

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
1250 SAN CARLOS AVENUE, SAN CARLOS, CA 94070**

**MINUTES
FEBRUARY 7, 2008**

MEMBERS PRESENT: M. Church, R. Foust (Chair), R. Gordon, J. Lee, K. Matsumoto, R. O'Mahony, J. Vreeland

MEMBERS ABSENT: None

STAFF PRESENT: G. Cameron, V. Harrington, C. Harvey, R. Haskin, J. Hurley, R. Lake, M. Martinez, I. McAvoy, N. McKenna, D. Miller, M. Scanlon, M. Simon

Chair Rosanne Foust called the meeting to order at 5:04 p.m. and Director Rosalie O'Mahony led the Pledge of Allegiance.

The Authority Secretary administered the Oath of Office to Karyl Matsumoto (representing SamTrans)

CONSENT CALENDAR

A motion (O'Mahony/Church) was passed to approve the consent calendar.

- a) Approval of Minutes of January 3, 2008
- b) Acceptance of Statement of Revenues and Expenses for December 2007

PUBLIC COMMENT

None

CITIZENS ADVISORY COMMITTEE (CAC) REPORT

Chair Pat Dixon reported the following:

- Director of Finance Trish Reavey reviewed details of TA agenda item 11 (a): Authorization to Appoint an Investment Advisor to Extend Advice on Portfolio Investments for the TA. The CAC recommended approval of this resolution.
- Details of the San Carlos transit oriented development were discussed.
- State budget shortfall issues were discussed relative to the TA.
- A Devil's Slide tunnel tour was requested.
- There is interest for a strategic plan orientation for newer members.
- Future presentations will include Caltrain 2025.
- Recruitment will begin in March for five CAC seats expiring on May 31 and one vacancy.

CHAIRPERSON'S REPORT

Chair Foust said the Redwood City Council will be rotating discussions at meetings to give a sense of details concerning their individual regional appointments. Chair Foust will be reporting on the TA, council member Barbara Pierce will report on the Congestion Mitigation and Air Quality Improvement Program and SamTrans Director Jim Hartnett will report on SamTrans.

SAMTRANS LIAISON REPORT

Chair Foust said the January 9 report was included in the agenda packet. Director Matsumoto made a correction noting that she was appointed, not sworn in, to the TA Board.

JOINT POWERS BOARD REPORT (JPB)

Executive Director Michael Scanlon reported on the February 7 JPB meeting:

- a. The Board:
 - Authorized to File Applications to the MTC to Program FTA Section 5307 and 5309 Funds in FY09.
 - Adopted the Caltrain Short Range Transit Plan (FY2008-2017).
 - Authorized Amending the Fiscal Year 2008 Operating Budget by \$1,878,491 for a New Total of \$89,956,069.
 - Authorized Appointment of an Investment Advisor to Extend Advice on Portfolio Investments for the JPB.
 - Authorized the Use of a Competitive Negotiation Procurement Process to Procure a Predictive Arrival/Departure System.
- b. Heard a report from MTC liaison Sue Lempert.
- c. Mr. Bruce Jenkins reported on the January CAC meeting.
- d. Performance Statistics for December 2007 compared to December 2006
 - Total Ridership was 853,402, an increase of 6.5 percent.
 - Average Weekday Ridership was 32,646, an increase of 6.3 percent.
 - Farebox Revenue was \$2,826,081, an increase of 14.8 percent.
 - On-time Performance was 95.1 percent, a decrease of 2.5 percent.
 - Caltrain Shuttle Ridership was 4,102, an increase of 8 percent.Year-to-Date Statistics:
 - Total Ridership was 5,868,492, an increase of 7.8 percent.
 - Average Weekday Ridership was 37,097, an increase of 7.5 percent.
 - Farebox Revenue was \$19,652,683, an increase of 15.8 percent.
 - On-time Performance was 93.5 percent, a decrease of 1.5 percent.
 - Caltrain Shuttle Ridership was 5,094, an increase of 7.8 percent.
- e. A Presidential Emergency Board was appointed to address Amtrak labor negotiation issues with various unions and a settlement is expected. The cost of business will increase due to the annual wage increases that will be compounded since the unions have been without a contract since 2000. The JPB and the MTC need to identify a permanent dedicated source of revenue to operate Caltrain.
- f. The 98-train schedule will be implemented on March 3, 2008.
- g. A free shuttle will take riders from the Belmont station to the Hillsdale station during peak commute hours. Parking will be free at the Belmont station.
- h. The December 2007 Safety and Security Report was distributed.
- i. Fuel costs for the first 31 weeks of FY2008 are 8 percent over budget. Fuel is budgeted at \$2.40 per gallon. An amendment for Board approval at this meeting will amend the operating budget with a projected average price of \$2.65 per gallon through June 2008.
- j. Chief Communications Officer Rita Haskin presented the Caltrain Customer Survey Key Findings.
- k. The Board adjourned to closed session and provided direction on two legal matters involving pending litigation and exposure to litigation.

Public Comment

Pat Giorni, Burlingame, said she spoke at today's JPB meeting about a staff report budget notation for a Caltrain bicycle master plan placing its cost at \$250,000 with a focus to increase, retain and attract riders and address station improvement, access and management of bicycle facilities. She said what was not stated is that the plan was tasked with finding alternatives that would encourage cyclists to not bring

their bikes onboard. In response to this, an ad hoc committee was formed to investigate current and future needs of bikes on cars. She said two significant items were not included in the Caltrain Customer Survey presented at this meeting: no results were given for the number of bikes carried onboard today and no numbers were given for how many passengers with bicycles are bumped because they cannot get on.

Mr. Scanlon said that at the Board's direction, Caltrain will be making a full report on the master bike plan. He said the number of onboard bikes is about 2,300 per day and this data is collected every year in the February counts. There are also approximately 800 additional bikes that are stored at various stations. Mr. Scanlon said the staff has information on the numbers of bicyclists who are bumped.

REPORT OF THE EXECUTIVE DIRECTOR

Mr. Scanlon said Chief Development Officer Ian McAvoy would discuss the footprint studies, the hydrogen fuel shuttle and the Holly Street transit oriented development (TOD).

- a. Grade Separation footprint Study:
 - TA and Caltrain staffs are working with city councils and public work staffs.
 - Presentations have been given to the cities of Burlingame and Menlo Park. San Mateo's Planning Commission and City Council will have a presentation on February 12. Staff will be meeting again with Redwood City on the footprint analysis.
 - Future studies will be done for the downtown area of San Mateo, and from downtown Burlingame to the San Mateo border.
 - Final technical information and issues of concern from the cities and the JPB will be brought to the Board including community impact, cost, alternatives and prioritization.
 - Next steps involve preliminary engineering as the project moves towards the environmental process.
- b. Director O'Mahony will be representing the TA at the hydrogen shuttle ribbon cutting in East Palo Alto. The TA provided funding towards this project. The TA real estate and planning staff are involved in the planning side of the Holly Street TOD and have a vested role in terms of the previous grade separations and draft strategic planning exercise.

Chair Foust asked when the strategic planning process for reauthorization will pull together a subcommittee and go back out for public meetings. Mr. McAvoy said staff is working with a subset of three city managers, and issues have been delegated to public works directors. Issues will be brought back to the strategic plan subcommittee and then brought to the Board on some of the financing issues associated with the strategic plan as the TA moves from the role of banker to builder. After the public outreach process, the plan will be brought to the TA board for adoption in late spring or early summer.

Director John Lee asked when staff will be taking the plan on the road. Mr. McAvoy said the time frame is March to April.

Director O'Mahony congratulated Mr. McAvoy and Director of TA Programs Joe Hurley for their time and patience in learning what is needed in the cities. She would like to see a resolution to funding, not only for the 35 percent for mainline projects, but also for such things as overpasses.

Mr. McAvoy said the California Transportation Commission (CTC) is meeting at the Burlingame Hyatt next week. The TA is hosting the event with the assistance of Chair Foust.

Director O'Mahony said the governor had a recent meeting on public/private partnerships for infrastructure and public projects and she was told that the CTC would be ready to look at supporting funding for grade separations. Mr. Scanlon said the CTC is promoting public/private partnerships but has not heard of support for funding. He said the partnerships are an important role in the future of infrastructure investment in this county. Chair Foust said one of the breakout sessions at this year's annual progress seminar in Monterey will be on public/private partnerships.

FINANCE

Authorization to Support an Investment Advisor to Extend Advice on Portfolio Investments for the Transportation Authority.

Chief Financial Officer, Gigi Harrington, said the item to consider taking an action to possibly append onto an existing SamTrans relationship, which is for the services of an investment advisor Epic Wealth Management (EWM) that SamTrans utilizes for management of the SamTrans portfolio. The SamTrans Board will consider next week whether to extend the relationship with this investment advisor for another three years with two one-year options. This investment advisor has been with the SamTrans Board for about 16 years. Should the Board approve the authorization the TA could slowly move some funds from the San Mateo County portfolio to a custodian to be managed by this investment advisor who would make recommendations on how to invest the funds. Traditionally the SamTrans portfolio has earned a higher rate of return than the funds in the county portfolio while still having safe investments with lower fees. The SamTrans investment portfolio is about \$145 million. The TA has about \$440 million invested with the county treasurer, the vast majority in the county pool and the remainder in investments pledged from bond proceeds for debt service. The bonds will be paid off this summer and those funds will roll back into the general pool. The SamTrans Board will consider an action to appoint this advisor. The SamTrans Board receives a quarterly report from the investment advisor in person and in writing. The investments are recommended by the investment advisor and Mr. Scanlon delegates the authority to Ms. Harrington to make those investment decisions. The funds are actually held in a trust account.

Legal Counsel David Miller said the SamTrans advisor was obtained through a competitive process. As these services are professional services, there is no state law that requires a competitive procurement. Under the policies of SamTrans, the Board has the authority based on the performance and their own evaluation of performance to extend the terms of the contract. With that foundation, the opportunity to aggregate additional funds via the TA and the JPB, which as Mr. Scanlon said, the JPB acted on this morning, could produce a larger investable corpus, create the opportunity for lower fees for a variety of agencies, would have the appropriate segregation of funds and an opportunity to obtain higher yields. So from a legal standpoint, the TA, SamTrans and the JPB have the authority to do what Ms. Harrington is recommending.

Director Matsumoto asked if the recommendations made by this advisor go back to Ms. Harrington or Mr. Scanlon, or is there an investment committee. Ms. Harrington said there is currently no investment committee. Ms. Harrington said Mr. Scanlon has delegated the authority to her to make these decisions. Depending on the recommendation, which is generally in alignment with what the SamTrans Board hears from Mr. Osher in the quarterly report and what is going on with the economy, she asks extensive questions and then generally will approve the recommendation. She said that SamTrans has sold assets out of its portfolio recently, and there has never been any of the assets such as the mortgage-backed securities or things that people are worried about in the portfolio.

Director Matsumoto said, of the approximately \$440 million currently available for investment, is there a high/low of monies available for investment. Ms. Harrington said revenues are exceeding expenditures. Based on current rates of expenditures and what has currently been programmed, the amount of available investment funds would continue to grow only slightly. The county treasurer's funds are liquid to the TA so any near term funds needed for cash flow would be left with the county treasurer because they are easily accessible to the TA. Funds that might not be needed in the near future would potentially be invested for a longer term in a different manner should the Board approve it.

Director Mark Church said the initial plan is to allocate approximately \$100 million. He asked what would be the goal in terms of how much would ultimately be invested out of the \$400 million plus. Mss. Harrington said staff is proposing to diversify about one-quarter of the TA portfolio, but as the TA begins to spend down the funds, the balance could end up closer to a 50/50 relationship.

Mr. Scanlon said \$440 million sounds like a lot of money, but if the TA does one or two grade separations, it goes in a hurry at \$150 million to \$160 million each. He said the idea of a strategic plan, as the TA has now, is that the TA is trying to go from banker to builder.

Director Rich Gordon said he did receive a call and had communication with the County Treasurer Lee Buffington on this issue. He also reviewed this matter with the county counsel to understand whether he would have a conflict of interest and the county council feels that Director Gordon does not have a conflict of interest. He asked how much better EWM is doing for SamTrans than the county pool is doing for the TA. Ms. Harrington referred the Board to the chart in the staff report, which indicates the comparison between EWM and the county pool. She said all we can do is look at historical returns and yields.

Director Gordon said most of the differences look like they are less than a half of a percent. Ms. Harrington said that based on the size of the TA portfolio, half a percent can be substantial. Staff established the comparison based on yield to maturity, which would be to buy and hold securities, and from the return on investment. As the market moves, the portfolio would go up and down.

Chair Foust asked if the part of the staff report that talks about leveraging the dollars and pooling our money with other entities can be addressed after Directors Church and Lee speak.

Director Church said he had conversations with the county treasurer and county counsel and was assured there was no conflict of interest. He shares some of the same concerns as Director Gordon discussed. He said there is no legal requirement to open this up per the comment from legal counsel.

Director Church said he understands the reasons for proceeding with Mr. Osher, and evidently, based on the charts in the staff report, staff feels that he is outperforming the county pool. Director Church said he didn't have a problem taking the funds out of the county pool; he just wants to make sure that whatever the TA Board decides to do with the funds, that it is invested with the correct entity that can do the very best for the taxpayers. He said he knows that Mr. Osher has had an ongoing relationship handling funds for SamTrans for 16 years but EWM was founded in January 2006, is only two years old and manages a portfolio of only \$280 million. He said this is a bigger concern than taking money out of the county pool or anything else. Director Church said we are talking about incrementally transferring \$100 million initially and, perhaps some additional funds beyond that, which is a 50 percent increase of their portfolio. He wonders if EWM has the capacity to handle that and what their plans are to handle that kind of sizable investment. There are other firms on the San Francisco Peninsula: SIS and Fisher Investments.

SIS manages \$20 billion and Fisher Investments manages \$10 billion in institutional funds and another \$30 billion in private funds. Director Church asked if we would be well-served to have a look at those companies as well and open it up to get some responses and have a full range of options to decide from.

Director Church asked if we would be well-served to have a look at those companies as well and open it up to get some responses and have a full range of options to decide from.

Mr. Scanlon said EWM is not an investment house; this is financial advice. Mr. Osher came to the Bay Area from Harris Bretall and SamTrans has the best financial advisor. He said staff is trying to get some real economy of scale in the fact that staff does manage three agencies. Ms. Harrington is making purchases based on advice that Mr. Osher gives SamTrans and this is being brought to the Board for consideration because we believe the TA can get a lot better return for a lot lower fee. Mr. Scanlon said a request for proposals (RFP) could be issued if that is the choice of the Board.

Director Church said he has no reason to doubt that, and if he is the best, he really shouldn't have any problems with participating in a competitive process as well.

Director Lee stated that if we put this out for a competitive process, what we are really asking is staff and legal to do the due diligence. He said the credentials and long relationship are there; we are looking to solve a problem that doesn't exist, and there is no need to go out for an RFP. Director Lee said the due diligence has been done. We have legal advice and he feels comfortable.

Director O'Mahony thanked Ms. Harrington for the materials sent to her on this issue. She said there was a very general description of EWM. Director O'Mahony said she had requested a copy of the prospectus and received an email that EWM does not have a prospectus as they are not a company offering securities. EWM manages funds as investment advisors. Director O'Mahony wanted to see what was in there because she is curious to know if the funds there are mortgage-backed securities and the kind of stuff that we all have to be careful of nowadays. She said that Director Church pointed out that EWM's portfolio is very small at \$280 million, and they cater to institutions and high wealth investors. She asked who is buying investments in the SamTrans portfolio. Ms. Harrington said it is a competitively procured process. EWM does not have our funds; our funds are held in a custodial bank account.

Director O'Mahony asked if EWM was the broker. Ms. Harrington said EWM performs the staff function of competitively bidding for a broker for us, but EWM is not a broker. She said many jurisdictions handle their investments this way. A person on staff reviews the portfolio then talks to the advisor letting him know we have an investment maturing that will need to be placed. The advisor finds an appropriate investment, requests authorization, solicits bids, goes through a competitive process and then the transaction is actually handled by the custodial bank through the selected broker.

Director O'Mahony asked who the custodian is. Ms. Harrington said the Bank of New York.

Director O'Mahony said she was very worried by this. She said that somewhere in the documentation she was given, she found that the fee structure for EWM is nine basis points for the first \$100 million and yet, according to the table in the staff report, they actually were down at eight basis points at one point. So, you would have to have \$100 million in there to get that kind of an investment rate. Ms. Harrington said the fee that is proposed would be if the three entities wanted to leverage their funds; the fee would be lower for all of the three agencies.

Director O'Mahony asked which three agencies are involved. Ms. Harrington said SamTrans, the JPB and the TA. If the TA doesn't want to participate, then SamTrans will probably be faced with a different fee structure and SamTrans will take whatever action it deems is appropriate. It's the leveraging of the funds that lowers the fees.

Director O'Mahony said she was very uncomfortable with this issue and couldn't support it at this point because of the number of questions that have arisen in her mind that haven't been answered. She said that while the Board has heard Director Lee's reminder that there is legal counsel at the meeting, she thought that this should be transparent and clear and it is not transparent to her. She asked, in particular, if the county has been talked to about negotiating a better fee. Ms. Harrington said staff sat with the county treasurer last week and talked through the recommendation that staff was going to take to the TA Board. The county treasurer suggested that if he took some of the portfolio and entered into a different agreement with the TA, he might be able to earn a higher rate of return. He did not, to Ms. Harrington's knowledge, offer to lower the fee structure.

Director O'Mahony asked Ms. Harrington if she asked the county to lower their fee structure. Ms. Harrington said the fee structure was discussed in her meeting with the county, but there was no mention of them lowering their fees, or it was not part of the conversation.

Director O'Mahony said Ms. Harrington, as the person in charge, has the leverage to do that too. She said Mr. Osher must be really great, but she just has a funny feeling about it and cannot support the resolution at this point.

Director Jim Vreeland said talking about getting a better return for less cost and looking at leveraging funds is always a good thing. He said that is the only way projects get done on the coast because you have to get pieces from everywhere. He said this means a lot to him but it also means a lot to him to hear two county supervisors say they are a little concerned about the process. He was totally supportive of this because of the staff recommendation and what the staff is trying to do. He asked if this could be brought back for discussion.

Mr. Scanlon said staff could do whatever is the pleasure of the Board. He wanted to be abundantly clear about it; the staff has taken the initiative and wasn't directed as Director Gordon has said. Staff has taken the initiative to try to take an economy of scale issue and get better rates for all parties.

Mr. Scanlon said staff has brought forth what is believed to be our fiduciary relationship both to the Board and to the tax payers where we think this is an opportunity to leverage the money, get a better return and pay a lesser rate. He said he understood that the Board is uncomfortable. He will do whatever the Board directs. If the Board requests an RFP, Mr. Scanlon recommended looking at \$440 million and not just \$100 million to see all bids on it including the county treasurer, if he wants to bid on it.

Mr. Scanlon said Ms. Harrington and Special Assistant to the CEO Mark Simon met with the county treasurer and there was no offer of anything. Mr. Scanlon said he had second-hand information subsequent to that meeting that the county treasurer expressed willingness that he might lower his fee.

Director Vreeland said from his standpoint he is not looking to do the whole RFP process because he needs to learn more about what is trying to be completed. He asked if a decision isn't made tonight and it's made in 30 days when folks get a little more comfortable with the recommendation, have we lost an opportunity.

Mr. Scanlon said if the decision is not made tonight, the resolution will have to be characterized somewhat differently when it comes before the SamTrans Board next week because we will not have the economy of scale of putting together the assets of all three agencies. He said the JPB has approved the resolution and Mr. Scanlon would have to go back to the JPB and repackage the resolution, at least to the point of wanting to keep Mr. Osher as the SamTrans advisor.

Director Church said he was not advocating one way or the other. He said if the Board decides to put it out and do a process, then everybody will have the opportunity to participate. He said he just met with the county treasurer two hours ago, and he expressed a willingness to negotiate the fee if asked.

Director Gordon said that in order to vote affirmatively for this he would need greater transparency on the investment advisor and the process that is used to invest the money. He wants to make sure of what the protections are and hear from counsel about making sure that our funds are secure, we have access to them and what the timelines are for that. Director Gordon said that if the investment advisor just advises and we are making the purchase, we can't directly purchase, he thought, as a government entity.

Chair Foust said the money is held in a trust and the investment advisor makes recommendations because he is not a broker. The recommendation is typically based on the lowest cost to us with the better return and then the order to buy is executed, which is different than a broker. She said legal counsel could address some of what Director Gordon has said. She looked at two things in the county pool; the rate of return and lower fees. Chair Foust said she did the background on Epic and was comfortable that it isn't a broker. She said that you could debate on this up and down because you can look at a portfolio that is based on a whole lot of other things that investment advice isn't based on. That goes into the mortgage

backed securities and it goes into whole other realm of finances. Chair Foust said she was very supportive of the resolution and understands the questions that are coming up. She said that if the TA goes out to a competitive process she felt all the funds need to be on the table and not just \$100 million so the county is in the same position.

Mr. Miller said there is probably not much that he could really say nor did he want to advocate more than Mr. Scanlon does. He said the Board is looking for transparency and a comfort zone and time may provide this. He suggested the Board meet the investment advisor. Mr. Miller said the idea of a RFP, even if it included the whole pool, would require him to think through how to obtain one of the key reasons why this matter is before the Board, which is the economy of scale. He said that unless you had two other agencies going out for a RFP with you, he didn't think you could replicate what is being presented through that process. He said it becomes an issue of a comfort zone that you have confidence directly with the individual involved because he thought the process is not only legally fair but is based on experience that is being brought to the Board by the CFO of this entity whom is the same CFO of the other entities. Mr. Miller said he, along with staff, would be happy to come back with more information that will describe the process if that would help.

Director O'Mahony said Director Gordon has summed up perfectly what was on her mind, to have transparency. She would like to see if a better deal could be worked out with the county treasurer.

Mr. Scanlon made a suggestion through the Chair. He said given the genuine concerns expressed he would like to request that the item be put on the table for a month so staff could do more due diligence and address issues that each Board member raised in terms of transparency, process and in talking with the county treasurer and EWM or Mr. Osher.

Director Lee asked how long of window was available to make sure we don't lose any of the three players. Mr. Scanlon said it's a matter of trying to get the SamTrans Board to authorize a three-year contract with two one-year extensions. Staff may authorize a month to month contract. Mr. Scanlon said the window will not be closing and we are fine for at least a month or two.

Director O'Mahony asked if it's possible to have a month to month contract with Mr. Osher. Mr. Miller said SamTrans can absolutely do that.

This item will be taken up at a future Board meeting.

REQUESTS FROM THE AUTHORITY

Director Matsumoto asked about getting information on the investment policy. Authority Secretary Martha Martinez will get a copy for her.

WRITTEN COMMUNICATIONS TO AUTHORITY

Chair Foust said there was a letter in the reading file from the County Manager, Director of Public Works and County Controller regarding a Management Report on Compliance with the Agreement for Distribution of San Mateo County Measure A Funds for Local Transportation Purposes.

REPORT OF LEGAL COUNSEL

None.

DATE AND PLACE OF NEXT MEETING

Thursday, March 6, 2008 at 5 p.m. in the Bacciocco Auditorium, Second Floor, 1250 San Carlos Avenue, San Carlos, CA 94070.

ADJOURNMENT

The meeting adjourned at 6:22 p.m.