



## Board Report

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File #: 2015-1776, File Type: PlanAgenda Number: 47

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**REVISED**  
**EXECUTIVE MANAGEMENT COMMITTEE**  
**JANUARY 21, 2016**

**SUBJECT: RISK ALLOCATION MATRIX (RAM) AND INTERNAL SAVINGS ACCOUNT****ACTION: APPROVE ADOPTION OF RISK ALLOCATION MATRIX (RAM) AND INTERNAL SAVINGS ACCOUNT****RECOMMENDATION**

- A. **ESTABLISHING Internal Savings Account to capture cost savings and revenues generated from RAM**, including deposits from FY15 budget-to-actual savings and FY16 mid-year budget assessments;
- B. **DIRECTING the CEO to implement all RAM new initiatives and deposit all cost savings and new revenues generated into the Internal Savings Account**, as identified in Attachment B;
- C. **DIRECTING the CEO to return to the Board on those initiatives requiring policy changes or Board action before implementing each initiative**, as identified in Attachment B; and
- D. **APPROVING Internal Savings Account eligible priority uses and withdrawal criteria guidelines**, as identified in Attachment C. Quarterly updates and monitoring of the activities of the account will be provided to the Board.

**AMENDMENT:** CEO will have authority to withdraw funds for eligible uses in the priority order specified. Withdrawal of funds by the CEO will be allowed if within current Board-approved budget authority and in accordance with agency policies. Use of funds not specified as eligible will require unanimous ¾ majority Board approval.

**ISSUE**

Based on the most recent 10-year financial forecast (Attachment A), Metro is projecting a financial deficit of \$272.6M in FY19. In order to mitigate this projected budget shortfall, we must take small steps now in order to avoid the need for drastic measures in the future. By establishing an internal savings account, implementing new initiatives for cost savings and revenue generation, and depositing the resulting funds into the internal savings account, Metro can achieve financial stability.

## **DISCUSSION**

In June 2015, the CEO introduced the Risk Allocation Matrix (RAM), a concept for fostering a culture of financial discipline throughout the agency. The RAM concept offers a strategic mix of cost saving and revenue generating opportunities to implement in order to mitigate the projected financial deficit. All savings and revenues generated will be deposited into an internal savings account with specified guidelines to ensure long-term financial stability.

### **Risk Allocation Matrix (RAM)**

Ensuring financial stability is an agency wide responsibility. Accordingly, in an effort to mitigate the projected deficit, each department throughout the agency identified new and innovative ways to increase revenues or decrease expenses. The result of these efforts is the Risk Allocation Matrix (RAM), a list of new initiatives for cost savings and revenue generation (Attachment B). Each item in the RAM listing has been assigned a risk level, an estimated dollar impact, and an estimated timeline for implementation. In addition, the list of initiatives has been sorted by authority for implementation: some of the items listed can be implemented immediately under CEO authority, while others require separate Board action. Each initiative requiring additional approvals will be brought to the Board separately prior to implementation.

If all items in the list of RAM New Initiatives (Attachment B) are implemented, staff estimates a \$171 million total deposit to the internal savings account expected to be realized in FY17, with an additional \$89 million estimated deposit to be realized in FY18.

### *Risk Level*

Each RAM new initiative has been assigned a risk level of low, medium, or high. Since the initiatives submitted vary greatly in nature and cover nearly all Metro functions, risk was assessed on a case-by-case basis using many factors:

- Does implementation of the idea fall under Metro's jurisdiction, oversight, or control?
- How would the initiative impact the safety of passengers and employees?
- What is the overall impact to transit riders?
- Are other ongoing Metro projects or daily operations likely to be affected?
- Would implementation conflict with Metro's current objectives and goals?
- Are there political, financial, or legal risks?
- What is the likelihood of success in implementation, adoption, and realization of savings or revenues?
- What is the estimated timeline for implementation?

Based on assessment of these areas, each idea submitted was assigned a risk level. Low risk items have minimal upfront costs and minimal impact to current operations. Medium risk initiatives have some risks, with mitigation efforts available, and uncertain financial impacts. Staff recommends

implementation of all low and medium risk initiatives in Attachment B.

High risk items are more complex and risky changes for which financial and legal risks are high. In addition, for many of the high risk submissions, there is a significant impact to riders and the public. Due to these factors, high risk items are not being recommended at this time.

*RAM Initiatives under CEO Authority*

Staff recommends immediate implementation of all low and medium risk new initiatives with authority for implementation falling under the CEO. These items have been grouped by category and estimated fiscal year in which the projected savings or revenues are expected to be realized.

An overall description of the items in each category is summarized in the table below. Details on the specific initiatives included in each category can be found in Attachment B.

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| RAM Initiatives Under CEO Authority              |  |                       |                       |
|--|--|-----------------------|-----------------------|
| Category   | Description  | Estimated Impact FY17 | Estimated Impact FY18 |
| Administrative Efficiency                        | Measures to reduce expenses related to administrative functions such as payroll and revenue collections  | \$80,000              | \$400,000             |
| Advertisement                                    | Initiatives for new and expanded advertising efforts for which implementation has already begun  | \$321,100             | \$583,100             |
| Inventory Reduction                              | Reduction of obsolete inventory as well as reduction of annual inventory costs based on historical consumption and return rates  |                       | \$16,500,000          |
| Reallocation of Funds                            | Methods for reallocating funds or identifying new funding sources in order to free up funding eligible for transit operations  | \$35,700,000          | \$28,000,000          |
| Repurposing Metro Property                       | Innovative ideas for using Metro owned property to generate revenues<br><br>Planning & Development is currently assessing potential impacts; projections for additional revenues are TBD   | TBD                   | TBD                   |
| Staffing   | Investigate potential cost savings related to achieving the optimum ratio of employees to consultants, and pursue the revenue opportunity of outsourcing Metro functions<br><br>Due to the detailed assessment required, potential revenue impacts are TBD | TBD                   | TBD                   |
| Transit Operations                               | Various operational efficiency measures and service rationalizations resulting in minimal customer impacts, such as load factor revisions already approved and efficiency improvements for vehicle fueling   | \$23,618,590          | \$1,228,000           |
| Transit Security Improvements                    | Increase fare inspections  | \$8,000,000           | \$8,000,000           |
| <b>Total New Initiatives Under CEO Authority</b> |  | <b>\$67,719,690</b>   | <b>\$54,711,100</b>   |

### *RAM Initiatives Requiring Board Action*

Staff recommends pursuing implementation for those items requiring Board action. These initiatives will be separately presented to the Board for the necessary approvals prior to implementation. These items have been grouped by category with the estimated fiscal year in which the projected savings or revenues are expected to be realized.

An overall description of each category is summarized in the table below. Details on the specific initiatives included in each category, as well as the policy changes and approvals required for implementation can be found in Attachment B.

| RAM Initiatives Requiring Board Action       |   |                       |                       |
|--|---|-----------------------|-----------------------|
| Category                                     | Description   | Estimated Impact FY17 | Estimated Impact FY18 |
| Advertisement                                | Initiatives for new and expanded advertising efforts, including increased ads at transit stations, onboard audio advertising, and a Metro sponsorship policy  | \$700,000             | \$2,260,000           |
| Enforcement of Contract Terms                | Establish a special retention account to hold contractors liable for meeting SBE commitments  |                       | \$1,000,000           |
| Parking                                      | Strategies for increasing parking revenues, including a pilot paid parking program at high occupancy Metro parking facilities and increased parking enforcement   |                       | \$3,500,000           |
| Reallocation of Funds                        | Potential bond savings as a result of sale of current Metro property  |                       | \$1,083,333           |
| Repurposing Metro Property                   | Innovative ideas for using Metro owned property to generate revenues<br><br>Planning & Development is currently assessing potential impacts; additional projections for revenues are TBD                      |                       | \$250,000             |
| Reserves                                     | Evaluate reserve amounts while maintaining acceptable, appropriate, and legally mandated reserves   | \$100,000,000         |                       |
| Station Amenities                            | Installation of new revenue generating amenities at transit stations, such as ATMs and vending machines<br><br>Planning & Development is assessing potential impacts; additional projections are TBD          |                       | \$1,000,000           |
| Toll Revenues & Fares                        | Consideration of adjustments to ExpressLanes policies and tolls, as well as reassessment of pricing on all programs offering a reduced or group rate pricing for transit passes<br>Additional impacts are TBD |                       | \$5,000,000           |
| Transit Operations                           | Operational efficiency measures and service rationalizations resulting in moderate customer impacts   | \$3,422,800           | \$2,580,000           |
| Transit Security Improvements                | Modify terms of insurance requirements in new law enforcement contract  |                       | \$18,000,000          |
| Total New Initiatives Requiring Board Action |   | \$104,122,800         | \$34,673,333          |

### Internal Savings Account

Staff recommends establishing an internal savings account. The goal is to establish an account with guidelines that ensure prudent use of the new revenues and savings achieved through implementation of RAM initiatives. The first priority for the internal savings account will be to mitigate the projected financial deficit. As with all Metro funding, the internal savings account will be segregated by eligible use.

The Internal Savings Account will be established with the following three deposits:

1. FY15 Budget-to-Actual variances (\$25.7M)  
This represents the difference between FY15 budget to actual revenues and expenditures.

2. FY16 Mid-year budget assessment (\$4.5M)  
The agency reviewed and evaluated their FY16 budgets. Savings were generated through improved and realistic cashflow projections.
3. RAM New Initiatives (Est. \$67M - \$171M)  
This represents all the initiatives presented in this report, contingent upon required Board action and actual implementation/realization of initiatives.

Projections show that \$201 million could be deposited into the Internal Savings Account in FY17.

#### *Eligible Uses and Withdrawal Criteria*

Most of Metro's funding has specific guidelines for how the monies can be used. Accordingly, the funds in the internal savings account must be identified and separated by eligible use. The eligible priority uses are as follows.

1. Transit operations deficit
2. State of good repair
3. Transit capital projects

Staff recommends adopting guidelines for withdrawal of funds from the internal savings account. The guidelines will ensure that savings and revenues generated will be applied to the eligible priority uses established. Attachment C provides the recommended guidelines for the Internal Savings Account.

Additionally, the Chief Executive Officer will have authority to withdraw funds from this account for eligible uses as defined in the Internal Savings Account guidelines and in accordance with color of money, annual budget limit authority, and agency policies.

Withdrawing funds outside the uses specified in the guidelines will require Board authorization and unanimous approval by the Board.

#### **DETERMINATION OF SAFETY IMPACT**

This will have no impact on safety standards for Metro.

#### **FINANCIAL IMPACT**

Based on current projections, successful implementation of all low and medium risk initiatives could result in an estimated \$171 million in deposits by FY17. An additional deposit of \$30.2 million will be made from FY15 budget-to-actual variances and mid-year budget assessments, resulting in a total of \$201 million deposited to the internal savings account by FY17. Assuming all funds in the internal savings account are used to mitigate the projected operating deficit, the resulting revised 10-year financial forecast (Attachment A) estimates that the deficit would be delayed from FY18 to FY20. In addition, the projected FY20 deficit of \$360.5 million would be reduced by 54% to a total of \$165.8 million.

### Impact to Budget

Staff will include the approved options falling under CEO authority in the FY17 budget. Budget impacts of items in the listing of RAM new initiatives requiring Board action will be separately presented to the Board for approval prior to implementation.

### **ALTERNATIVES CONSIDERED**

If implementation of the RAM new initiatives is not approved by the Board, forecasts show an estimated \$51 million deficit in FY18, which will increase drastically to \$272 million by FY19. To avoid the consequences of this projected budget shortfall, other cost savings or revenue generation strategies must be explored immediately.

### **NEXT STEPS**

If approved, staff will immediately begin implementation of the adopted low and medium risk options under CEO authority. In addition, staff will continue to pursue implementation of items requiring separate Board approval.

Staff will provide the Board with a quarterly statement of activities for the internal savings account to include detailed information on all deposits and withdrawals.

RAM will be an ongoing process; staff will establish procedures for continued collection of new initiatives and monitor the progress and achievement of savings and revenues generated.

### **ATTACHMENTS**

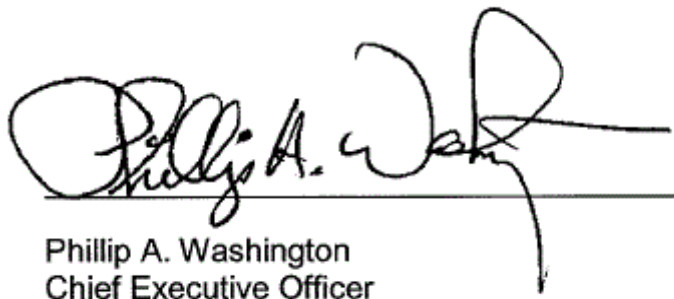
Attachment A - Ten-Year Financial Forecast and RAM impact  
Attachment B - RAM New Initiatives  
Attachment C - Internal Savings Account Guidelines

#### Prepared by:

Michelle Navarro, Director, Countywide Planning & Development, (213) 922-3056  
Koreyne Clarke, Budget Management Analyst IV, (213) 922-2801

#### Reviewed by:

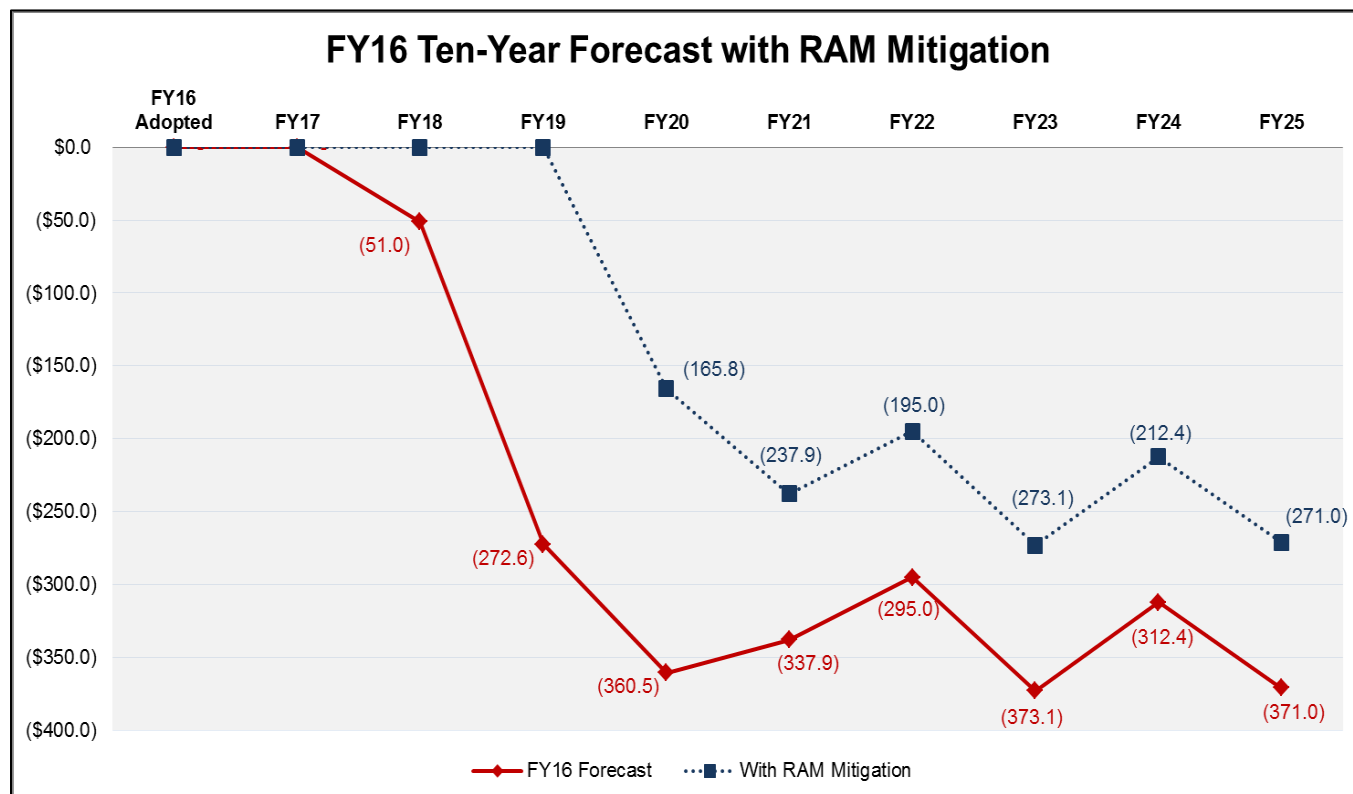
Nalini Ahuja, Executive Director, Finance & Budget, (213) 922-3088



Phillip A. Washington  
Chief Executive Officer



### Ten-Year Financial Forecast and RAM Impact



#### FY16 Forecast:

- Operating costs grow an average of +4.32% per year which is significantly more than the growth rate for on-going, operating eligible funding at only +2.59% per year

#### With RAM Mitigation:

- Assumes that all funds in the Internal Savings Account will be used to mitigate deficit
- Assumes that all RAM initiatives (low and medium risks) included in this report, are implemented and estimates are realized

**Risk Allocation Matrix (RAM) New Initiatives  
Cost Savings and Revenue Generation**

|   |   |      |  |                          | Estimated Deposits to<br>Internal Savings Account |              |
|---|---|------|--|--------------------------|---|--------------|
| Reference Name                                    | Summary Description   | Risk | Basis of Projected \$ Impact   | Board Action<br>Required | FY17  | FY18         |
| <b>CEO AUTHORITY</b>                              |   |      |  |                          |   |              |
| <b>Administrative Efficiency</b>                  |   |      |  |                          |   |              |
| Payroll System Enhancement                        | New payroll module allows Metro to complete payroll transactions internally, including printing checks, direct deposit, and processing payroll tax payments | L    | Savings from termination of the prior ADP contract   | None                     |   | \$400,000    |
| Automation of LATAP Sweeps                        | Automation and in-house electronic files and processing via Oracle FIS  | L    | Savings equal to the average cost of transmittal fees times the average number of transactions   | None                     | \$20,000  |              |
| TVM collections GPS badge tracking                | Asset tracking system for revenue collection components, which will facilitate improvements in dispatching practices for TVM collections and servicing      | L    | Potential savings estimated based on more efficient allocation of resources  | None                     | \$60,000  |              |
| <b>Advertisement</b>                              |   |      |  |                          |   |              |
| Bike racks on buses                               | Bike rack advertisements on Metro buses   | L    | Revenue estimate from advertising contractor, Outfront Media, and accounts for installation costs of \$500K; profit sharing will be recouped at a 75%/25% basis          | None                     | \$200,000   | \$462,000    |
| Online advertising                                | Online ad sales on Metro website  | L    | Revenue estimate based on current monthly online ad sales  | None                     | \$121,100   | \$121,100    |
| <b>Inventory Reduction</b>                        |   |      |  |                          |   |              |
| Obsolete Inventory Reduction                      | Reduce obsolete inventory based on historical annual rate of reduction  | L    | Estimate based on historical annual rate of reduction in inventory   | None                     |   | \$1,500,000  |
| Inventory Reduction                               | Perform comprehensive analysis of inventory to achieve a reduction based on turnover rate   | M    | Estimate is based on an aggressive target for inventory reduction; actual reduction would depend on results of comprehensive analysis                                    | None                     |   | \$15,000,000 |
| <b>Reallocation of Funds</b>                      |   |      |  |                          |   |              |
| Cap & Trade - Willowbrook/ Rosa                   | Use a portion of the Cap and Trade funding in place of existing Prop A and Prop C funding for Blue Line Improvement Projects                                | L    | Assumption that 2/3 of Cap and Trade funds be substituted for Prop A and Prop C funding in the Blue Line Improvement Projects  | None                     | \$25,700,000                                      |              |
| Cap & Trade                                       | Use future Cap and Trade funding to replace Prop A and Prop C funds for projects to be determined   | L    | Estimate for annual Cap and Trade funds for Metro region   | None                     |   | \$18,000,000 |
| Evaluate/reduce Prop A Admin                      | Reevaluate the use of the administration share of all local sales taxes   | L    | Conservative estimate - currently assessing all departments charging to Operations to determine which can be shifted to Prop A admin funding to free up Operations funds | None                     | \$10,000,000                                      | \$10,000,000 |
| Realize Expo 2 Savings (Underruns)                | Realize ~60% Expo 2 savings this year and increasing % year after year as closeouts are completed   | L    | TBD - actual amount dependent on Expo completion and closeout  | None                     | TBD   |              |
| <b>Repurposing Metro Property</b>                 |   |      |  |                          |   |              |
| Host Farmer's Market                              | Promote business events and other short-term leasing of Metro property  | M    | TBD - Planning will conduct a study effort to identify properties and evaluate impact and demand   | None                     | TBD   | TBD          |
| Performance and Community events at Union Station | Increase paid events at Union Station   | L    | TBD - Planning will conduct a study effort to identify properties and evaluate impact and demand   | None                     |   | TBD          |

|   |   |      |  |                       | Estimated Deposits to Internal Savings Account |              |
|---|---|------|--|-----------------------|--|--------------|
| Reference Name                              | Summary Description   | Risk | Basis of Projected \$ Impact   | Board Action Required | FY17   | FY18         |
| Staffing                                    |   |      |  |                       |  |              |
| Evaluate consultant use                     | Perform an agencywide evaluation of consultants vs FTEs to achieve optimum ratio of FTEs to consultants     | L    | TBD - Include in annual audit plan for detailed investigation of potential savings   | None                  |  | TBD          |
| Outsource Metro functions to muni operators | Outsource DBE/SBE certification function to other agencies, such as munis and cities                        | L    | TBD - Outreach to municipal operators is needed to determine whether there is interest in this service   | None                  |  | TBD          |
| Transit Operations                          |   |      |  |                       |  |              |
| Adjust bus load standard                    | Adjust load standard up to 1.4 based on headways and time periods   | L    | Based on Metro Transit Service Policy suggestion to utilize a sliding load standard between 0.75 and 1.4   | None                  | \$1,290,000                                    |              |
| Consider reducing night rail service        | Consider reducing headways from 10 to 20 minutes from 8pm to 12am and replacing with bus service after 12am | M    | Estimate is based on reduction in RSH resulting from assumptions in the summary description column   | None                  | \$4,437,000                                    |              |
| Reduce non-revenue vehicles                 | Terminate leases for underutilized non-revenue vehicles with low usage                                      | L    | One-time savings is a result of reduction of 30 vehicles as specified in current replacement plan; ongoing savings based on current budget                     | None                  | \$1,021,590                                    |              |
| Line 901 Service Management                 | Create a shortline terminal of Orange Line buses at Reseda station  | L    | Estimate is based on reduction of 2 buses, 16 weekday and 8 weekend hours (approximately 5K RSH); would require \$1.2M for paving and striping turnaround zone | None                  | \$750,000                                      |              |
| Real Time Signal Management                 | Real time signal management for Orange Line   | L    | Savings of 1 bus as a result of improved efficiency, plus annual operating costs; would require \$1.2M for software development and testing                    | None                  | \$820,000                                      |              |
| Optimization of CNG Facilities              | Stop unnecessary usage of 3 (as opposed to 2) compressors at Metro CNG facilities                           | L    | Based on actual energy costs at Division 9   | None                  | \$100,000                                      |              |
| Daytime fueling                             | Stop unnecessary daytime fueling of buses   | L    | Based on difference between peak vs off-peak electricity rates per SCE bills paid by Divisions   | None                  | \$200,000                                      |              |
| CNG Tank Replacement                        | Current process of replacing CNG tanks has potential to normalize bus purchases over a longer period        | L    | Estimated savings of \$41K per bus times 300 buses   | None                  |  | \$1,228,000  |
| 1% reduction in operating costs             | Reduce operating costs by 1% through efficiency measures  | L    | 1% of Operating budget   | None                  | \$14,000,000                                   |              |
| Realign D6 Services                         | Optimize facility utilization by realigning services for D6 (closing in FY16) to other Divisions            | L    | Estimated savings based on realigning Division 6 services in FY16  | None                  | \$1,000,000                                    |              |
| Transit Security Improvements               |   |      |  |                       |  |              |
| Increase Fare Inspections                   | Increase fare inspections   | L    | Target for increase in fare revenues based on actual systemwide fare per boarding  | None                  | \$8,000,000                                    | \$8,000,000  |
| TOTAL CEO AUTHORITY                         |   |      |  |                       | \$67,719,690                                   | \$54,711,100 |
| LOW   |   |      |  |                       | \$63,282,690                                   | \$39,711,100 |
| MED   |   |      |  |                       | \$4,437,000                                    | \$15,000,000 |

|                                      |   |      |   |   | Estimated Deposits to Internal Savings Account |             |
|--------------------------------------|---|------|---|---|--|-------------|
| Reference Name                       | Summary Description   | Risk | Basis of Projected \$ Impact  | Board Action Required                   | FY17   | FY18        |
| <b>BOARD ACTION</b>                  |   |      |   |   |  |             |
| <b>Advertisement</b>                 |   |      |   |   |  |             |
| Vehicle wraps                        | Wrap advertising on light rail and commuter rail vehicles   | L    | Revenue estimate from advertising contractor, Outfront Media  | Advertising Contract                    | \$200,000                                      | \$200,000   |
| Rail station poster coverage         | Increase advertisements in Metro Rail stations systemwide   | L    | Revenue estimate from advertising contractor, Outfront Media  | Advertising Contract                    |  | \$300,000   |
| Parking & Metro property wraps       | Expand advertisements to all Metro property (potentially separate from current advertising contract)                  | L    | Based on actual MBTA revenues for a similar program, as well as Metro Parking Management Director estimate                              | Advertising Contract                    | \$500,000                                      | \$1,000,000 |
| Onboard audio advertising            | Onboard audio advertising   | L    | Actual revenues collected by smaller transit agencies in Kansas, Dayton, and Jacksonville   | Operations Policy, Advertising Contract |  | \$100,000   |
| Digital Ads-system wide              | Install digital ad space within transit stations at street level and underground                                      | L    | Revenue is an estimate based on amount collected for digital ads by Chicago Transit Authority (CTA)                                     | Advertising Contract                    |  | \$660,000   |
| Art space sponsorship/promo          | Allow businesses to sponsor art installations within rail stations  | L    | TBD - Sponsorship policy currently in development   | Operations Policy, Sponsorship Policy   |  | TBD         |
| Station& line name sponsorship       | Sell naming rights to BRT lines, stations and vehicles  | L    | TBD - Sponsorship policy currently in development   | Operations Policy, Sponsorship Policy   |  | TBD         |
| TAP Card Sponsorship                 | Allow custom branded TAP cards for long term or short term sponsorship  | L    | TBD - Sponsorship policy currently in development   | Advertising Policy                      |  | TBD         |
| <b>Enforcement of Contract Terms</b> |   |      |   |   |  |             |
| Special Retention Account            | Develop a 5% contract retention for SBE commitment to be released at close-out only if commitment is met              | L    | Amount is based on an assessment of selected contracts  | V/CM Contract Clause                    |  | \$1,000,000 |
| <b>Parking</b>                       |   |      |   |   |  |             |
| Paid Pkg Pilot Program               | Implement a paid parking program at 5 high occupancy Metro parking facilities   | L    | Projected revenue increase is based on on an estimated 5,000 spaces at \$1.20 per space per day   | Parking Program Policy                  |  | \$1,500,000 |
| Parking Enforcement Service          | Separate parking enforcement from current Metro security program  | L    | Revenue increase is based on expected number of citations to be issued as a result of the actual number of parking spaces offered       | New Contract                            |  | \$2,000,000 |
| <b>Reallocation of Funds</b>         |   |      |   |   |  |             |
| CRA Bond Savings                     | Retirement of Metro-supporting bonds tied to the Grand Central Square project as a result of the sale of that project | M    | Projections from Real Estate based on assumptions about timing of the sale of the Grand Central Square project; amount is over 12 years | Board Adoption to Sell Property         |  | \$1,083,333 |
| <b>Repurposing Metro Property</b>    |   |      |   |   |  |             |
| Filming on Metro property            | Restructure rates for filming on Metro property   | L    | TBD - Rates are currently being restructured; current revenue is \$275K annually  | Contract Modification                   | TBD  | TBD         |
| TOC Asset Map/Strategic Plan         | Identify Metro owned property that can be repurposed for revenue generation   | L    | TBD - Planning conducting assessment of all properties  | Board Approval                          |  | TBD         |
| Interim Lse Excess Prpty -Pkg        | Lease unused Metro owned properties to private parking operators to establish a source of new revenues                | L    | TBD - Planning is investigating potential impacts   | Board Approval                          |  | TBD         |



|  |   |      |  |                                   | Estimated Deposits to Internal Savings Account |             |
|--|---|------|--|-----------------------------------|--|-------------|
| Reference Name   | Summary Description   | Risk | Basis of Projected \$ Impact   | Board Action Required             | FY17   | FY18        |
| Merchant Kiosk   | Allow merchants to rent kiosk/cart space at Metro stations and property   | L    | TBD - Planning conducting assessment of a potential concession program   | Board Approval                    |  | TBD         |
| Repurpose Division 6   | Potential revenues in transit joint development   | L    | TBD - Dependent on confidential estimates and future developer negotiations  | Board Approval                    |  | TBD         |
| Sale of unused property  | Sell unused Metro property to generate new revenues   | L    | TBD - Planning conducting assessment of all properties   | Board Adoption to Sell Property   |  | TBD         |
| Community Solar Program  | Launch a community solar program using the Business Interruption Fund as a model  | M    | Estimated revenue as a result of energy credits to Metro   | Establish Program Policy          |  | \$250,000   |
| <b>Reserves</b>  |   |      |  |                                   |  |             |
| Reduce required reserves   | Reduce amounts currently kept as reserves while maintaining acceptable, appropriate, and legally mandated levels  | M    | Total reserves are \$1.5B; proposed reduction includes:<br>- Reducing Workers' Comp & PL/PD Reserves to standard audit-required level of 50%<br>- Reinterpretation of Operating Reserve to exclude Capital Projects<br>- Union Station East reserves | Financial Stability Policy        | \$100,000,000                                  |             |
| <b>Station Amenities</b>   |   |      |  |                                   |  |             |
| Vending machines   | Vending machines throughout Metro system (i.e. Redbox)  | M    | TBD - Planning conducting assessment of a potential concession program   | Operations Policy                 |  | TBD         |
| ATMs on Metro System   | ATMs throughout Metro system  | M    | Estimate based on TCRP report; Metro estimate TBD - Planning conducting assessment of a potential concession program   | Operations Policy                 |  | \$1,000,000 |
| <b>Toll Revenues &amp; Fares</b>                                       |   |      |  |                                   |  |             |
| Group Rate Sales of Transit Passes                                     | Reassess pricing of all programs offering a reduced or group rate for transit passes (RRTP, BTAP, ITAP, and new residential passes requested by Board motions) to determine and establish a pricing policy common to all programs that is equitable & financially sustainable | M    | Estimated increase in fare revenues based on current BTAP revenues and ridership data  | Public Hearing, Title VI Analysis |  | \$5,000,000 |
| ExpressLanes Pricing and Guidelines                                    | Consider changes to ExpressLanes program, such as expanding HOV requirement to 3+ passengers, changing guidelines for use of toll revenues, or changing pricing   | M    | TBD - revenue impacts would be dependent on specific terms of changes  | ExpressLanes Policy               |  | TBD         |
| <b>Transit Operations</b>  |   |      |  |                                   |  |             |
| Adjust bus load standard   | Continue to adjust all headways and time periods to 1.4 load standard based on APTA recommendation  | L    | Implementation of an "across the board" bus load standard from 1.3 to 1.4  | Transit Service Policy            |  | \$2,580,000 |
| Consider reducing duplication between regular bus service and rail/BRT | Consider reducing duplication between bus and rail/BRT by reducing unproductive services and consolidating rapid and local on certain corridors   | M    | Estimate is based on a reduction of about 40K RSH as a result of consolidation of duplicative service  | Public Hearing, Title VI Analysis | \$3,422,800                                    |             |

|  |   |      |  |                           | Estimated Deposits to Internal Savings Account |              |
|--|---|------|--|---------------------------|--|--------------|
| Reference Name                         | Summary Description   | Risk | Basis of Projected \$ Impact   | Board Action Required     | FY17   | FY18         |
| Consolidating and Realigning Divisions | Optimize facility utilization by consolidating Divisions, such as 1, 2, 10, or 13 | M    | TBD - full potential savings would require extensive assessment of service for each Division; preliminary savings estimated at \$5M per Division | Operations Policy         |  | TBD          |
| Transit Security Improvements          |   |      |  |                           |  |              |
| Modify terms of insurance requirements | Modify insurance requirements in new Transit Security law enforcement contract    | L    | Estimate based on current surplus for insurance paid on LASD contract  | Transit Security Contract |  | \$18,000,000 |
| TOTAL BOARD ACTION                     |   |      |  |                           | \$104,122,800                                  | \$34,673,333 |
| LOW                                    |   |      |  |                           | \$700,000                                      | \$27,340,000 |
| MED                                    |   |      |  |                           | \$103,422,800                                  | \$7,333,333  |
| TOTAL ESTIMATED RAM NEW INITIATIVES    |   |      |  |                           | \$171,842,490                                  | \$89,384,433 |

## **Risk Allocation Matrix (RAM) INTERNAL SAVINGS ACCOUNT GUIDELINES**

The Risk Allocation Matrix (RAM) is a concept to develop a strategic mix of cost cutting and revenue generating initiatives. The savings and revenues resulting from implementation of these initiatives would be deposited into an Internal Savings Account. The objective of the RAM and the Internal Savings Account is to ensure that we prudently manage our scarce operating eligible funds and maintain financial stability. The Internal Savings Account is being established to mitigate the projected financial deficit.

The RAM Internal Savings Account is divided into three sections: Eligible Priority Uses, Withdrawal Guidelines, and Monitoring.

### **Eligible Priority Uses**

Listed below is the list of eligible uses in order of priority:

1. Operating Deficit
  - Fund core transportation system
  - Efficiency and performance criteria will determine if funding is necessary
2. State of Good Repair
  - Fund critical need projects that is absolutely necessary to keep system safe and operational
  - Baseline for state of good repair should be established using minimum and maximum thresholds based on performance, life span defined by FTA guidelines and manufacturer recommended guidelines.
3. Transit Capital Projects
  - Fund the acceleration of project completions, with no impact to project sequence.
  - Fund project shortfalls

### **Withdrawal Guidelines**

CEO will have authority to withdraw funds for eligible uses in the priority order specified. Withdrawal of funds by the CEO will be allowed if within current Board-approved budget authority and in accordance with agency policies.

Use of funds not specified as eligible will require ~~unanimous~~ a 3/4 majority Board approval.

### **Monitoring**

A Statement of Activities of the Internal Savings Account will be provided to the Board periodically, detailing all deposits, withdrawals and uses of funds in the account.

## **ATTACHMENT C**

All withdrawals and uses will comply with the governing “color of money” requirements and will be carefully monitored to ensure compliance with these guidelines.



# **Risk Allocation Matrix (RAM) and Internal Savings Account**

Executive Management Committee  
January 21, 2016

# Overview & Goals

## Goals

- Foster a culture of financial discipline throughout Metro
- Aiming to secure Metro's financial stability by mitigating the projected deficit beginning in FY18

**RAM** and the **Internal Savings Account** is the strategy to achieve these goals


► **RAM** is an agency wide collaborative process to identify a strategic mix of cost saving and revenue generating new initiatives, and to evaluate the risk of such implementation

► **Internal Savings Account** will capture the RAM savings and revenues and ensure prudent use of these monies

- Monitor account activities and provide quarterly updates
- Establish guidelines on use of funds from the account

# RAM New Initiatives (Under CEO Authority)

|                       | Realization    | Realization   |
|-----------------------|----------------|---------------|
| CEO Authority         | \$ 67,719,690  | \$ 54,711,100 |
| Board Action          | 104,122,800    | 34,673,333    |
| Est. Revenues/Savings | \$ 171,842,490 | \$ 89,384,433 |



Proposed new initiatives under **CEO Authority** can be implemented immediately

- ▶ Administrative and transit operations efficiency improvements
- ▶ Expanded advertising efforts recently approved and implemented
- ▶ Right-sizing of inventory levels based on historical data and actual demand
- ▶ Reallocation of funds to free up operations-eligible dollars
- ▶ Repurposing Metro property for revenue generation
- ▶ Detailed assessment of consultant use

# RAM New Initiatives (Board Action Required)

|                       | Realization    | Realization   |
|-----------------------|----------------|---------------|
| CEO Authority         | \$ 67,719,690  | \$ 54,711,100 |
| Board Action          | 104,122,800    | 34,673,333    |
| Est. Revenues/Savings | \$ 171,842,490 | \$ 89,384,433 |

New initiatives requiring **Board Action** will be separately presented for necessary approvals prior to implementation

- ▶ Changes to existing policies or creation of new policies
  - Pilot paid parking program at high-use transit stations
  - Increased concessions programs and sale/lease of unused Metro property
  - Reassessment of required level of reserves
- ▶ Approval of contract awards
  - Expanded advertising efforts requiring modifications or new contract awards
  - Consideration of adjustments to agreements for group rate transit passes

# Internal Savings Account

Established with regular reporting as a separate funding source

- ▶ Establish account with 3 initial deposits:

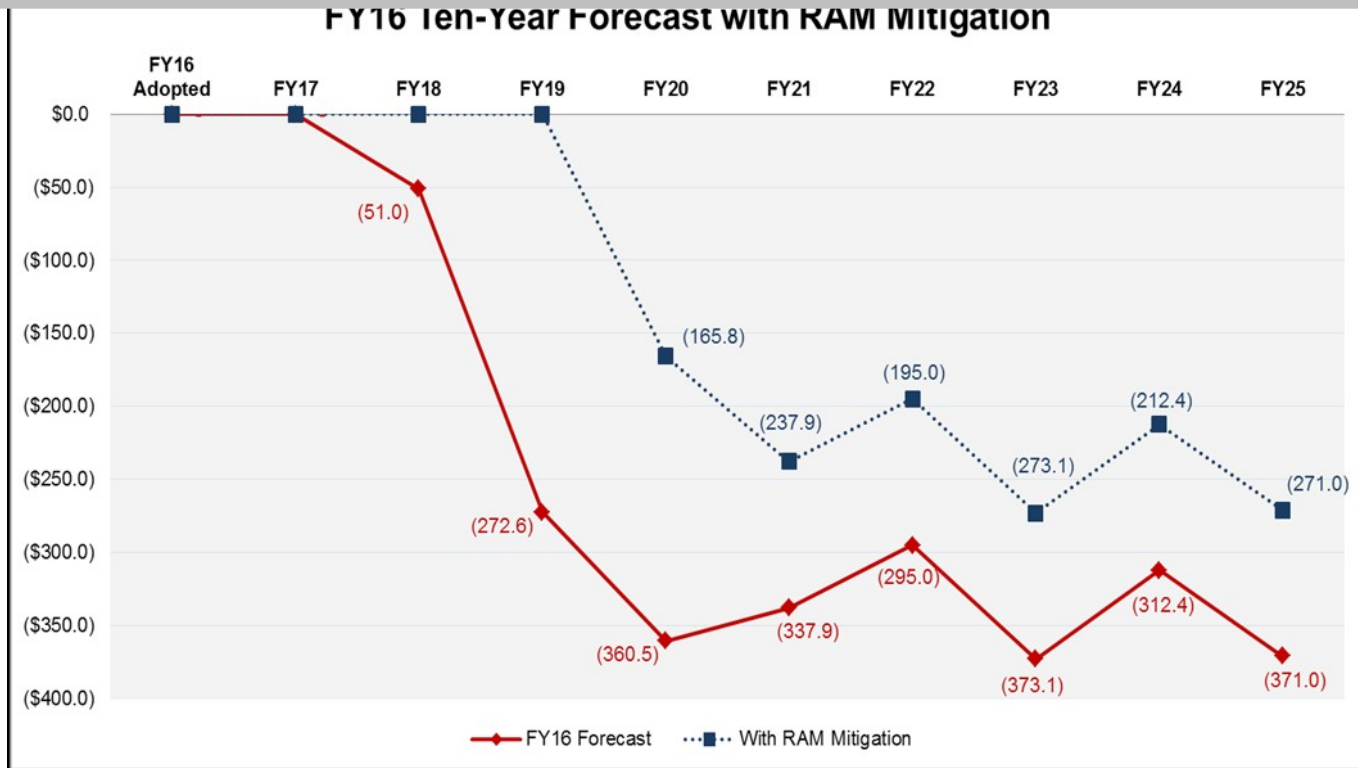
|                                 |                                 | Est. FY17<br>(\$ in millions) |
|---------------------------------|---------------------------------|-------------------------------|
| 1 <sup>st</sup>                 | FY15 Budget-to-Actual           | \$ 25.7                       |
| 2 <sup>nd</sup>                 | FY16 Mid-year Budget Assessment | 4.5                           |
| 3 <sup>rd</sup>                 | RAM New Initiatives             | 171.8                         |
| <b>Total Estimated Deposits</b> |                                 | <b>\$ 202.0</b>               |

- ▶ Monitor account and activities
- ▶ Quarterly updates to the Board
  - Statement of Activities - detailing all deposits and withdrawals

# Internal Savings Account Guidelines

- ▶ Explicitly defined **Eligible Priority Uses** encourage prudent use of the Internal Savings Account; recommended uses listed in *priority order* are:
  1. **Operating Deficit** – funding the core transportation system
  2. **State of Good Repair** – critical need to keep system safe and operational
  3. **Transit Capital Projects** – acceleration of projects, funding shortfalls
  
- ▶ Recommended **Withdrawal Criteria** establishes guidelines for use of the Internal Savings Account in order to mitigate the operating deficit:
  - CEO will have authority to withdraw funds for approved eligible uses
    - › in order of specified priority
    - › within current Board-approved budget authority
    - › in accordance with Board-approved agency policies
  - Use of funds not specified as eligible priority use: 1) operating deficit, 2) state of good repair, and 3) transit capital projects will require unanimous Board approval

# RAM Impact to Forecast



- ▶ Assumes that all funds in the Internal Savings Account will be used to mitigate deficit
- ▶ With implementation of all RAM initiatives:
  - Deficit is delayed from FY18 to FY20
  - FY20 projected deficit is reduced by 54%



# Recommendations

- ▶ Establish Internal Savings Account to capture cost savings and revenues generated from RAM
- ▶ Direct the CEO to implement all RAM initiatives and deposit all cost savings and revenues generated into the Internal Savings Account
- ▶ Direct the CEO to return to the Board on those initiatives requiring policy changes or Board Action before implementing each initiative
- ▶ Approve Internal Savings Account eligible priority uses and withdrawal criteria guidelines