MEETING SUMMARY FOR THE FEBRUARY 11, 2009, 
INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE MEETING

Attendance
Committee Members:  • John Meyer, ITOC Chair  • Ron Gerow  • Kevin Cummins  • Valerie Harrison  • Hamid Bahadori  • Jesus Garcia  • Tracy Sandoval  • Diane Eidam
Absent:  • Gary Gallegos  • Jim Ryan
Staff:  • Charles “Muggs” Stoll  • Diane Eidam

The meeting of the TransNet Independent Taxpayer Oversight Committee (ITOC) was called to order by Vice Chair Hamid Bahadori at 9:34 a.m. Chair John Meyer arrived just after the meeting was called to order.

1. APPROVAL OF MEETING SUMMARY

Action: Upon a motion by Mr. Garcia and a second by Mr. Bahadori, the ITOC approved the January 14, 2009, meeting summary. Mr. Cummins abstained as he had not reviewed the meeting summary.

2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS

Diane Eidam, Chief Deputy Executive Director, provided an update regarding the cash management option of financing current projects funded by Proposition 1B funds. She stated that the cost to shut down projects is estimated at $20 million with an additional $2 million monthly in maintenance costs. She stated that staff has been working to obtain the California Transportation Commission’s (CTC) approval of the cash management option and to get assurances that the state would backfill the funds once the state budget is approved and the State can once again access the bond market. The CTC approved the Interstate 15 (I-15) piece of the cash management plan which moved funds from northern section of the project to the southern section, combining the projects so that the sales tax funds could be used within the entire corridor.

Ms. Eidam stated that the State Route (SR) 905 Unit 1A project is currently under construction and the CTC approved moving bond funds from the Unit 1B project to the Unit 1A project to ensure the project is not shut down. Will Kempton, Caltrans Director, gave assurances that every effort would be made to backfill the funds for the Unit 1B project with federal economic stimulus funds when they become available.
Ms. Eidam stated that the SR 52 corridor consists of three remaining projects with the first two projects currently under construction. The third phase has been awarded but Caltrans is not proceeding with the project at this time. The third component has TransNet funding that can be moved into the first two phases but only would allow for the project to continue for up to three months. The CTC recommended moving funds between corridors. The current plan is to move the SR 52 State Transportation Improvement Program (STIP) funds to the SR 76 project and move the SR 76 flexible federal and sales tax funds to the SR 52 project. This funding plan allows for the SR 52 project to be fully funded and completed without risk of suspension. She stated that the SR 76 would be positioned to compete well for federal economic stimulus funds should there be a delay in providing STIP and Proposition 1B funds when SR 76 is ready for construction later this year.

Valerie Harrison asked whether the federal economic stimulus bill funds would be allocated to the state or to local agencies. Ms. Eidam stated that Caltrans and SANDAG are lobbying for the projected $200 million to $300 million of federal stimulus funds or at least the majority of them to be allocated locally and not through the state.

Mr. Bahadori expressed his concerns that the proposed funding plans will just delay the problems because they are based on Caltrans getting federal stimulus funds and the state resuming payments of the Proposition 1B funds. He stated that neither of these options is guaranteed.

Ms. Eidam stated that staff has proposed the best possible scenario and we have received commitments from the CTC and Caltrans to work to achieve this goal. She stated that we are acting with a certain amount of faith and trust that they will meet their promises but historically this has proven to be the case.

Ms. Sandoval asked whether SANDAG had a mitigation strategy if they do not receive the necessary stimulus funds.

Ms. Eidam stated that under the proposal the SR 52 project would be completed and the SR 76 could potentially be delayed until funding could be acquired to complete the project. The I-15 project could face suspension if the bond funds are not received. However, several other options could be considered if it became apparent that the bond funds are delayed further.

Discussion ensued regarding the members concerns that the bond funds, the federal stimulus funds, and other state and federal funding may not be allocated to the region and what affect that would have on the current Plan of Finance (POF) and TransNet program, what guarantees the region has to receive state funds and the worst case scenario if funding is not returned to the region, and the assurances and expectation of SANDAG and Caltrans that the state would provide bond funds again and the potential timeline for that process.

Chair Meyer commented that when he supported the cash management proposal he was not under the impression that the funding for projects would be in permanent danger.

Ms. Harrison stated that this is an unprecedented time in history and there are so many complexities to the situation. She stated that this decision is a good sound decision under the current situation.

Ms. Eidam stated that in the past 30 years there have been dramatic swings in funding, although this is unprecedented, but she stated that she expected the region to see the bond dollars again—it is more a question of timing.

Mr. Bahadori stated that, in support of SANDAG actions, many of the other regional agencies are following its example and taking the same risk in moving funds.
4. TransNet PLAN OF FINANCE UPDATE (DISCUSSION)

Muggs Stoll, TransNet Program Manager, presented the item and stated that in December 2005 the Board of Directors approved the first POF for the TransNet extension and established a financial strategy for implementing the Early Action Program (EAP) of projects and fulfilling ongoing commitments for the existing TransNet program. The POF was approved by the Board with the understanding that the POF is a dynamic process that requires continual refinement as circumstances change and should be updated at least annually. Therefore, the POF was updated for the first time in December 2006 when three transit projects were added to the EAP and then again in January 2008 in anticipation of the successful $600 million bond issuance in April 2008. This update focuses on the changes in the program that have occurred over the last year, including revisions to both the cost and revenue assumptions used in assessing the program.

Mr. Stoll stated that the EAP was established to “jump-start” the implementation of several key projects prior to the beginning of the TransNet Extension in 2008, with the objective of completing those projects within the first five to seven years of the new program. The POF Update presented in this report reveals that the cost and revenue modifications made to the program approved last year results in a very similar outcome and that staying the course on the current EAP program is still an appropriate strategy.

Mr. Stoll stated that we have experienced construction cost de-escalation. After a recent period of unprecedented high rates of growth in construction costs from 2004 to 2007, we have seen an equally unprecedented decline in construction costs over the last year. This has led to significantly reduced bid prices on several key EAP project construction contracts that have been let over this time period. In addition to adjustments to the current EAP projects, this has led to a substantial revision to the cost escalation assumptions for this POF update.

Mr. Stoll reviewed the cost and revenue projections. The SANDAG TransNet Program Office continues to work with the Corridor Directors and project teams to refine the costs and schedules for the EAP projects. The costs are updated to current year dollars and then escalated to the year of construction based on the revised construction escalation rates. These rates are adjusted every year based on industry trends. The rapid decline in construction costs this past year discussed previously, have resulted in lower costs for several EAP projects and a substantial revision to the assumed cost escalation for the program going forward.

Mr. Bahadori stated that he has seen much larger declines in other regions’ construction costs estimates and asked for clarification as to why San Diego is only at 3 percent decline for FY 2009.

Marney Cox, Chief Economist, stated that individual regions could have different experiences with cost changes depending on their projects, bid cycles, and to some extent access to construction materials and labor. These past experiences play a role in future estimates. He stated that for San Diego we are projecting a 3 percent decline in the general cost of construction during FY 2009. It is possible that construction costs will decline more than 3 percent; however, we must weigh this outcome against what it means for the overall plan of finance. He stated that the difference between 3 percent to 8 percent decline that Los Angeles may be using is significant and would change the starting point for our long term forecasts. Because finance models use compound rates of change, this starting point change would have a significant and “compounded” effect on the programs’ future costs. In addition, the greater the decline in construction material costs, likely the greater decline in sales tax revenue, leaving the programs purchasing power about the same.
Mr. Stoll stated that unfortunately, the nation and the San Diego region continue to experience a downward trend in taxable retail sales and sales tax revenues from which TransNet sources of revenue are derived. FY 2008 TransNet receipts were 1.4 percent lower than FY 2007; using national level information from Global Insights as a guideline, SANDAG staff’s initial estimate was for FY 2008 to decline by 2.9 percent. Receipts for TransNet for the first quarter of the current fiscal year were nearly 4 percent less than the same period in the previous year. Using the Global Insights national level data as well as local data showing how our economy has been impacted by past severe recessions, SANDAG staff expects the current economic slowdown to reduce sales tax receipts by 4.0 percent for FY 2009. The rate at which the national economy is declining is expected to slow during the last quarter of FY 2009 and begin to grow slowly during the first quarter of FY 2010; locally, our economy is expected to follow a similar trend although San Diego will likely rise out of the recession ahead of the nation as a whole. From peak to trough on an annual basis, local sales tax receipts are expected to decline 5.4 percent. The national and local economies are not expected to fully recover from the downturn until calendar year 2011, while the transition to more normal rates of revenue growth may take three years (2013). We are expecting our sales tax revenue to follow a similar path; staff is projecting growth of 2 percent in FY 2010, the first positive growth after two years of decline and off a much lower FY 2009 base year. These rates of growth have been reflected in the POF model for this update.

Mr. Bahadori stated that other regions do not show a positive growth rate by 2010 and asked for clarification regarding why San Diego shows positive growth so much sooner.

Mr. Cox stated that there were three reasons. First, the San Diego economy entered the recession first and employment trends have shown stabilization in construction and financial activities for this past year. This is very different than at the national level. San Diego saw stabilization in these industries and some growth in both halfway through the year. The second reason is the magnitude of the recession at the federal level. The federal deficit has doubled, the money supply is increasing dramatically, and they lowered the federal funds rate to zero and that removes all caps on money supply growth; during the fourth quarter of 2008 the growth in the money supply was an unprecedented annualized rate of 20 percent. The third reason is that at the national level the Federal Reserve has bypassed banks because they are not loaning the money given to them. The Federal Reserve is giving direct injections of funds into the economy which it has never done before. The federal stimulus plan of $800 billion is two to three times a normal year’s rate of growth for our national economy. Mr. Cox stated that when you combine all of these actions he predicts that at the end of the current fiscal year the economy will be growing again.

Mr. Cummins requested clarification regarding the impact of the revenue forecast by potential federal stimulus funds and how that would affect construction cost escalation.

Mr. Cox stated that many economists are suggesting that the federal stimulus and economic stabilization plans and actions will ignite inflation at some time in the future. Rising inflation would affect the cost of construction. However, the rising inflation would also affect revenue growth, keeping our purchasing power about the same. The worst circumstance for our program would be rising costs and falling revenues; although these conditions can occur, they generally do not persist for long periods of time. We can see that today, where both our revenues and costs are expected to decline this year, again keeping our purchasing power about the same.

Mr. Cummins asked whether it was possible to go back to the scenario where fewer contractors are bidding and the Caltrans index level would increase again.
Mr. Cox stated that he could foresee a time when the amount of construction activity would increase and result in fewer bidders on transportation projects. At the same time, as the worldwide economic slowdown ends and economic activity picks up the demand for many goods and services, including construction material will rise pushing up the prices tracked by the Caltrans construction cost index.

Mr. Stoll stated that we need to watch how the stimulus affects the construction cost index. He stated that there is strong desire to make the infrastructure portion much larger than it is and need to follow that index closely to see if the stimulus causes costs to rise and the index to go up. He stated that staff is trying to correct for the unprecedented rise and decline in current POF.

Chair Meyer stated that at the previous meeting he questioned whether the 4 percent decline was conservative enough considering the lack of big ticket purchases and was told by Mr. Cox that the greatest percentage of sales tax is from restaurants. Chair Meyer commented that restaurant sales have not declined.

Mr. Cox stated that the most recent data shows a slight decline in restaurants but only about one-half percent overall. He stated that auto sales are down 30-plus percent. Purchases of durable goods and building sales are all down because these are the things people can put off buying but they can’t put off food sales.

Mr. Stoll stated that there were some changes to project schedules that were incorporated into the POF model as part of the annual update to the Capital Improvement Program (CIP). There will also be proposed scope and budget adjustments reflecting program changes. These proposed changes will be presented in a separate report prior to the approval of this POF Update. In performing the POF Update, these revised and more detailed costs and schedules were used for the EAP projects, while the non-EAP project costs are included in aggregate due to the lesser level of project definition and detail.

For revenues, Mr. Stoll stated that the amount of state and federal funds assumed for the EAP are based on committed funds to date. In addition, the revenue forecast is based on a series of assumptions. For fiscal years covering the current Regional Transportation Improvement Program (RTIP) period (FY 2009 to FY 2013), federal and state funds are based on committed or authorized amounts. For future years, SANDAG estimated federal, state, and local transportation funds based on historic experience, including an assumption of a federal participation rate of 50 percent for New Starts and Small Starts for the major transit projects. SANDAG also substantially revised its assumptions to forecast TransNet sales tax receipts.

Mr. Stoll stated that it is anticipated that during the 40-year life of the TransNet program, there will be periods of high and low economic cycles, and that the program as presented in this updated POF has a reasonable expectation of fulfilling the Ordinance. The results of the POF model run using the updated project costs and revenue forecast is summarized in a projected cash balance graph and is compared to the results of the January 2008 POF Update cash balance graph and in a table which were provided to the ITOC as attachments to the report. Mr. Stoll reviewed the cash balance details.

Mr. Stoll stated that the POF Update presented in this report confirms that the action taken to keep all of the EAP projects on their current schedules last year can be maintained with very similar results. While the substantial downturn in sales tax receipts is cause for concern, the simultaneous decrease in construction costs over the past year has resulted in a counter-balancing development that generally reaffirms the conclusions of the POF Update in 2008.
Mr. Stoll stated that the ITOC would review the update POF today and then the Transportation Committee would review the POF at its February 20, 2009, meeting. The final review by the ITOC and recommendation to the Transportation Committee would occur at the March meetings. The final review of POF Update and recommendation to the Board of Directors by the Transportation Committee would occur at their March meeting as well. On March 27, the Board is scheduled to hear the item for final review and approval of POF Update.

Mr. Stoll stated that the POF is not only updated annually, but also on an as-needed basis. The ITOC, Transportation Committee, and Board will be advised of any major developments and will consider any recommended changes to the approved financial strategy.

**Action:** This item was presented for discussion, no action.

3. **TransNet EARLY ACTION PROGRAM FINANCING OPTIONS (RECOMMENDATION)**

Renée Wasmund, Finance Director, presented the item and stated that she has been providing monthly status reports to the ITOC and the Board discussing the status of the financial market, and the steps we are taking to minimize any potential impact on SANDAG. The J.P. Morgan liquidity facility (supports the Series A and B bonds) expires at the end of March 2009. Additionally, although the Dexia facility (supports the Series C and D bonds) doesn’t expire for another four years, we’ve been exploring our options with respect to replacing Dexia which would result in a reduction of our borrowing costs.

The current cost of the J.P. Morgan liquidity facility is 20 basis points and the current cost of the Dexia liquidity facility is 22.5 basis points. A Request for Quotes for replacement liquidity facilities was issued in January to 22 banks. The only bid received was from J.P. Morgan to renew its facility for another 364 days at a cost of 120 basis points. Upon further negotiations with J.P. Morgan, it agreed to reduce its bid to 105 basis points. This bid is 85 basis points higher than the current J.P. Morgan facility, but is reflective of the current environment. We considered another option which would involve issuing a 1-year bond anticipation note which would allow us to convert $300 million of our variable rate debt into a short-term fixed rate for one year.

Ms. Wasmund stated that staff considered the pros and cons associated with both options. The pros associated with the J.P. Morgan option are that despite the volatility in the banking sector and credit markets in general, J.P. Morgan-supported variable rate bonds are trading near all-time record lows and this option continues a business relationship with a highly rated credit provider in an environment where credit is extremely tight, thereby increasing our options for renewal. The con for this option is that the renewal fee is 85 basis points higher than the current agreement, thereby increasing the cost of borrowing.

Ms. Wasmund stated that the pros associated with the 1-year bond anticipation note are that it does not require a liquidity facility, thereby saving the additional 85 basis points and it potentially lowers the cost of borrowing (current one year note rates are 93 basis points, but are on the rise). She stated the cons are that the cost of borrowing is not locked in until closing at the end of March which means we are exposed to interest rate risk until that time. Since the J.P. Morgan renewal bid will no longer be available (bid expires February 13, 2009), even if the rates are not attractive at that point, we would have no choice but to execute the transaction at whatever the 1-year note rate is at the time. Also it necessitates a second transaction in one year to either reenter the variable rate bond market, or sell another 1-year bond anticipation note. Both of these transactions carry their own risks. Reentering the variable rate market would again require a liquidity facility and given our current experience it is unclear what the availability will be in one year for liquidity.
facilities. Selling another 1-year bond anticipation note a year from now exposes us to interest rate risk. Lastly, it requires a significant modification to the default provisions of the trust indenture which, if in the unlikely event we were unable to refund the notes at the end of one year, would mean SANDAG would be in default and could trigger a cascading default which would impact the entire capital structure (including the interest rate swaps).

Ms. Wasmund stated that staff is recommending that we continue with our current variable rate strategy and renew the J.P. Morgan liquidity facility for the Series A and B bonds at 105 basis points, and maintain the Dexia liquidity facility for the Series C and D bonds. While this means that we will be trading higher than what we expected when we initially executed this strategy, it is on average approximately 80 basis points lower than current traditional fixed-rate bonds. Since issuing the bonds 45 weeks ago, SANDAG has saved over $5.5 million as compared the cost if we had issued fixed rate bonds. It is important to remember that our strategy is a long-term one, and this liquidity renewal is only for one year.

Ms. Wasmund stated that after the end of one year, we will again examine our options and the pricing of those options. In addition, in our opinion, this strategy carries less overall risk to SANDAG than issuing a one year bond anticipation note, given the current market environment. Because of the extraordinary conditions of the market, the program will continue to require ongoing monitoring and adjustments to reflect the most advantageous and cost-effective approach for SANDAG.

Chair Meyer asked for clarification on the costs when converting basis points into dollars if borrowing $100 million.

Ms. Wasmund stated that 85 basis points equated to a cost of .85 percent of the funds borrowed.

Mr. Bahadori stated that this is different than the cost for borrowing from the commercial paper and requested clarification.

Ms. Wasmund stated that the cost is the same on the liquidity facility but we are charged on the entire outstanding amount because the entire debt is outstanding.

Keith Curry, Financial Consultant, stated that the commercial paper has an unutilized balance but the variable rate bonds were sold in full so the cost is on the entire amount and when we start repaying bonds that cost will decrease.

Mr. Bahadori stated that although the proposal might be good in today’s market he would like to know what other options are available.

Ms. Wasmund stated that the J.P. Morgan proposal is the only bid received and is the only option at this time if we want to stay with variable rate bonds.

Mr. Curry stated that the only other option would be to convert to 1-year notes and incur costs to do that which are marginally higher. To do that we would have to renew each year in an unpredictable market and it would force us to manage our debt program. He stated the risk is less to reacquire the liquidity now because our swap is performing exactly the way the program was designed. The only reason that we needed to do any action now is because of the banking situation in the current market. The question is would we be better off if we had sold fixed rate instead of variable and he stated that the cost would have been significantly higher with a fixed rate. We are hoping that over time the market will fix itself and only good banks will be left and we can remarket at better costs.
Ms. Sandoval asked whether the current liquidity facility had been affected by the market conditions, and Ms. Wasmund stated that J.P. Morgan had been hit once and Dexia was hit more but neither is holding the bonds currently.

Mr. Bahadori asked whether SANDAG is penalized for staying with Dexia, and Ms. Wasmund stated that in a way we are penalized because Dexia is considered a high risk in the market and so our rate is higher. She stated that when we began the program they traded equally but now that Dexia is at risk we are paying more than with J.P. Morgan. She stated that at this time we do not have the option to leave Dexia because we did not receive any bids to replace them, but if we could the cost would be $1 million to discontinue the current liquidity arrangement with them.

Ms. Harrison asked why SANDAG entered into a long-term contract with Dexia in such a volatile market, and Ms. Wasmund stated that when we made the agreement the market was fine and Dexia was not perceived as a risk.

Mr. Cummins stated that the economy is still volatile and we have a 30-year debt with a variable rate. He stated that he would like to know the risks involved now and compare that to where would we be if we had gone with fixed rate to begin with. He stated that he would like to know what extras risks we are taking over the long term if we move to a fixed rate scenario. He asked whether there was a risk that the variable rates could significantly increase.

Ms. Wasmund stated that we synthetically fixed our interest rates with the swaps and that guards us against potential increases of the variable rate in the market.

Mr. Garcia asked whether there is an option to shift from variable to fixed rate over time.

Ms. Wasmund stated that there always is the option based on the comparison of costs to benefits and now the costs are much higher than the benefits.

Mr. Bahadori questioned why SANDAG was forced to act by the February 13 deadline and asked what other options were available and what the timeline would be to get another bid.

Mr. Stoll stated that the J.P. Morgan liquidity expires at the end of March and the only offer we received expires on Friday, March 13, 2009.

Mr. Curry stated that SANDAG won’t get another bid because the bond market is so bad that no one is getting bids. SANDAG with its triple-A rating only received one bid; there are no other options.

Action: Upon a motion by Mr. Garcia and a second by Ms. Harrison, the ITOC recommended to the Transportation Committee to recommend to the Board of Directors that they approve the staff recommendation to renew the J.P. Morgan liquidity proposal.

Ms. Wasmund continued her presentation and stated that when the voters approved the TransNet Extension ordinance, the Board started down the path of identifying an EAP to jumpstart high priority projects. We used our commercial paper program to fund that, in advance of the sales taxes that didn’t start until 2008. Also in 2005, we were in a period of historically low interest rates. We couldn’t issue any debt prior to when the extension took effect in 2008, so as part of the Board’s financing strategy, we used interest rate exchange agreements (swaps) as a mechanism to take advantage of those historically low interest rates.
Ms. Wasmund reviewed the current swaps process and stated that the London Inter-Bank Offered Rate (LIBOR) is a taxable rate, so assuming a marginal income tax rate of 35 percent, then 65 percent of LIBOR would approximate the tax exempt rate at which our bonds trade. She stated that Securities Industries and Financial Market Association (SIFMA) is a tax exempt rate and should also approximate the rate at which our bonds trade. Ms. Wasmund stated that the swaps were set up to convert to SIFMA after 10 years in order to limit our tax risk. The tax risk is the risk that income tax rates will be lower in the future which would cause the LIBOR amount received to be less than the variable rate we pay on the bonds. For example, if the marginal income tax rate dropped to 30 percent, then we would need to receive 70 percent of LIBOR to approximate the tax exempt rate, but we only would be receiving 65 percent.

Ms. Wasmund reviewed the SANDAG variable rate program performance since inception and stated that current market conditions have created an unusual situation that may be an opportunity to lower our borrowing costs by amending two of our three swaps. This is a unique opportunity that allows us to go on the offensive, whereas the situation we discussed in the previous agenda item was more of a defensive strategy.

Ms. Wasmund stated that recently, the ratio between LIBOR and SIFMA has increased dramatically, due to a number of factors including lack of liquidity, a breakdown in the similar markets for fixed rate taxable and tax-exempt bonds, and the bankruptcy of Lehman Brothers. This imbalance in the LIBOR and SIFMA swap markets allows us to amend the SIFMA piece of the existing swaps by overlaying another swap. This would significantly reduce the cost of financing beginning in 2018, assuming a return to normal or even near to normal trading relationships.

Ms. Wasmund stated that based on the current market, we could enter into a swap and receive 98 percent of LIBOR and pay SIFMA. We expect our bonds to trade at SIFMA, which remember is also approximately equal to 65 percent of LIBOR; so if we’re receiving 98 percent of LIBOR, then the difference of 33 basis points is positive cash flow. This is effectively changing the future receipt of the swaps from SIFMA to a high percentage of LIBOR.

Ms. Wasmund reviewed a table with historical information from the last 19 years between a receipt based upon 98 percent of LIBOR and a receipt based upon SIFMA. The table data show that historically 98 percent of LIBOR is 136 basis points more than SIFMA. She stated that translating that into dollars, a receipt based upon 98 percent of LIBOR would mean an annual benefit of $4.4 million for both swaps, assuming the current marginal tax rate of 35 percent. If marginal income tax rates were to increase, then SANDAG would receive an even higher benefit while a reduction would result in a lower benefit.

Ms. Wasmund stated that the strategy would be to set a target rate, say 100 percent of LIBOR, for entering the swap. She stated that with a target rate of 100 percent, it’s important to understand that the only way SANDAG would be worse off is if tax exempt rates are greater than taxable rates because we would be receiving 100 percent of the taxable rate which has occurred only in four months over the last 19 years. In exchange for this additional benefit, we would be accepting tax risk, but because of the current market anomaly that allows us to receive 100 percent of the taxable rate, there really is no tax risk.

Ms. Wasmund stated that the staff recommendation to the Board will be to have our financial advisors to solicit interest for a transaction. Staff plans on returning to the Board on February 27 with further discussion and possible action.

Ms. Harrison questioned why SANDAG did not enter this type of agreement originally.
Mr. Curry stated that at the time this trade was not on the table. Market conditions are now such that the opportunity is there for us to take advantage.

Chair Meyer requested clarification regarding a timeline for the transaction.

Ms. Wasmund stated that the process takes some time to get bids and to get them pre-qualified.

Mr. Curry stated that depending on the market, they could be ready to enter into the transaction by early March.

Mr. Stoll stated that staff would have an opportunity to update the ITOC at its March 11 meeting prior to any action taken.

Mr. Bahadori expressed his support for the proposal and asked what the proposals would be from potential bidders.

Mr. Curry stated that the proposal will state that the bidder is qualified to bid and would detail the terms. Once we have completed the bid process and chosen qualified bidders, they offer us a percentage and we either accept or decline the offer. This could literally take place on a conference call with each bidder.

Chair Meyer directed staff to place the item on the agenda for the March meeting.

**Action:** This item was presented for information only.

5. TransNet TRIENNIAL PERFORMANCE AUDIT DRAFT REPORT (DISCUSSION/POSSIBLE ACTION)

Mr. Bahadori presented the item and stated that the TransNet Triennial Performance Audit Draft Report (TransNet Performance Audit) has been conducted by Sjoberg Evashenk Consulting, Inc., in accordance with the requirements of the TransNet Extension Ordinance. He expressed his appreciation to Caltrans and SANDAG staffs for their administrative support. He stated that the ITOC is asked to discuss the TransNet Performance Audit and based on the results of the discussion should accept the document and allow for its review by the Transportation Committee as required by the TransNet Extension Ordinance, subject to resolution of any edits or changes the ITOC may suggest.

Cathy Brady, Sjoberg Evashenk Consulting, Inc., stated her appreciation for the cooperation from all the agencies they met with and commented that they were given full access and all agencies provided requested information in a timely and professional manner.

Ms. Brady reviewed the process for the TransNet Performance Audit and the approach followed by the auditors. The consultant followed Generally Accepted Government Auditing Standards. She reviewed the audit scope and stated that they focused solely on EAP projects, primarily Major Corridor projects of SANDAG and Caltrans. The TransNet Performance Audit covered FYs 2005/2006 through 2007/2008 and reviewed the organization structure and operational procedures involved. Additionally, the TransNet Performance Audit examined the ITOC and its operations.

Ms. Brady reviewed the major and additional areas of focus for the TransNet Performance Audit. She stated that due the nuances of the audit timing most projects were in early stages and there was not a lot of data available, but she stated that the benefit is early identification of possible needed course changes.
Ms. Brady reviewed the organization of the actual TransNet Performance Audit and stated that it provides recommendations for consideration with sufficient detail to form the basis for the conclusions and recommendations. The TransNet Performance Audit consists of the executive summary, introduction, scope and methodology, and five chapters covering actions taken, conclusions and recommendations, and two appendices.

Ms. Brady reviewed the contents of each portion of the TransNet Performance Audit which includes governance and oversight, performance monitoring, fiscal control and budget, project management and delivery, and findings and recommendations. She stated that overall solid processes exist but several improvements could enhance the program. Ms. Brady stated that recommendations relate to strengthening oversight, performance monitoring, budget change documentation, and project practices. She provided more detailed information on the recommendations, such as developing report cards, strengthening ITOC information, making some improvements to the Dashboard, tracking performance goals, reviewing debt service, tracking historic changes, ensuring consistent post-evaluation forms, and memorializing transit practices.

Ms. Harrison requested clarification regarding memorizing transit practices and what actions should be taken.

Ms. Brady stated that Board policies need to be translated into procedural steps, such as in manuals. This helps guide procedures in a standardized method. SANDAG needs to formalize these practices now that they manage transit operations.

Chair Meyer stated that the ITOC should be involved only in transit projects not practices and should not be involved in how the transit agencies operate.

Ms. Brady stated that project development needs to be more standardized. These recommendations are provided to strengthen practices for SANDAG, the ITOC, and the transit agencies. She stated that the auditors are suggesting only what needs to be done procedurally.

Ms. Harrison requested clarification regarding the post evaluation form, for example, for the SPRINTER would the form describe each penalty, the cost of those penalties, the reason, etc.

Ms. Brady stated that the best practice for evaluating a project is to look at what was done and what could be done to improve any part of the process. The evaluation should cover what worked well, what didn’t work, and what could be improved. She stated that the evaluation should be used to look forward and develop best practices for those same types of projects. She stated that Caltrans has a form that seems to work well and suggested a similar format for SANDAG.

Mr. Cummins stated that there were some parts of the TransNet Performance Audit in which he did not like particular language used or would add language and asked the auditors if the ITOC members could make substantive changes to the TransNet Performance Audit.

Mr. Bahadori asked whether any of the ITOC members felt that there was some area or concern missing from the TransNet Performance Audit.

Mr. Garcia asked whether the auditors considered looking at whether the ITOC, as an oversight committee, should be more detailed or should be less involved.

Ms. Brady stated that the auditors looked at what actions this committee is taking and at what other similar oversight boards are doing. She stated they made suggestions based on what they found in that research. Ms. Brady stated that their opinion was that the implementing agency
should be given the more detailed information and the ITOC should be more oversight-oriented and less detailed.

Mr. Cummins stated that he did not sense anything missing from the TransNet Performance Audit. The TransNet Performance Audit was very detailed and he expressed his satisfaction with the report. Mr. Cummins commented that there were several areas of the TransNet Performance Audit where he would like to see more detailed changes to the language or information provided.

The ITOC members and the auditors reviewed the TransNet Performance Audit Draft Report page by page and the ITOC members recommended specific comments, changes, and edits to the draft report. The auditors will review each recommendation and make appropriate changes.

Discussion ensued regarding how the public records act applies to the audit findings and research and to what extent SANDAG legally will be required to allow access to not only the public but to future performance auditors.

Ms. Harrison asked staff what the procedure would be to implement each recommendation from the audit. She asked whether staff would devise a means to implement the recommendations and track progress.

Mr. Stoll stated that staff would be responding to all the recommendations presented in the audit.

Ms. Sandoval asked whether staff responses would be provided prior to the item being heard by the Transportation Committee or the Board.

Mr. Stoll stated that the schedule is very tight and staff has not determined the timeline yet.

Mr. Bahadori stated that the ITOC should be provided staff responses to review prior to any presentation to the Transportation Committee and the Board.

Ms. Brady stated that the auditors would need to be able to review the staff response prior to the Board hearing the item so the auditor can have the opportunity to prepare any rebuttals to the responses.

Ms. Sandoval asked whether SANDAG has accepted all the recommendations in the report.

Mr. Stoll stated that staff will respond to all the recommendations but it was not necessary to accept them. He stated that staff will provide their response and state any differences of opinion but he stated that during the exit interview no one expressed complete disagreement with the audit recommendations. Mr. Stoll stated that one example is the recommendation for formal lessons learned for the SPRINTER and staff concerned about this recommendation because the project is still not complete and there are still outstanding claims. He stated any formal lessons learned could affect those potential claims so staff response is not that we reject the recommendation only that we would respond with a different timeline.

Discussion ensued regarding the SANDAG debt to revenue ratio and any risks involved. Ms. Wasmund stated that staff continuously tracks the TransNet debt to revenue ratio.

Discussion ensued regarding the monetary levels for delegated authority set by SANDAG and whether the current amounts were appropriate for each staff level. The auditors found that SANDAG could possibly review the delegated authority and set lower levels in order to keep projects on time.
Ron Gerow stated that his comments revolve around one concern which is that all the auditors recommendations increase ITOC responsibility and he expressed his concern that the ITOC would need to meet more often which could potentially make it more difficult to find new members.

Ms. Brady stated that the ITOC could hire a consultant to review issues and meet with staff on behalf of the ITOC if needed on specific issues. She stated that each year the framework would potentially change based on current projects and needs, but she would not suggest more frequent meetings. Perhaps the ITOC could dedicate a portion of each meeting to identify these issues.

Mr. Garcia stated that while a consultant could be useful it could potentially be very expensive.

Chair Meyer expressed his concern regarding the increase in responsibilities for the ITOC, not just the members but for staff as well.

Ms. Sandoval stated that there is no expectation that these recommendations be done tomorrow or anytime soon. She stated that the auditors did a good job of addressing and prioritizing the needs and the ITOC needs to now determine what the appropriate responses will be.

Ms. Harrison stated that she would like to see each comment in the TransNet Performance Audit cross-referenced to a specific recommendation. She stated it would facilitate easier understanding of how each comment is addressed in the recommendations.

Ms. Brady stated that the auditors will ensure that all the comments in the TransNet Performance Audit are included in the recommendations chapter by reference.

Mr. Bahadori stated that the findings by the auditor should not be considered as more work for any agency but should be considered a recommendation to work better. He stated that we need to manage our agendas better. He stated that the ITOC agenda could be revised to include more consent type of agenda items for example. Mr. Bahadori stated that the recommendations and potential action plan will make us more efficient and not give us more work.

Mr. Stoll stated that in the coming year, the volume of time and effort will likely increase because the ITOC will be implementing this performance audit recommendations and conducting its first fiscal audit at the same time. Mr. Stoll stated that some reports on the ITOC agenda could be considered information only and put on as consent items, for example the financial report. Mr. Stoll stated that the dynamics of the current economy is such that there will be times when items come before the ITOC with little notice but staff can improve some management of the agenda.

Chair Meyer stated that many of the recommendations do include the necessity for more time and effort by the members. He stated that one change to the agenda could be to include an information section for informational items and if any member wants any item to be discussed it can be pulled off the consent agenda. He stated that he would work with staff to streamline the agenda in the future.

Ms. Harrison expressed her support for the auditor’s recommendation of a report card for each project. This would provide all the information for each project at a glance and make it much easier to achieve a streamlined process.

Discussion ensued regarding the priority of the auditor’s recommendations and the members provided input and direction to the auditors.
Chair Meyer stated that one of the recommendations is to increase the effectiveness and efficiency of the ITOC and it seems that this would increase the workload.

Ms. Brady stated that the TransNet Performance Audit does provide effectiveness and efficiency recommendations. The audit focused on how the ITOC could be more effective by working smarter not more. Ms. Brady stated that one efficiency would be to streamline discussions and comments. If the members use more efficient tools to brief them and place informational type items on the agenda, they would be more knowledgeable about the project and issues, thus streamline discussions.

Mr. Stoll stated that staff from SANDAG and Caltrans will develop an action plan in response to the recommendations in the audit. He stated that staff would return to the ITOC with the draft action plan prior to it being discussed by the Transportation Committee.

Discussion ensued and the ITOC consensus was to have staff provide the action plan to the auditors and include it as an attachment to the audit report. The ITOC will review the TransNet Performance Audit Draft Report inclusive of the plan of action at its March meeting and provide input. The ITOC would then refer the report to the Transportation Committee for their review and recommendation.

**Action**: This item was presented for discussion, no action was taken.

6. **FUTURE MEETING SCHEDULE**

The next ITOC meeting is scheduled for Wednesday, March 11, 2009, at 9:30 a.m.

7. **ADJOURNMENT**

Chair Meyer adjourned the meeting at 2:11 p.m.