The County Connection

2477 Arnold Industrial Way Concord, CA 94520-5326 (925) 676-7500 www.cccta.org

# MEETING NOTICE & AGENDA

## Administration & Finance Committee

1676 N. California Blvd, Suite 620
Walnut Creek, CA 94596

**Tuesday, October 9, 2012**
**9:00 a.m.**

*The Committee may hear, discuss, deliberate, and/or take action on any item on the agenda*

1. Approval of Agenda - Action
2. Public Communication
3. Approval of Minutes of September 4, 2012 Meeting* — Review/Action
4. Closed Session:
   Conference with Labor Negotiator (pursuant to Government Code Section 54957.6)
   Employee Organizations:
   Amalgamated Transit Union, Local 1605
   Machinists Automotive Trades District Lodge No. 1173
   Teamsters Union, Local 856, AFL-CIO, Transit Supervisors
5. PARS OPEB Trust* — Review/Action
6. Unaudited Financial Statements for FY2012 * — Review/Action
7. Review of Vendor Bills, September 2012** — Review
8. Legal Services Statement, July 2012 Labor, July 2012 General** — Review/Action
9. Adjournment

*Enclosure
**Enclosure for Committee Members

FY 2012/2013
A&F Committee
Al Dessayer, Moraga
Laura Hoffmeister, Concord
Gregg Manning, Clayton

**General Information**
**Public Comment:** Each person wishing to address the above named committee is requested to complete a Speaker Card for submittal to the Committee Chair before the applicable agenda item is discussed. **Accessible Public Meetings:** Upon request, CCCTA will provide written agenda materials in appropriate alternative formats, or disability-related accommodations. Please send a written request and description of the requested materials so that it is received by CCCTA at least 48 hours before the meeting convenes. **Requests should be sent to:** Janet Madrigal, Clerk to the Board – CCCTA – Administrative Department, 2477 Arnold Industrial Way, Concord, CA 94520 or madrigal@cccta.org. **Shuttle Service:** With a 24-hour notice, a CCCTA LINK shuttle will be provided from the closest BART station to the meeting location. To arrange for the shuttle, please call Robert Greenwood 925/680-2072.

**Administration and Finance Committee**
**Summary Minutes**
**September 4, 2012**

The meeting was called to order at 9:00 a.m. at the Walnut Creek offices of Hanson Bridgett. Those in attendance were:

Board of Director Al Dessayer
Board of Director Candace Andersen
Board of Director Rob Shroder
Staff: General Manager Rick Ramacier
Director of Transportation Bill Churchill
Legal Counsel Pat Glenn
Guest: Ralph Hoffman

1. Adoption of the Agenda- Approved.
2. Public Communication- Ralph Hoffman made comments about various transportation issues not on the agenda.
3. Summary Minutes of August 7. 2012- Approved.
4. Closed Session: Conference with Labor Negotiator (pursuant to Government Code Section 54957.6 regarding Amalgamated Transit Union, Local 1605; Machinists Automotive Trades District Lodge No. 1173; Teamsters Union, Local 856, AFL-CIO, Transit Supervisors- The committee met with the General Manager Ramacier and Legal Counsel Pat Glenn in closed session and reported back in open session that no decisions had been made.
5. Investment Policy- General Manager Ramacier reported that in 1997 CCCTA adopted a Statement of Investment Policy in accordance with California Government Code Section 53646. In 1999 the Board approved changes to the Investment Policy. Since then, the Board has reviewed the Investment Policy and no changes have been made. The last date of review was September 17, 2009. There have been no legislative changes that would mandate revisions to the Investment Policy and staff recommended that the current Investment Policy be approved until September 30, 2015. Approved for consent calendar.
6. Investment Policy – Quarterly Report- General Manager Ramacier reported that the investments for the quarter ending June 30, 2012 comply with the Investment Policy. Approved for consent calendar.
7. Review of Vendor Bills, August 2012- The committee reviewed the vendor bills.
8. Adjournment- The meeting was adjourned. The next meeting will be Tuesday, October 9 at 9:00 am at the Hanson Bridgett offices in Walnut Creek.

Rick Ramacier, General Manager

The County Connection

Inter Office Memo

To: Administration and Finance Committee

Date: September 28, 2012

From: Kathy Casenave, Director of Finance

Reviewed by:

**SUBJECT: PARS OPEB Trust**

Summary of Issues:

Andrew Brown, our investment manager for the PARS OPEB Trust will join us to discuss the FY 2012 investment performance of the trust and share some insights about the future of the markets.

The A&F Committee selected the Moderately Conservative Index PLUS investment option. The allocation for this option is 20-40% equity, 50-80% fixed income and 0-20% cash.

The transactions for FY 2012 were:

| | |
|---|---:|
| July 1, 2011 Beginning Balance | 613,708 |
| Earnings | 27,836 |
| Expenses | -6,954 |
| FY 2012 contribution | 257,000 |
| June 30, 2012 Ending Balance | 891,590 |

The investment rate of return for FY 2012 was 4.55%; for FY 2011, the first full year of the trust, it was 8.77%.

The current actuarial valuation report uses a 5.5% discount rate.

# PARS: CCCTA

## October 9, 2012

Presented by
Andrew Brown, CFA

HIGHMARK®
CAPITAL MANAGEMENT

# DISCUSSION HIGHLIGHTS – CCC Transit Authority

## Asset Allocation

- Current allocation (10/1/12) 29.5% stocks, 66.75% bonds, 3.75% cash
- Large cap domestic 16.25%, international 6%, small cap 3.5%, mid-cap 2.75%, real estate 1%.

## Performance **(Gross of investment fees) Thru August 2012**

Year to date 6.29%, One-Year 7.72%

- Stocks – Growth > Value (Apple), international laggard , real estate strong.
- Bonds – High Yield addition, treasuries vs. corporate bond exposure

## Outlook

- HCM earnings estimate $104/FY12, $112/FY13
- Jobs/unemployment 8.1%,
- China slowdown
- Europe
- Washington- Fiscal cliff 2013, elections

## Other

- US Bank Transition
- Where are we?

## Selected Period Performance

### PARS/CCCTA PRHCP

**Account 6746035400**

**Period Ending: 08/31/2012**

| Sector | 1 Month | 3 Months | Year to Date (8 Months) | 1 Year | Inception to Date (26 Months) |
|---|---|---|---|---|---|
| Cash Equivalents | .00 | .01 | .01 | .02 | .04 |
| *iMoneyNet, Inc. Taxable* | *.00* | *.00* | *.00* | *.00* | *.00* |
| Total Fixed Income | .13 | 1.53 | 3.56 | 5.11 | 4.97 |
| *BC US Aggregate Bd Index* | *.07* | *1.49* | *3.86* | *5.79* | *5.95* |
| Total Equities | 2.41 | 7.83 | 11.40 | 12.83 | 15.92 |
| Large Cap Funds | 2.34 | 8.04 | 13.41 | 17.97 | 18.07 |
| *S&P 500 Composite Index* | *2.25* | *7.94* | *13.50* | *17.99* | *17.89* |
| Mid Cap Funds | 3.16 | 6.63 | 11.60 | 13.59 | 17.42 |
| *Russell Midcap Index* | *3.15* | *6.29* | *11.62* | *13.29* | *17.10* |
| Small Cap Funds | 3.97 | 7.76 | 11.41 | 17.33 | 18.57 |
| *Russell 2000 Index* | *3.33* | *6.99* | *10.60* | *13.41* | *15.69* |
| REIT Funds | -.35 | 7.43 | 15.87 | 18.42 | 23.51 |
| *Wilshire REIT Index* | *-.18* | *7.38* | *16.87* | *19.94* | *22.82* |
| International Equities | 1.74 | 8.11 | 5.33 | -3.36 | 5.89 |
| *MSCI EAFE Index* | *2.69* | *11.13* | *6.92* | *-.05* | *7.38* |
| Total Managed Portfolio | .89 | 3.52 | 6.29 | 7.72 | 6.86 |

Portfolio Inception: 07/01/2010

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

# ASSET ALLOCATION
## As of September 27, 2012

| Current Asset Allocation | | Investment Vehicle | |
|---|---|---|---|
| **Equity** | | ***Range: 20%-40%*** | **29.57%** |
| Large Cap Core | IVV | iShares S&P 500 Index Fund | 5.44% |
| Large Cap Value | IVE | iShares S&P 500 Value Fund | 6.17% |
| Large Cap Growth | IVW | iShares S&P 500 Growth Fund | 4.69% |
| Mid Cap Value | IWS | iShares Russell MidCap Value Fund | 1.72% |
| Mid Cap Growth | IWP | iShares Russell MidCap Growth Fund | 0.99% |
| Small Cap Value | IJS | iShares S&P Small Cap 600 Value Fund | 2.45% |
| Small Cap Growth | IJT | iShares S&P Small Cap 600 Growth Fund | 1.23% |
| Real Estate | ICF | iShares Cohen & Steers Realty Fund | 0.97% |
| International Core | EFA | iShares MSCI EAFE Index Fund | 2.97% |
| Emerging Markets | VWO | Vanguard MSCI Emerging Markets Fund | 2.95% |
| **Fixed Income** | | ***Range: 50%-80%*** | **66.71%** |
| Short-Term | VFSUX | Vanguard Short-Term Corp Adm Fund | 13.82% |
| Intermediate-Term | AGG | iShares Barclays Aggregate Bond Fund | 50.42% |
| High Yield | JNK | SPDR Barclays Capital High Yield Bond | 2.48% |
| **Cash** | | ***Range: 0%-20%*** | **3.72%** |
| | HMDXX | HighMark Diversified MM Fund | 3.72% |
| **TOTAL** | | | **100.00%** |

# PARS/PRHCP MOD CONSERV INDEX PLUS

## For Periods Ending August 31, 2012

| Fund Name | 1-Month Return | 3-Month Return | Year-to-Date | 1-Year Return | 3-Year Return | 5-Year Return | 10-Year Return |
|---|---|---|---|---|---|---|---|
| **LARGE CAP EQUITY FUNDS** | | | | | | | |
| iShares S&P 500 Growth Index | 2.28 | 7.91 | 14.41 | 18.34 | 15.52 | 3.85 | 6.48 |
| iShares S&P 500 Index Fnd | 2.24 | 7.92 | 13.44 | 17.90 | 13.53 | 1.24 | 6.43 |
| iShares S&P 500 Value Index | 2.16 | 7.88 | 12.13 | 17.13 | 11.21 | -1.67 | 6.10 |
| **MID CAP EQUITY FUNDS** | | | | | | | |
| iShares Russell Midcap Growth (2) | 3.40 | 5.18 | 11.50 | 11.50 | 15.88 | 2.72 | 9.74 |
| iShares Russell Midcap Value (2) | 2.90 | 7.23 | 11.42 | 14.59 | 14.86 | 1.66 | 9.37 |
| **SMALL CAP EQUITY FUNDS** | | | | | | | |
| iShares S&P Smallcap 600 Growth Fd | 3.62 | 6.69 | 11.34 | 16.24 | 18.14 | 4.14 | 10.34 |
| iShares S&P Smallcap 600 Value Fd | 3.94 | 7.90 | 11.00 | 17.44 | 14.00 | 1.89 | 8.85 |
| **INTERNATIONAL EQUITY FUNDS** | | | | | | | |
| iShares MSCI EAFE Index | 2.68 | 11.11 | 6.91 | -0.14 | 2.30 | -4.87 | 6.53 |
| Vanguard MSCI Emerging Markets ETF (3) | 0.45 | 5.96 | 5.57 | -6.18 | 6.52 | -0.61 | |
| **REIT EQUITY FUNDS** | | | | | | | |
| iShares Cohen & Steers Realty Majors (1) | -0.32 | 7.41 | 15.86 | 18.52 | 24.59 | 1.95 | 10.84 |
| **BOND FUNDS** | | | | | | | |
| iShares Barclays Aggregate Bond | 0.04 | 1.42 | 3.73 | 5.63 | 6.30 | 6.50 | |
| Vanguard Short-Term Investment-Grade Adm | 0.47 | 1.51 | 3.56 | 3.72 | 4.42 | 4.45 | 4.19 |
| **BarCap US Aggregate Bond** | **0.07** | **1.49** | **3.85** | **5.78** | **6.51** | **6.66** | **5.48** |
| SPDR Barclays Capital High Yield Bond (4) | 0.96 | 5.70 | 9.36 | 13.06 | 13.75 | | |
| **Credit Suisse High Yield Index** | **1.20** | **4.90** | **9.84** | **13.19** | **14.15** | **8.83** | **10.26** |

Source: SEI Investments, Morningstar Investments

(1) Fund was added to the plan in December 2009
(2) Fund was added to the plan in February 2010
(3) Fund was added to the plan in March 2011
(4) Fund was added to the plan in February 2012

*Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.*

## QUARTERLY INVESTMENT OUTLOOK: *RATIONALIZING UNCOMFORTABLE CHOICES*

*by: David Goerz, SVP - Chief Investment Officer*

Economies worldwide have rebounded since the 2008 Financial Crisis, along with rising global equity and tightening credit markets. Even the rebound in earnings growth and profit margins has been remarkable. Yet, the U.S. economic growth hasn't broken out as hoped, after significant global fiscal and monetary stimulus, including slashing interest rates. Unemployment remains high and volatility has been unnerving for investors. The key question is: What is holding us back and will it continue? We observe that sentiment has played an increasingly critical role in economic trends, trumping fundamentals.

Economic recoveries following deep financial crises have historically struggled for an extended period due to the drag of deleveraging that limits consumer spending and investment, thus growth and earnings. Yet, profit margins rebounded more quickly than usual since 2009, as strong cash flows bolstered balance sheets with rising cash levels, and strong investment levered productivity gains. Foreclosures now account for most of the household deleveraging observed. Consumption remains resilient, as household net worth of $62.9 trillion rebounded faster than prior cycles, as significant retirement savings (i.e., 401k, 403b, 457, IRA, profit sharing) increased in value. Household financial assets of $52.5 trillion now comprise 69% of total household assets, exceeding $76.3 trillion. Consider that combined household and corporate sector net worth far exceeds U.S. Treasury debt outstanding of $15.9 trillion.

Government spending still exceeds tax revenues by over $1 trillion, but private fixed investment has accelerated to almost 14%, construction has increased 10%, commercial lending is expanding again, and the savings rate has settled under 4.0%. The data indicate U.S. deleveraging has moderated more quickly than expected, and may be reversing with increasing corporate and household credit demand. A theorized period of extended deflation hasn't materialized, surveying global inflation rates. Thus, we have to conclude policy and legislative headwinds probably offset aggressive stimulus, limiting economic recovery more than deleveraging. The government sector is a long way from deleveraging, in spite of higher tax rates and budget sequestration expected in 2013.

Historical comparisons suggest the recent financial crisis (post-Lehman bankruptcy) has transitioned more quickly than usual, because the credit squeeze was addressed so aggressively by policy makers. Central banks provided almost unlimited liquidity and direct purchase of distressed securities, which thawed credit market trading and caused issuance to recover quickly. A headwind for banks still remains trying to improve their capital ratios and divesting certain businesses, as required by legislative and regulatory changes. Lending is expanding again, but more slowly than otherwise strong earnings and deposit growth might allow. Strong cash flows and increasing household net worth have minimized demand for credit. Would-be borrowers are holding significantly more cash, exceeding $2 trillion for U.S. business. Research, investment, and increasing dividends are increasingly self-financed, but some companies have financed significant share buybacks to take advantage of exceptionally low interest rates. The economy has struggled through this difficult adjustment phase, but now most U.S. banks exceed their future capital requirement. Unfortunately, European banks are still lagging in this regard.

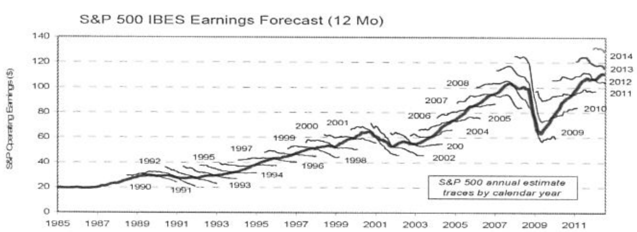
Current threats to global growth include the continuing Eurozone debt crisis, pending U.S. fiscal cliff (i.e., tax rate increases and spending cuts expected in 2013), China's slowing growth, and Iran's nuclear enrichment effort. Implementation uncertainty and high compliance costs of Dodd-Frank financial reform of 2010, as well as the increasing cost of health care reform, are additional reasons for sluggish U.S. growth and weak employment, in our opinion. Government agencies have struggled to finalize more than 200 new financial rules and procedures required, in a timely way. It is daunting for even the most sophisticated financial service firms to understand the complexity of this law. Yet, the sum of these threats is still less than in 2010 and 2011.

Investors may have hoped for a quiet summer to enjoy their vacations, but capital markets seem to have no respect for the calendar. Forecasting sentiment and its impact on markets is a challenge, but our fundamentally global tactical asset allocation models still suggest the outlook for global equities is compelling, favoring the United States in particular. Relative valuation between stocks and bonds plus record low interest rates favors equities. Additional factors driving our tactical models, including economic growth, low inflation, and earnings growth remain key drivers of our preference for equity. Anomalies of low price/earnings and price/book ratios, negative real bond yields, and dividend yields exceeding Treasury yields, are all consequences of continued high investor risk aversion. Our tactical asset allocation discipline seeks to be pragmatic and objective, but many years of volatile equity markets makes *Rationalizing Uncomfortable Choices* as difficult as it has ever been.

### Investment Review

After another good start through April of this year, equity markets tumbled in May, but the S&P 500 rebounded in June to finish the quarter only slightly lower (-2.8%) vs. +2.1% return to the Barclays Capital Aggregate Bond Index. The S&P 500 index has returned a respectable 9.5% this year, and at 22.4% over the last nine months is outperforming bonds by 19%, although volatility has been high. During the quarter, value stocks exceeded growth by 1.8%, while large-cap stocks trumped small-cap by 0.7%. Higher dividend yielding stocks surged ahead with Telecom (14.1%), Utility (6.5%), and Health Care (1.7%) sectors leading the S&P 500 for the quarter. Bonds outperformed during the quarter, but continue to lag equities this year by more than 8.5%. U.S. equity performance has been driven by the continuing strong recovery in earnings and high profit margins.

Earnings growth exceeded 14.7% in 2011 and pre-tax profit margins are still hovering near 13%. Earnings continue to surprise positively for the twelfth quarter in a row. In Q1/2012, 67% of companies beat estimates by 5% on average. For the first 25% of company reports in the second quarter, 67% of companies beat estimates by 5% on average, compared to March 30, 2012 estimates. Estimate revisions for 2012 turned negative recently, but U.S. companies continue to beat estimates. We believe S&P 500 earnings will increase 6.3% in 2012 and 7.7% in 2013, providing an opportunity for equities to generate a compelling return relative to bonds. The upward progression of 2013 and 2014 keeps forward estimates trending higher, even if current estimate revisions have been modestly negative.




| Earnings | 2013e | 2013e | 2012e | 2011e | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| HighMark | 8.2% | 5.8% | 6.3% | 14.7% | 40.3% | -7.1% | -23.1% |
| Consensus | 11.4% | 11.8% | 5.7% | 14.7% | 40.3% | -7.1% | -23.1% |
| | | | | | | | |
| HighMark | $ 119.00 | $ 110.00 | $ 104.00 | $ 97.82 | $ 85.12 | $ 60.80 | $ 61.48 |
| Consensus | $ 128.76 | $ 115.56 | $ 103.38 | $ 97.82 | $ 85.12 | $ 60.80 | $ 61.48 |
| | | | | | | | |
| Financials | 16.5% | 13.4% | 22.0% | 4.1% | 288.2% | 106.9% | -130.8% |
| Non-Financials | 9.4% | 11.4% | 4.7% | 15.8% | 28.1% | -18.6% | 7.2% |

*Source: HighMark Capital estimates and Thomson Datastream*

International stocks (MSCI EAFE: -6.9%), including Emerging Market Equities (MSCI EEM: -8.8%) struggled most during the quarter with the consequences of the continuing European debt crisis still a threat to global growth. China's growth slowed to a still remarkable 7.6% y/y, but the Chinese government expects growth to re-accelerate toward 8% this year with easing monetary policy. The trade weighted U.S. dollar (+1.4%) also firmed in the second quarter.

Since the March 2009 lows, the S&P 500 has returned 119% vs. 25% for bonds and 5% for cash. Even the CRB Index of commodities, benefiting from ETF flows, has risen 45%. We have recommended overweighting equities for this entire period, although heightened volatility of equities, including three corrections, has been difficult to withstand for some investors. This is likely why we observe the lowest allocations to stocks in a generation from individual and institutional investors, most notably in pension funds.

### Economic and Capital Market Outlook

The U.S. economy has managed to remain relatively immune to slowing growth and geopolitical challenges in other developed economies. Yet, growth uncertainty and volatility have taken a heavy toll on investor sentiment, most recently reflected in underperforming international equity markets, offshore accumulation of U.S. Treasuries, and a stronger U.S. dollar. Addressing the Fiscal Cliff's economic impact is now most likely to be deferred until after the election, although agreement has been reached on a continuing budget resolution. That neutralizes the risk of another debt ceiling debacle until after

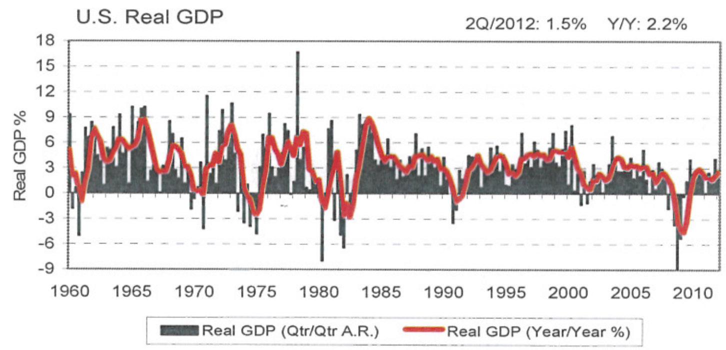
March 2013, providing the next Congress time to develop a possible solution.

Recall in *The World Turned Upside Down* (Investment Highlights, June 2012) that we believe the effect of the Fiscal Cliff should knock about 1.5% off U.S. growth or about half the sum of tax rate changes and spending cuts, adding up to $500 billion or 3.2% of GDP. While characterized as a "cliff", the effect may be more of a "slope". Increased tax payments won't be due until April 15, 2014. There are behavioral and practical reasons to expect permanent tax cuts are anticipated quicker than long expected expiring tax increases, whose effect is likely be spread out over a longer time period. Unemployment benefits have been declining. We should assume behavioral responses to anticipated tax changes started some time ago, and will continue into 2013.

| Economic Forecasts | 2010 | 2011 | 2012e | 2013e | 2014e |
|---|---|---|---|---|---|
| GDP (Y/Y Real) | 3.2 | 1.6 | **2.3** | **2.3** | **2.5** |
| Earnings Growth | 40.3 | 13.2 | **6.3** | **7.7** | **7.1** |
| CPI Inflation (Y/Y) | 1.4 | 3.0 | **2.2** | **2.3** | **2.8** |
| Unemployment | 9.4 | 8.5 | **8.0** | **7.5** | **7.2** |
| Fed Funds Target | 0.25 | 0.25 | **0.25** | **0.50** | **1.75** |
| Treasury Notes-10y | 3.31 | 1.88 | **2.10** | **3.00** | **4.0** |
| S&P 500 Target | 1258. | 1258. | **1425.** | **1520.** | **1600.** |

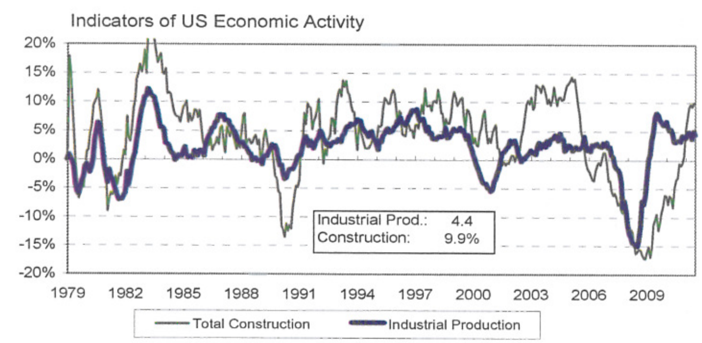
*Source: HighMark Capital estimates and Thomson Datastream*

Fears of slowing U.S. economic growth have increased, but there is still no evidence that a meaningful slowdown is imminent. The ISM Purchasing Managers Survey has dipped to 49.8 since May, but that still correlates with 2.4% real growth over the next year. Monthly economic data has been stronger than 3.9% nominal GDP growth suggests, including retail sales (5.1%), business sales (5.7%), and construction (9.9%). Industrial production (4.4%) is actually accelerating again. Slack in capacity utilization has nearly normalized, and there are reasons that persistently high unemployment of 8.3% may be more structural, than cyclical. If so, monetary policy targeting employment slack would be sadly misguided. GDP has lagged other growth measures since the July 2011 revision to the national accounts methodology. Classic economic output gap and economic slack analyses may lead astray interest rate "doves" that dismiss traditional policy setting rules and inflation.




*Source: HighMark Capital and Thomson Datastream*

We expect 2.3% U.S. real growth in 2012-2013, similar to the 2.2% observed over the last year. A shallow recession contracting -0.4% is expected in the Eurozone this year, while 6.8% growth is expected in Emerging Markets. Global growth of 4.0% is expected in 2012, accelerating in 2013. If these consensus estimates prove optimistic, investors could be disappointed, but it seems to us that markets have actually discounted a far worse economic scenario than consensus suggests.

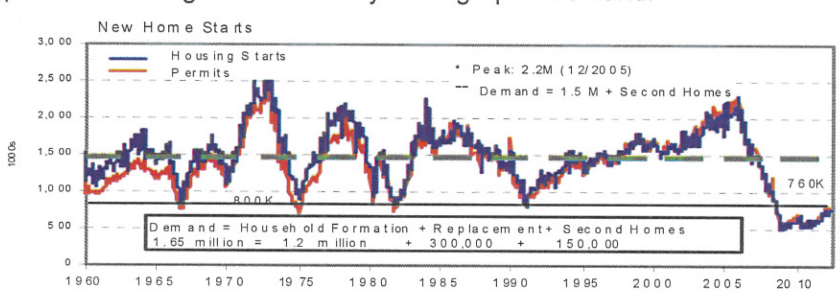



*Source: HighMark Capital and Thomson Datastream*

China's risk of a hard landing is receding with aggressive monetary easing, including bank reserve requirement and interest rate cuts. China's short-term interest rate or SHIBOR has fallen from 6.5% to 3.35% in a year, but mostly in the last two months, so investors should be patient about when changes will have an impact. The government recently announced an 8% growth target, and they have plenty of policy flexibility. Falling energy and industrial commodity prices are dampening inflationary concerns enough to allow other emerging countries to follow suit, although drought-stricken agricultural commodities are worth monitoring. India, Korea, Australia, and Brazil should be able to follow China's lead in cutting interest rates, while the ECB recently cut interest rates to 0.75%.

A significant drag on global growth has been higher oil prices, triggered by the Arab Spring turmoil of 2010. Recently, oil prices fell from over $114 last April 2011 to $85 in July. The 20% decline in oil prices since February 2012 has the potential to fuel over $70 billion in discretionary spending if lower prices can be maintained. Falling commodity prices coincided with receding speculative investment flows, particularly into ETFs.

Housing has been one of HighMark's five key potential growth drivers since 2011. New housing starts (+39%) and permits (+21%) accelerated, benefiting from the jump in the household formation rate from 357K to 1.1 million in 2011, near record low inventory of new homes, as well as improving affordability with lower mortgage rates and home prices. The average historical household formation rate of 1.2 million, plus replacement of 300K homes every year, suggests normal demand for housing exceeds 1.5 million. That suggests housing starts could double from the current 760K rate, so there is significant upside to housing starts to satisfy demographic demand.




*Source: HighMark Capital and Thomson Datastream*

**Global Industrial Renaissance**

In *Are the Nightmares Behind Us?* (Quarterly Investment Outlook for Q1/2012), we introduced several new themes, including an *Era of Heightened Productivity*. We continue to refine our thinking about this complex theme. The more we look into emerging American innovation, the greater our conviction that relative competitiveness can boost potential economic growth. It is exciting to observe so many new areas of research and development seeking to improve living standards and operating efficiency. Yet, it is not surprising such themes are difficult to quantify in economic terms. Technology has become an enabler of new things that are cheaper, faster, smarter, more efficient, substitutable, or increase productivity. A strong financial system is also necessary to facilitate desired potential growth and productivity gains over the next decade. American banks are approaching their goal of meeting higher Basel III capital requirements, and are stronger today than anytime in the last decade. They are better positioned geographically and financially than rivals anywhere in the world. Product development cycles have shortened with the advent of computer aided design and simulation. Innovations such as *additive manufacturing* (aka: 3-D printing) and *adaptive robotics*, for example, are part of an emerging industrial renaissance with the convergence of evolving competitive advantages in manufacturing.

We highlighted in Q1 how the global revolution in information technology has democratized education and transformed innovation, inspiring a renewal of entrepreneurialism. Ubiquitous computing and big data in the cloud feed our thirst for information, providing instantaneous access anywhere and anytime. How can we measure such contributions in productivity? The rise of productivity, highlighted in HighMark's 2012 themes, has become immeasurable. We can't define output consistently if many services are now offered for free or negligibly cheap.

Emerging Market labor cost advantages have begun to erode with an industrial renaissance. A repetitive task that used to be cheaper to outsource, will eventually be replaced by a machine that doesn't get tired and makes fewer mistakes. It can be housed in the U.S., as easily as in Shanghai. Since 2000, Chinese wages increased from $0.50 to $3.50/hr. on average. Studies of persistently high unemployment suggest several causes, including the structural consequence of rapidly evolving job skill requirements, and the mismatch with employers' needs. The decline in manufacturing has been caused as much by an economic transition in the application of technology to a wider range of industries. An increase in on-shoring reflects accelerating automation, as the labor cost advantage narrows, minus rising transportation costs. Consider one technician managing six adaptive robots, running 24 hours a day that displace 20 jobs in Shanghai. The math is compelling, as it is startling. Industries yet to be reformed are in the bull's eye now, including heath care, education, government services, transportation, and utilities.

Leveraging productivity gains require cheap power on demand, and America has been at the forefront of harnessing meaningful natural gas reserves by hydraulic fracturing. Power efficiency gains combined with cheap natural gas, producing 23% of generation capacity, has driven the lowest electricity prices globally for the U.S. China's Resources Ministry recently announced that preliminary surveys suggest shale-gas reserves exceed 25.1 trillion cubic meters, which could be the largest in the world, and enough to meet China's natural gas needs for the next two centuries. Given the spread between natural gas and oil prices (natural gas = $18/bbl equivalent vs. $85 WTI), finding a practical way to utilize natural gas for transportation would be very exciting. Proximity to cheap power provides a competitive advantage to various strategic industries, including manufacturing chemicals and other basic materials. *The Economist* recently highlighted our economy's underlying strength through innovation in the article: "Comeback Kid: America's economy is once again reinventing itself." It may require a little faith to believe American businesses will develop competitive products that can drive our economy to new heights, but it has never paid to sell America short.

**Tax Debate in the Bull's Eye This Election**

The debate over tax policy in America has become highly polarized over fairness and morality, measured in any number of ways. Simply adjusting tax rates is the simplest method of changing tax policy; yet some suggest that our tax code is unfair because companies and individuals are not treated equally, even within income brackets. Targeted tax credits, exemptions and deductions leveraged for political advantage introduced over many decades have increased the complexity of our tax code, and singled out constituencies for favorable exceptions. Our increasingly progressive tax code has resulted in the top 10% paying more than 50% of the federal tax revenues, while more than 50% of households pay no income tax at all, according to data from the Congressional Budget Office. Tax revenues are very cyclical as a result. A significant divergence in statutory rates and effective tax rates also raises questions of fairness, but will those who benefit most exploiting tax exceptions actually pay more simply by raising tax rates? We believe that only broad-based tax reform can improve fairness across all income brackets, in an already highly progressive tax code.

Legislation and regulatory rulemaking has increased the complexity and inefficiency of tax policy at the federal and state level. "The Economic Burden Caused by Tax Code Complexity", by Dr. Arthur Laffer *et al*, estimated that administrative, filing, and compliance costs have increased dramatically since tax reform legislation in 1986, and exceeded $431 billion in 2010, equivalent to 30% of total income tax revenues collected. No business could survive such inefficiency. Tax code complexity is further compounded with other goals to promote specific behavior and outcomes, unrelated to tax revenue needs. Simplifying corporate and individual tax reform could produce material savings for taxpayers and government. Since taxpayers bear over 70% of this cost, discretionary income would increase. The challenge remains vested special interests fought for each incentive, exemption, and deduction. The greatest loss of tax revenue is due to behavioral changes exploiting tax avoidance strategies. Simplifying tax reform can recapture tax revenue and still improve discretionary income.

Wide differences exist between average effective tax rates and statutory tax rates. Thus, by simplifying the tax code, tax revenues can increase even if tax rates were reduced or at least held steady. Broad-based tax reform offers the best chance of rebalancing fiscal policy and eliminating costly inefficiencies. The collective benefit of tax reform can only be realized by addressing all special tax considerations at once, instead of incrementally. The Simpson-Bowles Commission recognized the need for comprehensive reform. By reducing spending as much as $200 billion per year, they recognized the need to limit spending to 20% of GDP (maximum federal tax revenues), empirically derived in Hauser's Law. The Commission also recommended increasing tax revenue, while accommodating lower tax rates by eliminating deductions. In this way, they close the gap between lower statutory and effective tax rates, with the goal of greater fairness and consistency. Solutions that benefit taxpayers and increase revenues improve the likelihood of comprehensive tax reform. Doing so might eliminate patching the Alternative Minimum Tax every year to account for inflation, and avoid uncertainty of temporary tax changes that make tax planning so difficult.

The individual tax code is highly progressive, meaning that higher income tax brackets pay a higher tax rate. Congressional Budget Office data published for 2007 (latest available) shows 20.1% was the effective tax rate of the top 20%, which was 58% greater than the tax rate of the middle 20% of taxpayers paying 12.7% on average. Tax avoidance is a strong incentive for those subject to the highest rates. Warren Buffett penned a WSJ op-ed last August stating that his 2010 effective individual tax rate was 17.4%. His annual salary is just $100,000, so most of his individual income comes from investments, including dividends taxed at 15%. However, Warren Buffett also owns 31% of Berkshire Hathaway, whose recent corporate tax rate was 29%. Mr. Buffett's tax liability is dominated by his corporate holdings, thus his individual income tax rate is economically irrelevant versus his corporate tax rate.

The United States has the highest combined statutory federal and state average tax rate of 39.2% after Japan cut its corporate tax rate from 39.5% to 38% in June. Other countries also have slashed their corporate tax rates. While statutory rates remain high, average U.S. corporate taxes paid fell to a 40-year low of 12.1%. Since 1950, corporate tax rates as a share of federal tax revenue fell from 30% in 1950 to 6.6% in 2009. Larger companies have an advantage leveraging sophisticated tax avoidance and deferral strategies, making it more difficult for smaller companies to compete. General Electric, one of America's premier companies, paid an average tax rate of 2.3% over the last decade, including no income taxes in 2002 or 2008-2010. Last year the company paid 11.3%. With accumulated tax losses and overseas earnings, General Electric will continue to benefit from a lower tax rate, while most competitors pay higher effective corporate tax rates. Increased regulation and tax code complexity reduce global competitiveness raise barriers to entry, exacerbate inefficiencies, and thereby promotes "too big to fail".

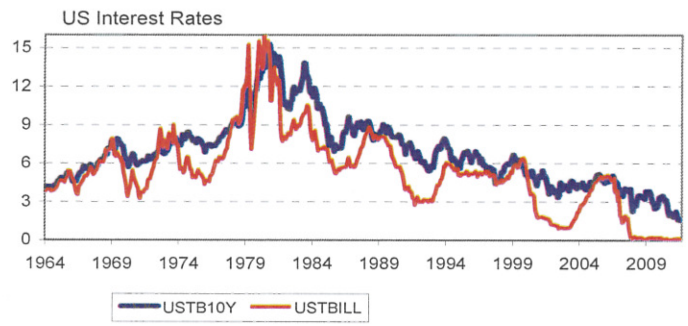
Doing something substantive and permanent is a strong motivation to extend current tax rates into 2013 in order to attempt tax reform and pass the first federal budget in three years. In so doing, we could enhance the predictability of tax revenues, while improving operating efficiency and global competitiveness. To avoid another debt ceiling debate, a continuing resolution has funded the government through March 2013.

**Let's (Operation) Twist -- Yet Again!**

We would like to believe the music has stopped, even if the Federal Reserve is still dancing The Twist. Unwinding current monetary policy, without damaging the economy, has become more difficult. The benefit has been diminishing with each monetary policy initiative, which is why we think the hurdle is high for and additional quantitative easing, as long as the economy is expanding. While bond yields tumbled over the last year, it is difficult to unravel the influence of monetary easing from recurring global growth threats in July-September 2011 and May 2012. Pledging another $267 billion to maturity extension on June 20th committed all that is left to "twist". Monetary stimulus can ease financial concerns such as liquidity, credit demand, and the cost of money, but geopolitical concerns and structurally high unemployment are best addressed in other ways.

Since 2010, each successive monetary policy easing initiative has been less effective. There is little justification for further quantitative easing (QE-3), or an extension of interest rate guidance beyond 2014 at this time, in our opinion. The only other option is to reduce the interest rate paid on excess bank reserves (IOER), currently 0.25%. Why should taxpayers pay interest to banks on capital reserves held at the Federal Reserve, earning a higher rate of return than bank deposits? The Federal Reserve never paid interest on reserves prior to the Financial Crisis, and ending this practice would likely encourage banks to lend this money.

1 Federal corporate tax rate of 35%, plus 4.2% state average.

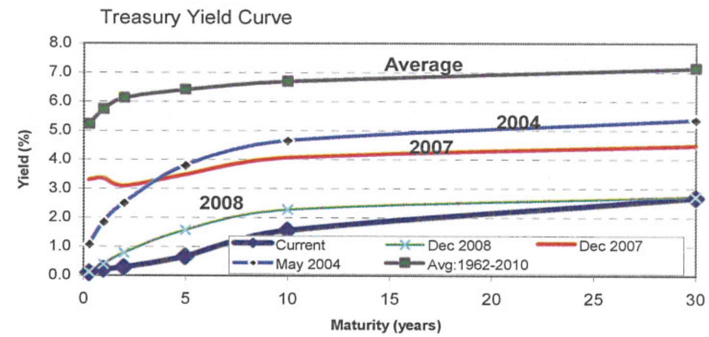



*Source: HighMark Capital and Thomson Datastream*

Unprecedented interest rates will eventually rise, and we expect 10-year Treasury yields to increase from 1.5% to 2.1% by the end of 2012. We have suggested that a Fed Funds target of 1.0% would be very accommodative, and still no higher than previous cycle lows through May 2004. Yet, it would stabilize money market funds, which buy securities needed to finance liquidity needs of companies, financing operations, government, and banks. Treasury purchases and date certain policy indication only seems to exacerbate market volatility.

The Federal Reserve's bloated balance sheet must eventually contract when securities are sold, unless the FOMC learns to dance the "Reverse Twist" to accelerate maturity or Treasury cancels securities held by the Federal Reserve. The Federal Reserve bought the equivalent of 77% of Treasury issuance in 2011, which artificially suppressed interest rates. Such depressed interest rates are unsustainable with real GDP growth of 2.2%, core CPI inflation exceeding 2%, and housing recovering. Cyclical indicators such as industrial production, business sales, construction, housing starts, and even earnings contradict fears of a likely recession.

The Federal Reserve seeks to keep the recovery on track, but they are unwittingly perpetuating moral hazard, in our opinion. Never before has the Federal Reserve offered specific economic and interest rate guidance. Companies, individuals, and investors are making long-term decisions based on interest rate expectations. The date certain horizon for holding interest rates low through 2014 compels investors to buy Treasuries, even with negative real yields, extinguishing inflation and interest rate risk premiums. When interest rates begin to normalize, possibly well before the end of 2014, expectations will be shattered. Fixed income returns will turn negative, and volatility should increase, we believe.




*Source: HighMark Capital and Thomson Datastream*

Eventually, interest rate and inflation risk premiums will be re-priced into yield curves. An inevitable bond market correction from artificially extended prices is likely to be that much more cathartic and destructive in convergence to equilibrium. The chart above suggests normalizing the Treasury risk premium would boost the 10-year Treasury yield from 1.5% to over 6.0%, resulting in a principal loss of about 30%. Higher U.S. Treasury yields will likely coincide with higher bond yields in other counties. We expect the Federal Reserve to tighten monetary policy well before similar action by the Bank of Japan and the European Central Bank, which should strengthen the U.S. dollar. This should result in underperformance of non-U.S. bonds, and possibly drag commodity and gold prices even lower. Given already negative real Treasury yields, why must bond yields be subdued any further?

Investor desire for yield has increased further in the last year, but bonds are risky at current valuations. Fixed income is a convenient way to generate income, but income is taxed at a high rate of up to 35%. In 2013, interest and dividend income will be taxed up to 43.4% for the top income bracket, including a new 3.8% Medicare tax on unearned income due to health care reform. The significant increase expected in the tax rate on dividends could trigger underperformance of high dividend yielding stocks before year-end, particularly in utility and telecommunication sectors with stretched valuations. Higher dividend yielding stocks also tend to underperform when interest rates rise. Long-term capital gains will be taxed at 23.8% (up from 15%), much lower than unearned income from interest and dividends. Compelling global equity valuations versus bonds makes it attractive to harvest income from equity capital gains, as an alternative to higher fixed income allocations.

**Evolving Eurozone Crisis**

Policymakers have struggled since early 2010 to stabilize the sovereign debt crisis that has driven up the cost of government bond issuance as credit agencies downgraded ratings. Fiscal deficits have soared, even in countries with already high debt levels of 100% or more debt/GDP. The viability of European Monetary Union (EMU) hinges upon whether greater integration will promote fiscal discipline, while reversing declining competitiveness that is undermining potential growth. Failing tax compliance and collection doesn't help either, when entitlement spending is growing so much faster than the economy. Causes of fiscal deficit problems in Europe will need to be addressed in Japan, where debt ratios are even more concerning, although for now they can finance most debt issuance internally.

With increasingly globalization, China is likely to be more sensitive to slowing European growth than the United States. It is noteworthy that U.S. exports are just 13% of GDP, with total European Union exports of goods to the European Union in 2011 totaling $440 billion or 2.8% of U.S. GDP. If European growth is -4% below potential, how significant is 2.8% x 4% = 0.1% of GDP? The benefits of shifting market share toward U.S. businesses may more than offset lost export demand. About half of our exports stay in North America, and the rest is split between Europe and Asia + Latin America—both Mexico and Canada are growing reasonably well. About 30% of China's GDP is dependent on exports, in comparison. While S&P 500 earnings sensitivity is higher than the share of GDP suggests, perceived trade concerns with struggling EU economies are causing more U.S. equity volatility, than the economic dependency suggests.

Greece, Portugal, Ireland, Spain and Italy have enjoyed the benefits of lower interest rates since the euro was introduced in 1999, but their government leaders ignored mandated fiscal guidelines in the Maastricht Treaty. Most EMU countries are outside the guidelines today to varying degrees. The Treaty has been amended to introduce real penalties for countries exceeding fiscal guidelines. Recent proposals call for greater integration of Eurozone banks under a single regulator, provisions for deposit insurance, and severe penalties on violating fiscal guidelines. Such proposals will provide the ability to recapitalize or manage failing banks. While these are constructive changes, without political union, sovereign countries must address competitiveness and other structural issues that will take years to resolve. Only then will risk premiums normalize. The European Financial Stability Facility has provided some relief, but expires soon, and will be superseded by a permanent program called the European Stability Mechanism, which will provide greater ECB flexibility. Creating universal Eurobonds is strongly opposed by Germany, at least until there is greater centralized fiscal policy controls.

No quick resolution is expected to Europe's Debt Crisis, but it is noteworthy there are several overlapping issues, yet unique concerns in each country. Spain and Ireland have been impacted most by declining real estate prices affecting the banking sector, more so than Greece, Italy and Portugal, which are grappling with high government debt levels, ineffective tax collection, and excessive loopholes. The countries impacted do share similarly high unemployment across uncompetitive workforces. Exports have declined significantly, as have growth rates that otherwise might allow these countries to grow their way to better fiscal balance. Fiscal deficits are spiraling out of control due to unsustainable public sector wages and pension commitments. Government spending must be brought back in-line with tax revenue. German labor market reform, which took effect in 2005, explains their enviable 6.8% unemployment rate and export growth are such outliers, in contrast with other EMU countries.

Taxing authority of most developed nations to service debt was considered nearly limitless before the Eurozone debt crisis. Sovereign debt is no longer assumed risk-free, after European debt ratings were downgraded and investors fled to safer havens. Unchecked government spending has brought debt levels to a tipping point that gnited the current fiscal deficit crisis. Capital flight from riskier nations is shrinking their respective bank deposits. Long term solutions take time, but in the short-run we tend to overlook the asset side of a nation's balance sheet. As illiquid and impossible to value as it might be, privatization is only considered under extreme situations. Default of a sovereign government, such as Greece, should follow only when privatization has been exhausted, like a company in liquidation. Of course, there is one asset that is always marketable. Interestingly, central bank gold reserves have appreciated significantly. This has boosted the ratio of gold holdings as a share of total reserves up to 90% in some countries. Eurozone countries hold gold reserves totaling 10,792 metric tons or 64% of worldwide gold reserves, worth $610 billion. Greece's gold holdings aren't significant enough to help them, but Italy holds 2,452 metric tons, and about the same as France. We suggest that Spain, Italy and Portugal could back debt issuance with their gold holdings, or even sell gold to refund maturing debt for an interim period.

Geopolitically, how the newly elected socialist French government, stripped of its AAA-credit rating, cohabitates effectively within the European Union is an important question. Socialism is incompatible in competition with capitalism. France's new agenda of ruinous policies are likely to increase its competitiveness gap with other members of the European Union. Policies advocated by President Hollande will reduce potential growth and productivity in France, driving away many of its wealthiest citizens and successful businesses to Switzerland or elsewhere. U.K. Prime Minister David Cameron recently welcomed French business and individual tax exiles to the U.K., and "will roll out the red carpet" for them. It is insidious that French voters are willing to experiment again with Socialism, whose moral premise institutionalizes envy and self-sacrifice. France will face tough choices given President Hollande's promises conflict with the fiscal needs of the nation.

Economists suggest France has lost 500,000 industrial jobs over the last decade due to increasing protectionism and an uncompetitive workforce. France's shrinking export sector drove its current account deficit to record levels. France's competitive position also eroded, so any recovery will be fleeting, with unemployment already rising above 10%. Entrepreneurs will not be incentivized to start new businesses, while foreign direct investment will likely recede, seeking out other countries with more favorable business conditions. We have observed the consequences of capital flight in Greece, Spain, and Italy. Beleaguered nations, including France, will continue to be market share donors if they are unable to compete with their higher cost structure and unfriendly business environment. Debt/GDP is approaching 90% with a fiscal deficit exceeding 7% of GDP, so fiscal stimulus is not an option.

The debt crisis within the European Monetary Union has caused dramatic capital flight into Germany, as well as other safe havens, including the United States and Switzerland. Last fall, the Swiss National Bank imposed a floor on the Swiss franc/euro exchange rate of CHF 1.20. The weak Euro increased German competitiveness thereby boosting export. It should not be surprising that German unemployment declined, while it soared in Italy (10.1%), Spain (24.6%), and France (10.1%).

It is easier to envision Germany leaving the Eurozone, than weaker countries exiting EMU. A referendum could go either way with only 43% of Germans supporting the Euro versus 41% that prefer a return to the Deutschemark, according to a recent YouGov survey. For Germany, it has been costly to back multiple bailouts, but their growth should outpace the rest of EMU by a wide margin with a weak currency and such low interest rates. Economic power is shifting further in Germany's favor. The United Kingdom is a member of the EU, but opted-out of the EMU. It hasn't seemed to impact its competitive position. However, will Germany become so dominate that it further destabilizes EMU?

**Conclusion**

*"We forget that Mr. Market is an ingenious sadist, and that he delights in torturing us in different ways."*
---Barton Biggs, Value Investor (1932-2012).

Investor concerns are rightly focused on global growth and earnings potential, but something much worse than consensus forecasts has been discounted in equity markets. As a result, there is a healthy margin of safety reflected in attractive equity valuations and low interest rates with resilient moderate growth expected. We continue to balance compelling global equity valuations, particularly for the U.S. and Emerging Markets, with the ongoing threats to global growth. These threats include: U.S. Fiscal Cliff, Eurozone Debt Crisis, slowing Emerging Market growth, and Iran's nuclear aspirations.

Over the last decade, investors observed equities underperforming bonds, but this differential is reversing. Strategic equity allocation ranges have fallen, as investors wonder whether equities will ever make sense again. Heightened risk aversion has compressed equity valuation multiples, and driven real Treasury yields negative across the yield curve. The increased equity risk premium suggests intense geopolitical pessimism around the Eurozone Debt Crisis and an increase in fiscal austerity globally, as if economies can't grow without government spending. Investor discomfort with equities versus unsustainably low bond yields, quantify uncertainty about positioning portfolios.

Investor preference for bonds is irrationally complacent as the 30-year bull market in bonds drove 10-year Treasury yields to a record low, below 1.5%. Current inflation rates (1.7% CPI, 2.4% core CPI) suggest bonds are overvalued given a normal inflation risk premium of 2.5-3.0%. Bonds typically include an interest rate and inflation risk premium, but the Federal Reserve has said they will keep rates low for the foreseeable future, thereby promoting moral hazard. The level of investor risk aversion belies the significant outperformance of equities versus bonds and commodities since March 2009. Economic activity and earnings have rebounded above 2007 highs, although fears of a "double-dip" or extended period of deflation and depression persist.

*Asynchronous Global Expansion*, as a theme for 2012, has begun to support signs of economic decoupling and reduced global economic contagion. Asset valuations have diverged from equilibrium more than anytime since 2001, exposing significant tactical opportunities. Low interest rates remain globally stimulative, promoting investment and housing affordability. Earnings also have benefited, while profit margins ratcheted well above normal. Such compelling equity valuations and negative real yields are consistent with relentless risk aversion and uncomfortable choices for uncertain investors.

Longer-term, our investment outlook strongly favors equities over bonds, cash, and commodities, with a remarkable 6.5% equity risk premium. While uncertainty and heightened volatility persist, current threats have been discounted. So, the only variables that should be relevant for markets are a function of fundamentals. Capital markets tend to discount improving prospects well before changing conditions are visible, so investors must consider *Rationalizing Uncomfortable Choices*.

David Goerz, SVP - Chief Investment Officer
**http://commentary.highmarkfunds.com**

# QUARTERLY INVESTMENT OUTLOOK: *RATIONALIZING UNCOMFORTABLE CHOICES* (cont.)

The County Connection

Inter Office Memo

To: Administration and Finance Committee | Date: October 2, 2012

From: Kathy Casenave, Director of Finance | Reviewed by:

**SUBJECT:** Unaudited Financial Statements for FY 2012

The attached unaudited CCCTA Income Statements for FY 2012 are presented for your review. The audit field work has not yet been completed but in the past any adjustments after the field work have not materially altered the statements. The combined actual expenses, Fixed Route and Paratransit, (Schedule 1), **were 8.1% under budget ($2,647,443).** The June projection was that expenses would be 6.1% ($1.995.847) under budget. The expense categories with the most significant variances were:

| | | | |
|---|---|---|---|
| Fringe benefits | $( 489,404) | ( 6.5)% | Fringe benefit expense was under mainly because workers compensation expense was less than budgeted. |
| Services | $( 290,557) | (14.6)% | Expenses under budget included legal services, outside service repairs, management consultants. |
| Materials & Supplies | $( 660,798) | (17.1)% | Diesel fuel ($518k) & repair parts ($57k) accounted for most of the variance. |
| Special trip services | $( 398,950) | ( 7.3)% | Paratransit purchased transportation expenses were less than budgeted due less service hours & increased efficiencies. |

Fixed route and Paratransit revenues and expenses are presented on **Schedules 2 and 3.** Fixed route expenses were 8.2% under budget and Paratransit expenses were 7.6% under budget.

The combined revenues were under budget because TDA revenue is not considered earned unless needed for expenses and after other revenue is used. Other revenues with significant variances were:

| | | | |
|---|---|---|---|
| Special Fares | $ 154,907 | 19.6% | Special fares were more than budgeted due to new contracts for ITT Tech, Cal State, and increases in contracts for other transit partners. |
| Federal operating | $(1,080,450) | (21.5)% | Fixed route preventive maintenance revenue was under by $991k because reimbursable maintenance expenses were less than expected. Paratransit operating revenue was $89K less than budgeted based on updated federal |

| | | | |
|---|---|---|---|
| | | | apportionments. |
| STA revenue | $ 635,512 | ( 19.9)% | The Governor's revised STA revenue estimate for FY 2012 increased after the TDA claim was filed. The new increased estimate was used for the budget but during the year it became apparent that the additional revenue was not needed for FY 2012. This difference will be carried over to FY 2013. |

**Schedule 4** provides selected statistical information for the current year compared to the last two years:

**Fixed route:**

- Passenger fares were 2.4% more than FY 2011 and .6% more than FY 2010.
- The farebox recovery ratio was up compared to FY 2011 and FY 2010. The ratio was 17.7% in FY 2012; 17.3% in FY 2011 and FY 2010.
- Operating expenses were 2.4% more than FY 2011% and 2.3% more than FY 2010.
- Fixed route revenue hours were about the same for FY 2012 and FY 2011 and 3.4% less than FY 2010.
- The cost per revenue hour increased 2.5% compared to FY 2011 and 5.9% compared to FY 2010.
- Passengers decreased 21.5% compared to FY2009 and 26.6% compared to FY 2008.
- The cost per passenger increased 4.1% compared to FY 2011 and 2% compared to FY 2010.
- Passengers per revenue hour decreased 4% since FY 2011 and 1.5% since FY 2010.

**Paratransit:**

- Passenger fares increased 13.3% over FY 2011 and were 5.8% over FY 2010.
- The farebox ratio was 13.5% more compared to FY 2011 and 6.3% more than FY 2010.
- Expenses were about the same as FY 2011 and .4% more than FY 2010.
- Revenue hours were 4.6% less than FY 2011 and 8.2% more than FY 2010.
- Passengers decreased 2.3% compared to FY 2011 and 4.4% compared to FY 2010.
- The cost per passenger increased 2.2% since FY 2011 and increased 5% compared to FY 2010.
- Paratransit passengers per revenue hour increased 2.5% compared to FY 2011 and 4.1% compared to FY 2010.

**Fixed Route Operator Wages (Schedule 5)**

Schedule 5 compares various components of operator wages with the budget.

- Actual work time wages (Platform, turn in and report time) were .6% less than projected.
- Guarantees were 15% under budget.
- Overtime was 9.1% under budget.
- Spread was .9% under budget
- Protection was 1.6% under budget.
- Overall wages for operators were 1.5% under budget.

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY

## FY 2012 Year to Date Comparison of Actual vs Budget

## For the Twelve Months Ended June 30, 2012

### *Paratransit Income Statement-Unaudited*

| | | Actual | Budget | Variance | % Variance |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Passenger fares | $ | 619,164 | 573,594 | 45,570 | 7.9% |
| Special fares | | | - | 0 | 0.0% |
| | $ | 619,164 | 573,594 | 45,570 | 7.9% |
| Advertising | | | - | 0 | |
| Other revenue | $ | 15,698 | 300 | 15,398 | 5132.7% |
| Federal operating | $ | 672,718 | 761,827 | (89,109) | -11.7% |
| TDA 4.5 earned revenue | $ | 655,865 | 699,446 | (43,581) | -6.2% |
| TDA 4.0 earned revenue | $ | 1,314,613 | 1,546,328 | (231,715) | -15.0% |
| STA revenue | $ | 703,189 | 883,529 | (180,340) | -20.4% |
| Measure J | $ | 994,559 | 959,374 | 35,185 | 3.7% |
| Other operating assistance | $ | 194,343 | 170,000 | 24,343 | 14.3% |
| | $ | 4,550,985 | 5,020,805 | (469,820) | -9.4% |
| **Total Revenue** | **$** | **5,170,149** | **5,594,399** | **(424,250)** | **-7.6%** |
| **Expenses** | | | | | |
| Wages- Operators | | | - | 0 | 0.0% |
| Wages-Other | $ | 88,411 | 84,222 | 4,189 | 5.0% |
| | $ | 88,411 | 84,222 | 4,189 | 5.0% |
| Fringe Benefits | $ | 48,258 | 44,046 | 4,212 | 9.6% |
| Services | $ | 19,503 | 27,030 | (7,527) | -27.8% |
| Materials & Supplies | $ | 3,066 | 2,850 | 216 | 7.6% |
| Utilities | $ | 19,232 | 22,440 | (3,208) | -14.3% |
| Insurance | | | - | 0 | 0.0% |
| Taxes | $ | 268 | 510 | (242) | -47.5% |
| Miscellaneous | $ | 245 | 1,122 | (877) | -78.2% |
| Special Trip Services | $ | 4,991,166 | 5,412,179 | (421,013) | -7.8% |
| **Total Expenses** | **$** | **5,170,149** | **5,594,399** | **(424,250)** | **-7.6%** |
| **Net Income (Loss)** | **$** | **-** | **-** | **-** | |

| | | | | | |
|---|---|---|---|---|---|
| ***Revenue Hours*** | | ***77,221*** | ***78,798*** | ***(1,577)*** | ***-2.0%*** |
| ***Cost per Rev Hr*** | ***$*** | ***66.95*** | ***71.00*** | ***(4.04)*** | ***-5.7%*** |
| ***Passengers*** | | ***149,052*** | ***160,000*** | ***(10,948)*** | ***-6.8%*** |
| ***Cost per Passenger*** | ***$*** | ***34.69*** | ***34.96*** | ***(0.28)*** | ***-0.8%*** |
| ***Passengers per Rev Hr*** | | ***1.93*** | ***2.03*** | ***(0.10)*** | ***-4.9%*** |
| ***Farebox ratio*** | | ***12.0%*** | ***10.3%*** | ***1.7%*** | ***16.8%*** |

***(fares,spec fares/Oper exp-leases)***

**Schedule 3- Paratransit**

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY

## Statistics

### FY 2012 Year to Date Comparison of FY2011 Actual & FY2010 Actual
### For the Twelve Months Ended June 30, 2012

**Fixed Route**

| | | Actual FY2012 | Actual FY2011 | Variance Actual 2012 to Actual 2011 | Actual FY2010 | Variance Actual 2012 to Actual 2010 |
|---|---|---|---|---|---|---|
| Fares | $ | 3,425,347 | 3,346,122 | 2.4% | 3,404,291 | 0.6% |
| Special Fares | $ | 945,970 | 824,631 | 14.7% | 771,541 | 22.6% |
| **Total Fares** | $ | **4,371,317** | **4,170,753** | **4.8%** | **4,175,832** | **4.7%** |
| ***Fares box recovery ratio*** | | ***17.7%*** | ***17.3%*** | **2.3%** | ***17.3%*** | ***2.3%*** |
| Operating Exp (Less leases) | $ | 24,690,727 | 24,101,107 | **2.4%** | 24,138,334 | **2.3%** |
| ***Revenue Hours*** | | ***208,718*** | ***208,832*** | **-0.1%** | ***216,095*** | **-3.4%** |
| ***Cost per Rev Hour*** | ***$*** | ***118.30*** | ***115.41*** | **2.5%** | ***111.70*** | **5.9%** |
| ***Passengers*** | | ***3,170,404*** | ***3,304,521*** | **-4.1%** | ***3,235,542*** | **-2.0%** |
| ***Cost per Passenger*** | ***$*** | ***7.79*** | ***7.30*** | **6.6%** | ***7.47*** | **4.3%** |
| ***Passengers per Rev Hr*** | | ***15.19*** | ***15.82*** | **-4.0%** | ***14.97*** | **1.5%** |

**Paratransit**

| | | Actual FY2012 | Actual FY2011 | Variance Actual 2012 to Actual 2011 | Actual FY2010 | Variance Actual 2012 to Actual 2010 |
|---|---|---|---|---|---|---|
| Fares | $ | 619,164 | 546,440 | **13.3%** | 579,981 | -5.8% |
| ***Fares box recovery ratio*** | | ***12.0%*** | ***10.6%*** | **13.5%** | ***11.3%*** | **6.3%** |
| Operating Exp (Less leases) | $ | 5,170,149 | 5,177,014 | **-0.1%** | 5,149,277 | **0.4%** |
| ***Revenue Hours*** | | ***77,221*** | ***81,000*** | **-4.7%** | ***84,107*** | **-8.2%** |
| ***Cost per Rev Hour*** | ***$*** | ***66.95*** | ***63.91*** | **4.8%** | ***61.22*** | **9.4%** |
| ***Passengers*** | | ***149,052*** | ***152,564*** | **-2.3%** | ***155,932*** | **-4.4%** |
| ***Cost per Passenger*** | ***$*** | ***34.69*** | ***33.93*** | ***2.2%*** | ***33.02*** | **5.0%** |
| ***Passengers per Rev Hr*** | | ***1.93*** | ***1.88*** | ***2.5%*** | ***1.85*** | **4.1%** |

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY

## Operator Wages
## For the Twelve Months Ended June 30, 2012

| | | Year to Date | | | |
|---|---|---|---|---|---|
| | | Actual | Budget | Variance | % Variance |
| Platform/report/turn in | $ | 5,706,081 | $5,742,485 | $ (36,404) | -0.6% |
| Guarantees | $ | 274,533 | $322,872 | (48,339) | -15.0% |
| Overtime | $ | 249,554 | $274,658 | (25,104) | -9.1% |
| Spread | $ | 174,124 | $175,641 | (1,517) | -0.9% |
| Protection | $ | 324,177 | $329,438 | (5,261) | -1.6% |
| Travel | $ | 214,724 | $215,447 | (723) | -0.3% |
| Training | $ | 57,727 | $59,549 | (1,823) | -3.1% |
| Other Misc | $ | 50,745 | $37,425 | 13,320 | 35.6% |
| | **$** | **7,051,665** | **$ 7,157,516** | **$ (105,851)** | **-1.5%** |

**Schedule 5- Operator wages**

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY

## FY 2012 Year to Date Comparison of Actual vs Budget

## For the Twelve Months Ended June 30, 2012

### *Combined Fixed Route and Paratransit Income Statement -Unaudited*

| | | Actual | Budget | Variance | % Variance |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Passenger fares | $ | 4,044,511 | 3,940,423 | 104,088 | 2.6% |
| Special fares | $ | 945,970 | 791,063 | 154,907 | 19.6% |
| | $ | 4,990,481 | 4,731,486 | 258,995 | 5.5% |
| Advertising | $ | 537,546 | 530,000 | 7,546 | 1.4% |
| Safe Harbor lease | $ | 5,354 | 25,000 | (19,646) | -78.6% |
| Other revenue | $ | 144,186 | 123,800 | 20,386 | 16.5% |
| Federal operating | $ | 3,939,169 | 5,019,619 | (1,080,450) | -21.5% |
| TDA 4.0 earned revenue | $ | 10,849,496 | 12,112,338 | (1,262,842) | -10.4% |
| TDA 4.5 earned revenue | $ | 655,865 | 699,446 | (43,581) | -6.2% |
| STA revenue | $ | 2,556,129 | 3,191,641 | (635,512) | -19.9% |
| Measure J | $ | 4,395,988 | 4,344,245 | 51,743 | 1.2% |
| Other operating assistance | $ | 1,822,639 | 1,766,721 | 55,918 | 3.2% |
| | $ | 24,906,372 | 27,812,810 | (2,906,438) | -10.4% |
| **Total Revenue** | **$** | **29,896,853** | **32,544,296** | **(2,647,443)** | **-8.1%** |
| **Expenses** | | | | | |
| Wages- Operators | $ | 7,051,665 | 7,157,516 | (105,851) | -1.5% |
| Wages-Other | $ | 4,730,091 | 4,872,622 | (142,531) | -2.9% |
| | $ | 11,781,756 | 12,030,138 | (248,382) | -2.1% |
| Fringe Benefits | $ | 7,051,077 | 7,540,481 | (489,404) | -6.5% |
| Services | $ | 1,704,673 | 1,995,230 | (290,557) | -14.6% |
| Materials & Supplies | $ | 3,206,532 | 3,867,330 | (660,798) | -17.1% |
| Utilities | $ | 233,889 | 295,440 | (61,551) | -20.8% |
| Insurance | $ | 415,417 | 379,366 | 36,051 | 9.5% |
| Taxes | $ | 293,854 | 264,510 | 29,344 | 11.1% |
| Leases and Rentals | $ | 35,977 | 38,000 | (2,023) | -5.3% |
| Miscellaneous | $ | 113,199 | 124,372 | (11,173) | -9.0% |
| Special Trip Services | $ | 5,060,479 | 5,459,429 | (398,950) | -7.3% |
| **Operations** | **$** | **29,896,853** | **31,994,296** | **(2,097,443)** | **-6.6%** |
| Contingency Reserve | $ | - | 550,000 | (550,000) | -100.0% |
| **Total Expenses** | **$** | **29,896,853** | **32,544,296** | **(2,647,443)** | **-8.1%** |
| **Net Income (Loss)** | **$** | **-** | **-** | **-** | |
| ***Revenue Hours*** | | ***285,939*** | ***294,413*** | ***(8,474)*** | ***-2.9%*** |
| ***Cost per Rev Hr*** | ***$*** | ***104.43*** | ***110.41*** | ***(5.98)*** | ***-5.4%*** |
| ***Passengers*** | | ***3,319,456*** | ***3,448,601*** | ***(129,145)*** | ***-3.7%*** |
| ***Cost per Passenger*** | ***$*** | ***9.01*** | ***9.44*** | ***(0.43)*** | ***-4.6%*** |
| ***Farebox ratio*** | | ***16.7%*** | ***14.6%*** | ***2.2%*** | ***14.8%*** |

***(fares,spec fares/Oper exp-w/o contingency-leases)***

**Schedule 1-Combined - Fixed Route and Paratransit**

# CENTRAL CONTRA COSTA TRANSIT AUTHORITY

## FY 2012 Year to Date Comparison of Actual vs Budget
## For the Twelve Months Ended June 30, 2012
## *Fixed Route Income Statement- Unaudited*

| | | Actual | Budget | Variance | % Variance |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Passenger fares | $ | 3,425,347 | 3,366,829 | 58,518 | 1.7% |
| Special fares | $ | 945,970 | 791,063 | 154,907 | 19.6% |
| | $ | 4,371,317 | 4,157,892 | 213,425 | 5.1% |
| Advertising | $ | 537,546 | 530,000 | 7,546 | 1.4% |
| Safe Harbor lease | $ | 5,354 | 25,000 | (19,646) | -78.6% |
| Other revenue | $ | 128,488 | 123,500 | 4,988 | 4.0% |
| Federal operating | $ | 3,266,451 | 4,257,792 | (991,341) | -23.3% |
| TDA earned revenue | $ | 9,534,883 | 10,566,010 | (1,031,127) | -9.8% |
| STA revenue | $ | 1,852,940 | 2,308,112 | (455,172) | -19.7% |
| Measure J | $ | 3,401,429 | 3,384,871 | 16,558 | 0.5% |
| Other operating assistance | $ | 1,628,296 | 1,596,720 | 31,576 | 2.0% |
| | $ | 20,355,387 | 22,792,005 | (2,436,618) | -10.7% |
| **Total Revenue** | **$** | **24,726,704** | **26,949,897** | **(2,223,193)** | **-8.2%** |
| **Expenses** | | | | | |
| Wages- Operators | $ | 7,051,665 | 7,157,516 | (105,851) | -1.5% |
| Wages-Other | $ | 4,641,680 | 4,788,400 | (146,720) | -3.1% |
| | $ | 11,693,345 | 11,945,916 | (252,571) | -2.1% |
| Fringe Benefits | $ | 7,002,819 | 7,496,435 | (493,616) | -6.6% |
| Services | $ | 1,685,170 | 1,968,200 | (283,030) | -14.4% |
| Materials & Supplies | $ | 3,203,466 | 3,864,480 | (661,014) | -17.1% |
| Utilities | $ | 214,657 | 273,000 | (58,343) | -21.4% |
| Insurance | $ | 415,417 | 379,366 | 36,051 | 9.5% |
| Taxes | $ | 293,586 | 264,000 | 29,586 | 11.2% |
| Leases and Rentals | $ | 35,977 | 38,000 | (2,023) | -5.3% |
| Miscellaneous | $ | 112,954 | 123,250 | (10,296) | -8.4% |
| Purchased Transportation | $ | 69,313 | 47,250 | 22,063 | 46.7% |
| **Operations** | **$** | **24,726,704** | **26,399,897** | **(1,673,193)** | **-6.3%** |
| Contingency Reserve | | | 550,000 | (550,000) | -100.0% |
| **Total Expenses** | **$** | **24,726,704** | **26,949,897** | **(2,223,193)** | **-8.2%** |
| **Net Income (Loss)** | **$** | **-** | **-** | **-** | |
| ***Revenue Hours*** | | *208,718* | *215,615* | *(6,897)* | *-3.2%* |
| ***Cost per Rev Hr*** | *$* | *118.30* | *124.81* | (6.52) | -5.2% |
| ***Passengers*** | | *3,170,404* | *3,288,601* | *(118,197)* | -3.6% |
| ***Cost per Passenger*** | *$* | *7.80* | *8.19* | (0.40) | -4.8% |
| ***Passengers per Rev Hr*** | | *15.19* | *15.25* | *(0.06)* | -0.4% |
| ***Farebox recovery ratio*** | | *17.7%* | *15.5%* | *2.3%* | *14.6%* |

*(fares,spec fares/Oper exp-w/o contingency-leases)*

**Schedule 2-Fixed Route**