METROPOLITAN TRANSPORTATION COMMISSION

Meeting Transcript

METROPOLITAN TRNASPORTATION COMMISSION

AUDIT COMMITTEE

WEDNESDAY, OCTOBER 27, 2021, 9:05 A.M.

ALFREDO PEDROZA, CHAIR: GOOD MORNING, EVERYONE. MY NAME IS ALFREDO PEDROZA, CHAIR OF THE METROPOLITAN TRANSPORTATION COMMISSION, I'M GOING TO CALL TO ORDER THE AUDIT COMMITTEE. AND LET ME JUST SAY, WHAT A MOMENT TO BE IN PERSON, BACK IN THE BUILDING, SAFELY AND RESPONSIBLY, AND I JUST WANT TO THANK OUR STAFF WHO HAVE MADE THIS DAY HAPPEN. ROUND OF APPLAUSE. [APPLAUSE] AND AN ECHO OF GRATITUDE TOWARD OUR COMMISSIONERS AND OUR STAFF. THE PANDEMIC HAS NOT BEEN EASY ON US, BUT WE HAVE PERSEVERED. INCREDIBLE WORK. AND TODAY IS GOING TO BE A MANIFESTATION OF ALL THE GOOD WORK COMING TOGETHER AND WE'RE PAUSING TO REFLECT BEING BACK IN THE BUILDING; IT FEELS SO GREAT. I'M OUT OF COMMENTS. SO, LET'S PLEASE PLAY THE INTRODUCTORY RECORDING. [RECORDED MEETING PROCEDURES ANNOUNCEMENT] DUE TO COVID-19, THIS MEETING WILL BE CONDUCTED AS A ZOOM WEBINAR PURSUANT TO THE PROVISIONS OF ASSEMBLY BILL 361 WHICH SUSPENDS CERTAIN REQUIREMENTS OF THE BROWN ACT. THIS MEETING IS BEING WEBCAST ON THE MTC WEBSITE. THE CHAIR WILL CALL UPON COMMISSIONERS, PRESENTERS, STAFF, AND OTHER SPEAKERS, BY NAME, AND ASK THAT THEY SPEAK CLEARLY AND STATE THEIR NAMES BEFORE GIVING COMMENTS OR REMARKS. PERSONS PARTICIPATING VIA WEBCAST AND ZOOM, WITH THEIR CAMERAS

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ENABLED, ARE REMINDED THAT THEIR ACTIVITIES ARE VISIBLE TO VIEWERS. COMMISSIONERS AND MEMBERS OF THE PUBLIC PARTICIPATION BY ZOOM, WISHING TO SPEAK, SHOULD USE THE RAISE HAND FEATURE OR DIAL STAR 9, AND THE CHAIR WILL CALL UPON THEM AT THE APPROPRIATE TIME. TELECONFERENCE ATTENDEES WILL BE CALLED UPON BY THE LAST FOUR DIGITS OF THEIR PHONE NUMBER. IT IS REQUESTED THAT PUBLIC SPEAKERS STATE THEIR NAMES AND ORGANIZATION, BUT, PROVIDING SUCH INFORMATION IS VOLUNTARY. WRITTEN PUBLIC COMMENTS RECEIVED AT INFOATBAYAREAMETRO.GOV BY 5 P.M., YESTERDAY, WILL BE POSTED TO THE ONLINE AGENDA AND ENTERED INTO THE RECORD, BUT WILL NOT BE READ OUT LOUD. IF AUTHORS OF THE WRITTEN CORRESPONDENCE WOULD LIKE TO SPEAK, THEY ARE FREE TO DO SO. THEY SHOULD RAISE THEIR HAND AND THE CHAIR WILL CALL UPON THEM AT THE APPROPRIATE TIME. A ROLL CALL VOTE WILL BE TAKEN FOR ALL ACTION ITEMS. PANELISTS AND ATTENDEES SHOULD NOTE THAT THE CHAT FEATURE IS NOT ACTIVE. IN ORDER TO GET THE FULL ZOOM EXPERIENCE, PLEASE MAKE SURE YOUR APPLICATION IS UP TO DATE.

ALFREDO PEDROZA, CHAIR: ALL RIGHT. THANK YOU FOR THAT. SO WE'RE GOING TO MOVE ON TO ITEM ONE, IF WE CAN PLEASE DO ROLL CALL AND CONFIRM WE HAVE A QUORUM?

CLERK OF THE BOARD: YES. GOOD MORNING. CHAIR PEDROZA?

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ALFREDO PEDROZA, CHAIR: HERE.

CLERK OF THE BOARD: DUTRA-VERNACI? COMMISSIONER DUTRA-VERNACI IS ABSENT. COMMISSIONER GLOVER?

FEDERAL D. GLOVER: HERE.

CLERK OF THE BOARD: COMMISSIONER RABBIT?

DAVID RABBIT: HERE.

CLERK OF THE BOARD: COMMISSIONER WORTH?

AMY R. WORTH: HERE.

CLERK OF THE BOARD: THANK YOU. QUORUM IS PRESENT.

ALFREDO PEDROZA, CHAIR: THANK YOU KIMBERLY. LET'S MOVE TO ITEM 2A FISCAL YEAR 2021 AUDIT RESULTS AND REQUIRED COMMUNICATION. AT THIS POINT I'LL TURN IT OVER TO STAFF FOR THEIR PRESENTATION. KIMBERLY WERE WE GOING TO GET A STAFF REPORT ON THIS OR WAS THIS JUST TO ACCEPT THE AUDIT

BRIAN MAYHEW: I'M BRIAN MAYHEW AND I USE THIS TITLE RARELY, BUT I AM THE CHIEF FINANCIAL OFFICER AND I'M GOING TO TALK

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ABOUT TODAY OUR AUDITOR CATHY LAI WILL PRESENT OUR AUDIT FINDINGS.

SPEAKER: CATHY LAI: THANK YOU. I'M GOING TO ASK STAFF TO PULL UP THE PRESENTATION. I'M PLEASED TO PRESENT THE AUDIT RESULTS FOR MTC AND ALL THE RELATED ENTITY. OUR AUDITS ARE ALL SUBSTANTIALLY COMPLETED AT THIS TIME. REALLY THE ONLY REMAINING OPEN ITEMS RELATE TO SUBSEQUENT EVENT PROCEDURES THAT ARE TYPICAL AT THIS STAGE WHERE WE UPDATE THOSE AT DATE OF ISSUANCE AS WELL AS MANAGEMENT REPRESENTATION LETTER. NEXT SLIDE PLEASE. BEFORE I BEGIN, AS BRIAN MENTIONED, THE FINANCIAL STATEMENT AUDIT IS A TREMENDOUS AMOUNT OF EFFORT THAT GOES INTO CONDUCTING THESE FINANCIAL COMPLIANCE AUDITS. SO BEFORE I DIVE INTO THE RESULTS I WANT TO TAKE A MOMENT TO ACKNOWLEDGE THE CROWE LEADERSHIP TEAM AS NOTED HERE ON THE SLIDE AS WELL AS THE ENTIRE ENGAGEMENT TEAM THAT BACKS UP THIS TEAM HERE, AS WELL AS MTC MANAGEMENT FOR THEIR INCREDIBLE EFFORTS, IN YEAR TWO OF THE PANDEMIC HAVING TO CONDUCT THE AUDIT REMOTELY WAS A SIGNIFICANT UNDERTAKING. SO I REALLY WANT TO EXPRESS MY APPRECIATION TO BOTH SIDES OF CROWE, AS WELL AS MANAGEMENT BEFORE WE GET INTO THE RESULTS HERE. ON THE NEXT SLIDE WE HAVE A BRIEF AGENDA GOING OVER AUDIT OBJECTIVES. JUST TO REMIND WHAT YOU WE HAVE BEEN ENGAGED TO DO AND GO OVER ANTICIPATED RESULTS AND FINISH UP WITH REQUIRED COMMUNICATION UNDER THE AUDITING STANDARDS. ADVANCE A COUPLE OF SLIDES HERE.

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I THOUGHT IT WOULD BE WORTHWHILE TO REVIEW THE OBJECTIVES. NEXT SLIDE. CROWE HAS BEEN ENGAGED BY MTC TO DO A FEW THINGS, CERTAINLY TO EXPRESS AN OPINION ON WHETHER THE FINANCIAL STATEMENTS ARE MATERIALLY CORRECT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES GAP, AND WITH REQUIREMENTS WE CONDUCT OUR AUTHORITY IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS. OUR AUDIT OBTAINS REASONABLE ASSURANCE THAT THE FINANCIALS ARE FREE FROM MATERIAL MISSTATEMENT AND THEN OUR AUDIT INCLUDES CONSIDERATION OF INTERNAL CONTROLS OVER FINANCIAL REPORTING BUT WE DON'T EXPRESS AN OPINION ON THOSE INTERNAL CONTROLS. THOSE ARE AUDITOR RESPONSIBILITIES. I WANT TO HIGHLIGHT MANAGEMENT IS RESPONSIBLE FOR DESIGN AND OPERATING EFFECTIVENESS OF ALL INTERNAL CONTROLS AS WELL AS FAIR PRESENTATION OF THE FINANCIAL STATEMENTS THEMSELVES. WITH THAT I'LL GO AHEAD AND MOVE FORWARD TO THE NEXT SLIDE AND TALK THROUGH THE ENTITIES THAT WERE SUBJECT TO THE FINANCIAL STATEMENT AUDIT. ON THIS SLIDE YOU WILL SEE THE THREE ENTITIES THAT ROLL UP INTO MTC AS A WHOLE, IN ADDITION THAT THERE IS A COMPLETELY SEPARATE AUDIT RELATED TO 375 BEALE CONDOMINIUM CORPORATION OR 375 BEALE FOR SHORT. AND THE NEXT SLIDE HERE, MTC IS SUCH A LARGE ENTITY WITH SO MANY FUNDS AND COMPONENT UNITS SUCH AS BAHA AND BAIFA, SO I HAVE PUT TOGETHER AN ILLUSTRATION OF MTC FUNDS THAT ARE PART OF THE OVERALL MTC AUDIT. AND REALLY YOU CAN KIND OF ANALYZE THESE FROM TWO DIFFERENT PERSPECTIVES. WITHIN THE MTC

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COMPREHENSIVE ANNUAL FINANCIAL REPORT YOU WILL SEE GOVERNMENT WIDE FINANCIAL STATEMENTS, AND THAT INCLUDES THE GOVERNMENTAL ACTIVITIES, COLUMNS, BIG TYPE ACTIVITY COLUMN, BAHA, BAIFA INDISCRIMINATE COMPONENT UNITS, AND FURTHER PERSPECTIVE BREAK DOWN OF INDIVIDUAL FINANCIAL UNITS HIGHLIGHTED IN BLUE THE FRONT FINANCIAL STATEMENTS HORIZONTAL PLANE AND ALL RESPECTIVE FUNDS AND TO FURTHER ILLUSTRATE WHAT CROWE WAS ASKED TO DO ON REPORTING YOU WILL SEE AN ICON WHICH HAS A REPORT FOR BAHA, BAIFA AS WELL AS MTC AS A WHOLE. AND WE ISSUE A SEPARATE STANDALONE FOR 375 BEALE AS WELL.

BRIAN MAYHEW: I'M SORRY TO INTERRUPT YOU BUT I WANT TO BRING THE COMMITTEE'S ATTENTION. YOU WILL NOTICE THAT THE HOUSING FINANCE AUTHORITY IS NOT ON THIS LIST YET. IT IS NOT FINANCIALLY ACTIVE, AND THEREFORE IT ISN'T SUBJECT TO AUDIT PROCEDURES YET. SINCE IT IS GOING ACTIVE NEXT YEAR AND THERE WILL BE AN ACTIVE BUDGET NEXT YEAR YOU WILL SEE THIS AS PART OF THE '22 BUDGET. SORRY CATHY.

KATHLEEN LAI: I AM PLEASED TO PRESENT FOR BAHA, BAIFA AS WELL AS REPORT FOR STANDALONE FOR 375 BEALE, I'LL ISSUE OUR UNMODIFIED OPINIONS, HIGHEST LEVEL OF ASSURANCE ESSENTIALLY AUDIT OPINION WILL STATE FINANCIAL STATEMENTS ARE FAIRLY STATED IN ALL MATERIAL RESPECTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. MTC HAD EXPENDED $76 MILLION

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IN FEDERAL FUNDING DURING 2021 AND MTC IS SUBJECT TO THE UNIFORM GUIDANCE OF THE FEDERAL GRANT AUDIT. THE TWO PROGRAMS THIS YEAR ARE FEDERAL TRANSIT, AND HIGHWAY PLANNING AND CONSTRUCTION PROGRAMS, AGAIN I'M PLEASED TO REPORT THAT WE ANTICIPATE ISSUING A CLEAN OPINION ON THE UNIFORM GUIDANCE AND WE DID NOT HAVE ANY FEDERAL FINDINGS OR GUIDANCE EXCEPTIONS DURING OUR TEST. IN ADDITION CONSIDERATION MENTIONED INTERNAL CONTROLS OVER MTC FINANCIAL REPORTS AND COMPLIANCE MATTERS AGAIN DIDN'T NOTICE NON-COMPLIANCE OR OTHER MATTERS IN OUR ATTENTION NOR IDENTIFY MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROLS HOWEVER WE DID ADDRESS TO MANAGEMENT IN A MANAGEMENT LETTER, PART OF YOUR PACKAGE TODAY, I'M GOING TO SUMMARIZE IN THE NEXT SLIDE. BY WAY OF REMINDER IN THE PRIOR YEAR AUDIT WE NOTED FOUR INTERNAL CONTROL RECOMMENDATIONS DURING THAT AUDIT AS PART OF THE CURRENT YEAR PROCEDURES WE FOLLOWED UP ON THE STATUS OF THE PRIOR YEAR DEFICIENCIES AND MANAGEMENT PLAN WE NOTE THAT THREE OF THE FOUR PRIOR YEAR RECOMMENDATIONS THOSE WERE IN FACT IMPLEMENT IN THE CURRENT YEAR HOWEVER WE DID HAVE ONE CONTINUING DEFICIENCY AS IT RELATES TO BENEFITS RECONCILIATION. WE'LL GO OVER THAT IN MORE DETAIL ON THE NEXT SLIDE. SO, DURING OUR AUDIT AND AGAIN THIS IS SIMILAR TO THE PRIOR YEAR OBSERVATION, THE AUDIT TEAM HAD PERFORMED A BENEFITS RECONCILIATION FOR THE MEDICAL BENEFIT AND WE DID IT FOR ALL EMPLOYEES AND OVER A SAMPLE OF 24 PAY PERIODS THROUGHOUT THE FISCAL YEAR. AND WE

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HAD THE FOLLOWING OBSERVATIONS THAT INCLUDED 26 EMPLOYEES AND THE AGGREGATE. SO THERE REALLY ARE FOUR DIFFERENT TYPES OF SCENARIOS WE'LL GO OVER THOSE IN SUMMARY. WE HAD FOUR EMPLOYEES THAT HAD PAYMENTS INCLUDED AS PART OF THE CALPERS MONTHLY INVOICES FOR PREMIUMS BUT THERE ARE NO PAYROLL DEDUCTIONS TAKEN RESULTING IN POTENTIAL AMOUNTS THAT ARE DUE FROM THE EMPLOYEES THAT TOTALLED THE $355 AND THAT REPRESENTED THE EMPLOYEE'S PORTION OF THE PREMIUM PAYMENT. CONVERSELY WE HAD FOUR OTHER EMPLOYEES WHERE THERE WERE PAYROLL DEDUCTIONS FOR THE PREMIUM PAYMENTS BUT THEN THESE EMPLOYEES WERE NOT INCLUDED IN THE MONTHLY INVOICES. WE HAD SITUATIONS WHERE WE HAD EMPLOYEE VARIANCES BETWEEN EMPLOYEES PAYROLL DEDUCTIONS AND CALPERS MONTHLY PREMIUM INVOICES WHERE AT THE END OF THE DAY THE EMPLOYEE OWED THE EMPLOYER AGGREGATE AMOUNT OF $410 CONVERSELY AND VARIANCES AGAIN BETWEEN EMPLOYEE AND PAYROLL DEDUCTION IN CALPERS MONTHLY PREMIUM INVOICE IN THIS INSTANCE THE EMPLOYER OWES THE EMPLOYEE AGGREGATE AMOUNT OF $525 BASED ON RESULTS WE RECOMMENDATION MONTHLY AND TIMELY BASIS AND CORRECTION OF DISCREPANCIES. WITH THAT I'LL TURN IT OVER TO BRIAN, I KNOW THEY HAVE MANAGEMENT'S RESPONSE TO THE OBSERVATION. BRYAN?

BRIAN MAYHEW: THANK YOU, KATHY. THIS IS NOT MY FAVORITE PART OF THE REPORT. IN MY 32 YEARS OF PRODUCING FINANCIAL, I HAVE ONLY HAD A REPEAT FINDING ONCE. I WILL SAY -- LET ME -- I

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HAVE TO GO A LITTLE BIT BACKWARDS, TO EXPLAIN, BECAUSE THERE IS MORE HERE. WE HAVE KNOWN ABOUT ISSUES, AS FAR AS BENEFIT PROCESSES AND PROCEDURES FOR A COUPLE OF YEARS, WHICH IS WHY THE STATEMENT AND RESPONSES THEREFORE THE FISCAL '20 AUDIT. IT STARTED WITH OUR FINDING PAYROLL OVER PAYMENTS BASED ON LEAVES USUALLY ASSOCIATED WITH SOME FORM OF MEDICAL LEAVE. WE THEN EXTENDED -- AND WE HAD A FIRM COME IN AND DO SOME DOCUMENTATION ON THOSE FINDINGS. WE THEN, BECAUSE OF THE EXTENSIVE NATURE OF IT WE BROUGHT KPMG IN TO REVIEW THE ENTIRE 20 YEAR AND GO THROUGH ALL BENEFITS, AND WE FOUND THAT THIS WAS THE FAILURE TO RECONCILE WHAT WE CALL ON-BOARDING AND OFF-BOARDING DISCIPLINING WERE LACKING. WE FOUND IMPROVEMENTS WERE MADE AND PROCEDURES WOULD BE FINISHED. WE FOUND THIS YEAR, AND KATHY IS ONLY TALKING ABOUT THE MEDICAL PERS PAYMENTS WE FOUND A WHOLE SLEW OF BENEFITS FOR WHICH WE FOND ERRORS. AND THAT'S A CONCERN. THIS HAPPENS ON MY WATCH, I TAKE FULL RESPONSIBILITY BUT THERE ARE LIMITS TO WHAT I CAN MAKE PEOPLE DO. I THINK YOU WILL FIND IN THE FINDINGS AND RESPONSE HERE, I THINK WE HAVE TO BE COGNIZANT THESE ARE FAILURES OF LINE RESPONSIBILITY TO MAKE PROPER ADJUSTMENTS TO THINGS. WHETHER ON-BOARDING OR OFF-BOARDING SOMEBODY PROPERLY, IT IS WHETHER THE PERSON HAS BEEN TAKEN ON OR OFF ROLLS. AND WHEN THE LINE FAILS AND CONTINUES TO FAIL AFTER NOTIFICATION, IT MEANS SOMEBODY IN AUTHORITY OVER THE LINE IS ALSO FAILING. I HAVE FULL CONFIDENCE THAT THIS CAN BE FIXED. I CERTAINLY THINK A

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COMPONENT OF IT -- BECAUSE THIS HAS EXISTED SINCE -- JUST A LITTLE BIT BEFORE THE PANDEMIC, AND IT EXISTED BEFORE THERESE GOT HERE, IN SOME FORMS, SO THIS IS NOT THERESE'S RESPONSIBILITY, IT'S MINE. BUT, ANYWAY, I HAVE CONFIDENCE IN THE RESPONSE THIS YEAR THAT THEY'RE GOING TO TAKE A LOOK AT -- I BELIEVE IT'S GOING TO TAKE A REENGINEERING OF THE FLOW OF WORK AND FUNCTIONS AND CONTROLS BETWEEN WHAT WE CALL OUR ON-BOARDING AND OFF-BOARDING CONTROLS IN HR, AND WHAT OUR PAYROLL FUNCTIONS ARE FOR THE PAYMENT AND AP RESPONSIBILITIES FOR THE PAYMENT OF THOSE BENEFITS. IF WE DO NOT GET TO WHETHER THEY ARE REENGINEERED AND WHERE THEY ARE CORRECTED BY NEXT YEARS' AUDIT, I DO STRONGLY RECOMMEND GOING INTO THE FUTURE THAT WE CONSIDER OTHER ALTERNATIVES SUCH AS FULL CONTRACT ADMINISTRATION OF BENEFITS. THERE ARE MANY FIRMS THAT DO IT. I JUST THINK IF IT'S SOMETHING THAT HAS GONE TO A POINT WHERE WE CAN ADMINISTER T WE SHOULD THINK ABOUT OTHER MECHANISMS. AND AS I SAID, I STILL HAVE CONFIDENCE THAT ALL OF THIS CAN BE CORRECTED IN THE NEXT YEAR. I HAVE CON IF I CONFIDENCE IN OUR ABILITIES WE RECONCILE HUNDREDS OF OTHER ACCOUNTS, BILLIONS OF DOLLARS IN BANK ACCOUNTS, I DON'T REALLY SEE WHY THIS CAN'T BE DONE. SO THE COMMENT AND RESPONSE WILL STAND FOR THE SECOND YEAR. AND I THINK, AT THIS STAGE, THAT'S ABOUT ALL I CAN SAY ABOUT IT. WE WILL WORK ON IT VERY HARD, AS THE YEAR COMES UP. CATHY?

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KATHLEEN LAI: THANK YOU BRIAN. CERTAINLY, I WILL CONTINUE WITH THE PRESENTATION AND WE CAN ADDRESS QUESTIONS FROM THE PRESENTATION. THAT CONCLUDES OUR RESULTS. I'LL MOVE TO THE LAST AGENDA ITEM WHICH IS PROFESSIONAL STANDARDS THAT REQUIRE US TO MAKE CERTAIN COMMUNICATIONS FIRST IS SIGNIFICANT ACCOUNTING POLICIES MANAGEMENT HAS PROPERLY DISCLOSED POLICIES ALL INCLUDED IN FOOTNOTE ONE OF EACH REPORT AND CROWE HIS REVIEWED THEM AND THEY APPEAR TO BE CLEAR AND CONSISTENT FROM PRIOR PERIODS. NEXT UP, INCLUDED SET OF FINANCIAL STATEMENTS, AND FINANCIAL STATEMENTS CERTAINLY INCLUDE ESTIMATES THAT ARE SUBJECT TO OUR AUDIT, GREAT EXAMPLES WOULD BE FAIR VALUE INVESTMENTS AND PENSION POST RETIREMENT OBLIGATION WE HAVE PERFORMED PROCEDURE AUDIT AND BELIEVE THEM TO BE APPROPRIATE. NEXT ADOPTION OF THE NEW ACCOUNTING STANDARDS GOVERNMENTAL ACCOUNTING STANDARDS GASB THEY ARE ACTUALLY ESTABLISHED WITH GENERALLY ACCEPTED THINKING PRINCIPLES, STANDARDS AS WELL AS RELATED IMPLEMENTATION GUIDES MANAGEMENT GOES THROUGH THE PROCESS TO EVALUATE EACH ONE TO DETERMINE WHETHER OR NOT THEY HAVE IMPACT ON THE FINANCIAL STATEMENTS. THE ONLY STANDARD GASB 84 HAD IMPACT AND THAT NOTES ONE C AND 1A B IN THE COMPREHENSIVE FINANCIAL REPORT THE REMAINING STANDARDS DIDN'T HAVE IMPACT ON MTC. NEXT SLIDE HERE, YOU WILL NOTE IN THE CURRENT YEAR WE DID NOT NOTE ANY MATERIAL CORRECTED OR UNCORRECTED MISSTATEMENTS. ANY UNCORRECTED MISSTATEMENTS THAT WERE AGGREGATED DURING THE AUDIT WERE DETERMINED TO BE

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IMMATERIAL BY MANAGEMENT AND WE CONCUR WITH THEIR ASSESSMENT. THOSE ARE SUMMARIZED AS ATTACHMENT TO MANAGEMENT'S REPRESENTATION LETTER THAT I MENTIONED AT THE ONSET OF THE PRESENTATION AND THAT'S GOING TO BE PROVIDED TO CROWE PRIOR TO US ISSUING OUR AUDIT REPORT. LAST BUT NOT LEAST ON THE NEXT SLIDE, WE DID NOT NOTE ANY OF THE FOLLOWING MATTERS NOTED ON THIS SLIDE. THERE ARE NO SIGNIFICANT ACCOUNTING POLICIES THAT WERE CONTROVERSIAL, UNUSUAL TRANSACTIONS DIFFICULTIES OR DISAGREEMENTS WITH MANAGEMENT ET CETERA AS WELL AS CLEARLY NO INDEPENDENCE MATTERS. WITH THAT I'LL CONCLUDE MY PRESENTATION AND I'M HAPPY TO TURN IT OVER TO BRIAN.

ALFREDO PEDROZA, CHAIR: CATH E THANK YOU FOR THE PRESENTATION. ON THE REPEAT FINDING WHAT CAN WE DO TO MAKE SURE STAFF ADDRESS IT IS MORE PROACTIVELY AND DO WE ANTICIPATE YOU AND YOUR TEAM COMING BACK TO THE AUDIT COMMITTEE SOONER?

BRIAN MAYHEW: I THINK SO. I THINK THERE IS SOME ONGOING WORK. I GENUINELY THINK SO. BUT IT'S GOING TO TAKE, AS I SAID, IT'S GOING TO TAKE A REENGINEERING, AND A RESTRUCTURING OF HOW THINGS FLOW TO MAKE SURE THE PROCEDURES ARE FOLLOWED ALL THE WAY THROUGH. AND I THINK THAT WORK IS GOING ON, IT'S GOING -- AND I THINK ONCE WE DO GET TO A POINT WHERE IT'S ENGINEERED OUT AND IT FLOWS PROPERLY THEN WE SHOULD COME BACK AND LET YOU KNOW SOMEWHERE BEFORE NEXT YEAR'S AUDIT.

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ALFREDO PEDROZA, CHAIR: IT SHOULD BE BEFORE NEXT YEAR'S AUDIT. AND IF IT DOES NEED TO BE REENGINEERED AND THAT'S WHAT IT'S GOING TO TAKE I FEEL THIS COMMITTEE SHOULD BE MADE APPRISED OF WHAT NEEDS TO HAPPEN TO ENSURE WE MAKE THAT CORRECTION.

THERESE MCMILLAN: I THINK IT'S IMPORTANT THEY WEIGH IN ON THIS. WHILE BRIAN STATED THAT THE INTERNAL CONTROLS, ET CETERA, ARE HIS RESPONSIBILITY, AND HE HIGHLY ACKNOWLEDGED THAT, YOU KNOW, I HAD COME IN TO SOME DEGREE IN THE MIDDLE OF THIS, I WANT TO ASSURE YOU, I HAVE BEEN FULLY APPRISED OF THIS. I MAKE IT A PRIORITY TO WORK WITH THE CFO'S OFFICE TO ENSURE THAT THINGS WILL BE PUT IN PLACE, AND TO THE DEGREE THAT THIS REENGINEERING INVOLVES BOTH STRUCTURAL AND PROCEDURAL OUTCOMES, AND IF ANY OF THE STRUCTURAL RELATED ISSUES INVOLVE PERSONNEL, KNOW THAT'S MY RESPONSIBILITY, AND I WILL WORK HAND-IN-GLOVE WITH THE CFO TO ADDRESS THOSE AS NEEDED. SO I JUST WANTED TO MAKE SURE YOU ARE AWARE AND MINDFUL OF BOTH MY AWARENESS AND COMMITMENT TO SEE THIS THROUGH.

ALFREDO PEDROZA, CHAIR: THANK YOU, THERESE. AND, AGAIN, LOOK, I APPRECIATE OUR EXECUTIVE DIRECTOR, AND CFO TAKING RESPONSIBILITY AND NOT POINTING THE FINGER THAT'S THE FIRST

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STEP TO GET THIS RESOLVING. I APPRECIATE THAT OWNERSHIP. ANY QUESTIONS OR COMMENTS FROM COMMISSIONERS IN THE BOARDROOM?

CAROL DUTRA-VERNACI: YES. I HAD TO PRESS THE BUTTON HERE. THANK YOU. THAT WAS MY CONCERN, AS WELL. BRIAN, I KNOW YOU THAT YOU DO A LOT OF WORK FOR A WHOLE SPECTRUM OF THINGS. SO IT'S HARD TO HAVE YOU KEEP TRACK, BUT AS YOU POINTED OUT, YOU WHERE THE BUCK STOPS. SO WHAT MY QUESTION S AND TO THE CHAIR'S POINT, THE AUDITOR RECOMMENDED MONTHLY RECONCILIATIONS TO KEEP US ON TRACK, AND I KNOW YOU SAID GIVE YOU A YEAR, AND IF THERE IS STILL ISSUES WE CAN THINK OF SOMETHING DIFFERENT AND THE CHAIR SAID COME BACK SOONER. SO MY QUESTION IS, HAVE YOU ALREADY IMPLEMENTED RECONCILIATION MORE FREQUENTLY SO WE ARE ABLE TO TELL IF WE'RE MEETING THE MARK OR NOT?

BRIAN MAYHEW: WELL, THAT'S A VERY GOOD QUESTION. AND JUST TO BE CLEAR, WE HAVE NEVER NOT HAD A PROCEDURE OF RECONCILING ALL PAYMENTS AND BENEFITS MONEY. THAT'S OUR REQUIREMENT. WHAT HAS FAILED HERE IS, NOT JUST THE ACCURACY OF THE PAYMENTS, BUT THE RECONCILIATION OF THE PAYMENTS. NOW, THERE ARE PROCEDURES INTERNAL TO FINANCE THAT WERE WORKING, WHICH IS HOW WE CAUGHT IT. HOWEVER, IT IS THE FAILURE OF THE ACCURACY OF SOME OF THE PAYMENTS -- AND, AGAIN, IT IS SOME OF THE PAYMENTS. YOU SAW CROWE GO THROUGH A VERY EXTENSIVE REVIEW, THAT'S 24 OUT OF 26 PAPERS. THAT WASN'T A COMPLETELY FAILURE, IT DOESN'T MATTER

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WHEN YOU RECONCILE YOU'RE OFF BY $100 IT'S A MATTER YOU HAVE TO FIND OUT IF YOU'RE OFF, BUT IF IT'S AN ONGOING PROBLEM, WE HAVE STANDARDS RECONCILING AND SIGNING OFF ON THE PROCESS ON AN ACCURATE BASIS. NO INVOICE COMES TO MY SECTION WITHOUT THE PROPER SIGNATURES ON THEM. BUT IF THE SIGNATURES THEMSELVES DON'T REPRESENT THE ACCURACY RECONCILIATION OF THE PAYMENTS THEN THE INTERNAL PROCESS BEGINS TO BREAK DOWN FROM THE TOP. THAT'S WHY IT HAS TO BE REENGINEERED BECAUSE WE CLOSE ON A QUARTERLY, AND MONTHLY BASIS, THERE IS NO CONCEPT IN OUR MINDS THAT ALL OF OUR ACCOUNTS ARE NOT RECONCILED. THAT'S WHERE THE FAILURE IS A BIT DIFFERENT BECAUSE YOU HAVE BEEN GIVEN THE RECONCILIATION, AND THE RECONCILIATION IN AND OF ITSELF IS NOT ACCURATE. THAT'S WHAT WE NEED TO WORK ON. SO WHEN WE GET THE INFORMATION IT'S DONE, SIGNED OFF, AND ACCURATELY PRODUCED.

CAROL DUTRA-VERNACI: THANK YOU FOR THAT EXPLANATION.

ALFREDO PEDROZA, CHAIR: THANK YOU, COMMISSIONER. DON'T SEE ANY QUESTIONS FROM COMMISSIONERS IN THE BOARDROOM. KIMBERLY DO WE HAVE ANY RAISED HANDS VIRTUALLY?

CLERK OF THE BOARD: I SEE NO HAND RAISED.

ALFREDO PEDROZA, CHAIR: WITH THAT DO WE HAVE ANY PUBLIC COMMENT ON THIS ITEM?

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CLERK OF THE BOARD: I SEE NO MEMBER OF THE PUBLIC WITH THEIR HAND RAISED, IF THERE IS ANYONE IN THE PUBLIC WHO WOULD LIKE TO SPEAK PLEASE DIAL STAR NINE FROM YOUR PHONE OR RAISE YOUR HAND.

ALFREDO PEDROZA, CHAIR: IT SEEMS THAT WE HAVE NO PUBLIC COMMENT AT THIS TIME. I WILL ENTERTAIN A MOTION FOR APPROVAL.

CAROL DUTRA-VERNACI: I'LL MAKE THE MOTION FOR APPROVAL FEDERAL FOR I'LL SECOND IT.

ALFREDO PEDROZA, CHAIR: FIRST BY COMMISSIONER DUTRA-VERNACI. SECOND GLOVER. ROLL CALL VOTE, PLEASE?

CLERK OF THE BOARD: [ROLL CALL VOTE]

ALFREDO PEDROZA, CHAIR: NEXT MTC REPORT ON FEDERAL ACCORDANCE OFFICE MANAGEMENT BUDGET UNIFORM GUIDELINES GUIDANCE FOR THE YEAR ENDING JUNE 23, 2021. KATHY?

KATHLEEN LAI: I BELIEVE IT'S INCLUDED IN THE FIRST PRESENTATION.

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ALFREDO PEDROZA, CHAIR: THANK YOU. I'LL ASK IF THERE ARE COMMISSIONER QUESTIONS ON ITEM 2B? I DO NOT SEE ANYONE IN THE ROOM. KIMBERLY DO WE HAVE ANYONE VIRTUALLY?

CLERK OF THE BOARD: NO HAND RAISED.

ALFREDO PEDROZA, CHAIR: I SEE NO MEMBERS IN THE ROOM WHO WISH TO PROVIDE PUBLIC COMMENT. I'LL ASK FOR A MOTION ON ITEM 2B.

AMY R. WORTH: I'LL MOVE IT.

CAROL DUTRA-VERNACI: SECOND.

ALFREDO PEDROZA, CHAIR: MOTION BY COMMISSIONER WORTH SECOND BY DUTRA-VERNACI. ROLL CALL VOTE, PLEASE.

CLERK OF THE BOARD: [ROLL CALL VOTE] PASSES UNANIMOUSLY BY ALL MEMBERS PRESENT.

ALFREDO PEDROZA, CHAIR: THANK YOU, KIMBERLY. LET'S MOVE TO ITEM 3A FISCAL YEAR 2021 FINANCIAL REPORT AND YEAR END AUDIT RESULTS. AT THIS POINT I'M GOING TO TURN IT OVER TO BRIAN MAYHEW.

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BRIAN MAYHEW: IF YOU WILL BRING UP THE PRESENTATION, I WILL TRY TO MAKE THE LAST PARTS OF CLOSING ON FISCAL YEAR 2021 AS PAINLESS AS POSSIBLE. AS WE HAVE GONE THROUGH ANOTHER FISCAL YEAR HAS COME AND GONE. THE THING ABOUT AN AUDIT THAT IS SOMETHING -- IT'S HARD TO EXPLAIN. IT IS A VALIDATION OF EVERYTHING WE DO DURING THE YEAR AND A VALIDATION OF WHAT WE SAY YOUR ASSETS AND LIABILITIES ARE AT THE END OF THE YEAR. IT IS ONE OF THOSE THINGS THAT VERY FEW PEOPLE OUTSIDE OF FINANCE GO THROUGH. I KNOW MY TEAM HERE AT FINANCE, THEY SEE IT AS AN INCREDIBLE -- JUST SLIGHTLY UNDER WATER TORTURE. WHEN IT'S DONE AND THE VALIDATION IS COMPLETED, AND YOU HAVE A -- WON'T CALL IT CLEAN AUDIT, UNMODIFIED. IT IS A TREMENDOUS REWARD FOR ALL THE HARD WORK THAT EVERY HAS DONE DURING THE YEAR. I HAVE DONE TWO OF THESE. THIS IS MY 32ND AUDIT. THIS IS MY LAST ONE. ILL BE RETIRING AT THE END OF THE YEAR. IF I MAY BE GRANTED ONE MOMENT, I KNOW YOU'RE BUSY TODAY, NOBODY DOES THIS ALONE. I'M THE LEAST IMPORTANT PERSON IN THIS ROOM. I KNOW I'M THE ONLY PERSON IN THIS ROOM BUT ON THIS PROJECT FAR AND AWAY --

ALFREDO PEDROZA, CHAIR: STOP [INDISCERNIBLE] YOURSELF.

BRIAN MAYHEW: IT'S A LOW BAR. STARTING WITH THE AUDITORS CROWE TOOK ON A TOUGH AUDIT, ALL VIRTUAL IN THE FIRST AUDIT, THE SECOND ONE WASN'T A WHOLE LOT EASIER, BUT KATHY, YOU KNOW, HAS BEEN A GOOD PARTNER IN ALL OF THIS, AND CERTAINLY, WHAT THEY

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CALL, THE ENGAGEMENT, SOMETHING -- IN MY DAYS, THEY CALLED THEM "PARTNER IN CHARGE, RACHEL, AND JOSEPH, ENFORCERS, AND COREY, AND MY OWN TEAM, AND NOT THE LEAST OF WHICH, SINCE THIS IS MY LAST AUDIT, DEBBIE ATMAJA WHO HEADS UP OUR REPORTING GROUP AND LITERALLY TOOK ON A VIRTUAL ONE, AND STAFF PROBLEM IN VIRTUAL ONE, AND STAFF PROBLEM THIS YEAR. WE HAD CONVERSATIONS WHERE SHE WASN'T CERTAIN WE WERE GOING TO MAKE IT AND CONVERSATION WHERE IS SHE WAS CERTAIN WE WOULD. I WANT TO GIVE A SPECIAL THANKS TO JULIE, CRYSTAL, ANNA, SORT OF, THE ALL, EVERYTHING PERSON. CRYSTAL WHO TOOK OVER ABAG WHEN WE LOST OUR ABAG PERSON LAST YEAR, AND THAT WAS A BIG LOSS, AND CRYSTAL JUST STEPPED IN AND HELPED US. WE DIDN'T MISS A BEAT THERE, AND SUSAN WHO HAS TO DO A MILLION OTHER THINGS ON TOP OF PAYROLL AND EVERYTHING ELSE, AND KATHY AND SUSAN ON THE TREASURY SIDE, THEY STILL HAVE WORK TO DO DON'T GET TO FINISH YET, AND TONY, AND AUDIT EXPRESS LANES AND EVERYTHING ELSE, AND IT'S REALLY A HERCULEAN EFFORT, AND ARLEICKA, WITH THE REPORTS AT EVERY MEETING, AND THE AMAZING EFFORT. IF THERE IS ANYBODY I FORGOT, I WANT TO THANK EVERYBODY. LET'S BRING UP THE PRESENTATION. WE END THE YEAR IN GOOD FINANCIAL SHAPE. OVERALL VERY GOOD. FIRST THING THAT SHOULD SCARE YOU IS A NET WIDE NET POSITION OR NET ENDING BALANCE OF NEGATIVE $6.5 BILLION, THAT SHOULD SCARE ANYBODY. IN REALITY, WHEN YOU'RE JUST NOTICE THE DEBT RELATED TO BRIDGES, BRIDGES ARE OWNED BY CALTRANS BOTH ASSETS WE DON'T HAVE THEM DOESN'T OFFSET THE

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DEBT, NEUTRAL WHEN YOU TAKE IT OUT THE DEBT YOU HAVE POSITIVE OVERALL NET BALANCE OF $2.5 BILLION TO BALANCE IT YOU LOOK AT THE NEXT LINE CASH AND INVESTMENTS OF ALMOST 2.9 BILLION SO WE WIND UP IN A -- YOU'RE FINANCIALLY ON BALANCE SHEET STANDARD BASIS PRETTY GOOD SHAPE, GOVERNMENTAL FUND BALANCES GOVERNMENTAL FUNDS COMBINED MTC ENTITIES, ALLOCATIONS STATE, RAILROAD YOU SEE THAT BALANCE WENT DOWN A LITTLE BIT THAT'S NORMAL, GRANTS AND PROJECTS BEING SPENT, AND THE MIDDLE, MTC OPERATING COMPONENT THAT DOESN'T HAVE THE ENORMOUS AMOUNT OF DEDICATED REVENUES THAT THE ENTERPRISES DO, OR THAT THE GRANTS AND REVENUE FUNDS DO. HERE, WE WIND UP WITH AN ENDING BALANCE ROUGHLY IMPROVEMENT OF ABOUT $7 MILLION. WE'LL LOOK TO THE DETAIL. COMING OUT OF THE RECESSION, I THINK SOME PEOPLE REMEMBER WHEN I DID THE '21 BUDGET, I WAS TERRIFIED. THAT'S A COMBINATION OF SOME REALLY IMPROVED EXPENSE CONTROLS THAT THERESE HAD PUT ON, ON THE AGENCY, AND SOME REVENUES WE GOT OUT OF THE WAYFAIR DECISION AND WE HAVE COME OUT OF IT MUCH BETTER THAN WE THOUGHT. YOU KNOW ABOUT BATA, BATA CONTINUES TO HAVE PROBLEM, TRAFFIC DROP BY 11.2 MILLION CARS, UNPAID TRAFFIC IS A CONCERN WENT UP BY 7.6 MILLION SOMETHING TO WATCH FOR IN THE FUTURE. OPEB LIABILITY, GOOD NEWS, END OF 2020 WAS $32 MILLION, IT WILL END THE YEAR AT $15 MILLION AND I THINK WE CAN MAKE IMPROVEMENT ON THAT. NEXT SLIDE. WE THROW A LOT OF NUMBERS AT YOU HERE TO LET YOU KNOW WE'RE ACCOUNTANTS AND WE KNOW HOW TO PUT NUMBERS TOGETHER WHAT REALLY MATTERS IS CASH

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LIQUIDITY CASH AND INVESTMENTS BUSINESS ACTIVITY, SAFE, CLIPPER, AND BATA ARE 2.1 BILLION GOVERNMENTAL FUNDS HAVE ALMOST SEVEN HUNDREDS $60 MILLION, IF YOU LOOK AT THE NET POSITION, IT'S 6.5 MILLION TO THE BAD, IF YOU TAKE OUT THE DEBT OR ADD IN THE BRIDGE ASSET VALUE IT'S 2.5 BILLION. IT IS, SO WE WIND UP WHERE WE STILL ARE IN VERY STRONG FINANCIAL POSITION. SHALL WE GO TO THE NEXT ONE. GOVERNMENTAL FUNDS, OVERALL, YOU SEE A NET DEFICIT OF $25 MILLION. NOW GOVERNMENTAL FUNDS, AS YOU GO ACROSS HORIZONTALLY, YOU SEAL -- SEE THIS IS 664 REVENUES ALLOCATION DURING THE YEAR OVERALL WHEN YOU COMBINE EVERYTHING NET DEFICIT OF 25 MILLION NOT NEARLY SOMETHING THAT'S INCREDIBLY SCARY. BECAUSE THAT MEANS THE GRANTS ARE BEING SPENT AND THE PROJECTS ARE GETTING DONE. MOST OF THAT, OTHER THAN MTC IS PRETTY MUCH SELF BALANCING. FOR EXAMPLE, WHEN YOU LOOK AT THE FIRST COLUMN, YOU WILL SEE A DEFICIT ENDING BALANCE OF, WHAT IS IT? $18 MILLION. AND IF YOU LOOK AT CASH AND INVESTMENTS ON THAT FUND IT'S 139, THEY'RE NEGATIVE BECAUSE THERE WERE LARGE DEPOSIT MADE A FEW YEARS AGO TO PREPAY THOSE ACCOUNTS AND ON A READINESS BASIS AS OPPOSED TO CASH FLOW AND ADVANCES ARE AMORTIZED AND NEGATIVES WILL GO AWAY ALL ON THEIR OWN. NOT MUCH TO WORRY B MTC, I HAVE TO SAY THAT THE ACCOMMODATION OF THINGS, I AM PLEASANTLY SURPRISED AT THE END OF MTC IS WHAT I PUT UP ON THE BOARD THERE. THE SURPLUS, 6.7 MILLION, 4.9 MILLION IN '20, THAT WAS MAINLY THE RESULT OF FREEZINGS POSITIONS DURING THE 2020 YEAR. '19, WE

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RAN A DEFICIT, AND WE HAD SURPLUSES A COUPLE OF YEARS BEFORE THAT. YOU CAN SEE THIS, ACTUALLY, AT THE END OF THE PANDEMIC, AND AT THE END OF THE CRASH ECONOMY, WE ACTUALLY CAME OUT OF IT VERY WELL. NEXT PAGE. QUICK VIEW OF ENTERPRISE FUNDS CLIPPER SAFE AND BIG KAHUNA, BATA. ON CLIPPER, NEXT BALANCE OF 4.2 MILLION OPERATING SIDE NOT UNEXPECTED IN THE OPERATOR PAYMENT WHEN YOU SEE THE DIFFERENCE BETWEEN 2020 AND 2021 IS ABOUT $9 MILLION THAT'S ACTUALLY A PRETTY GOOD ENDING BALANCE CONSIDERING THE TOTAL LACK OF OPERATOR PARTICIPATION OR TRANSIT PARTICIPATION, I GUESS WOULD BE A BETTER WORD. STILL AS WE GET TO THE .4.2 MILLION THERE IS STILL ENDING POSITION OF $17.4 MILLION. SO WE STILL HAVE PLENTY OF ROOM THERE. MTC SAFE. I INDIVIDUALS THIS FOR 20 YEARS. IT'S MY MOST PERFECT FUND COMPLETELY SELF-BALANCING ONLY DEFICIT NEVER RUNS, PROJECT FINANCING, SLIGHT BALANCE AT THE END OF THE YEAR $551,000 NET POSITION $22 MILLION, AND BATA, 239 IN THE PRIOR YEAR RM3 REVENUE INTO 2021, 276 MILLION MAJOR EXPENSES OTHER THAN DEBT SERVICE CALTRANS YOU SEE $48 MILLION, AND PROJECT EXPENSES OTHER AGENCY RM2 AND RETIRE PRINCIPLE OF $79 MILLION, AND PROJECT COVERAGE RATIOS. CASH AND INVESTMENTS, YOU CAN SEE '21 CONTINUES THE TRENDS OF CASH INVESTMENTS GOING DOWN. WE HAVE A PLAN FOR THE FY '22 PLAN OF FINANCE SHOULD RESTORE THAT TO A FULLY OPERATIONAL BASIS AND GET IT ROUGHLY AROUND $2.72800000000 WHEN WE'RE DONE. NEXT SLIDE. PENSION LIABILITY. YOU CAN SEE THE CHART ON THE RIGHT, I THINK OUR

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FUNDED -- WELL, LET'S GO THROUGH IT. TOTAL ASSETS ON OUR TOTAL PENSION LIABILITY INCLUDING THE INCORPORATION OF THE FORMER ABAG EMPLOYEES WHO NOW WORK AT MTC IS $174 MILLION. TOTAL LIABILITY IS $195 MILLION AS OF JUNE 30, AND YOU SEE THAT'S IN THE CHART ON THE RIGHT. THEN WE ADD A BIT TO THAT. WE HAVE BEEN BUSY WORKING ON PENSION RETIREMENT. AND YOU WILL SEE WITHIN, THERE ARE $10 MILLION WORTH OF PAYMENTS THAT ARE UNRECORDED AS OF JUNE 30, 2020 THAT BRINGS IT DOWN TO $11 MILLION, 3 MILLION WE MOVE FROM 115 OPEB TRUST INTO A 115 PENSION TRUST YOU SEE THE LIABILITY IS CLOSER WHEN THE NEW ACTUARIAL'S AND EVERYTHING ARE DONE TO ABOUT $8 MILLION UNFUNDED. AS WE GO INTO THE BUDGET WITH, I THINK WE HAVE A VERY STRONG REVENUE YEAR THIS YEAR. I'M ALMOST PREPARED TO GO INTO MID-YEAR AT THE DECEMBER BUDGET AMENDMENT AND JUST REQUEST THAT WE JUST PAY THE REST OF IT OFF. WE'RE NOT EARNING THAT MUCH MONEY IN OUR ACCOUNT AND THEY'RE GIVING YOU CREDIT AT FIRST SO IT MIGHT BE GOOD TO JUST WANT RETIRE IT OUT NOW. WE GOT THERE, AND MY GOOD FRIEND, DEBBIE ATMAJA WHO I DID NOT KNOW WAS A PERS EXPERT. I HAVE A PROGRAM THAT ALLOWS ME TO DO SCENARIOS ON DIFFERENT PARTS OF OUR PENSION PLANNING IT DOESN'T GIVE ME BREAK DOWNS OF HOW TO FIX THINGS. AND WE FOUND OUT THAT WHEN WE WENT THROUGHOUT PERS FRESH START PROGRAM, WHICH I THOUGHT MEANT TAKE OUT ALL YOUR DEBT OUTSTANDING TODAY AND MOVE IT UP AMORTIZE OVER 12 YEARS, IT ACTUALLY ALLOWS YOU TO PICK EACH YEAR AND TAKE THE MOST EXPENSIVE DEBT FIRST LIKE

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TAKING OUR LONG-TERM COUPONS OUT IN BATA SO WE WERE ABLE TO BE VERY EFFECTIVE WHEN WE WENT TO THAT RESTRUCTURING FROM 12 YEARS TO 25 OR 30, I DON'T KNOW -- I THINK IT'S SOMEWHERE IN 25. AND WE REDUCED PAYMENTS FROM 4.5 MILLION CLOSE IN THE 20 YEAR, GOING INTO ABOUT 2 MILLION INTO THE '22, '23 BUDGET AND IF WE RETIRE THE THING WE CAN SAVE THAT GOING INTO THE FUTURE. CAUTION, FOR ANYBODY WHO FOLLOWS PENSIONS ASSUMPTIONS CAN CHANGE PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RETURNS. THEY CAN CHANGE IN THE FUTURE. IF WE GO TO OPEB, WE HAVE -- WE ACHIEVED OUR GOALS THERE, YOU CAN SEE THE ASSETS OF 53 MILLION. LIABILITY IS 46 MILLION, ASSET BALANCE $7 MILLION. WE HAVE GONE FROM AN UNFUNDED LIABILITY TO A SURPLUS IN JUST THREE YEARS. IT IS A SELF-DIRECTED, 115 TRUST ACT, WHERE WE DIRECT HOW IT IS INVESTED. WE SET WHAT THE EXPECTED DISCOUNT RATE IS GOING TO BE, AND THIS YEAR, BECAUSE OF THE CONTINUATION OF LOW INTEREST RATES, WE ACTUALLY LOWERED IT AGAIN FROM FIVE TO I THINK, EITHER, ABOUT 450 TO 470. SO YOU'RE NOT GOING TO GET THE SPIKES HERE THAT YOU WOULD GET ON THE PENSION SIDE, BECAUSE THE PERS BOARD CONTROLS THEIR DISCOUNT RATES. HERE IT'S A SELF-DIRECTED FUND SO YOU SHOULDN'T GET ANY SERIOUS INTERRUPTIONS OF THIS. IT SHOULD REMAIN IN GOOD SHAPE INTO PERPETUITY AND BEYOND WHICH MEANS ALL RETIREE MEDICAL BENEFITS FOR ANY FORESEEABLE ACTUARIAL FUTURE ARE NOW FULLY FUNDED. NEXT AND PROBABLY, BECAUSE THEY ARE VERY SMALL FIGURES AND YOU CAN'T REALLY SEE THEM, I WILL

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WALK THROUGH THEM ONE BY ONE. THERE ARE FOUR TESTS WE HAVE TO PASS EVERY YEAR IN BATA IN ORDER TO PASS OUR COVENANT REQUIREMENTS. THE FIRST ONE, AND BY FAR AND AWAY THE EASIEST ONE TO PASS IS CALLED A "FIXED CHARGE COVERAGE" BASICALLY NET REVENUE AFTER OPERATING COST OVER DEBT SERVICE WE'RE REQUIRED, THAT'S ONE TIME COVERAGE, THIS IS SO IMPORTANT BECAUSE YOU BREAK ONE TIMES COVERAGES YOU'RE FORCED INTO A TOLL INCREASE. WE PROTECT THIS ONE MORE THAN ANYTHING ELSE. BUT IF YOU GO PAST ONE TIME COVERAGE YOU SEE GOING INTO THE YEAR '22 '21, THAT COVERS TWO TIMES. NEXT ONE IS "FIXED CHARGE" BASICALLY JUST REVENUES OPERATION AND MAINTENANCE. WE HAVE MAINTENANCE RESERVE ACTUALLY THE NUMBER IS $180 MILLION, WE HAVE THAT DONE YEARS AND YEARS AGO WHEN WE DIDN'T QUITE HAVE THE TOLL SETTING AUTHORITY AND WE DIDN'T WANT TO BE RAISING TOLLS WHEN WE HAD CAPACITY IN THE RESERVES SO WE ADD THIS IN. IF THE TWO OF THESE GET ABOVE 125, AND YOU CAN SEE IT'S 421, WE'RE IN GOOD SHAPE. THIRD ONE COVERS SENIOR DEBT. TWO LEANS, LAST ONE THE TAIL OF THE TANK, THIS IS THE ONE NEW YORK AND EVERYONE ELSE WILL LOOK AT REVENUE COVERAGE, HERE AVAILABLE REVENUE OR OVER DEBT SERVICE THAT RATIO HAS TO BE AT LEAST 120 AND WE'RE ABOUT 100 POINTS ABOVE THAT, AND BREAK DOWN DESIGNATED $1 BILLION RESERVES AT BATA, 180 ARE REQUIRED DESIGNATED IN COVENANTS AND YOU CAN SEE EVERYTHING THAT REMAINS AFTER THE 23 FALL INTO THE MORE GLOBAL SELF INSURANCE AND LIQUIDITY RESERVES. TOTAL CASH AND INVESTMENTS, $2 BILLION, IF YOU TAKE AWAY DEBT SERVICE AND

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THE RM3 RESERVE, YOU GET YOURSELF DOWN TO $1.3 BILLION. WE TAKE THE OPERATING RESERVE THE NUMBERS ON THE LEFT OUT, YOU SEE THE ENDING CASH IN ALL OF BATA BECOMES $265 MILLION, GIVEN THE TOTALITY OF THE NUMBER OF PROJECTS ON BATA'S BOOKS THAT'S ONE THING WE HAVE TO WORK ON GETTING RESTORED IN THE '22 YEAR. SHALL WE GO ON? BAHA, YOU ALL KNOW WHAT BAHA IS. IF WE GO TO THE NEXT PAGE, THE IMPORTANT THING HERE IS CASH AND INVESTMENTS ARE 26.5 MILLION UNRESTRICTED COMPONENTS OF 4.4 MILLION BECAUSE OUR EXPENSES STAYED DOWN FOR A SECOND YEAR. YOU SEE RESTRICTED CAPITAL DROP BECAUSE PROJECTS WE WERE DOING IN THE BUILDING PARTICULARLY ON THE GROUND FLOOR HAVE BEEN COMPLETED. TOTAL LIABILITIES OVERALL DOWN MAINLY BECAUSE WE PREPAY OUR TAXES, TO THE CITY OF SAN FRANCISCO, AND THAT'S GONE DOWN. BAHA ENDS THE YEAR IN EXCELLENT POSITION. NEXT PAGE. SIMPLE P AND L ON THE PROFIT AND LOSS SIDE TOTAL REVENUE UP 3% BUILT IN LEASES ARE FULLY PAID AND WE HAVE NOT BEEN ASKED FOR ANY RELIEF OVER THE LAST TWO YEARS OPERATING EXPENSES INCLUDING DEPRECIATION, 12.1 MILLION IF YOU TAKE OUT INCOME BEFORE DEPRECIATION, YOU GET BALANCE OF 5.6 MILLION IN BOTH '20 AND '21. GOOD OPERATING BALANCES, CASH BEFORE DEPRECIATION AND TRANSFERS ROUGHLY THE SAME. OVER THE SAME PERIOD OF TIME, WE HAVE RETURNED $3 MILLION TO BATA FOR THE CONTRIBUTIONS TO THE BUILDING AND CAPITAL AFTER TRANSFERS TO BATA ARE PLACED INTO A RESERVE FOR REPAIR AND REPLACEMENT. AND 375 BEALE, NOT MUCH TO TALK ABOUT HERE. IT'S A SELF

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BALANCING FUND. IF WE JUST KEEP GOING. THE -- AS YOU CAN SEE HERE, THE ASSETS AND THE LIABILITIES, REVENUES, EXPENSES ARE DESIGNED TO BE A MATCH EVERY YEAR. AS YOU CAN SEE THERE IS A MIDDLE PART UP THERE THAT'S HIGHLIGHTED. THAT NUMBER WHAT'S OWED TO OWNERS AT THE END OF THE YEAR 1.1 MILLION UP FOUR FROM 94 LAST YEAR THAT WILL GO TO THE AIR DISTRICT AND BAHA AS A RETURN FROM THE '21 INVESTMENTS. LASTLY. INFRASTRUCTURE AUTHORITY. NEXT PAGE. THIS IS ONE -- IT GOT INTERESTING, BECAUSE OF THE OPENING OF 880. UNRESTRICTED CASH, YOU CAN SEE IS UP $11 MILLION, ALL THE MONEY PRODUCED OUT OF 880, THAT'S THE BIG CHANGE THE RESTRICTED CASH, YOU WILL FIND DOWN $67 MILLION, AGAIN TO BE EXPECTED CASH IS RESTRICTED FOR CAPITAL IMPROVEMENTS AS IMPROVEMENTS ARE BEING BUILT CASH IS GOING TO GO DOWN, 880, TO 680 CASH IS RESTRICTED TO CAPITAL CONSTRUCTION. NEXT PAGE. ON THE PROFIT AND LOSS SIDE. SIMPLE. OPERATING REVENUE, REPEATING STORY BECAUSE OF 880'S OPENING, OTHER REVENUE DOES INCLUDE FEES AND VIOLATIONS THOSE ARE REINSTATED SO THAT WENT UP, OPERATING EXPENSES BEFORE DEPRECIATION IN '21, BEFORE DEPRECIATION TRANSFER 17 MILLION, 10,000,021 MILLION RESPECTIVELY, AND THAT IS ACTUALLY A VERY GOOD PICTURE BECAUSE IT'S GOING TO ALLOW THE, AS WE GO FORWARD, IT'S GOING TO ALLOW A SITUATION SOMEWHAT LIKE BATA WHERE WE WILL BE ABLE TO SET-ASIDE FUNDS FOR DESIGNATED OPERATING REPAIR AND REPLACEMENT RESERVES IN ADDITION THE RETURNS TO THE REGIONAL AREAS. OKAY. NEXT PAGE. THAT'S IT

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THAT ENDS THE '21 FISCAL YEAR. AS I WENT INTO IT WITH A TOTAL TERROR, WE COME OUT OF IT IN VERY, VERY GOOD SHAPE. IF I AM GOING TO LEAVE ANY PLACE IN ANY FINANCIAL SHAPE, THIS SHOULD JUST ABOUT DO IT. YOU WILL GO INTO '22, IN GOOD POSITION. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS -- WELL, I REALLY WOULDN'T. THE QUESTIONS ARE TOUGHER THAN THE PRESENTATION. BUT IF THERE IS ANYTHING YOU WANT TO KNOW, I WOULD BE HAPPY TO ANSWER

ALFREDO PEDROZA, CHAIR: THANK YOU, BRIAN. WE'RE NOT GOING TO LET YOU OFF THAT EASY. COMMISSIONERS HAVE QUESTIONS, AND I DO AS WELL. KIMBERLY DO YOU HAVE ANY WHO WISH TO MAKE COMMENTS?

CLERK OF THE BOARD: YOU GOT IT. COMMISSIONER LICCARDO. PLEASE UNMUTE YOURSELF.

SAM LICCARDO: THANK YOU. I KNOW I'M NOT ON THE COMMITTEE. I JUST WANT TO SAY THANK YOU, BRIAN, REALLY ENJOYED WORKING WITH YOU THROUGH THE YEARS. I KNOW WE WILL HAVE PLENTY OF TIME FOR THOSE SPEECHES. BUT I WANT TO SAY I APPRECIATE YOU CAN MAKE THIS SUBJECT INTERESTING WHICH IS RANGING BY ITSELF. AND SO, I HAVE REALLY ENJOYED WORKING WITH YOU. CONGRATULATIONS ON THE PROGRESS YOU HAVE MADE IN REDUCING UNFUNDED LIABILITY ON THE PENSION SIDE IS BRINGING IN THE BLACK ON THE OPEB SIDE, AND IT

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GETS FANTASTIC. I JUST HAD A COUPLE OF QUESTIONS ABOUT THAT. ONE WAS -- WHAT IS OUR DISCOUNT RIGHT NOW ON THE PENSION SIDE?

BRIAN MAYHEW: PERS IS GOING FROM 7% -- DEBBY IS WITH ME. SHE'S THE EXPERT. I THINK PERS IS GOING FROM 7% DOWN TO A PROJECTED 680 TO 650 WILL BE THE NEW DISCOUNT RATE. SO THAT'S GOING TO AFFECT THE OUTSTANDING, THE VALUE ON THE LIABILITIES, RIGHT?

SAM LICCARDO: YEAH. SO THOSE WILL GO UP.

BRIAN MAYHEW: RIGHT.

SAM LICCARDO: AND OUR BOARDS DON'T HAVE ANY AUTHORITY OVER THAT? RIGHT?

BRIAN MAYHEW: CORRECT.

SAM LICCARDO: AND YOU MADE REFERENCE REDUCING INTEREST PAYMENTS FROM FOUR AND A HALF MILLION TO 2 MILLION OBLIGATION BONDS IS THAT WHAT YOU'RE REFERRING TO.

BRIAN MAYHEW: NO. WHEN WE STARTED MAKING OUR, BEGIN THE PROCESS OF PREPAYING THE DEBT, THE OBLIGATION UNDER PERS, WE FOUND OUT THAT GOING IN, PERS ALLOWS TO YOU DO WHAT'S CALLED A "FRESH START" THE LIABILITY IS ALREADY THE DEBT THE LONG-TERM

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LIABILITY IS ALREADY UNDER DEBT ACCORDING TO GASB. WHEN WE WERE LOOKING AT IT WE WANTED TO START THE PROCESS OF PREPAYING, AND WE FOUND OUTS GOING INTO PERS YOU WERE ALLOWED TO GO IN AND LITERALLY GET A WHOLE NEW, LIKE JUST REFINANCE THE WHOLE THING AND THEY GIVE YOU THESE REALLY COOL OPTIONS NOT THE LEAST OF WHICH WE DIDN'T KNOW ABOUT IS THAT EVERY TRANCHE, AFTER EVERY YEAR, CONSISTS OF WHAT MADE THE CHANGE. IT WAS TOO MUCH MONEY? THE INTEREST RATES WEREN'T ENOUGH? A CHANGE IN ACTUARIAL ASSUMPTIONS? AND EACH ONE HAS IT IS OWN AMORTIZATION AND OWN RATE WHEN YOU LOOK AT THE LIST YOU'RE ABLE TO PICK OFF THE ONES THAT HAVE THE HIGHEST COUPONS RETIRE THOSE FIRST AND LEAVE YOURSELF THE CHEAPEST COUPONS BASICALLY ABLE TO TAKE OUT ALL YOUR LONG DEBT LEAVE YOUR SHORT DEBT AND STILL HAVE MEDIUM TERM. IT'S A WONDERFUL PLAN. WE DID IT AND THAT MADE AN ENORMOUS DIFFERENCE.

SAM LICCARDO: IT MAKES A LOT OF SENSE. BUT JUST TO MAKE SURE I'M CLEAR ABOUT IT, WE ARE ISSUING DEBT TO ACTUALLY PREPAY THE PENSION OBLIGATION. IS THAT WHAT YOU'RE SAYING?

BRIAN MAYHEW: NO. WE DIDN'T ISSUE ANY DEBT. WE LITERALLY PREPAID IT IN CASH.

SAM LICCARDO: GOT IT.

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BRIAN MAYHEW: WHEN WE HAD ENOUGH MONEY SET-ASIDE OVER THE YEARS WE CONTACTED PERS AND BEGAN TO STRUCTURE THE REPAYMENTS. WE WANT TO MAKE SURE, ONCE YOU HAVE MADE THE PAYMENT YOU WANT TO MAKE SURE THEY RECORD IT PROPERLY AND GIVE US THE PROPER ACTUARIAL'S SO WE CAN PUT IT BACK IN OUR BOOKS YOU DO NOT WANT TO SAY NICE PAYMENT, THANKS, TALK TO YOU NEXT YEAR.

SAM LICCARDO: GOT IT. THANK YOU, BRIAN.

BRIAN MAYHEW: THANK YOU. I NEVER HAD ANYBODY SAY I MADE FINANCE ENJOYABLE. [LAUGHTER]

CLERK OF THE BOARD: I SEE NO ADDITIONAL RAISED HANDS, MR. CHAIR.

ALFREDO PEDROZA, CHAIR: THANK YOU, KIMBERLY. I'LL BRING IT BACK TO THE COMMISSIONERS IN THE ROOM. COMMISSIONER WORTH?

AMY R. WORTH: THANK YOU, MR. CHAIR. I WANT TO PICK UP ON MAYOR LICCARDO'S COMMENTS. BRIAN, THANK YOU VERY MUCH. THIS IS NOT GOING TO BE THE LAST TIME WE'RE TOGETHER WE'RE GOING TO HAVE MORE TIME TO CELEBRATE YOU. I AM ONE OF THOSE COMMISSIONERS WHO IS A HISTORY MAJOR. SO I DIDN'T HAVE THE KIND OF FINANCE TRAINING THAT SOME OF MY COLLEAGUES HAVE THAT REALLY CAN UNDERSTAND THE NUANCES OF AUDITS, AND ESPECIALLY IN THE CASE

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OF MTC, THE NUMBERS ARE SO LARGE, WE HAVE SUCH A COMPLEX, YOU KNOW, ORGANIZATION, I LOVE THE GRAPHS YOU SHOWED AT THE BEGINNING, ALL THE ENTITIES. I WANT TO THANK YOU, EARLY, EARLY, EARLY ON WHEN PUBLIC AGENCIES WERE GRAPPLING WITH THESE UNFUNDED PENSION AND OPEB LIABILITIES YOU GOT ON IT RIGHT AWAY, AND WE WERE ABLE TO TAKE CURRENT REVENUE, PUT IT IN THE BANK, YOU KNOW, PAY DOWN SOME OF THESE HUGE, YOU KNOW, THESE SIGNIFICANT OBLIGATIONS, AND JUST BEING A GREAT STEWARD. YOU KNOW, THOSE OF YOU WHO HAVE WORKED WITH BRIAN OVER THE YEARS KNOW THAT WE ARE REALLY INDEBTED TO HIM FOR THE SEISMIC PROGRAMS, BRIDGES, AND STRETCHING EVERY SINGLE TOLL DOLLAR TO THE MAXIMUM AMOUNT OF PROJECTS THAT WE COULD DO. I WANT TO THANK YOU BRIAN FOR YOUR INCREDIBLE STEWARDSHIP YOUR PARTNERSHIP WITH CROWE AND PREVIOUS AUDITORS HAS REALLY MADE OUR LIVES EASIER IN TERMS OF YOUR EXPLANATION. AND I CAN TELL YOU, SAM, I AGREE, HE MAKES IT SO INTERESTING. AND I HAVE TIMES WHEN I'VE BEEN SO DESPERATE TO GET INFORMATION HE'S ON VACATION DRIVING DOWN HIGHWAY 101 AND WITHOUT HAVING A SINGLE PIECE OF IN HIS EYES, ON THE ROAD, PROVIDED GREAT EXPLANATION WHAT THE NUMBERS MEAN. THANK YOU BRIAN IT'S A PLEASURE TO HAVE THIS AUDIT COMMITTEE MEETING TODAY AND BE ABLE TO FOCUS AND SAY THANK YOU FOR YOUR INCREDIBLE STEWARDSHIP OF OUR ORGANIZATION.

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ALFREDO PEDROZA, CHAIR: THANK YOU. THIS IS JUST THE TIP OF THE ICEBERG. BRIAN I APPRECIATE YOUR STRAIGHT FORWARDNESS IN TERMS OF HOW YOU PRESENT THE BOOKS. WHAT SPOKE TO ME IS THE FACT IT'S EASIER TO DO YOUR JOB IN GOOD TIMES BUT WHEN YOU HAVE A PANDEMIC TO ME THAT SPEAKS ABOUT YOU YOUR TEAM AND WHAT WE'RE ABLE TO WEATHER. IT'S THOSE FISCAL POLICIES THAT WE HAVE INSTITUTED THAT'S PART OF THIS ORGANIZATION AND PART OF OUR CULTURE. RUNNING THE SHIP DURING UNCERTAIN TIMES IT'S A TESTAMENT TO LEADERSHIP AND PHYSICAL STRENGTH OF THIS ORGANIZATION AND WE WEATHERED IT WELL. I COMMENT YOU FOR THAT. AT THIS POINT, I DO NOT SEE ANY OTHER COMMISSIONERS WITH QUESTIONS. KIMBERLY DO WE HAVE PUBLIC COMMENT VIRTUALLY?

CLERK OF THE BOARD: I SEE NO RAISED HANDS, MR. CHAIR.

ALFREDO PEDROZA, CHAIR: NO HANDS IN THE BOARDROOM. BRIAN, ANY FINAL WORDS?

BRIAN MAYHEW: I'M THE LEAST IMPORTANT PERSON IN THIS ROOM. I DON'T DO THIS BY MYSELF. I HAVE TO THANK A WHOLE LOT OF PEOPLE, IT'S NEVER GOING ADEQUATE.

ALFREDO PEDROZA, CHAIR: THANK YOU BRIAN. APPRECIATE SEEING THE WHITEBOARD WITH THE NUMBERS. AT THIS POINT WE DON'T HAVE ANY FURTHER PUBLIC COMMENT I'LL ENTERTAIN A MOTION.

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AMY R. WORTH: MOVE.

CAROL DUTRA-VERNACI: SECOND.

ALFREDO PEDROZA, CHAIR: MOTION AND SECOND. ROLL CALL VOTE.

CLERK OF THE BOARD: [ROLL CALL VOTE] PASSES UNANIMOUSLY BY ALL MEMBERS PRESENT.

ALFREDO PEDROZA, CHAIR: THANK YOU VERY MUCH COMMISSIONERS. ITEM FOUR, PUBLIC COMMENT. I'LL ASK THE CLERK TO READ THE NAMES OR ORGANIZATIONS OF ANY GENERAL PUBLIC COMMENT WRITTEN RECEIVED AT BAYAREAMETRO.GOV BY 5:00 P.M. INTO THE RECORD AND ALSO THE PUBLIC THAT WISHES TO PROVIDE GENERAL PUBLIC COMMENT PLEASE RAISE YOUR HAND OR DIAL STAR NINE IF YOU ARE IN THE BOARD CHAMBERS WE'LL ACKNOWLEDGE YOU.

CLERK OF THE BOARD: THANK YOU. THERE ARE NO MEMBERS OF THE PUBLIC WITH THEIR HAND RAISED, AND THERE WAS NO PUBLIC COMMENT SUBMITTED ON THIS ITEM.

ALFREDO PEDROZA, CHAIR: ALL RIGHT. AT THIS POINT, SEEING NO PUBLIC COMMENT WE'RE GOING TO MUST HAVE ON TO ITEM FIVE ADJOURNMENT TO THE NEXT AUDIT COMMITTEE WHICH WILL BE HELD ON

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DATE AND TIME TO BE DULY NOTICED. THANK YOU EVERYONE. THANK YOU, BRIAN AND TEAM. [ADJOURNED]

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