



August 25, 2005
(For Board: September 9, 2005)

REPORT OF THE FINANCE-AUDITING COMMITTEE

Honorable Board of Directors
Golden Gate Bridge, Highway
and Transportation District

Honorable Members:

A meeting of the Finance-Auditing Committee was held in the Board Room, Administration Building, Toll Plaza, San Francisco, California, on Thursday, August 25, 2005, at 10:15 a.m., Chair Stroeh presiding.

Committee Members Present (7): Chair Stroeh; Vice Chair Pahre; Directors Boro, Cochran, Eddie and Shahum; President Middlebrook (Ex Officio)

Committee Members Absent (2): Directors Murray and Reilly

Other Directors Present (2): Directors Hernández and Moylan

Staff Present: Acting General Manager and Deputy General Manager/Bridge Division Kary H. Witt; District Engineer Denis J. Mulligan; Attorney David J. Miller; Deputy General Manager/Bus Division Susan C. Chiaroni; Deputy General Manager/Administration and Development Teri W. Mantony; Risk Management and Safety Director William L. Stafford; Planning Director Alan R. Zahradnik; Deputy District Engineer Ewa Z. Bauer; Budget and Program Analysis Manager Jennifer Mennucci; Executive Assistant to the General Manager Amorette Ko; Assistant Clerk of the Board Karen B. Engbretson

Visitors Present: None

1. Ratify Actions by the Auditor-Controller

In a memorandum to Committee, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith outlined disbursements and investments. A copy of the report is available in the Office of the District Secretary and on the District's web site.

FINANCE-AUDITING COMMITTEE
AUGUST 25, 2005/PAGE 2

Nancy Jones, Public Financial Management, was not present at the meeting to provide a verbal report on the status of the District's investment portfolio. Ms. Jones' written report was included in the Committee packet.

Staff recommended and the Committee concurred by motion made and seconded by **Directors EDDIE/COCHRAN** to forward the following recommendation to the Board of Directors for its consideration:

RECOMMENDATION

The Finance-Auditing Committee recommends that the Board of Directors authorize the following actions by the Auditor-Controller:

- a. Ratify commitments and/or expenditures totaling \$47,707.70;
- b. Ratify investments made by the Auditor-Controller during the period July 12, 2005 through August 15, 2005, as follows;

SECURITY	PURCHASE DATE	MATURITY DATE	ORIGINAL COST	PERCENT YIELD
Ranger Funding CO LLC Comm. Paper	07/21/05	08/22/05	6,020,856.16	3.38
Société Generale Comm. Paper	07/29/05	09/01/05	7,784,478.65	3.46
FHLMC Discount Note	08/15/05	10/04/05	9,996,449.17	3.48
Toyota Motor Credit Corp. Comm. Paper	08/15/05	09/30/05	3,980,860.09	3.55
General Electric Co. Comm. Paper	08/15/05	09/30/05	6,022,401.91	3.57

- c. Authorize the Auditor-Controller to re-invest, within the established policy of the Board, investments maturing between August 16, 2005, and September 12, 2005, as well as the investment of all other funds not required to cover expenditures that may become available; and,
- d. Accept the Investment Report for July 2005 prepared by Public Financial Management.

Action by the Board - Resolution
CONSENT CALENDAR

- AYES (6):** Chair Stroeh; Vice Chair Pahre; Directors Cochran, Eddie and Shahum; President Middlebrook (Ex Officio)
- NOES (0):** None
- ABSENT (3):** Directors Boro, Murray and Reilly

2. Presentation on the Workers' Compensation Program

Risk Management and Safety Director William Stafford, Deputy General Manager/Administration and Development Teri Mantony, Auditor-Controller Joseph Wire and Acting General Manager Kary Witt presented a status report on the District's Workers' Compensation Program (Program). The report summarized the costs, claims trends, fiscal impact and strategic issues relevant to the Program.

FINANCE-AUDITING COMMITTEE
AUGUST 25, 2005/PAGE 3

The report listed the goals of the Program, as follows:

- Make available the highest quality medical treatment to injured workers;
- Reduce costs by actively managing open claims;
- Return employees to normal or modified duties when authorized by the medical provider;
- Comply with California workers' compensation laws; and,
- Accommodate within reason employees who may have permanent disability.

The report stated that in the past two years since the Board of Directors had last been provided with an update of the Program, the District has seen a significant decrease in claims frequency and costs. The report noted that the District is self-insured for workers compensation liability up to \$1 million, and that the District's liability insurance policy includes excess workers compensation insurance for claims above \$1 million, up to a \$10 million limit. At the end of FY 04/05, the District recognized \$7,797,338 in liability for future settlements. This amount in workers compensation liability is based on the results of estimated losses and claims adjustment expense for the current inventory of open claims.

The report provided a list of facts that summarize the Program for FY 04/05, as follows:

- New workers' compensation claims decreased by 33% from FY 03/04 (from 182 to 140).
- Claims closure rates have exceeded new claims openings.
- Actual workers' compensation costs were reduced 55% (From \$7.2 million to \$3.3 million).
- Bus Operators had the largest decrease in claims frequency, a 48% reduction.
- Bridge Division had the largest cost decrease, a 60% reduction.
- The majority of injuries continue to be strains and cumulative trauma injuries, which is to be expected, given that the average age of District employees is 49.
- Medical payments reflect a net decrease of 45% from 2004 to 2005.
- Payments to physicians and chiropractors have decreased 60%.
- The last two years have seen a significant decrease in budgeted costs to actual costs.
- The Districts funded workers' compensation reserves have decreased from \$8.3 million to \$7.7 million from 2003 to 2005.

The report also included a chart that showed the actual General Ledger costs for each of the operating divisions for the past three fiscal years, FY 02/03, FY 03/04 and FY 04/05. The chart showed that workers compensation costs were reduced by 29.7% from FY 02/03 to FY 03/04 and by 35.4% from FY 02/03 to FY 04/05.

The report listed the factors that have resulted in cost controls for the Program, factors which are a combination of State of California legislated workers' compensation reform in 2003 and 2004, and proactive efforts by District management. These efforts include: (1) on-going ergonomics education and job

FINANCE-AUDITING COMMITTEE
AUGUST 25, 2005/PAGE 4

re-engineering to reduce cumulative trauma and repetitive motion claims; (2) proactive claims and medical management activities; (3) improved safety performance of District employees; (3) on-going medical and pharmacy bill review; (4) litigation management; and, (5) structured return-to-work programs. A copy of the report, with attachments, is available in the Office of the District Secretary and on the District's web site.

At the meeting, Teri Mantony began the staff presentation, introducing William Stafford, the newly hired Director of Risk Management and Safety, and noting that Mr. Stafford would be presenting a PowerPoint presentation on the Program to the Committee, and then would be presenting the same presentation to District employees at various group safety meetings and as part of the orientation for new employees.

William Stafford proceeded with the PowerPoint presentation, which included charts and graphs depicting various aspects of the Program. Mr. Stafford highlighted the following items during his presentation:

- The 33% decrease in new workers compensation claims is attributable to the District's reductions in force over the past two years, and that the decrease compares favorably with the State of California Occupational Safety and Health Administration (Cal-OSHA) statistics for the Bay Area.
- The District's funded reserves for workers compensation claims increased over the past two years, as the workers compensation third party administrator, Claims Management, Inc. (CMI), effectively managed and closed many open claims.
- There has been a considerable reduction in actual spending on workers compensation claims in the Bus and Bridge Divisions.
- Payments to physicians and chiropractors have decreased by 60% due to better scrutiny of medical bills and state-mandated limits on chiropractic visits.
- The District's costs per claim tend to be higher than the state industry average of \$10,000 to \$12,000 per claim, since the majority of the District's workers compensation claims tend to be the more expensive indemnity claims, rather than medical-only claims. He noted that despite an average employee age of over 50 years of age and the increased cost in medical expenses, the District's average cost per claim has decreased from over \$18,000 per claim in FY 02/03 to less than \$16,000 per claim in FY 04/05.
- Workers compensation costs, as a percentage of total payroll, been reduced from approximately 6% of payroll to less than 5% of payroll over the past fiscal year.

In conclusion, Mr. Stafford discussed current and future Program cost savings opportunities, as listed in the staff report. He noted that there has been a recognizable shift in the District's culture with regards to workplace safety, both on the part of employees and management, which has contributed to the decrease in workers compensation costs.

FINANCE-AUDITING COMMITTEE
AUGUST 25, 2005/PAGE 5

Discussion ensued, including the following:

- Chair Stroeh commended staff for the imaginative efforts that have effectively controlled workers compensation costs, resulting in such a significant savings to the District over the past two fiscal years.
- President Middlebrook made the following comments and inquiries:
 - She inquired as to what constitutes indemnity payments. In response, Mr. Stafford stated that this category of payments includes temporary and permanent disability payments, which are paid directly to injured employees to offset wage loss.
 - She remarked on the significance of the reduction in claims by Bus Operators. In response, Mr. Stafford noted that staff has made a concerted effort to curb workers compensation fraud and abuse, has redesigned bus compartments and seats and has ensured that any new buses include ergonomic equipment.
 - She inquired as to why Ferry Division claim costs are increasing, at the same time the number of ferry claims is decreasing. In response, Mr. Stafford explained that the majority of ferry employees are covered by the Jones Act, rather than traditional workers compensation programs; therefore, the Ferry Division has a high number of litigated claims, resulting in high legal costs for the Division. He noted that staff has made some changes in how these Jones Act claims are handled, in an effort to reduce these legal costs.
- Director Pahre commented that there is a common misconception among employees that workers compensation claims are paid by a state agency, rather than by their employers. She stated that once employees are made aware of the fact that workers compensation payments affect their companies' cash flow, there is often a resulting decrease in the amount of claims filed. Mr. Stafford stated that District employees are becoming more aware that workers compensation payments come out of the District's limited resources, and that such awareness has contributed to the changing culture surrounding workers compensation. Kary Witt added that this changing culture is evident in a growing intolerance among the District work groups for questionable workers compensation claims.
- Teri Mantony noted that there tends to be periodic trends in the levels of workers compensation costs, with good years and bad years. She stated that although the District has enjoyed a period of good years recently, staff has decided to maintain the workers compensation reserves at a high level to be prepared for a potentially catastrophic situation.
- Director Shahum made the following inquiries:
 - She inquired as to the type of feedback from District employees regarding the improved management of workers compensation cases. In response, Mr. Stafford stated that there is better communication with injured employees and closer monitoring of

their progress once they return to work. Ms. Mantony noted that employees appreciate the careful attention to their workers compensation claims.

- She inquired as to how the District's workers compensation costs compare with other transit districts. In response, Mr. Stafford cited a 2002 study by the California Institute of Public Risk Assessment (CIPRA), which surveyed workers compensation costs of various California public agencies, including two transit districts. He stated that the District's costs compared very favorably with those of the Santa Clara Valley Transit Agency.
- Director Eddie noted that a self-insured workers compensation program only works well with good management and the cooperation of the employees. He commended staff for their proactive management, noting that the District is moving in the right direction with respect to the workers compensation program.

Action by the Board – None Required

3. Discussion Regarding Updates to the Five- and Ten-Year Financial Projection

Auditor-Controller Joseph Wire and Acting General Manager Kary Witt presented a report on the District's financial projection for the ten-year period from FY 06/07 through FY 15/16. The report included the following sections, as well as a detailed narrative on each of these sections: *Introduction: What is a Projection? Why is a Projection Essential; Fiscal Strength of the District; Projection Findings; Assumptions; and, Next Steps;* as well as the following Appendices: Appendix A, *Projection*; Appendix B, *Assumptions*; Appendix C, *Ten-Year Capital Plan Projection*; Appendix D, *Capital Contribution Calculation*; and, Appendix E, *Reserve Structure*.

The report contained a five- and ten-year financial projection of operating and capital project revenues and costs for the District. The projection reflects the maintenance of all current policy decisions, including the current operating service levels, the current capital project schedule and the current revenue assumptions. Future policy decisions to change tolls, fares, and/or service levels are not included in this projection.

The report stated that the fiscal strength of the District is best tracked by comparing the level of reserve funds available for operating and capital, with the time period necessary for the projected needs of the District to exhaust those resources. With the passage of the FY 05/06 Operating and Capital Budget, the District has encumbered all but \$20.2 million of its available reserve resources, which is a significant increase over what was encumbered in past years. Those reserve funds are available to be used in FY 06/07 to fund liability reserve requirements, refund operating and emergency reserves, if necessary, and capital projects. The report noted that it is the policy of the District to have fully funded reserves to cover all its legal liabilities and commercial paper obligations. A full description of how the reserves will be managed for fiscal years FY 05/06 and FY 06/07 is outlined in the report and in Appendix E.

FINANCE-AUDITING COMMITTEE
AUGUST 25, 2005/PAGE 7

The report further stated that the projected ten-year deficit of \$270 million is approximately \$53 million less than last year's \$323 million estimate. The projected five-year deficit is \$76 million, \$32 million less than last year's \$108 million estimate. The report noted that the new five-year deficit is an 83% reduction of the original \$441 million deficit reported in 2002. Information supporting these numbers is included in the staff report and is further detailed in Appendix A. The report also described why the five- and ten-year deficits remain, noting that the operating deficit of \$1 million in the current fiscal year, inflated over time, creates a large portion of the total deficit. In addition, the District has not acted on a significant portion of the \$57 million in revenue generation targeted to occur between FY 03/04 and FY 07/08, although plans for this revenue generation have been in development.

The report also contained a description of operating revenue and expense assumptions that were used to prepare the financial projections, which are listed in detail in Appendix B. Of note, this year's projection includes added costs due to higher projected commercial paper interest rates and future liability for retiree health benefits.

The report described the capital program assumptions. The FY 06/07 through FY 15/16 Ten-Year Capital Projection, provided in Appendix C of the staff report, identifies \$848 million in capital needs over the next ten years requiring a District contribution of \$184.6 million. This plan has been structured to systematically maintain and sustain existing Bridge, Bus and Ferry capital investments within existing staff resources. Grants are generally assumed to fund 80% of capital projects, consistent with prior experience. The 80% grant funding assumption will be reviewed each year to reflect current experience. All projects have been reviewed and rated essential for the continued operation of the District, and the timing of each project balances the operational need for the project with the availability of staff resources to complete the project in a timely fashion. Project costs are inflated by 2.7% in the out-years based on the inflation factor used by the California Transportation Commission for the State Transportation Improvement Program.

The report further stated that the District will continue the process of addressing the projected deficit at special Board of Directors meetings scheduled in fall 2005. These meetings will discuss the potential paths to balance the budget and the merits of the various options, with the goal to produce a revised *Strategic Plan for Achieving Long-Term Financial Stability* for consideration by the Board. Staff will implement the plan in the years ahead, including incorporating it into the current FY 05/06 budget, where appropriate. A copy of the report is available in the Office of the District Secretary and on the District's web site.

At the meeting, Joseph Wire summarized the staff report, stating that the projection provides a baseline for financial decisions, but does not represent a policy document. He noted that such policy decisions will be made separately as the Board develops an updated *Strategic Plan for Achieving Long-Term Financial*

FINANCE-AUDITING COMMITTEE
AUGUST 25, 2005/PAGE 8

Stability later this year. Mr. Wire acknowledged the contributions of Auditor-Controller staff members Joanne Leone and Rick Driscoll, both of whom assisted in the development of the financial projections.

Discussion ensued, including the following:

- Director Pahre inquired as to whether the District's toll revenue would be affected by the new state law allowing solo drivers of high-mileage hybrid vehicles to travel in carpool lanes on California highways. In response, Joe Wire replied that drivers of hybrid vehicles would not be exempt from paying toll on the Golden Gate Bridge; therefore, the toll revenue would not be affected. Kary Witt stated that additional information on this matter would be provided at the August 26, 2005, meeting of the Governmental Affairs and Public Information Committee meeting.
- Director Shahum inquired as to why the line item for federal grants in Appendix A shows figures only for fiscal years FY 04/05 and FY 05/06, and nothing thereafter. In response, Mr. Wire explained that Appendix A reflects revenues for the Operating budget, including state and federal grants received for operating purposes. He stated that the federal grants shown were special preventative maintenance funds distributed to transit operators in the Bay Area region during the economic downturn, and that the District had spread its portion of those funds over three fiscal years, of which FY 05/06 represents the final year.
- Director Boro made the following comments and inquiries:
 - He inquired as to whether the Board of Directors would be discussing during the strategic planning workshop planned for fall of 2005, the targeted revenue generation mentioned on page 4 of the staff report. In response, Mr. Wire answered in the affirmative.
 - He inquired as to the difference between "Transit Fares" and "Transit Revenue" in Appendix A. In response, Mr. Wire explained that the line item for "Transit Revenue" includes all revenue that accrues to the transit divisions, including grants, fares and concessions, in order to distinguish total transit revenue from total Bridge revenue.
 - He noted that the figures for fare revenue shown on Appendix A are understated, since they do not include planned future fare increases. In response, Mr. Wire concurred, stating that staff is currently developing a new Five-Year Fare Program, which will be presented for Board approval in fall 2005 as part of the strategic planning process.

Action by the Board – None Required

4. **Review of Golden Gate Bridge Traffic/Tolls and Bus and Ferry Transit Patronage/Fares for One Month Ending July 31, 2005**

In a memorandum to Committee, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith provided a schedule comparing categories of Bridge traffic for one month ending July 31, 2005. A copy of the report is available in the Office of the District Secretary and on the District's web site.

Action by the Board – None Required

5. **Review of Financial Statements for One Month Ending July 31, 2005**

a. **Statement of Revenue and Expenses**

In a memorandum to Committee, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith provided a financial statement entitled, *Statement of Revenues and Expenses for One Month Ending July 31, 2005*. A copy of the report is available in the Office of the District Secretary and on the District's web site.

Action by the Board – None Required

b. **Statement of Capital Programs and Expenditures**

In a memorandum to Committee, Capital and Grants Manager Nina Rannels, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith provided a financial statement entitled, *Statement of Capital Programs and Expenditures for One Month Ending July 31, 2005*. A copy of the report is available in the Office of the District Secretary and on the District's web site.

Action by the Board – None Required

6. **Public Comment**

There was no public comment.

7. **Adjournment**

All business having been concluded, the meeting was adjourned at 10:55 a.m.

Respectfully submitted,

J. Dietrich Stroeh, Chair
Finance-Auditing Committee