoble to set something up. Mr. Snoble feels the long range plan discussion would be a good time to bring this up.

Director Parks indicated that Expo bids are coming in 20-30% higher than anticipated. If this continues, it might be necessary to shorten the line.
The Fire Department has expressed concern about space and the number of exits in the tunnel at 7th street.

Director Molina inquired about the value of having additional warranty checkers. This would help the agency recover some of its money as many of the products it uses include warranties. Ms. Caldwell indicated that one additional warranty checker has been included in the budget.

Director Yaroslavsky, referencing a recent Board action on fares, asked for a pilot program on the platforms. Mr. Snoble said staff is having a meeting on that issue this week, and intends to create a program.

2. RECEIVED Public comment.

ADJOURNED at 12:07 p.m.

Prepared by:

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Michele Jackson, Metro Board Secretary

Los Angeles County Metropolitan Transportation Authority

Metro

RECAP OF PROCEEDINGS

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

SPECIAL BOARD MEETING

WEDNESDAY, JUNE 13, 2007

			DIRECTORS VOTING													
ATTENDANCE			A	P	P	P	P	P	P	P	P	P	P	P	P	A
ITEM NO.	SUBJECT ITEM	ACTION TAKEN	ANTONOVICH	LOWENTHAL	FASANA	FLEMING	BURKE	VILLARAIGOSA	MOLINA (CHAIR)	O'CONNOR	YAROSLAVSKY	KATZ	KNABE	PARKS	NAJARIAN	FAILING
1	RECEIVE THE FISCAL YEAR 2008 PROPOSED BUDGET FOR REVIEW AND CONSIDERATION.	RECEIVED	A	A	P	P	P	A	P	P	P	A	A	P	A	
1	BURKE/LOWENTHAL MOTION THAT THE MTA BOARD INSTRUCT THE CEO TO DIRECT OPERATIONS AND BUDGET STAFF: *TO COME UP WITH $4.5 MILLION TO FUND ADDITIONAL OPERATIONS SUPPORT STAFF; *RETURN TO THE BOARD BY JUNE 20TH WITH THEIR RECOMMENDATIONS; AND *DEMONSTRATE WHERE WITHIN THE PROPOSED MTA BUDGET (EXCLUDING THE OPERATIONS PORTION) THE FUNDS ARE BEING DERIVED.	MOTION WAS SUBMITTED AND AMENDED BY NAJARIAN THAT STAFF PROVIDE THE BOARD WITH A LIST OF SUPPORT DEPARTMENTS CHARGING AGAINST CORE FUNDING BUDGETS	A	A	P	P	P	A	P	P	P	A	A	P	A	
2	PUBLIC COMMENT.	RECEIVED	A	P	P	P	A	P	P	P	A	P	A	P	P	

LEGEND: Y-YES, N-NO, C-CONFLICT, AB-ABSTAIN, P-PRESENT, A-ABSENT