



November 17, 2005
(For Board: December 16, 2005)

**REPORT OF THE FINANCE-AUDITING COMMITTEE/
COMMITTEE OF THE WHOLE**

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

Honorable Members:

A meeting of the Finance-Auditing Committee/Committee of the Whole was held in the Board Room, Administration Building, Toll Plaza, San Francisco, California, on Thursday, November 17, 2005, at 10:15 a.m., Acting Chair Pahre presiding.

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

Committee Members Absent (2): Chair Stroeh; Director Boro

Other Directors Present (3): Directors Hernández, Martini and Newhouse Segal

Committee of the Whole Members Present (10): Directors Cochran, Eddie, Hernández, Martini, Murray, Newhouse Segal, Pahre, Reilly and Shahum; President Middlebrook

Committee of the Whole Members Absent (9): Directors Ammiano, Brown, Dufty, Kerns, McGoldrick, Sandoval and Stroeh; Second Vice President Boro; First Vice President Moylan

Staff Present: General Manager Celia G. Kupersmith; District Engineer Denis J. Mulligan; Auditor-Controller Joseph M. Wire; Secretary of the District Janet S. Tarantino; Attorney David J. Miller; Deputy General Manager/Bridge Division Kary H. Witt; Deputy General Manager/Bus Division Susan C. Chiaroni; Deputy General Manager/Ferry Division James P. Swindler; Planning Director Alan R. Zahradnik; Public Affairs Director Mary C. Currie; Executive Assistant to the General Manager Amorette Ko; Assistant Clerk of the Board Karen B. Engbretson

Visitors Present: Nancy Jones, Public Financial Management; Kevin J. O'Connell and Eugene Ma, Macias, Gini & Company

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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.

At the meeting, Nancy Jones described the latest economic news and current interest rates for the District's portfolio. She reported that the Federal Reserve Bank increased interest rates again on November 1, 2005, bringing the target short-term interest rate to 4.0%. It is anticipated that the Federal Reserve Bank will continue its measured pace of increasing interest rates when it meets again on December 13, 2005, and January 31, 2006.

Ms. Jones further stated that during this period of increasing interest rates, the Portfolio Manager has been focusing on shorter-term securities and has been waiting to invest in two-year securities when they reach higher yields. She noted that the current yield on two-year U.S. Treasury notes is 4.40%, and that the yield on shorter-term securities, such as 3-month securities, will catch up with this rate by early 2006.

Ms. Jones also stated that the economy is strengthening, with economic growth increasing at a rate of 3.8% in the third quarter. In addition, unemployment rate fell to 5%, the lowest rate in several years, and that consumer confidence is also low, as a result of the negative impact of the recent hurricanes on job growth and fuel prices.

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 \$56,389.87;
- b. Ratify investments made by the Auditor-Controller during the period October 18, 2005, through November 7, 2005, as follows:

SECURITY	PURCHASE DATE	MATURITY DATE	ORIGINAL COST	PERCENT YIELD
Citigroup Funding, Inc. Commercial Paper	11/01/05	12/12/05	7,368,111.18	4.02

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- c. Authorize the Auditor-Controller to re-invest, within the established policy of the Board, investments maturing between November 8, 2005, and December 5, 2005, as well as the investment of all other funds not required to cover expenditures that may become available.
- d. Accept the Investment Report for October 2005 prepared by Public Financial Management.

Action by the Board - Resolution
CONSENT CALENDAR

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

2. **Authorize the Filing of an Application with the Metropolitan Transportation Commission for Fiscal Year 2006 Regional Measure 2 Funds to Support Golden Gate Transit Bus Routes**

In a memorandum to Committee, Capital and Grant Programs Manager Nina Rannells, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith reported on staff's recommendation to authorize the General Manager to execute and submit an application, as well as related assurances and allocation request, with the Metropolitan Transportation Commission (MTC) for Regional Measure 2 funds, in the amount of \$2,419,402, to support bus services on Golden Gate Transit Routes 40/42, 72 and 75 bus services.

The report stated that in March 2004, voters passed Regional Measure 2 (RM2) raising the toll for all vehicles on the seven State-owned toll bridges in the San Francisco Bay Area by \$1.00. This additional toll revenue will be used to fund various transportation projects, within the region, that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors. The report also stated that Golden Gate Transit Route 40/42 San Rafael/Richmond Bridge service and Routes 72 and 75 Express Bus services are eligible services for RM2 transit operating funds.

The report further stated that in accordance with MTC's RM2 Regional Traffic Relief Plan Policies and Procedures for receiving capital assistance, the District Board of Directors is required to adopt a resolution authorizing application for RM2 assistance and approving related certifications and assurances as listed in the staff report. It is recommended that the Board authorize all actions necessary in order to secure RM2 funds to support continued operation of Routes 40/42, 72 and 75 bus services in FY 05/06. The report noted that this grant application to MTC will request funds in the amount of \$2,131,500 for Routes 40/42; funds in the amount of \$146,827 for Route 72; and, funds in the amount of \$141,075 for Route 75. The report also noted that these RM2 grant funds, in the total amount of \$2,419,402, have been included in the FY 05/06 Bus Division Operating Budget. A copy of the staff report is available in the Office of the District Secretary.

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Staff recommended and the Committee concurred by motion made and seconded by **Directors SHAHUM/REILLY** 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 General Manager to execute and submit an application, as well as related assurances and an allocation request, with the Metropolitan Transportation Commission for FY 05/06 Regional Measure 2 funds in the total amount of \$2,419,402, to support Golden Gate Transit Routes 40/42, 72 and 75 bus services.

**Action by the Board – Resolution
NON-CONSENT CALENDAR**

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

[Note: The above recommendation was forwarded to the Board of Directors meeting of November 18, 2005, for action.]

3. Receive the Independent Auditor's Reports and the Financial Statements for the Year Ending June 30, 2005, as Submitted by Macias, Gini & Company, LLP

In a memorandum to Committee, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith reported on the annual audit of the Golden Gate Bridge, Highway and Transportation District for the year ending June 30, 2005, prepared by Macias, Gini and Company, LLP. The Committee reviewed the following reports that had been provided by the Auditor-Controller:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Financial Statements;
- Supplemental Schedule of Revenues and Expenses by Division; and,
- Management Letter

The report further stated that staff recommends that the Committee receive the Financial Statements, Independent Auditor's Reports and Memorandum on Internal Controls for the Year Ending June 30, 2005. A copy of the staff report, including attached Independent Auditor's reports, is available in the Office of the District Secretary.

At the meeting, Joseph Wire introduced representatives of the independent auditor, Kevin O'Connell and Eugene Ma, of Macias, Gini & Company (Macias). Mr. O'Connell then addressed the Committee, providing an overview of the Independent Auditor's report. A written version of Mr. O'Donnell's presentation was provided to the Board members at the Committee, a copy of which is available in the Office of the District Secretary.

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Mr. O'Connell summarized the scope of auditing services provided by Macias, as well as the results of the audit. He stated that this year's audit reviewed the District's internal controls, and that no significant deficiencies were found. He recommended that with the implementation of the new Financial Management Information System (FMIS), particularly the new payroll system, it would be prudent for the District to develop some new policies to match new procedures associated with the FMIS. He also stated that Macias provided an Unqualified or "Clean" Opinion, the highest level of assurance that the company can provide, and that the auditors had not found any material noncompliance issues.

Mr. O'Connell acknowledged the District's progress in complying with the rules adopted in June 2004 by the Government Accounting Standards Board (GASB) regarding post-employment retiree benefits, which require government agencies to have actuarial evaluations performed on the agencies' post-employment healthcare benefit liabilities, and have those liabilities reflected on their financial statements by 2006. Mr. O'Connell stated that the District has already solicited an actuarial study to determine the amount required to pay for post-employment healthcare benefit liabilities, and has set aside designated funds for the purpose of financing this future obligation. He further noted that the District's progress has surpassed that of many government agencies in dealing with this future obligation.

Discussion ensued, including the following:

- Acting Chair Pahre commended the auditors for a successful audit, and commended all District staff that assisted the auditors in gathering information for this year's audit.

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

RECOMMENDATION

The Finance-Auditing Committee recommends that the Board of Directors receive the Independent Auditor's Reports, Financial Statements and Memorandum on Internal Controls for the Year ending June 30, 2005, as submitted by Macias, Gini & Company, LLP.

**Action by the Board - Resolution
NON-CONSENT CALENDAR**

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

[Note: The above recommendation was forwarded to the Board of Directors meeting of November 18, 2005, for action.]

4. Discussion Regarding a Five-Year Fare Program

General Manager Celia Kupersmith introduced the topic of discussion relative to a Golden Gate Transit (GGT) five-year fare program. Ms. Kupersmith stated that during the development of this program, the District adopted two interim fare increases in 2004 and 2005. In addition, the Board of Directors, by Ordinance No. 2005-06 at its October 14, 2005 meeting, authorized implementation of a regional bus and ferry restructure program. She noted that the presentation at this meeting of the Finance-Auditing Committee will be the initial step in the process to establish a five-year fare program, one of the revenue generation components of the *Strategic Plan for Achieving Long-Term Financial Stability* (Strategic Plan). Ms. Kupersmith further noted that staff would not be seeking approval of the five-year fare program at this point in time, but rather, would be presenting to the Committee the recommended approach for the Committee's review and to seek concurrence with staff's proposed public outreach.

Planning Director Alan Zahradnik presented to the Committee a PowerPoint presentation regarding a fare recovery policy and a five-year fare program for regional bus and ferry fares. Mr. Zahradnik stated that the proposed fare program would meet the \$9 million revenue generation goal of the Strategic Plan. He briefly described the District's current fare recovery policy, which sets the desired level of transit user fee support for District transit services. He stated that the current goal is to recover 33% of transit system operating costs from passenger fares. He further stated that when the actual FY 04/05 fare recovery was calculated for combined GGT bus and ferry fares, including Marin County Transit District (MCTD) local bus service and inter-county paratransit service, the recovery rate was 26.5%, about \$5.5 million short of the 33% goal. When MCTD local bus service is excluded, the GGT bus fare recovery was 20%, and ferry fare recovery was 33%, requiring a subsidy of \$34.8 million in toll revenues in FY 04/05. Mr. Zahradnik explained that since the agreement between the District and MCTD for Marin local bus service requires MCTD to set fares for its local service, staff proposes that the District's fare recovery policy should exclude MCTD services. In addition, staff proposes that separate fare recovery goals be set for both regional GGT bus and ferry services, due to the different characteristics of each transit mode.

[With the arrival of Director Murray, the Committee became a Committee of the Whole.]

Mr. Zahradnik presented several slides regarding peer fare recovery review, which outlined fare recovery goals set by comparable transit agencies in the Bay Area. He noted that most public bus operators have fare recovery goals between 20% and 30%, and that those with lower fare recovery rates often have dedicated tax support. Rail operators have fare recovery goals between 40% and 60% and ferry operators have a range of between 30% and 70%. He stated that ferry fare recovery depends on how certain expenses are reported by the individual ferry operators, which can make direct comparison difficult with the District ferry fare

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recovery rate. For example, staff met recently with Vallejo Ferry–Baylink officials to determine how they calculated their 70% fare recovery rate. After adjustments were made to more accurately allocate Vallejo Ferry–Baylink’s operating expenses, the comparable ferry fare recovery rate for that agency was 51%. Mr. Zahradnik stated that staff has determined that reasonable fare recovery goals for GGT bus and ferry should be 25% and 40%, respectively. He noted that achieving the target for bus fare recovery may be challenging, due to declining bus ridership levels.

Mr. Zahradnik also provided several charts and graphs depicting projected fare revenue, projected expenses and projected fare recovery for both GGT bus and ferry, comparing how those recovery rates would change with both 5% and 10% annual fare increases over the next five years. He noted the following salient points regarding the five-year fare program financial outlook:

- The estimated FY 05/06 fare recovery for GGT regional bus is about 18%. Over the next five years, regional bus fare recovery is projected to fall to 13% with cost inflation and lower ridership.
- Bus fares would have to be increased by over 45% to achieve a 25% fare recovery goal in FY 06/07. The negative impact on ridership would likely be significant and this level of fare recovery would not be sustainable with falling ridership.
- The estimated FY 05/06 fare recovery for GGT ferry is about 37%. Over the next five years, ferry fare recovery is projected to fall to 33% with cost inflation.
- Ferry fares would have to be increased by over 10% to achieve a 40% fare recovery goal in FY 06/07.
- Without a fare increase, in FY 06/07 regional bus and ferry transit services would need \$41.2 million Bridge toll subsidy, compared with \$34.8 million Bridge toll subsidy in FY 04/05. For further comparison, prior to the 2003 transit service reductions, the Bridge toll subsidy had been \$46 million.

Mr. Zahradnik noted the following points regarding ridership and potential fare increases:

- Over the next five years, regional bus ridership is expected to continue to decline.
- Over the next five years, ferry ridership will likely continue to grow, but will be constrained by lack of peak vessel capacity and parking at Larkspur Ferry Terminal.
- Ridership growth, if it occurs in peak times and requires added services, could cause more costs.
- Ridership growth is needed in off-peak times when capacity is available to raise revenues without increasing costs.
- Without growth in regional bus and ferry ridership during the five-year fare program, District efforts to achieve bus fare recovery goal and reduce dependency of bus and ferry transit on Bridge toll subsidy will be hampered.

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Mr. Zahradnik outlined staff's recommendations regarding the proposed five-year fare program, as follows:

- Staff recommends establishing annual 5% transit fare increases as the District's base five-year program for generating revenue to cover operating expenses. Annual 5% regional bus and ferry fare increases over the next five years (FY 06/07 through FY 10/11) should produce sufficient revenue to meet the \$9 million revenue generation target suggested by staff to the Board of Directors on October 14, 2005.
- Staff recommends adopting fare recovery goals of 25% for GGT regional bus service and 40% for GGT regional ferry service. These levels of user fee support are reasonable, recognizing that transit services provided by this District are not subsidized by dedicated taxes and that Golden Gate Bridge tolls must first fund operation and necessary improvements to the Bridge.
- Staff also recommends that the five-year fare program be reviewed annually, with the preparation of each upcoming year's budget, to determine if targets are being met. If upward adjustment of fares is needed to respond to changing financial conditions or to achieve fare recovery goals, the Board of Directors can consider a potential additional increase in that specific year of the program.

Mr. Zahradnik further clarified that the five-year fare program would not apply in certain circumstances, including special event fares, fares for bus services funded by other agencies, MCTD local Marin bus service and inter-operator fares. In addition, he noted that fare changes may be set to implement new programs and future initiatives designed to improve transit services, retain existing customers and attract new transit riders. He noted that the proposed five-year fare program assumes that current policy will be continued that sets the fare for intra-Marin fares on regional bus routes the same as MCTD's local fares. He further noted that there are over 1 million local Marin rides annually on GGT regional bus routes, and that the Board of Directors could consider changing the current policy if it so chooses.

In conclusion, Mr. Zahradnik described the next steps in the development of a five-year fare program, including the following:

- Staff would meet with the Bus and Ferry Passenger Advisory Committees, as well as the Advisory Committee on Accessibility, to present the proposed five-year fare program in December 2005.
- Staff would hold customer informational open houses and public hearings in February 2006.
- It is anticipated that the Board of Directors would take action on the five-year fare program in March 2006, with implementation proposed for July 1, 2006.

A copy of the presentation is available in the Office of the District Secretary.

Discussion ensued, including the following salient points:

- Director Murray made the following comments and inquiries:
 - She noted that the point at which a transit agency sets its fare recovery goal is directly tied to the level of its fares, and that some agencies may set its fares artificially high in order to achieve a high fare recovery rate. In response, Mr. Zahradnik noted that while other agencies may have other standards to achieve, the District sets its fare recovery rate based on two goals: (1) to generate enough revenue to maintain transit operations; and, (2) to ensure that Transit users pay an equitable amount, in relation to the Bridge toll subsidy paid by Bridge users, of the costs to operate the transit services.
 - She noted that when setting a fare increase, the District must be mindful of the price point at which fares would be so high as to discourage transit ridership. In response, Mr. Zahradnik stated that fare recovery policy is simply a goal that the District would strive to reach, but that fares would not necessarily be increased significantly just to meet that goal. He noted that other market forces, such as the potential effect on ridership, would be taken into consideration when setting transit fares.
 - She inquired as to whether there would be any penalties if the District did not reach its fare recovery goals. In response, Mr. Zahradnik stated that there are no regulations that require the District to attain a certain fare recovery rate.
 - She suggested that the District look at other factors when considering fare increases, such as work pattern trends and incentives to increase transit use. She further suggested that the District collaborate with local visitor bureaus to promote midday use of the buses and ferries by tourists.
 - She suggested that the District consider adding amenities to its transit service that would give passengers the perception of added value in proportion to the increased fare.
 - She suggested that the five-year fare program be correlated with the full implementation of Translink®. In response, Ms. Kupersmith stated that the District has already postponed implementation of a five-year fare program while waiting for the full implementation of Translink®, which has been postponed from March 2005 and is expected to occur in mid-2006.
 - She suggested that at the public outreach meetings associated with the five-year fare program, that the message to the public include discussion of a potential toll increase, so that the District can show that it is considering all of its revenue streams in an integrated fashion.

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- President Middlebrook made the following comments and inquiries:
 - She stated that setting a realistic fare recovery goal requires a delicate balance, since whatever the District sets as its fare recovery goal will directly affect the amount of the Bridge toll subsidy needed for regional bus and ferry transit services, which in turn directly affects the amount available for Bridge maintenance and other District operations.
 - She commented that with over 1 million local rides on GGT regional bus routes, it may be prudent to consider increasing fares for local use of regional routes. In response, Ms. Kupersmith explained that historically, the District has always matched fares for local use of regional routes to MCTD's local fares in order to make it easier for Marin transit customers. She noted that if separate fares were set for passengers, depending on whether they were ending their trip within Marin County or continuing their trip into San Francisco, it would create confusion for local passengers and make local transit use more complicated. Ms. Kupersmith stated that the five-year fare program was developed under the assumption that fares for local use of regional routes would not change. She further stated that if local ridership increases significantly, in the future the District may consider increasing fares for local use of regional routes such as Routes 70 and 80. Mr. Zahradnik noted that in Sonoma County and in San Francisco, local riders of GGT buses are charged a higher fare than for local providers, such as Sonoma County Transit and San Francisco Municipal Railway.

- Director Martini made the following comments and inquiries:
 - He noted that if the lower-performing bus routes were eliminated, it would result in a higher overall fare recovery rate. In response, Ms. Kupersmith stated that staff continually analyzes the performance of all bus routes, and that bus routes that do not meet a minimum level of ridership are eliminated. She noted the example of regional bus Routes 32 and 34, which were approved by the Board to be eliminated in December 2005 due to very low ridership.
 - He inquired as to why the District does not set transit fares based on increases in the Consumer Price Index (CPI). In response, Ms. Kupersmith explained the historic context of past fare increases that were tied to the CPI, and noted that staff recommends that fares in the five-year fare program be increased by 5%, which is a combination of the increase in the CPI and the amount of increase needed to get closer to the District's fare recovery goal.

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- Chair Pahre stated that at the public outreach meetings associated with the five-year fare program, it would also be important to educate the public that when the toll revenue is averaged among all Bridge users, it amounts to only \$4.25 per user.
- Director Shahum concurred with Director Murray that a potential toll increase should be discussed at the public outreach meetings associated with the five-year fare program. She also requested that the public be provided with charts that show the amounts that fares for all zone-to-zone bus trips would increase with a 5% fare increase.
- Director Eddie stated that it is not in the District's best interest to allow local riders to travel on regional bus routes paying local Marin fares, when such buses can get so overcrowded with local riders that some regional bus riders may be left behind at the bus stops. He requested that staff consider this type of situation in the context of the five-year fare program. In response, Mr. Zahradnik noted that fares for Route 40/42, which crosses the Richmond-San Rafael Bridge, has a higher fare than for local MCTD service, and a passenger on Route 40/42 pays the same price whether they travel across the bridge or get off in Marin County. Mr. Zahradnik further noted that MCTD's Short-Range Transit Plan addresses the situation of local bus service along U.S. Highway 101.

Ms. Kupersmith summarized the Committee's direction to staff regarding the five-year fare program, noting that staff understands that the Committee approves the five-year fare program as presented, with additional improvements in how the fare program is presented to the public at the public outreach meetings, as suggested by members of the Committee. She stated that the public outreach would include: (1) positioning the fare increase in the context of adding value; (2) providing the public with details, such as to how the 5% increase amount was determined and providing examples of how specific fares would increase; and, (3) having multi-county workshops and public hearings in the evenings. She stated that the full Board would be notified of the Committee's discussion at this meeting by a memorandum to the Board transmitting these minutes. In addition, she stated that she would provide an update to the Board in an upcoming General Manager's Report on the progress of discussions by the Strategic Plan for Long-Term Financial Stability Advisory Committee.

Action by the Board – None Required

5. **Review of Golden Gate Bridge Traffic/Tolls and Bus and Ferry Transit Patronage/Fares for Four Months Ending October 2005**

In a memorandum to Committee, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith provided a schedule comparing categories of Bridge traffic for three months ending October 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. **Review of Financial Statements for Four Months Ending October 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 Four Months Ending October 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 Rannells, Auditor-Controller Joseph Wire and General Manager Celia Kupersmith provided a financial statement entitled, *Statement of Capital Programs and Expenditures for Four Months Ending October 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

7. **Public Comment**

There was no public comment.

8. **Adjournment**

All business having been concluded, the meeting was adjourned at 11:30 a.m.

Respectfully submitted,

Barbara L. Pahre, Acting Chair
Finance-Auditing Committee