MINUTES OF A SPECIAL MEETING OF THE ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY GOVERNING BOARD HELD IN THE BOARD ROOM OF THE HARBOR DEPARTMENT ADMINISTRATION BUILDING AT 925 HARBOR PLAZA, LONG BEACH, CALIFORNIA, ON APRIL 22, 2010, AT 9:00 A.M.

Members present:

Susan E. Anderson Wise, Port of Long Beach
Richard D. Steinke, Port of Long Beach
Douglas Krause, Port of Los Angeles
Geraldine Knatz, Port of Los Angeles

Members absent:

Gary DeLong, City of Long Beach
Janice Hahn, City of Los Angeles
Don R. Knabe, Los Angeles County
Metropolitan Transportation Authority

Also present:

John T. Doherty, ACTA, Chief Executive Officer
James P. Preusch, ACTA, Chief Financial Officer
Charles Gale, ACTA, Co-General Counsel
Heather McCloskey, ACTA, Co-General Counsel
April See, ACTA, Financial Systems Manager
Trang Nguyen, ACTA, Principal Accountant,
Steve Rubin, POLB, Managing Director Finance & Administration
Sam Joumblat, POLB, Chief Financial Officer
Mike Christensen, POLA, Deputy Executive Director-Development
Molly Campbell, POLA, Deputy Executive Director-Finance & Administration

BOARD MEMBER KRAUSE PRESIDED AS CHAIR.

Mr. Charles Gale, Co-General Counsel, advised that no action could be taken at this meeting because there was not a quorum, and further that the meeting was agendized as informational which meant no Board action could be taken.

1. BUDGET WORKSHOP – INFORMATION ITEM.

Communication from John T. Doherty, Chief Executive Officer, dated April 20, 2010, regarding the Preliminary FY 11 ACTA Program Budget, was presented to the Governing Board for information and discussion in a "workshop" format.

Introduction

Mr. Doherty advised that there was an error in the April 20, 2010 cover memo transmitting the Preliminary Budget. The memo incorrectly stated that there was a 15 percent reduction in operating expenses in the preliminary FY11 budget vs. the FY10 actuals. Although the 15 percent is approximately the reduction in the sum of both operating and capital administrative expenses, the operating administrative expense reduction alone is approximately 6 percent.

Mr. Doherty advised that it is staff's intent to bring the final budget to the Governing Board for approval in June 2010. He stated that in January the Board had requested a budget briefing prior to budget adoption and that in March the Chair had requested that the briefing be held as a separate meeting apart from the regular monthly meeting.

Mr. Doherty stated that this budget was the most challenging in many years, because of the revenue decline and the uncertain status of the SR-47 Project. The budget assumes that design of the Expressway portion of the SR-47 Project would advance in early 2011. Therefore, the budget might be subject to change during FY11 depending on how the Expressway litigation and funding issues unfold.

Board Members Knatz and Krause asked what changes had been made to the budget since the meeting with the finance staffs of both ports on April 19, 2010. Mr. Preusch said that the budget itself was basically the same. Mr. Doherty said that the most significant change was a reduction in the revenue forecast, and the addition of backup summary sheets for ACTA's and ACET's salaries and benefits and certain consultant contracts.

Revenue and Budget Summary

Mr. Preusch gave an overview of ACTA's FY2011 Revenue Forecast and operating expenses (pages 2-5 of the handout). Mr. Doherty said the revenue forecast was based on recent, seasonally-adjusted ACTA revenue trends and is similar to that which would result from using the ports' latest Tioga forecast.

Since the revenue forecast was reduced to $84 million after the meeting with port staff, Board Member Knatz asked if expenses were correspondingly reduced. Mr. Preusch stated that they had not, because ACTA's expenses and revenue are independent. The annual debt service and revenue forecast are fixed, while the expense estimate is based on required workload.

Mr. Doherty added that the revenue, operating expenses and debt service are looked at to determine whether there is a need for a port shortfall advance. One is not expected during FY11, but if ACTA's debt is not restructured within the next year, a shortfall advance will be necessary in FY12. Board Member Knatz responded that, notwithstanding the need for any shortfall advance, staff should be looking to reduce costs wherever possible.

Board Member Steinke asked if the revenue forecast included a CPI adjustment. Mr. Preusch stated that a 2.3 percent CPI adjustment, effective January 1, 2011, was included. He stated that the actual CPI adjustment would be based on the October 2010 CPI as compared to the October 2009 CPI. In no event would it be less than 1.5% per the Use and Operating Agreement.

Budget Detail and Backup

Mr. Preusch then discussed pages 6-18 of the handout. The issues below were raised and discussed.

Mr. Christensen asked for clarification of the capital budget and transfers as regards SR-47, considering that ACTA would now be handing over Segment 1 to Caltrans for their administration following design completion by ACTA. Mr. Doherty said that point would be covered later in the presentation.

Board Member Knatz asked if the $35.8 million ACTA 1999A Construction Fund line item on page 9 was the fund that would have been used to fund ACTA's administration of the SR-47 Segment 1 contract. Mr. Doherty explained that ACTA's funding of the Segment 1 administration would have come from the three non-bond proceeds accounts shown at the top of page 9. Mr. Preusch and Mr. Doherty explained that most of the remaining 1999A Fund would be used as part of the debt restructuring and that $10 million of the 1999C Fund was reserved to pay debt service as requested by the Operating Committee and approved by the ACTA Board.

Budget Format Issues

Board Member Krause asked if there were outside consultants other than the legal service providers shown on Page 11. Mr. Doherty stated that there are approximately 36 outside consultants, including the 11 legal service providers. He said the budgeted amounts for contracts are often more than anticipated expenditures for the upcoming fiscal year, because the budget must include the total authorized contract values. This provides staff some ability to make some adjustments to work scope or cost during the year without reconvening the Board.

The issue of the budget being larger than the anticipated FY11 expense was raised several times during the meeting in response to questions by Members Krause and Knatz and Ms. Campbell. Mr. Krause took exception to this budget approach.

Mr. Preusch stated that this is an appropriations budget, which by definition must contain actual contract value as opposed to anticipated expenditure. Ms. Campbell suggested that funding-out provisions be considered so that lesser amounts could be budgeted. Mr. Preusch said he would review this alternative approach for future budgets, but suggested that for this budget cycle a separate column listing the actual anticipated expenditures be added to the budget tables so Board members could readily compare FY10 actual expenditures to anticipated FY11 expenditures.

Maintenance Issues

Board Member Knatz pointed out a possible inconsistency between pages 3 and 6 of the budget regarding total maintenance expenditures. Mr. Doherty explained that page 6 contained amounts that the railroads pay directly, such as but not limited to security and dispatching, and therefore these amounts are not carried in the ACTA budget. When these amounts are removed the two pages are consistent. He also explained which expenses are rail maintenance items under the maintenance contract that are paid by the railroads, and which expenses are non-rail or capital expenses that are paid from the $15M Reserve Account that is replenished from revenue.

There were some questions and discussion regarding the classification of rail vs. non-rail items by the Operating Committee. It was recommended that the Operating Committee be asked to look at these items more closely in the future to ensure that the work is properly classified and that all work is necessary.

Commissioner Wise asked about the composition of the Operating Committee and ACTA's authority over their decisions. It was explained that the Operating Committee is a body independent of the ACTA Board that consists of one representative from each port and railroad. The composition of this body was established by the Use and Operating Agreement between ACTA, the ports and the railroads. Mr. Preusch explained that ACTA's authority regarding Operating Committee matters is limited to adopting the annual maintenance budget as approved by the Operating Committee and management of the Maintenance Contract.

ACET Staffing Cost and SR-47 Issues

Board Member Krause asked for a description of ACET's services and the projects on which they are working.

Mr. Doherty referred the Board members to the organization chart on page 15. He described ACET as providing staff augmentation to ACTA for engineering and contract administration matters. He stated that ACET engineering staff is working primarily on the SR-47 Project, overseeing and managing the Segment 1 design per a Board-approved Cooperative Agreement with Caltrans. The design and construction for Segment 2, the expressway portion, cannot proceed until certain legal and funding matters are resolved.

Mr. Doherty said funding matters include the postponement of the port infrastructure fee that was to be used to match state bond funds, and the risk of losing state bond funds for failure to meet the legislatively imposed December 2013 construction start deadline. He stated that, in order to meet the deadline, design must begin no later than January 2012 and that $70 million from the infrastructure fee or other port funds would be needed for ROW acquisition and design. Board Member Knatz asked whether the SR-47 state bond allocation could be transferred to the Gerald Desmond Bridge Project at some point. Mr. Doherty responded that the state has been resisting the transfer of funds due to over-programming issues; that is, more money was allocated than is available.

Board Member Knatz asked what funds ACTA had intended to use were it to manage Segment 1 for Caltrans. Mr. Doherty replied that would have come from each of the non-bond proceeds accounts shown on page 9, because the work would have not qualified for use of bond funds. The final design and construction of SR-47 were not part of the Alameda Corridor amended definition. Only the preliminary engineering and environmental phase were part of the definition.

Board Member Knatz asked about the $3.5 million budgeted for ACET, and in particular how much money is budgeted for each SR-47 segment. Mr. Doherty responded that about $2 million is budgeted for ACET for SR-47 design and ROW management split 50/50 between the two segments. It is assumed for budget purposes that Segment 1 design and ROW/utility coordination work will be completed by January 1, 2011. He stated that ACET's SR-47 work is paid from federal grant money.

There was discussion about the number of ACET staff positions, and the possibility of further ACET staff reductions. Mr. Doherty said the budget provides an overall 40 percent reduction in ACET operating and capital costs. This includes a 60 percent reduction in operating costs, which is paid from revenue funds. He indicated that further ACTA and ACET staff reductions might be possible during FY11depending on SR-47 developments. Mr. Doherty stated that the Budget is scheduled to be presented to the Governing Board at its regularly scheduled meeting in June 2010. He recommended that the budget be re-evaluated at the November or December Governing Board meeting, when there is a clearer picture of what, if any, SR-47 Segment 2 activities will be advanced.

Mr. Christensen requested to see the ACET overhead rates. Mr. Doherty agreed to provide them. Board Member Steinke asked for assurance that the ACTA staff positions shown on the organization and marked "vacant" would not be filled. Mr. Doherty said they would not be filled without Board consent.

ACTA Staffing and Office Rental Issues

Board Member Steinke asked if the Budget includes any salary increases for ACTA or ACET staff. Mr. Doherty reported said a 2.5% increase was included for FY11 for ACTA salaries. He said that five percent had been approved in the FY10 budget, but it was not fully implemented. No salary increases were given to ACTA's exempt (salaried) personnel, but step adjustments were given to non-exempt (hourly) personnel per the "step plan." He explained the step plan and how it is tied to prescribed salary ranges based City of Los Angeles and City of Long Beach comparisons. (Although the response regarding ACET was not given, the budget also contains an average increase of just over 2.5%.)

Board Members Krause and Knatz questioned the increase in ACTA staff benefit costs. Board Member Krause asked if ACTA management has the ability to increase employee contributions or to change benefit programs. Mr. Preusch stated that while, yes, ACTA has that ability, no such changes are included in the budget as presented. Mr. Doherty stated that benefits are about 33% of payroll. Both port staffs indicated that their percentages were considerably higher (45-50%) but included some additional benefit costs such as social security to which ACTA is not subject.

Board Member Steinke stated that, since each respective port and city is going through difficult financial times, it would be appropriate for ACTA to further review its benefit costs. Mr. Doherty said ACTA staff would do so and report back to the Board. He reminded members that there are only 12 full-time and 3 part-time ACTA employees.

Board Member Knatz asked about the size and cost of the ACTA office space. Mr. Doherty stated that ACTA considerably downsized the ACTA/ACET office space in Carson in 2005. The office space is being fully utilized and the monthly rent is $25,000.

Board Member Wise asked about the office rental income line item. Mr. Preusch stated that the office is shared with ACET, who pays half the rent.

Board Member Knatz stated that the ports are looking closely at their budgets, and are trying to hold the line or even reduce costs. She expects ACTA to do the same. Board Member Kruse asked that staff seek more opportunities to reduce costs.

Public/Government Affairs Issues

Board Member Steinke asked for an explanation of the difference in the Public Affairs item on page 3 and the Government Affairs item on page 4. Mr. Preusch advised that the terms are somewhat interchangeable. Page 3 is by department and page 4 is by expense type. Each contains different combinations of cost elements. For example, one contains ACTA public affairs staff and one does not.

Much concern was expressed by Board Members Krause and Knatz as to the purpose, need and cost of the Public/Government Affairs and Media consultants shown on page 10. Considerable discussion took place as to what functions these consultants perform and whether or not these services should be more severely cut or terminated altogether.

Mr. Doherty explained that the Manatt firm represents ACTA in Washington. They were instrumental in securing over $16 million in federal grants for SR-47. There are ongoing activities with regard to additional SR-47 federal grant requests and ACTA's debt restructuring through an FRA loan that require a DC presence.

With regard to the Butterfield firm, he explained that Norm Emerson, ACTA's legislative advisor, is provided through the Butterfield contract. Mr. Emerson has been instrumental in funding matters and provides the Board with monthly updates on federal and state legislative actions that impact ACTA. Board Member Knatz asked how much of the contract was for his services. Mr. Doherty stated about one-third. He also reported that Butterfield provides ACTA with an important presence at local community, chamber of commerce, agency, and industry meetings for the purpose of keeping ACTA senior management abreast of local activity. Board member Knatz questioned the necessity for representation at POLA Harbor Commission meetings.

With regard to the Cerrell firm, Mr. Doherty explained that they provide ACTA with assistance and advice regarding media requests and press releases. Board Member Knatz suggested that POLA media staff could instead be used for these types of services. Mr. Doherty advised that the Cerrell contract is reduced by 20% in this budget. Mr. Doherty recommended that rather than terminate the Butterfield and Cerrell firms, staff would further examine additional scope or cost reductions.

Conclusion

At 11:00 a.m., Board Member Steinke left the meeting. At 11:05 a.m., Board Member Knatz, Mr. Mike Christensen, and Ms. Molly Campbell left the meeting. Board Members Krause and Wise remained until the meeting concluded at 11:15 a.m.

Mr. Krause asked whether ACTA receives value from its investment management contract. Mr. Preusch explained that management of ACTA's the short-term investments is a matter that requires on the spot attention due both to the number of investments and the timing of maturities. He believes that ACTA receives great value for this service that produces about $4.5 million in interest earnings each year.

Board Member Wise inquired as to the status of ACTA's RRIF loan application. Mr. Preusch advised that the Credit Committee that reviews the application had not acted on it at its last meeting due to time constraints, and that it is expected to act on a staff recommendation to hire a financial analyst to review the application for creditworthiness at its next meeting.

In summary, it was recommended by the Board members present that staff find additional budget reductions in view of ACTA's reduced capital project involvement and current economic circumstances.

2. PUBLIC COMMENT

There was no one present to address the Governing Board.

3. ADJOURNMENT

At 11:15 a.m., the meeting concluded.