

**SAN MATEO COUNTY TRANSIT DISTRICT
1250 SAN CARLOS AVENUE, SAN CARLOS, CALIFORNIA**

**MINUTES OF BOARD OF DIRECTORS SPECIAL MEETING
MARCH 24, 2011**

Board Members Present: O. Ahmad, J. Deal, R. Guilbault, S. Harris, A. Lloyd, K. Matsumoto (Chair), A. Tissier

Board Members Absent: C. Groom, Z. Kersteen-Tucker

Staff Present: J. Cassman, G. Harrington, C. Harvey, R. Haskin, R. Lake, M. Martinez, N. McKenna, D. Miller, M. Scanlon, M. Simon

Chair Karyl Matsumoto called the meeting to order at 1:15 p.m.

Deputy CEO Gigi Harrington presented the following information concerning the San Mateo County Transit District's (District) financial outlook and its impact on District funding to Caltrain operations:

- The District has been facing a continuing structural deficit as Federal, State and local sources of funding have dwindled.
- District staff has been working with the Strategic Plan/Financial Capacity Ad Hoc Committee since 2006 to develop measures to address the structural deficit.
- Since the discussions in 2006, the District has addressed the structural deficit with the following actions: refinanced the District's debt, negotiated an end to the District's operations partnership with BART for the Peninsula extension, service reductions, administrative layoffs, hiring and salary freezes, furlough days, fare increases and a reduction in the District's contribution to the Caltrain operating budget.
- SamTrams preliminary FY2012 Operating Budget assumptions include:
 - Wages and salaries to remain at current year levels.
 - Benefit costs reduced slightly and assume some concessions from employees.
 - Diesel fuel is \$3.00 per gallon, unchanged from FY2011.
 - General sales tax revenues increase by \$1.5 million from FY2011 to FY2012.
 - Transportation Development Act increase by \$3.3 million from FY2011.
 - No fixed-route fare or service changes for FY2012; paratransit fare increase planned for July 1, 2011.
 - SamTrans contribution to the Peninsula Corridor Joint Powers Board (JPB) is \$4.9 million.
- Based on these assumptions, the preliminary FY2012 revenues are projected at \$138.1 million and preliminary operating expenses are projected at \$121.8 million. The debt service requirement for FY2012 is \$24.5 million; \$10.9 million in reserves will have to be used to balance the budget.
- With this budget, it is projected the District will run out of cash reserves in August 2015.
- If the contribution to Caltrain in FY2012 remains the same as previous year's, cash reserves would be gone by April 2014.

Director Omar Ahmad asked what the total BART debt is. Ms. Harrington said about \$200-240 million is debt service and about half of this debt is for BART, but would provide him with the exact number.

Director Ahmad asked how much the District put out for the JPB partners for the right of way. Ms. Harrington said the amount that is owed the District is based on the agreement between the Metropolitan Transportation Commission (MTC) and the three partners is \$48 million, but more than that was paid.

General Manager/CEO Michael Scanlon said the original amount owed by the Santa Clara Valley Transportation Authority (VTA) was \$34.6 million and San Francisco Municipal Transportation Authority (SFMTA) was \$8.3 million. He said the agreement to advance the funds included "best efforts" to pay these monies back with compounded interest at the same rate as the District's portfolio. Mr. Scanlon said, as of 2006, with interest, VTA owes the District \$76 million and SFMTA owes \$18 million.

Mr. Scanlon said a deal was put together a few years ago to pay back these funds with spillover funds and in the interest of reaching a settlement the interest being paid was negotiated down from a compounded rate to a simple rate that ended up being 1.5 percent per year. Mr. Scanlon said to-date MTC has paid \$6 million; VTA has paid \$800,000 and nothing has been received from SFMTA.

Director Ahmad said about \$35 million was what the District put forward for the VTA share and about \$8.5 million was put forward by the District for SFMTA's share. He said looking at the numbers today the District is probably owed about \$100 million.

Ms. Harrington continued with Caltrain's current fiscal status:

- In the early 2000s the economic downturn caused significant reduction in ridership and revenues.
- The service was reinvented between 2004 and 2005, which led to an increase in ridership and revenues.
- Funding for transit operations continues to be uncertain today.
- SamTrans' structural deficit resulted in a reduction in its member contributions to the JPB in FY2011.
- Staff proposes to continue its reduction in Caltrain operating funds to the level of \$4.9 million in FY2012.
- Caltrain's structural deficit will continue due to the lack of a dedicated and stable funding source.
- In order to balance the budget, Caltrain service was reduced in FY2010 and FY2011.
- In the past Caltrain has relied on one-time funds to balance its budget and this is no longer sustainable.
- The JPB is in the process of awarding a new contract for Caltrain operations and maintenance.
- Due to the reinvention of Caltrain service, average weekday ridership increased by 44 percent since 2004.
- Caltrain has a high farebox recovery compared with other local agencies.

- Caltrain's administrative staff costs are the lowest among all rail agencies.
- Member agencies provide operating contributions to the JPB according to the Joint Powers Agreement (JPA).
- The JPA states that each member subsidizes the operating budget based upon their county's morning peak hour boardings. In FY2006 the members agreed to an annual increase of 3 percent and since 2009 member contributions have been frozen.
- In FY2011 SamTrans proposed reducing its contribution and the member agencies adjusted their contributions accordingly.
- The FY2012 preliminary budget shows member contributions reduced from \$35 million to \$11.7 million.
- Caltrain has been working with stakeholders and the Board to discuss possible service scenarios.
- Caltrain's cost control and revenue measures include:
 - Operating with a lean staffing level as the staff is shared with two other agencies.
 - Administrative staff salaries have been frozen since 2008.
 - Administrative employees have been subjected to furlough days since 2008
 - In 2009 fares were increased, eight trains were eliminated, staff was laid off and there was a hiring freeze.
 - In 2011 fares were increased again, including the GO Pass and four more trains were eliminated.
- Criteria for operating reduced weekday service include:
 - Preserving commute-hour service, as well as service for the top 10 stations which account for 80 percent of the peak ridership.
 - Minimize ridership loss and maximize revenue retention.
 - Minimize the number of train crews and equipment required.
 - Maximize service to the most heavily used stations and suspend service to least-used stations.
 - Balance station coverage and end-to-end run time to 70 minutes.
 - The suspension of Gilroy service and closure of up to seven stations between San Jose and San Francisco.
 - Criteria for station closures is ridership and revenue; transit connections; and proximity to neighboring stations.
 - Fare and parking fee increases
 - Use \$7.1 million in SamTrans repayment funds from VTA
 - Use electrification funds
 - Re-direct Dumbarton Rail operating funds from MTC
 - Seek preventative maintenance funds
- Next steps include:
 - Continue discussions with member agencies, funding partners and MTC on funding options.
 - Continue work on service, fare and one-time source of funding plan for FY1012 and FY2013
 - Continue to work with stakeholders, including the Silicon Valley Leadership Group, MTC's Transit Sustainability Project and Friends of Caltrain, to develop long-term strategies for new revenue sources.

Director Jerry Deal asked about the money owed to SamTrans and are we just pretending they don't owe it. Mr. Scanlon said the parties engaged in a good faith agreement, but the revenue source disappeared, but MTC continues to pay SamTrans. He said VTA has stepped up to pay and SFMTA is going to try and put something in their budget this year to payback the funds. Mr. Scanlon said the District owns the right of way as tenants in common in San Mateo County. He said the right of way in the other counties is owned by the JPB, but the District has a security interest in the right of way.

Legal Counsel David Miller said the agreement reached among the member agencies in 1990 was to pay the District back for the advance that was made and that is why a security interest was taken and there is a binding commitment.

Director Shirley Harris asked if the \$7.1 million is a good faith payment by VTA. Mr. Scanlon said yes but with a string attached that the repaid funds be allocated only to Caltrain. Mr. Scanlon said the financial problem with SamTrans is creating the Caltrain problem and at this point all three agencies are on a similar course.

Ms. Harrington continued with staff's recommendations for the near-term:

- Recommend reducing the District's FY2012 contribution to Caltrain to \$4.9 million.
- Continue to work with the JPB partners and MTC on near-term solutions to balance the Caltrain budget for FY2012 and FY2013.
- Explore possible solutions to contribute additional funding to Caltrain including:
 - A possible fund swap to provide additional capacity for the District to contribute funding to Caltrain.
 - Utilize a portion of the District's right of way repayment from VTA for Caltrain: \$2 million in FY2012 and \$3 million in FY2013.
- Continue to work with the Strategic Plan/Financial Capacity Ad Hoc Committee on monitoring the financial condition of the District.
- Explore cost containment strategies for delivery of paratransit services.
- Continue work on the Comprehensive Operating Analysis (COA).

Director Art Lloyd asked about the MTC funding proposal.

Mr. Scanlon said no agreement has been reached yet, but MTC and all three partners are very engaged in finding a solution to this crisis. Mr. Scanlon said the goal is to find a two-year window for short-term funding issue while a permanent, dedicated funding solution is found. That long-term effort could come forward in conjunction with MTC's Transit Sustainability Project where some pretty significant decisions will have to be made in calendar year 2012.

Director Ahmad said he would like to see a two-tier benefit system for employees and have some discussion at a future meeting about different tiers for employees and the funding costs. He said VTA can write a check to Caltrain, but from a SamTrans perspective it feels like it a bit of a shell game. Director Ahmad said if VTA wants to write a check and say it should go to Caltrain then it should. He said what SamTrans does is lifeline work and the money that comes here towards SamTrans is going to lifeline services. Director Ahmad said parts of the SamTrans budget are mandated but would like to see how much mandated spending has gone up. He asked if staff could go to BART and ask for a two year moratorium on the loan.

Mr. Scanlon said the District does not owe BART money. The District financed the money used for the BART extension and that is the District's debt service. Mr. Scanlon said the unfunded mandate is Americans with Disabilities Act (ADA) transportation which is a very important and expensive service that SamTrans provides.

Deputy CEO Chuck Harvey said ADA transportation is a federally mandated program which must have a zero denial rate. He said the projected operating revenues and expenses for FY2012 are \$14 million. In prior years, operating expenses were \$12.8 million in calendar year 2007, \$13.4 million in 2008, \$14.1 million in 2009 and \$13.5 million in 2010. He said costs have been driven down by efficiencies. Mr. Harvey said other unfunded mandates include designed fixed-route service which must comply with Title VI - Route 17, along the coast, is one of these routes.

Chair Matsumoto asked how much each paratransit trip costs. Mr. Scanlon said it is \$40 per trip. He said this service cannot be taken away from this very fragile population. Mr. Scanlon said these customers need to be treated with dignity and respect and all trips are eligible no matter where the customer is going.

Chair Matsumoto asked if fares can be set on a sliding scale. Mr. Harvey said the fares are approaching the federally allowed level of twice the regular fixed-route fare.

Mr. Scanlon said people with disabilities have been mainstreamed more with staff's travel training. He said the cost is tough but is a very important service.

Director Adrienne Tissier asked how staff is projecting \$4.9 million from SamTrans this year and next year for Caltrain. Mr. Scanlon said that is money that comes from the San Mateo County Transportation Authority and was approved by the voters. Director Tissier asked if the money has to be used for operating. Mr. Scanlon said staff would rather use the funds for capital but it is allocated for operating. Director Tissier asked if a dedicated source of funding is found can the \$4.9 million be used elsewhere and Mr. Scanlon said yes.

Director Tissier said she is concerned that reducing service too much runs the risk of reaching a point where it is damaged beyond repair. She said doesn't want to use electrification money to solve the financial crisis and may need to look at using the Dumbarton Rail funds. Director Tissier said people at MTC don't like the idea of using the Dumbarton Rail funds, but if Caltrain doesn't exist it won't be going over the Dumbarton Bridge. She said she wants to put the puzzle together without detriment to the Caltrain service and once too much is taken away from the model it is damaged.

Mr. Scanlon said it is cautiously encouraged by his discussions with MTC and the JPB partners, but there is going to have to be some service cuts to balance the budget.

Director Tissier asked when the contract for Amtrak will be solidified. Mr. Scanlon said staff is negotiating with proposers now and the new contract will go into effect the beginning of the 2012 calendar year.

Director Harris asked if part of the funding source could be private partnerships. Mr. Scanlon said private-public partnerships are great but with farebox recovery there are no profits and it is a financing technique and not a funding technique. He said they can be great help if you just need financing, but this is a funding issue.

Chair Matsumoto said she is a strong proponent of Caltrain but if this Board opts to save Caltrain what kind of fare increases and reduction in bus service will have to happen.

Mr. Scanlon said what is important to come out of this meeting today is a decision from the Board of whether to go with \$2 million for the first year and \$3 million for the second year. He said to put the jigsaw puzzle together he needs direction from the Board.

Ms. Harrington said the District will run out of cash reserves in August 2015 in a financial model that calls for no fare increase and no service adjustment in FY2012 and a fare increase built in every three years, wages being frozen and a \$4.9 million contribution to Caltrain. If right of way repayments for Caltrain are made in the amounts of \$2 million in 2012 and \$3 million in 2014 cash reserves will be gone by June 2015.

Chair Matsumoto said she supports electrification and Caltrain but everything is going to be a band-aid until there is a dedicated source of funding for Caltrain. She asked if staff is anticipating something will go to the ballot in the next two years that will provide permanent, dedicated funding.

Director Tissier said from the MTC standpoint they are only looking at this as a two-year deal and it is up to the Board, elected officials and the public to get this on the 2012 ballot otherwise there will be no funding for Caltrain. She said the Board needs to give Mr. Scanlon as many “tools” as possible to work through this with MTC, VTA and SFMTA and if it includes those dollars, so be it. Director Tissier said this Board can’t tie Mr. Scanlon’s hands because then this Board will be sending a message to MTC that we aren’t doing anything to help solve this issue. She said if the public and elected officials don’t get a ballot measure by 2012 Caltrain service will be gone.

Mr. Scanlon said long-term funding for transit is a problem over the nine county Bay Area and MTC’s Transit Sustainability Project is critical to addressing that issue, of which Caltrain and SamTrans are part. Work is required on many fronts and on many issues, from governance to what is the right revenue vehicle.

Director Harris asked if there is any money available from High Speed Rail (HSR). Mr. Scanlon He said if a robust signaling system and a significant portion of electrification is paid for it will cut Caltrain’s financial problem in half because the system will perform better and can carry more passengers.

Chair Matsumoto said funding for Positive Train Control (PTC) failed in Congress. Mr. Scanlon said out of the latest continuing resolution, \$50 million was taken out that was available nationally. Mr. Scanlon said PTC for Caltrain is embedded in the Communications Based Overlay Signal System. He said Caltrain has a bid out and will get about \$16 million from the Federal Railroad Administration (FRA) that will be matched locally to at least start the program.

Mr. Scanlon said this is a \$200 million unfunded mandate for Caltrain and more money is needed from HSR or FRA.

Mr. Scanlon said in addition to the recommendations staff has proposed, we want to continue exploring a more equitable funding formula among the Caltrain partners. He said one of the things VTA has put forward besides the \$7.1 million is looking at the morning boarding formula. ,VTA would stay about the same, the District would go down and SFMTA would go up. He said SFMTA may not like that, but these are all the things being discussed with MTC. Mr. Scanlon said there are a lot of people in San Francisco who work in Silicon Valley who don't ride in the morning peak. Secondly, staff would like to try and negotiate and get some credit back to SamTrans for being the managing agency. Mr. Scanlon said staff is not doing something for 5.9 percent that over at ACE costs 16.7 percent. He believes it is a more efficient way to run all of transit, but some of the expense, just by nature, bleeds into the mothership so he would like to try to get some consideration, even if it we don't put cash in and it is matched, something creative for being the managing agency for Caltrain.

Mr. Scanlon said the plain truth is SamTrans has been subsidizing Caltrain above and beyond what the other members have for a lot of years. He said in the existing agreement VTA was responsible for the fully allocated operating costs of the Gilroy extension and this is clearly something that has to be on the table as we try to resolve this issue.

Mr. Scanlon said he appreciates having the tools, but would like to know he has Board authorization to accept \$5 million of VTA's repayment funds over two years. He said staff's goal is to make a decision at the April JPB meeting to get the full year out of the efficiencies. People need to know what is going to happen with Caltrain and then start focusing on the structural deficit of SamTrans.

Director Ahmad said he appreciates the work being done for Caltrain, but he doesn't want to lose sight of the brick wall that is going to be hit in 2015.

Public Comment

Michael Engemann, Redwood City, said he is humbled by the work this Board is doing to save Caltrain. He would like to see the entire \$7.1 million from VTA be used to solve this problem. Mr. Engemann said he doesn't want the electrification funds to be taken away. He believes Mr. Scanlon needs to have as many tools as possible when he speaks with MTC.

Shirley Ingalls, Mountain View, said she has ridden Caltrain for 14 years. She said staff and the Board need to accept MTC's idea of how to solve the fiscal problem for the next two years so a dedicated funding can be found.

Laura Lorgenger, Community Gatepath, said people with disabilities like the train and depend on it to do things in their community.

William Syme, Burlingame, said if Caltrain service is taken away from downtown Burlingame, it will affect all growing technology tenants that rely on Caltrain for their commute.

Yoriko Kishimoto, Friends of Caltrain, said it would be great for SamTrans to complete the Comprehensive Operating Analysis. She said timing is a significant issue and staff and the Board need to give MTC enough time to work on a proposal. Ms. Kishimoto said the Board needs to build on the SamTrans Citizens Advisory Committee recommendation and do more outreach to the community.

Eileen Menter, Mountain View, said she hopes the money lent by SamTrans wasn't a mistake and VTA and SFMTA will be able to pay it back. She is also lobbying for the San Antonio station to remain open, especially now that gas prices are going up. Ms. Menter said she is appalled at how Caltrain is funded. There needs to be a dedicated funding source and she supports a ballot measure.

Pat Dixon, Redwood Shores, said with the exception of one person on this Board everyone has a job and the CAC is all volunteers. She suggested the Board members give their stipends back to SamTrans.

Michael Stogner, Burlingame, said he came today because the word emergency appeared on the agenda. He works as victim's advocate and doesn't see any emergency here in this room today. Mr. Stogner said he sees no urgency and if Caltrain service needs to be cut then bring it down to 20 trains and stop at every station and charge a \$1.00 per zone.

Mr. Scanlon said today's meeting was to discuss the financial emergency and this Board is working very hard to solve this crisis.

A motion (Ahmad/Lloyd) to allocate \$2 million of the VTA repayment funds to FY2012 and \$3 million to FY2013 to help fund Caltrain's operating expenses was approved unanimously.

Adjourned at 3:07 p.m.