

Metro

*Los Angeles County Metropolitan Transportation Authority
One Gateway Plaza
3rd Floor Board Room*



Metro[®]

Agenda - Final

Wednesday, February 20, 2019

12:00 PM

**One Gateway Plaza, Los Angeles, CA 90012,
3rd Floor, Metro Board Room**

Finance, Budget and Audit Committee

*Kathryn Barger, Chair
Paul Krekorian, Vice Chair
John Fasana
Ara Najarian
Mark Ridley-Thomas
John Bulinski, non-voting member*

Phillip A. Washington, Chief Executive Officer

METROPOLITAN TRANSPORTATION AUTHORITY BOARD RULES
(ALSO APPLIES TO BOARD COMMITTEES)

PUBLIC INPUT

A member of the public may address the Board on agenda items, before or during the Board or Committee's consideration of the item for one (1) minute per item, or at the discretion of the Chair. A request to address the Board should be submitted in person at the meeting to the Board Secretary. Individuals requesting to speak on more than three (3) agenda items will be allowed to speak up to a maximum of three (3) minutes per meeting. For individuals requiring translation service, time allowed will be doubled.

Notwithstanding the foregoing, and in accordance with the Brown Act, this agenda does not provide an opportunity for members of the public to address the Board on any Consent Calendar agenda item that has already been considered by a Committee, composed exclusively of members of the Board, at a public meeting wherein all interested members of the public were afforded the opportunity to address the Committee on the item, before or during the Committee's consideration of the item, and which has not been substantially changed since the Committee heard the item.

The public may also address the Board on non-agenda items within the subject matter jurisdiction of the Board during the public comment period, which will be held at the beginning and/or end of each meeting. Each person will be allowed to speak for up to three (3) minutes per meeting and may speak no more than once during the Public Comment period. Speakers will be called according to the order in which the speaker request forms are received. Elected officials, not their staff or deputies, may be called out of order and prior to the Board's consideration of the relevant item.

In accordance with State Law (Brown Act), all matters to be acted on by the MTA Board must be posted at least 72 hours prior to the Board meeting. In case of emergency, or when a subject matter arises subsequent to the posting of the agenda, upon making certain findings, the Board may act on an item that is not on the posted agenda.

CONDUCT IN THE BOARD ROOM - The following rules pertain to conduct at Metropolitan Transportation Authority meetings:

REMOVAL FROM THE BOARD ROOM The Chair shall order removed from the Board Room any person who commits the following acts with respect to any meeting of the MTA Board:

- a. Disorderly behavior toward the Board or any member of the staff thereof, tending to interrupt the due and orderly course of said meeting.
- b. A breach of the peace, boisterous conduct or violent disturbance, tending to interrupt the due and orderly course of said meeting.
- c. Disobedience of any lawful order of the Chair, which shall include an order to be seated or to refrain from addressing the Board; and
- d. Any other unlawful interference with the due and orderly course of said meeting.

INFORMATION RELATING TO AGENDAS AND ACTIONS OF THE BOARD

Agendas for the Regular MTA Board meetings are prepared by the Board Secretary and are available prior to the meeting in the MTA Records Management Department and on the Internet. Every meeting of the MTA Board of Directors is recorded on CD's and as MP3's and can be made available for a nominal charge.

DISCLOSURE OF CONTRIBUTIONS

The State Political Reform Act (Government Code Section 84308) requires that a party to a proceeding before an agency involving a license, permit, or other entitlement for use, including all contracts (other than competitively bid, labor, or personal employment contracts), shall disclose on the record of the proceeding any contributions in an amount of more than \$250 made within the preceding 12 months by the party, or his or her agent, to any officer of the agency, additionally PUC Code Sec. 130051.20 requires that no member accept a contribution of over ten dollars (\$10) in value or amount from a construction company, engineering firm, consultant, legal firm, or any company, vendor, or business entity that has contracted with the authority in the preceding four years. Persons required to make this disclosure shall do so by filling out a "Disclosure of Contribution" form which is available at the LACMTA Board and Committee Meetings. Failure to comply with this requirement may result in the assessment of civil or criminal penalties.

ADA REQUIREMENTS

Upon request, sign language interpretation, materials in alternative formats and other accommodations are available to the public for MTA-sponsored meetings and events. All requests for reasonable accommodations must be made at least three working days (72 hours) in advance of the scheduled meeting date. Please telephone (213) 922-4600 between 8 a.m. and 5 p.m., Monday through Friday. Our TDD line is (800) 252-9040.

LIMITED ENGLISH PROFICIENCY

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General Information/Rules of the Board - (213) 922-4600

Internet Access to Agendas - www.metro.net

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NOTE: ACTION MAY BE TAKEN ON ANY ITEM IDENTIFIED ON THE AGENDA

CALL TO ORDER

ROLL CALL

9. **SUBJECT: FISCAL YEAR 2020 BUDGET DEVELOPMENT PROCESS** [2019-0002](#)

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2020 (FY20) Budget Development Process.

10. **SUBJECT: MANAGEMENT AUDIT SERVICES FY 2019 SECOND QUARTER REPORT** [2019-0025](#)

RECOMMENDATION

RECEIVE AND FILE the second quarter report of Management Audit Services (Management Audit) for the period ending December 31, 2018.

Attachments: [Attachment A - FY19 Q2 Report](#)

11. **SUBJECT: PROPOSITION C BONDS** [2018-0596](#)

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the issuance of bonds by competitive sale to refund the Proposition C Series 2009-E Bonds, consistent with the Debt Policy to achieve approximately \$8.9 million in net present value savings over the ten-year life of the bonds;
- B. APPROVES the forms of Notice of Intention to Sell Bonds, Notice Inviting Bids, Supplemental Trust Agreement, Escrow Agreement, Continuing Disclosure Certificate and Preliminary Official Statement on file with the Board Secretary as set forth in the resolution all as subject to modification as set forth in the resolution; and
- C. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of bond documentation associated with the issuance of the refunding bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

Attachments: [Attachment A - Authorizing Resolution](#)
[Additional Documents](#)

12. SUBJECT: PROPOSITION A BONDS

[2018-0597](#)

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the issuance of bonds by competitive sale to refund the Proposition A Series 2009-A Bonds, consistent with the Debt Policy to achieve approximately \$8.9 million in net present value savings over the seven-year life of the bonds;
- B. APPROVES the forms of Notice of Intention to Sell Bonds, Notice Inviting Bids, Supplemental Trust Agreement, Escrow Agreement, Continuing Disclosure Certificate and Preliminary Official Statement on file with the Board Secretary as set forth in the resolution all as subject to modification as set forth in the resolution; and
- C. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of bond documentation associated with the issuance of the refunding bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

Attachments: [Attachment A - Authorizing Resolution](#)
 [Additional Documents](#)

13. SUBJECT: INVESTMENT POLICY

[2018-0607](#)

RECOMMENDATION

CONSIDER:

- A. ADOPTING the Investment Policy in Attachment B;
- B. APPROVING the Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials, Attachment C; and
- C. APPROVING the Local Agency Investment Fund (LAIF) Resolution authorizing LAIF to honor LACMTA Authorized Signatures, Attachment D; and
- D. DELEGATING to the Treasurer or her designees, the authority to invest funds for a one year period, pursuant to California Government Code ("Code") Section 53607.

Attachments: [Attachment A - Summary of Investment Policy Changes](#)
[Attachment B - Investment Policy \(redlined\)](#)
[Attachment C - Financial Institutions Resolution \(redlined\)](#)
[Attachment D - LAIF Financial Institutions Resolution](#)

SUBJECT: GENERAL PUBLIC COMMENT

[2019-0059](#)

RECEIVE General Public Comment

Consideration of items not on the posted agenda, including: items to be presented and (if requested) referred to staff; items to be placed on the agenda for action at a future meeting of the Committee or Board; and/or items requiring immediate action because of an emergency situation or where the need to take immediate action came to the attention of the Committee subsequent to the posting of the agenda.

COMMENTS FROM THE PUBLIC ON ITEMS OF PUBLIC INTEREST WITHIN COMMITTEE'S SUBJECT MATTER JURISDICTION

Adjournment



Board Report

File #: 2019-0002, File Type: Informational Report

Agenda Number: 9.

FINANCE, BUDGET, AND AUDIT COMMITTEE FEBRUARY 20, 2019

SUBJECT: FISCAL YEAR 2020 BUDGET DEVELOPMENT PROCESS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2020 (FY20) Budget Development Process.

ISSUE

This is the first of a series of monthly updates to the Board to kick-off the FY20 Budget development status until May 2019 Board Adoption. The budget process is meant to estimate and allocate available resources in order to achieve the Metro Vision 2028 goals in a manner that is fiscally sound and financially responsible. In the upcoming months, the FY20 Budget development reports will include reviewing key economic factors affecting revenues and expenses, setting program deliverable objectives and resource requirements, incorporating stakeholder input and demonstrating agency accountability and performance through the first of its kind Performance Management tool.

This report begins with the Metro Vision 2028 goals for FY20 with an outline of the planned budget process and schedule. A section detailing a comprehensive public outreach program follows, which seeks to maximize public input and ensure that Metro's stakeholders have an active role in the process. The report also discusses the approach used to forecast sales tax revenues and cost inflation for program expenses. These assumptions lay the framework for the development of the upcoming annual budget.

DISCUSSION

Metro Vision 2028 Goals

Targeting a balanced budget for FY20, the annual budget will align resources in a fiscally responsible manner to achieve the following Metro Vision 2028 goals:

- Provide high-quality mobility options that enable people to spend less time traveling.
- Deliver outstanding trip experiences for all users of the transportation system.
- Enhance communities and lives through mobility and access to opportunity.

- Transform Los Angeles County through regional collaboration and national leadership.
- Provide responsive, accountable, and trustworthy governance within the LA Metro organization.

Budget Process and Schedule

Heeding the CEO’s call for a fiscally responsible budget plan to deliver FY20 goals, Metro will continue to improve transit services, keep transit assets in a state of good repair, fund and plan for regional transportation programs and construct new transit/transportation infrastructure according to voter approved sales tax ordinances, State and Federal regulations, Board policies and approved guidelines. In the following months the FY20 Budget process is designed to build one program at a time, while incorporating the Board and stakeholder input.

Here is a summary of the schedule of topics to be presented over the next few months; culminating in final Board Adoption in May.

Month	Topic
February	Process and Budget Outlook: <ul style="list-style-type: none"> • Budget Development Process and Schedule • Stakeholder Outreach Plan • Sales Tax Forecast, Resources Assumptions • Cost Inflation Estimate
March	New Infrastructure Planning and Construction: <ul style="list-style-type: none"> • New Transit System; Rail, Bus Rapid Transit and Alternative Modes (Bike and Active Transportation) • Highway • Regional Rail
April	Operating Budget and Regional Subsidy: <ul style="list-style-type: none"> • Metro Transit, Including Bus and Rail Service Levels • State of Good Repair • Subsidy to Regional Partners • Other Operating Programs

May	FY20 Budget Adoption (Planned) <ul style="list-style-type: none">• Consolidated Agencywide Expenses and FTEs Budget Proposal• Public Hearing on May 15, 2019• Summary of Public Comment and Stakeholder Review• Final Board Adoption on May 23, 2019
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Board of Directors Updates

Beginning in February, detailed budget briefings will be presented to Board staff on a regular basis. These briefings will provide an in-depth explanation of the budget development for every Metro department, as well as a comprehensive look at all revenues, expenses, and project deliverables planned for FY20. In addition to these ongoing regular briefings, staff will also provide monthly updates to the Board.

Public and Stakeholder Outreach

Soliciting meaningful input from the public and stakeholders is critical to the budget development. The comprehensive outreach program ensures that Metro provides complete information at the best possible level of engagement to the public and key stakeholders. To acquire greater participation, the times and locations of public forums are being advertised through multiple channels, including social media and the Metro website, "Take Ones" aboard vehicles, message on hold, and Metro Briefs.

Public Outreach

To encourage public involvement and promote transparency, the budget process includes numerous options and opportunities for informing and engaging the public. Traditional forums are available for direct participation. Considering possible time constraints of interested participants, alternative media channels, communication tools, telephone and digital online mechanisms are being used to provide multiple opportunities for the public to learn about and communicate the FY20 Budget and process.

The following list describes the public forums and media channels that will be utilized to maximize participation in the development of the FY20 Budget:

- Public Hearing - A public hearing on the FY20 Budget will be held on May 15th, 2019, and the public is encouraged to attend and provide their comments on the proposed budget to the Board. Notice of public hearing will follow legally required policies and procedures (multiple languages, published in multiple newspapers, etc.)
- Metro Service Councils - Five Service Councils are located throughout the County to give

residents more opportunities for input on service issues in their community. This is an ideal forum for obtaining direct and immediate feedback from our transit riders.

- The Source/El Pasajero/Facebook/Twitter - Staff will be using Metro's social media outlets to inform the public throughout the FY20 Budget development process, including Facebook ads and Twitter.
- Interactive Budget Tool - This tool will be an interactive application to promote financial transparency and engage the public on the budgeting process. It's more than a simple survey; it's also a way to allow the public to provide feedback on their individual transit priorities. It will be available as a link from the Metro.net page, and announced through social media outlets such as Facebook and Twitter.
- Budget Website - An FY20 Budget website that can be accessed through www.Metro.net will provide regular updates on the budget process, budget details as they become available each month, and offer opportunity for the public to provide their comments.
- E-mail - budgetcomments@metro.net has been established to allow the public an opportunity to comment outside of a public setting.
- Telephone Townhall - A town-hall-style meeting, including a discussion of the proposed budget followed by a question-and-answer period. It is conducted via telephone with participants throughout Los Angeles County.

Stakeholder Briefings

Stakeholders range from jurisdictions and other public agencies that receive funding from Metro to community groups and other organizations that promote and/or rely on Metro services. To apprise them of the budget development process, workshops are scheduled in March and April with various stakeholder groups to engage and solicit input, as follows:

- Citizens Advisory Council (CAC) - The CAC represents a broad spectrum of interests from all geographic areas of the County. This group consults, obtains and collects public input on matters and concerns of many communities. This is an ideal forum to solicit community feedback on various transit issues.
- Technical Advisory Committee (TAC) - The TAC represents key stakeholders that provide technical assistance in reviewing and evaluating various transportation proposals and alternatives within Los Angeles County. This group provides feedback from the communities they represent and offer insight to transit issues throughout the county, including funding, streets, freeways, and transit air quality improvements.

- Bus Operations Subcommittee (BOS) - The BOS represents transit operators in LA County and offers input on countywide bus operations, capital and legislative issues. This forum allows for the input of transit riders throughout the county.
- Local Transit Systems Subcommittee (LTSS) - The LTSS provides technical input on issues affecting local transportation systems. This forum allows for the input of local transit system operators throughout the county.
- Streets & Freeways Subcommittee - The Streets & Freeways Subcommittee is a technical subcommittee of the TAC. This forum facilitates budget development input from the subcommittee members, who are charged with reviewing and evaluating various transportation policies, issues, and transportation funding programs.

Sales Tax Revenue Assumptions

Metro relies on sales taxes for more than half of its total revenues. In addition, cities and our transit provider partners plan their operation based on our revenue projections. This fact necessitates a careful evaluation and forecasting of the sales tax growth rate and funding levels.

In order to generate a realistic forecast of sales tax revenues, long term and short term historical receipts and leading professional forecasts of economic trends are factored in the sales tax growth rate development. Following is a series of charts and descriptions that provide the parameters for projected sales tax revenues.

Figure 1 shows the historical growth of Metro's sales tax revenues. Compared to past years, recent growth has been positive with growth rates staying in between 2.4% and 6.0% since FY14. This mirrors the steady growth of the region's economy over the same period.

Figure 1:

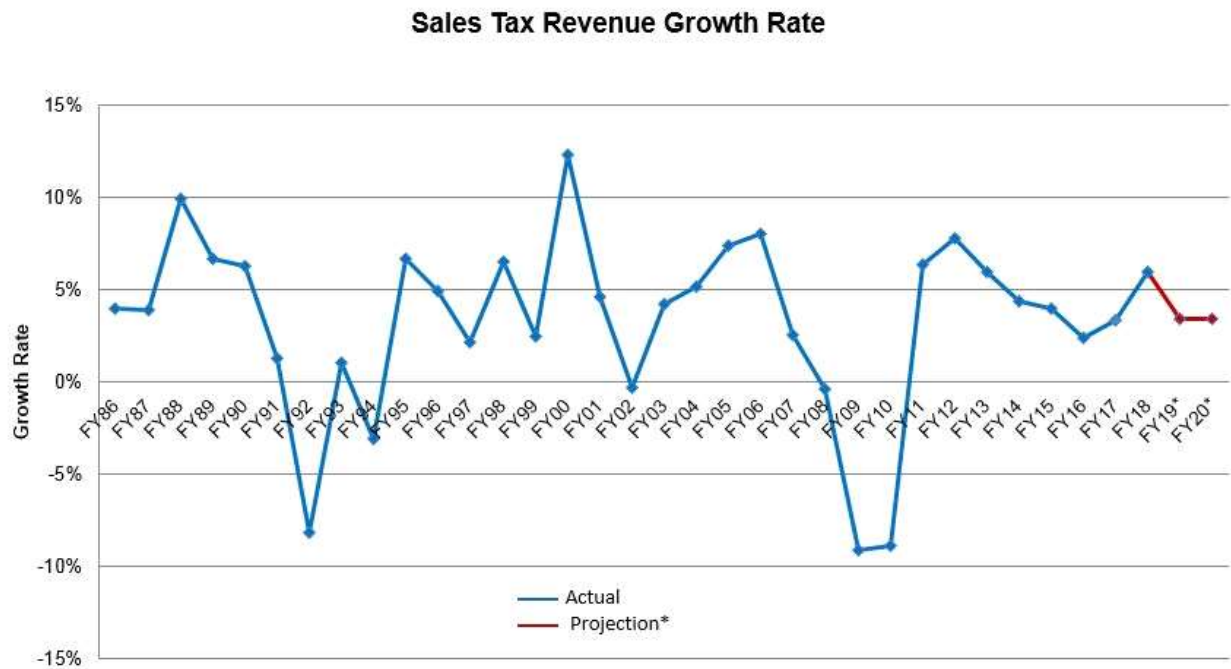


Figure 2 shows the latest FY20 forecasts per sales tax ordinance provided by UCLA, Beacon Economics and Muni Services. It also shows how Metro’s budget estimates have compared to actual receipts and the leading local forecasts since FY15.

Figure 2:

Sales Tax Forecast Comparison

(\$ in millions)

Forecast Source	FY15	FY16	FY17	FY18	FY19	FY20
Actual	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 865.1 ⁽²⁾	-
Metro	740.0	770.3 ⁽¹⁾	780.0 ⁽¹⁾	816.0 ⁽¹⁾	844.0	894.5 ⁽²⁾
CDTFA⁽³⁾	749.8	770.9	779.7	801.1	868.7	911.6
UCLA	733.2	772.1	807.4	810.0	863.6	838.1
Beacon Economics	751.7	766.2	806.2	816.9	835.4	843.5
Muni Services	741.5	785.8	806.2	803.6	827.7	868.1

(1) Reforecasted budget

(2) Projection may be modified as additional information becomes available from the California Department of Tax and Fee Administration (CDTFA) and major forecasting agencies.

(3) Projections based on CDTFA's January statewide sales tax growth rate estimates.

Figure 3:

\$ in Millions (for each Sales Tax Ordinance - Propositions A, C, Measures R and M)					
	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Estimated Actual	FY20 Assumption
Sales Tax Base	\$ 763.7	\$ 789.4	\$ 836.7	\$ 865.1	\$ 894.5
% Change	2.4%	3.4%	6.0%	3.4%	3.4%

Traditionally, Metro has used the first quarter sales tax receipt data from California Department of Tax and Fee Administration (CDTFA) to project the full year sales tax receipts. However, insufficient data is available this year since CDTFA is still processing missing paper returns as a result of glitches during their system upgrade in May 2018. Given other positive economic indicators such as low unemployment rate and growing real personal income, it is estimated that the FY19 year-end actual sales tax receipt per ordinance will reach \$865.1 million, which represents a 3.4% increase from the FY18 actual.

We assume the FY20 sales tax annual growth rate will remain steady at Metro’s own twenty-five year historical growth rate of 3.4%, providing us with a base sales tax receipt of \$894.5 million per ordinance. As a result of the US Supreme Court’s ruling in South Dakota v. Wayfair, we anticipate new state legislation will be enacted allowing additional sales tax collections from e-commerce vendors who do not have a physical presence in the state. It is estimated that \$10 to \$20 million of additional sales tax receipt per ordinance will be generated from this change in FY20. Metro will amend the revenue forecast at mid-year based on initial receipts during FY20 from these e-commerce vendors.

These growth rates will be reviewed and adjusted during the budget development process as more information becomes available from CDTFA. We will continue to monitor trends in sales tax receipts and updates from the economic forecasts as we go through the budget process, and report back to the Board in the upcoming budget process.

Cost Inflation Indicator as in Consumer Price Index (CPI) and Other Expense Change Factors

On the expense side, Metro program cost and cash flow requirements are impacted by cost inflation, existing labor contracts and program guidelines. The most common indicator of cost inflation is the Consumer Price Index (CPI) as published by the Bureau of Labor Statistics. Accurate projections of sales tax revenues and CPI are important to provide a sound revenue and expenditure budget plan.

Consumer Price Index (CPI)

In order to project cost inflation, a similar approach as with sales tax revenues forecast was followed by taking into account of the historical trend and leading regional forecasts. Looking back, CPI has been gradually increasing in recent years. UCLA and Beacon Economics expect inflationary pressures to continue building. Given recent trends and current forecasts, we currently assume that CPI will increase from the projected 2.25% in FY19 to 2.28% in FY20, as shown in Figure 4. We will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 4:

Annual Change in Consumer Price Index (CPI)

Forecast Source	FY15	FY16	FY17	FY18	FY19	FY20
Actual	0.94%	1.73%	2.10%	3.48%	2.25%*	-
Metro	2.30%	1.97%	1.85%	1.75%	2.25%	2.28%
UCLA	2.81%	2.25%	2.70%	2.78%	2.42%	2.60%
Beacon Economics	1.97%	1.57%	1.98%	2.00%	2.15%	1.83%

* Preliminary based on FY19 adopted budget

Other Expense Assumptions

Wages and Benefits

Metro’s labor and fringe benefit costs will continue to adhere to the respective collective bargaining agreements with all five unions for FY20.

Service and Program Assumptions

Metro is continuing its NextGen Bus study. The objective is to look at current service and provide a bottom-up assessment of service deployment given travel patterns, line usage, trip destinations, and availability of alternate methods of travel. These factors will be integrated into a service model that will provide the most efficient and effective customer experience. Contingency bus service will also be incorporated to address Rail service interruptions and special events. Service scenarios will be presented to the service councils and Board of Directors for consideration. Our State of Good Repair (SGR) program will continue to preserve our infrastructure and ready ourselves for future Rail expansion projects. The emphasis will be on delivery of cleaner burning CNG and Zero Emission Buses(ZEB), new rail vehicles, overhaul of the existing bus and rail fleet, and maintenance of track and system components on rail lines.

Transit and Transportation Infrastructure

Major new transit and highway projects listed in the sales tax ordinances will be funded based on their Board-adopted Life of Project budgets.

Regional Subsidies

Subsidy funding for regional projects and programs will be included in the budget based on distribution formulas or specific Board approvals.

Support Costs

Consistent with the CEO's goal of exercising fiscal discipline to ensure financial stability, we will aggressively monitor and manage support costs while ensuring we meet all legally-mandated requirements and remain responsive as an agency.

DETERMINATION OF SAFETY IMPACT

This recommendation will not have an impact on safety standards at Metro.

FINANCIAL IMPACT

The assumptions described above are the budget planning parameters, and will guide the development of the FY20 Budget. They may be adjusted as more specific and updated information becomes available.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal:
Goal # 5: Provide responsive, accountable, and trustworthy governance within the Metro Organization

ALTERNATIVES CONSIDERED

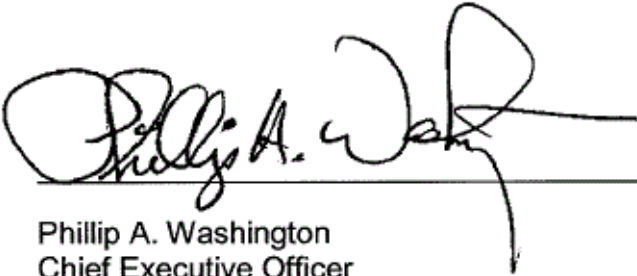
The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

NEXT STEPS

As described earlier in this report, Metro staff will provide regular FY20 Budget briefings to Board members and their staff starting this month. Further, we will provide receive-and-file reports on a monthly basis, as previously detailed.

Prepared by: Timothy Mengle, Senior Director of Finance, (213) 922-7665
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Perry Blake, Executive Officer of Finance, (213) 922-6171

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington
Chief Executive Officer

Fiscal Year 2020 Budget Development Update

Finance, Budget and Audit Committee
February 20, 2019



Meeting Agenda

- **FY20 Budget Process and Schedule**
- **Stakeholder Outreach Plan**
 - Online Budget Tool
- **Budget Assumptions**
 - Sales Tax and CPI
- **Next Steps**

Metro Vision 2028 Goals

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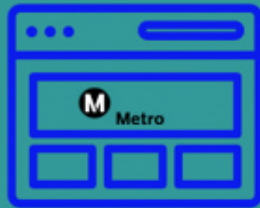
FY20 Budget Process and Schedule

Month	Topic
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May	FY20 Budget Adoption (Planned) <ul style="list-style-type: none"> • Consolidated Agencywide Expenses and FTEs Budget Proposal • Public Hearing on May 15, 2019 • Summary of Public Comment and Stakeholder Review • Final Board Adoption on May 23, 2019

Outreach Initiatives



TELEPHONE TOWN HALL
APRIL 10th 6:30-7:30P



METRO
WEBSITE BANNER
and FINANCE &
BUDGET page



INTERACTIVE
BUDGET TOOL
FEBRUARY 28th



Soliciting Public
Comments
via Email, Metro
Website, Budget Tool,
Workshops & Meetings,
Telephone Town Hall,
Public Hearing



11
WORKSHOPS & MEETINGS
ALL SERVICE COUNCILS, KEY
STAKEHOLDERS THROUGHOUT LA
COUNTY
April 3rd – 18th

Interactive Budgeting Tool



2

Have Your Say on Metro's Fiscal Year 2020 Budget

Metro plans, funds, or operates almost everything transportation related in Los Angeles.



This online budget tool is designed to teach you a bit about what Metro does and allows you an opportunity to provide your feedback.

[More about Metro](#)

Please use Chrome, Firefox, or Microsoft Edge for the best experience.

- Last year's online Interactive Budget Tool solicited nearly 3,500 responses
- This year's survey includes several enhancements from last year:
 - Refined visual aesthetics and customer experience
 - Streamlined questions and answers for greater succinctness
 - Additional background information on the types of programs in Metro's budget and our role within LA County
 - More explanations of the budgetary restrictions Metro faces on an annual basis



FY20 Budget Assumptions

Sales Tax Revenues

- Metro’s forecast for FY20 Sales Tax is estimated to be \$894.5m, which is within the projected range of the leading forecasts for LA county, as projected by UCLA, Beacon Economics, Muni Services, and CDTFA
- Metro’s historical actuals in relation to Metro’s historical projections since FY15 show a high level of accuracy

(\$ in millions)

Forecast Source	FY15	FY16	FY17	FY18	FY19	FY20
Actual	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 865.1	-
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UCLA	733.2	772.1	807.4	810.0	863.6	838.1
Beacon Economics	751.7	766.2	806.2	816.9	835.4	843.5
Muni Services	741.5	785.8	806.2	803.6	827.7	868.1

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% Change	2.4%	3.4%	6.0%	3.4%	3.4%



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FY20 Budget Assumptions

Consumer Price Index

- Consumer Price Index (CPI) has been gradually increasing in recent years and UCLA and Beacon Economics expect inflationary pressures to continue building
- Metro assumes CPI increase from 2.25% to 2.28% (from FY19 to FY20)
- Metro actively monitors & adjusts budget assumptions to match changes in CPI and other economic factors as needed

Annual Change in Consumer Price Index (CPI)

Forecast Source	FY15	FY16	FY17	FY18	FY19	FY20
Actual	0.94%	1.73%	2.10%	3.48%	2.25%*	-
Metro	2.30%	1.97%	1.85%	1.75%	2.25%	2.28%
UCLA	2.81%	2.25%	2.70%	2.78%	2.42%	2.60%
Beacon Economics	1.97%	1.57%	1.98%	2.00%	2.15%	1.83%

* Preliminary based on FY19 adopted budget

Next Steps

- **Monthly Board Status Update until Targeted May Budget Adoption**
 - Itemized review of revenues and expenses
 - Detailed program/project listing and operation assumptions
 - Analysis of highlighted programs
- **Public hearing of the proposed budget will take place on May 15th**
- **Final board adoption expected on May 23th**
 - Board adoption legally required before fiscal year start



Board Report

File #: 2019-0025, **File Type:** Informational Report

Agenda Number: 10.

FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 20, 2019

SUBJECT: MANAGEMENT AUDIT SERVICES FY 2019 SECOND QUARTER REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the second quarter report of Management Audit Services (Management Audit) for the period ending December 31, 2018.

ISSUE

Management Audit must provide a quarterly activity report to the Finance, Budget and Audit Committee which includes information on: completed audits, audits that are in progress, our follow-up activities and any other pertinent matters.

BACKGROUND

At its January 2005 meeting, the Board designated the Executive Management and Audit Committee (EMAC) as their audit committee. The EMAC requested a quarterly report from Management Audit on its audit activities. In July 2011, the audit responsibilities were transferred to the Finance, Budget and Audit Committee. This report fulfills the requirement for the second quarter of FY 2019.

DISCUSSION

Management Audit provides audit support to the Chief Executive Officer (CEO) and his executive management team. The audits we perform are categorized as either internal or external. Internal audits evaluate the processes and controls within the agency. External audits analyze contractors, cities or non-profit organizations that we conduct business with or receive Metro funds.

There are four groups in Management Audit: Performance Audit, Contract Pre-Award Audit, Incurred Cost Audit and Audit Support and Research Services. Performance Audit is primarily responsible for all audits for Operations, Finance and Administration, Planning and Development, Program Management, Information Technology, Communications, Risk, Safety and Asset Management and Executive Office. Contract Pre-Award and Incurred Cost Audit are responsible for external audits in Planning and Development, Program Management and Vendor/Contract Management. All of these

units provide assurance to the public that internal processes are efficiently, economically, effectively, ethically, and equitably performed by conducting audits of program effectiveness and results, economy and efficiency, internal controls, and compliance. Audit Support and Research Services is responsible for administration, financial management, budget coordination, and audit follow-up and resolution tracking.

The summary of Management Audit activity for the quarter ending December 31, 2018 is as follows:

Internal Audits: Two internal audits were completed during the second quarter. As of December 31, 2018, 13 internal audits were in process.

External Audits: Two contract pre-award audits with a total value of \$36.5 million and fifteen incurred cost audits with a total value of \$100 million were completed during the second quarter. As of December 31, 2018, 61 incurred cost audits were in process.

Other Audits: Nine other audits were issued by external CPA firms.

Audit Follow-up and Resolution: Six recommendations were closed during second quarter. In addition, 36 recommendations for the OIG were closed during second quarter. Details of all open, extended, and closed recommendations can be found in the Second Quarter Board Box titled "Status of Audit Recommendations".

Management Audit's FY 2019 second quarter report is included as Attachment A.

NEXT STEPS

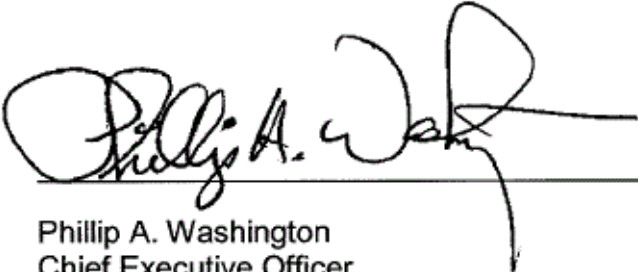
Management Audit will provide the FY 2019 Third Quarter report of audit activity to the Board at the May 2019 Finance, Budget and Audit Committee meeting.

ATTACHMENT

- A. Management Audit Services Quarterly Report to the Board for the period ending December 31, 2018

Prepared by: Monica Del Toro, Audit Support Manager
(213) 922-7494

Reviewed by: Diana Estrada, Chief Auditor
(213) 922-2161



Phillip A. Washington
Chief Executive Officer

**MANAGEMENT AUDIT SERVICES
QUARTERLY REPORT TO THE BOARD**

**Los Angeles County Metropolitan
Transportation Authority**

***Second Quarter
FY 2019***



Metro™

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EXECUTIVE SUMMARY

Summary of Audit Activity

During the second quarter of FY 2019, twenty-eight (28) projects were completed. These include:

Internal Audits

- Follow-Up Performance Audit of the Construction Quality Assurance Program; and
- Annual Audit of Business Interruption Fund (BIF) Pilot Program.

Pre-Award Audits

- Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Metro Countywide Bikeshare Program; and
- Independent Auditor's Reports on Agreed-Upon Procedures for the Cost Proposal for Metro Eastside Transit Corridor Project.

Incurred Cost Audits

- Independent Auditor's Report on Agreed-Upon Procedures of Cambridge Systematics, Inc. close-out audit for Gateway Cities Transportation Strategic Plan Phase II Project;
- Independent Auditor's Report on Agreed-Upon Procedures of WKE, Inc.'s close-out audit for Gateway Cities Transportation Strategic Plan Phase II Project;
- Independent Auditor's Report on Agreed-Upon Procedures of ABCS Consulting Services' indirect cost rates for calendar year 2016 for Westside Purple Line Extension Project;
- Independent Auditor's Report on Agreed-Upon Procedures of Intueor Consulting, Inc.'s final indirect cost rate for calendar year 2016 for Westside Purple Line Extension Project;
- Independent Accountant's Report of Ghirardelli Associates, Inc.'s indirect rate for calendar year 2016 for Regional Connector Transit Corridor Project;
- Independent Auditor's Report on Agreed-Upon Procedures of LSA Associates, Inc.'s interim incurred cost for period June 2010 through December 2015 for I-710 Corridor Project (EIS/EIR Engineering Environmental component);
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Burbank's I-5 Corridor Arterial Signal Improvement Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Inglewood's Florence/La Brea/West Transit Overlay District Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Pasadena's ITS Master Plan Implementation – Phase II Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Compton's TMOC and Retrofit of City Traffic Signal System Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Huntington Park's Focused General Plan Update Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Culver City's Culver CityBus Clean Fuel Replacement Project;

EXECUTIVE SUMMARY

- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of Santa Clarita's McBean Parkway Bridge Widening and Gap Closure over Santa Clara River Project;
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of South Gate's I-710 Early Action Plan-Intersection Improvements Project; and
- Independent Auditor's Report on Agreed-Upon Procedures for the Close-out Review of City of South Gate's Atlantic/Firestone Intersection Improvements Project.

Other Audits

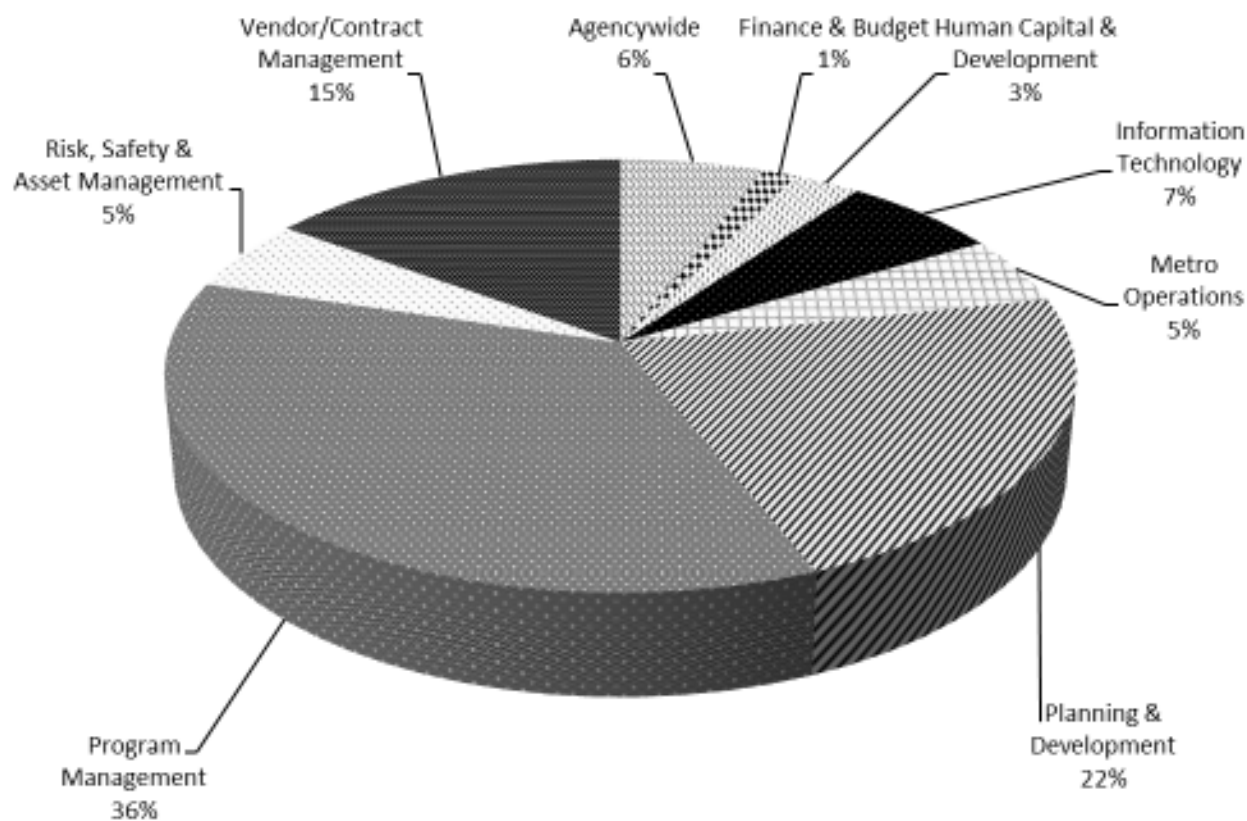
- Nine other audits issued by external CPA firms.

The completed external audits are discussed on page 4. Discussions of the internal audits begin on page 5. Discussions of other audits issued by external CPA firms begin on page 6.

EXECUTIVE SUMMARY

Seventy-four projects were in process as of December 31, 2018; these included 13 internal audits and 61 incurred cost audits.

The following chart identifies the functional areas where Management Audit focused audit staff time and efforts during second quarter FY 2019:



Audit follow-up:

- Six (6) recommendations were closed during the second quarter. At the end of the quarter there were 22 open audit recommendations.
- In addition, we closed 36 OIG recommendations. At the end of the quarter there were 41* open audit recommendations.

*This total does not include recommendations for the 1) Audit of Westside Purple Line Extension Section 2- Modification No. 52, and 2) Review of Metro Rail Services Disruptions as the management response and/or estimated completion dates are still pending.

EXTERNAL AUDITS

Contract Pre-Award Audit

Contract Pre-Award Audit provides support to the Vendor/Contract Management Department for a wide range of large-dollar procurements and projects. This support is provided throughout the procurement cycle in the form of pre-award, interim, change order, and closeout audits, as well as assistance with contract negotiations.

During second quarter FY 2019, two audits were completed, reviewing a net value of \$36.5 million. Auditors questioned \$6.8 million or 19% of the proposed costs. The audits supported procurements in the following areas:

- Metro Countywide Bikeshare Program; and
- Metro Eastside Transit Corridor Phase 2 Project.

Details on Contract Pre-Award Audits completed during second quarter FY 2019 are included in Appendix A.

Incurred Cost Audit

Incurred Cost Audit conducts audits for Planning and Development's Call-for-Projects program, Program Management's highway projects, federally funded transportation programs, and various other transportation related projects, including Caltrans projects. The purpose of the audits is to ensure that funds are spent in accordance with the terms of the grants/contracts and federal cost principles.

Incurred Cost Audit completed fifteen audits during second quarter FY 2019. We reviewed \$100 million of funds and identified \$4.7 million or 5% of unused funds that may be reprogrammed. Sixty-one incurred cost audits were in process as of December 31, 2018.

Details on Incurred Cost Audits completed during second quarter FY 2019 are included in Appendix B.

INTERNAL AUDITS

For the second quarter of FY 2019, two internal audits were completed. Thirteen internal audits were in process as of December 31, 2018. The internal audits in process are listed in Appendix C.

The following internal audits were issued in the second quarter FY 2019:

Follow-Up Performance Audit of the Construction Quality Assurance Program

The audit objective was to verify implementation of the agreed upon corrective actions from the prior performance audit of the Construction Quality Assurance, Report No. 11-CON-K02, issued in September 19, 2013.

We found that all three corrective actions have been implemented. There were no findings identified in the audit. The corrective actions implemented by management improved the construction quality assurance oversight activities over the construction projects and formalized the process for the timely resolution of issues noted in the Non-Conformance Reports.

Annual Audit of Business Interruption Fund (BIF) Pilot Program

The audit objective was to validate compliance with Metro's BIF administrative guidelines and fund and disbursement procedures.

The BIF Pilot Program is being administered in compliance with the funds and disbursement procedures. The program is also generally in compliance with Metro's administrative guidelines except in the area of financial records verification needed to determine the grant amounts awarded to the businesses. Although Pacific Coast Regional (PCR) verified that all grantees met the eligibility requirements for the Program, PCR did not consistently perform adequate validation of the small businesses' financial records to determine grant amounts awarded.

Management concurred with the recommendations and is implementing the corrective actions.

OTHER AUDITS

Other audits completed during second quarter FY19 by external CPA firms include:

STIP/PPM Program Year 2014-15 – Issued October 2018

In June 2013, Metro entered into a Fund Transfer Agreement (Agreement) with CalTrans to provide planning, programming and monitoring of projects for the development and preparation of the Regional Transportation Improvement Program.

Metro is required to comply with the Agreement and to ensure that State Transportation Improvement Program (STIP) Planning, Programming, and Monitoring (PPM) funds are used in conformance with Article XIX of the California State Constitution, and for PPM purposes as defined in the Agreement.

Vasquez completed a financial and compliance audit of STIP for the period December 10, 2014 through December 31, 2017. The auditor found that the financial schedule presents fairly, in all material respects and that Metro complied, in all material respects, with the compliance requirements of the Agreement and Article XIX of the California State Constitution applicable to Metro's STIP PPM Program for the period December 10, 2014 to December 31, 2017.

Los Angeles Union Station Property - Basic Financial Statements – Issued November 2018

Metro acquired the Union Station and Gateway Center properties in April 2011 and entered into a Leasing and Operations Management Agreement with Morlin Asset Management for the management and operations of the Gateway Center and Union Station.

We contracted BCA to conduct an audit of the financial statements for these two entities for the year ended June 30, 2018. The auditor found that the financial statements present fairly, in all material respects, the financial position of each entity.

LACMTA Gateway Center - Basic Financial Statements – Issued November 2018

Metro acquired the Union Station and Gateway Center properties in April 2011 and entered into a Leasing and Operations Management Agreement with Morlin Asset Management for the management and operations of the Gateway Center and Union Station.

We contracted BCA to conduct an audit of the financial statements for these two entities for the year ended June 30, 2018. The auditor found that the financial statements present fairly, in all material respects, the financial position of each entity.

Metro ExpressLanes Fund - Financial Statements – Issued November 2018

Metro ExpressLanes started as a one-year demonstration program that tested innovations to improve existing transportation systems in three sub-regions: the San Gabriel Valley, Central Los Angeles, and the South Bay. The first Metro ExpressLanes commenced revenue operations in November 2012 on the I-110 Harbor Freeway, between Adams Blvd. and the 91 freeway. The second began revenue operations in February 2013 on the I-10 El

OTHER AUDITS

Monte Freeway between Alameda St. and the 605 Freeway. In April 2014, the Board voted unanimously to make the ExpressLanes on the I-110 and I-10 Freeways permanent. Later that year the California State Legislature approved a motion making the toll lanes permanent in Los Angeles and that the Governor sign it to become official.

An audit of the financial statements of Metro ExpressLanes, an enterprise fund of Metro, was performed by BCA for the fiscal year ended June 30, 2018. BCA found that the financial statements present fairly, in all material respects, the financial position of the Metro ExpressLanes fund as of June 30, 2018.

PTSC - MTA PRMA - Basic Financial Statements – Issued November 2018

In October 1998, the Public Transportation Services Corporation (PTSC) and Metro entered into a joint powers agreement to create the PTSC-MTA Risk Management Authority (PRMA) for the purpose of establishing and operating a program of cooperative self-insurance and risk management. PRMA receives all of its funding from Metro and PTSC. As PTSC also receives its funding from Metro, PRMA is a component unit of Metro and is included in its financial statements as a blended component unit.

An audit of PRMA's financial statements by an independent CPA firm is required annually. We retained BCA to conduct the audit for the fiscal year ended June 30, 2018. BCA found that the financial statements present fairly, in all material respects, the financial position of PRMA as of June 30, 2018.

Regional Transit Access Pass (TAP) Service Center TAP Settlement and Clearing Account - Basic Financial Statements – Issued November 2018

Los Angeles TAP was created by Metro through Board action to implement a region-wide universal fare system which provides a fully integrated, electronic fare collection system that allows seamless multi-modal travel throughout the region using smart card technology. This universal fare system is known today as the Regional TAP Program. The Regional TAP Program is managed by the Regional TAP Service Center utilizing Metro staff resources.

We contracted BCA to conduct an audit of the financial statements for the year ended June 30, 2018. The auditor found that the statement of net position present fairly, in all material respects, the financial position of the Regional TAP Service Center Settlement and Clearing Accounts as of June 30, 2018.

Schedule of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds – Issued November 2018

The MTA Reform and Accountability Act of 1998 requires the completion of an independent audit to determine compliance by Metro with the provisions of Propositions A and C.

BCA completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds, which fulfills the

OTHER AUDITS

requirement for the year ended June 30, 2018. The auditor found that the schedules present fairly, in all material respects, the Proposition A and Proposition C Revenues and Expenditures of LACMTA for the fiscal year ended June 30, 2018. As required by law, BCA presented the results of the audit to the Independent Citizen's Advisory Oversight Committee in January 2019.

Schedule of Revenues and Expenditures for Measure R Special Revenue Fund – Issued November 2018

The voter approved Measure R Ordinance mandates that an annual audit be conducted after the end of the fiscal year to ensure that the Metro complies with the terms of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year.

BCA completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Measure R Special Revenue Fund, which fulfills the requirement for the year ended June 30, 2018. The auditor found that the schedule present fairly, in all material respects, the Measure R Revenues and Expenditures of LACMTA for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America. As required by law, BCA will present their audit report to the Measure R Independent Taxpayers Oversight Committee in March 2019.

Schedule of Revenues and Expenditures for Measure M Special Revenue Fund – Issued November 2018

The voter approved Measure M Ordinance mandates that an annual audit be conducted after the end of the fiscal year to ensure that the Metro complies with the provisions of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year.

BCA completed the Independent Auditor's Report on Schedule of Revenues and Expenditures for Measure M Special Revenue Fund, which fulfills the requirement for the year ended June 30, 2018. The auditor found that the schedule present fairly, in all material respects, the Measure M Revenues and Expenditures of LACMTA for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America. As required by law, BCA will present their audit report to the Measure M Independent Taxpayer Oversight Committee in March 2019.

Consolidated Audit

These financial and compliance audits are needed to ensure that the recipients (e.g. 88 cities) of subsidies included in the Consolidated Audit are adhering to the statutes of each applicable funding source. The Consolidated Audit process includes financial and compliance audits for the fiscal year ended June 30, 2018 for Measure R, Measure M and other programs. A separate board report for the Consolidated Audit will be presented subsequent to the Measure R and Measure M Oversight Committee Public Hearings scheduled for June 2019.

AUDIT SUPPORT SERVICES

Audit Follow-Up and Resolution

During the second quarter, 6 recommendations were completed and closed. At the end of the quarter there were 22 outstanding audit recommendations. The table below summarizes the second quarter activity.

Summary of MAS and External Audit Recommendations As of December 31, 2018

Executive Area	Closed	Late	Extended	Not Yet Due/Under Review	Total Open
Communications			5		5
Finance and Budget	1		1		1
Information Technology			3	7	10
Metro Operations	4		1	3	4
Vendor/Contract Management	1			2	2
Totals	6		10	12	22

In addition to the above MAS and external audit recommendations, we closed 36 recommendations for the Office of the Inspector General (OIG). At the end of the quarter there were 41* outstanding OIG audit recommendations.

Details of open audit recommendations for MAS and OIG are included in Appendix D and Appendix E, respectively.

*This total does not include recommendations for the 1) Audit of Westside Purple Line Extension Section 2- Modification No. 52, and 2) Review of Metro Rail Services Disruptions as the management response and/or estimated completion dates are still pending.

Appendix A

Contract Pre-Award Audit FY19 - Audits Completed During Second Quarter						
No.	Area	Audit Number & Type	Contractor	Frequency	Requirement	Date Completed
1	Planning & Development	18-PLN-A17 - Attestation Agreed-Upon Procedures	Bicycle Transit Systems, Inc.	2nd Time; Last Audit 3.5 years ago for Pre-Award	V/CM Policy and Contract Terms	10/2018
2	Planning & Development	19-PLN-A01 - Attestation Agreed-Upon Procedures	Cordoba Corporation	First Time	V/CM Policy and Contract Terms	11/2018

Appendix B

Incurred Cost Audit FY19 - Audits Completed During Second Quarter						
No.	Area	Audit Number & Type	Auditee	Frequency	Requirement	Date Completed
1	Program Management	18-HWY-A09 - Closeout	City of Burbank	Once	Per Project Manager's request and MOU.MR310.08 terms	10/2018
2	Planning & Development	17-PLN-A31 - Closeout	City of Inglewood	Once	Per Project Manager's request and MOU.TOD.312.02.03 terms	10/2018
3	Planning & Development	19-PLN-A04 - Closeout	City of Culver City	Once	Per Project Manager's request and FA92000000F7401 terms	10/2018
4	Planning & Development	18-PLN-A16 - Closeout	City of Santa Clarita	Once	Per Project Manager's request and MOU.P00F3105 terms	10/2018
5	Planning & Development	18-PLN-A15 - Closeout	City of Huntington Park	Once	Per Project Manager's request and MOU.TOD.312.02.14 terms	10/2018
6	Program Management	18-HWY-A07B - Closeout	WKE, Inc.	First Time	V/CM Policy and Contract Terms	11/2018
7	Program Management	18-CON-A10 - Agreed-Upon Procedures	ABCS Consulting Services	First Time	V/CM Policy and Contract Terms	11/2018
8	Program Management	18-HWY-A07A - Closeout	Cambridge Systematics, Inc.	First Time	V/CM Policy and Contract Terms	11/2018
9	Planning & Development	17-PLN-A26 - Closeout	City of Compton	Once	Per Project Manager's request and MOU.P0006297 terms	11/2018
10	Program Management	19-CON-A04 - Agreed-Upon Procedures	Intueor Consulting, Inc.	First Time	V/CM Policy and Contract Terms	11/2018
11	Program Management	18-CON-A16 - Agreed-Upon Procedures	Ghirardelli Associates, Inc.	First Time	V/CM Policy and Contract Terms	11/2018
12	Planning & Development	18-PLN-A22 - Closeout	City of Pasadena	Once	Per Project Manager's request and MOU.P000F1320 terms	12/2018
13	Program Management	17-HWY-A05 (P) - Closeout	City of South Gate	Once	Per Project Manager's request and MOU.P00F1178 terms	12/2018
14	Program Management	17-HWY-A05 (H) - Closeout	City of South Gate	Once	Per Project Manager's request and MOU.MR306/17 terms	12/2018
15	Program Management	17-PLN-A19 - Agreed-Upon Procedures	LSA Associates, Inc.	6th Time; Last Audit 3.5 years ago for Contract Modification	V/CM Policy and Contract Terms	12/2018

Appendix C

Internal Audit FY19 - In Process Audits as of December 31, 2018						
No.	Area	Audit Number & Title	Description	Frequency	Requirement	Estimated Date of Completion
1	Program Management	16-CON-P04B - Performance Audit of Effectiveness of Quality Assurance Processes	To evaluate the efficiency and effectiveness of quality assurance practices and process for minor projects (less than 100 million).	First Time	Per FY16 Audit Plan	2/2019
2	Metro Operations	19-OPS-P01 Performance Audit of Wayside Systems Engineering & Maintenance Training Phase I	Determine whether existing and newly hired employees of Wayside Systems Engineering & Maintenance completed the required training (technical, safety, and mandated) including required refresher courses; required certification per position is current; and employees have the right certification for the tasks assigned.	First Time	Per FY19 Audit Plan	2/2019
3	Information Technology Services / Metro Operations	18-ITS-P01 - Performance Audit of HASTUS - Confirmation of Collective Bargaining Agreement Changes	Evaluate whether changes from the SMART Collective Bargaining Agreement effective July 1, 2017 were effectively implemented in the HASTUS System, and to assess the adequacy of the implementation plans for the pending system changes.	First Time	Per FY18 Audit Plan	2/2019
4	Program Management	18-CON-P01 Performance Audit of Project Management of the Regional Connector Transit Project	Evaluate the adequacy and effectiveness of project management controls for Regional Connector Project.	First Time	Per FY18 Audit Plan	2/2019
5	Vendor/Contract Management	16-VCM- P01 - Performance Audit of P-Card	Evaluate compliance to P-card purchase requirements.	3rd Time; Last Audit 4 and 8 years ago	Per FY16 Audit Plan	2/2019
6	Agency-Wide	17-AGW-P01 - Performance Audit of Consultant Hours	Evaluate efficiency and effectiveness of the use of consultants. Phase 1 – This audit will report on the agency-wide use of consultants such as the number of consultants by business unit, nature of work conducted by the consultants, consultant costs and other statistical information during the review period.	First Time	Per FY17 Audit Plan	2/2019
7	Vendor/Contract Management	18-VCM-P02 - Performance Audit of Tracking of SBE/DBE Goals	To evaluate the process of tracking and monitoring SBE/DBE goals achievement and reliability of the information captured by DEOD.	First Time	Per FY18 Audit Plan	3/2019
8	Vendor/Contract Management	17-VCM-P02 - Performance Audit of Change Order Internal Controls	To evaluate the adequacy and effectiveness of internal controls over the Contract Change Order Process, and to evaluate the utilization of Key Information by VCM.	First Time	Per FY17 Audit Plan	3/2019
9	Metro Operations	16-OPS-P03 - Performance Audit of Accident Prevention Program	Determine the efficiency and effectiveness of Operations' Accident Prevention Practices.	First Time	Per FY16 Audit Plan	3/2019
10	Metro Operations / Systems Security & Law Enforcement	18-AGW-P01 - Performance Audit of Internal Controls over Overtime Payments for AFSCME	Verify compliance with PUC regulation (e.g. 12 hours workhour limit) for Rail Transit Operation Supervisor and evaluate adequacy of current controls and oversight for overtime requests. In addition, follow up on prior audit recommendations.	First Time	Per FY18 Audit Plan	3/2019
11	Human Capital & Development / Finance & Budget	17-OMB-P04 - Performance Audit of Position Reconciliation Process	To evaluate the adequacy of the Position Reconciliation Process between the cost centers, Human Capital & Development and Office of Management and Budget.	2nd Time; Last Audit 9 years ago	Per FY17 Audit Plan	3/2019

Appendix C

Internal Audit FY19 - In Process Audits as of December 31, 2018						
No.	Area	Audit Number & Title	Description	Frequency	Requirement	Estimated Date of Completion
12	Pension and Benefits	19-BEN-P01 - Performance Audit of Benefit Eligibility	Evaluate adequacy of internal controls over eligibility process for employee dependents for medical benefits	First Time	Per FY19 Audit Plan	3/2019
13	Agency-Wide	18-RSK-P01 - Performance Audit of Business Continuity Plan - Payroll, Vendor/Contract Management, Security, Bus and Rail	Evaluate how mission essential functions included in the selected departmental COOPs relate to and are supported by existing departmental Standard Operating Procedures and Emergency Procedures (SOPs/EPs).	2nd Time; Last Audit 9 years ago	Per FY18 Audit Plan	6/2019

Appendix D

Open Audit Recommendations as of December 31, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Communications	16-COM-P01 Special Fares Programs	20	We recommend the Communications Department to report the program performance periodically to the appropriate level of management to support decision making. Update: MOU is in the final stages. Metro Commute Services (MCS) is obtaining input from County Counsel.	3/31/2017	3/31/2019
2	Communications	16-COM-P01 Special Fares Programs	21	We recommend the Communications Department to renew the agreement with the Court to confirm mutual agreement. Update: MOU is in the final stages. Metro Commute Services (MCS) is obtaining input from County Counsel.	3/31/2017	3/31/2019
3	Communications	16-COM-P01 Special Fares Programs	22	We recommend the Communications Department to revisit the program purpose and guidelines/requirements to assess the current J-TAP Program performance. Update: MOU is in the final stages. Metro Commute Services (MCS) is obtaining input from County Counsel.	3/31/2017	3/31/2019
4	Communications	16-COM-P01 Special Fares Programs	23	We recommend the Communications Department obtain a written agreement with DCFS to confirm the mutual agreement and to retain the legal rights to enforce DCFS to meet the Program guidelines and requirements. Update: MOU is in the final stages. Metro Commute Services (MCS) is obtaining input from County Counsel.	3/31/2017	3/31/2019
5	Communications	16-COM-P01 Special Fares Programs	25	We recommend the Communications Department to assess the program performance periodically, and report to the appropriate level of management. Update: MOU is in the final stages. Metro Commute Services (MCS) is obtaining input from County Counsel.	3/31/2017	3/31/2019
6	Operations	16-OPS-P01 Wayside Systems - Track Maintenance	12	We recommend that the Chief Operations Officer, require Track management to provide training for track management, supervisors and/or leads that create work orders in the M3 system. Update: Closed as of January 2019.	6/30/2017	12/31/2018
7	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	1	We recommend that the Chief Information Officer require training for the new IT Project Management Methodology for all ITS Project Managers, Delivery Managers, and Resource Managers, and any other ITS personnel heavily involved in the implementation of IT projects to ensure every ITS resource understands the new IT Project Management Methodology.	3/30/2019	
8	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	2	We recommend that the Chief Information Officer rollout the IT Project Management Methodology developed by the Program Management Office.	3/30/2019	
9	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	3	We recommend that the Chief Information Officer require that all IT required project documentation be completed for each phase of all IT projects, based on the IT Project Management Methodology. This is especially important to show adequate requirements analysis and measurement of end-user involvement, testing, and acceptance.	6/30/2019	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix D

Open Audit Recommendations as of December 31, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
10	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	5	We recommend that the Chief Information Officer require that IT controls are designed into new systems and reflected within IT project management plans, and resulting operational procedures. A risk-based approach to the design and implementation of controls, related to application and related systems and business processes, should be utilized. Focus should be placed on risks that have the highest impact and likelihood to occur. At a minimum, the following controls should be addressed on all IT projects to ensure a sound control environment upon completion: Data Security Controls, Financial Controls, Application Controls, General Computer Controls (Infrastructure), Data Conversion Controls, Interface Controls, Data Integrity Controls.	6/30/2019	
11	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	6	We recommend that the Chief Information Officer include IT Security personnel in the system delivery life-cycle to identify potential areas of IT control risk and the remediation plans that are required after implementation occurs. Update: ITS Department hired a Security Executive Officer who will determine the level of support and involvement for security staff in system delivery life cycle.	8/31/2018	2/28/2019
12	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	7	We recommend that the Chief Information Officer perform periodic resource planning and obtain approval for adequate staffing to meet the demand in project management and delivery capability that will be required to complete the strategic initiatives and anticipated changes in work load.	6/30/2019	
13	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	8	We recommend that the Chief Information Officer consider centralizing the IT project management function within the Program Management Office to ensure a consistent project management approach is applied to all IT projects, and to facilitate the segregation of between project managers and delivery managers.	6/30/2019	
14	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	9	We recommend that the Chief Information Officer in the event that a delivery manager is required to perform as a project manager on a specific project, we recommend that: a second delivery manager be assigned to handle all engineering aspects of the project and the Project Management Office initiate an independent quality control review that will allow the reviewer to review for key controls/requirements during key phases of the project (e.g. at the end of planning, end of field work) to ensure that all IT Project Management requirements are met and that the project provides for full disclosure and transparency.	6/30/2019	
15	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	10	We recommend that the Chief Information Officer (CIO) in conjunction with, Chief Procurement Officer (CPO) and Chief Financial Officer (CFO) corroborate on how the ITS Department can be informed/involved earlier in the Procurement and OMB process when planned procurements/budgets include requests that require technology usage at Metro. Example, consider identifying the Procurement/Budget forms that are being completed by various cost centers and add fields that will flag the need to consult/discuss with ITS Department for technology components or future maintenance/operations of projects.	8/31/2018	2/28/2019

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix D

Open Audit Recommendations as of December 31, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
16	Information Technology Services	17-ITS-P01 Performance Audit of Information Technology Services (ITS) Project Management	11	We recommend that the Chief Information Officer (CIO) in conjunction with, Chief Procurement Officer (CPO) and Chief Financial Officer (CFO) corroborate on any training needs necessary so that various cost centers understand what the additional fields in various forms mean and their requirements.	8/31/2018	2/28/2019
17	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	4a	We recommend the Chief Operations Officer consider directing Rail Operations to add more fields in the electronic Track Allocation Request Form to assist Rail Operations Controllers in minimizing some of their manual entries. For example, the Track Allocation Request Form could be further configured to include a check box indicating if the schedule was activated or not, as well as the time and date it was activated, and a drop down menu to include reasons for schedule modification	6/30/2019	
18	Operations	17-OPS-P07 Performance Audit of the Track Allocation Process	4b	We recommend the Chief Operations Officer consider directing the Track Allocation Coordinator to measure effectiveness of schedules by periodically assessing whether crews that were scheduled to access the ROW actually accessed the ROW. This will provide visibility to the stakeholders as well as assist the Track Allocation Coordinator in modifying future schedules. This periodic review will only be possible once the data from the newly implemented log has been collected.	6/30/2019	
19	Finance & Budget	17-OMB-P02 Performance Audit of the Farebox Revenue Process	2	We recommend Revenue Collections review the monthly employment status report and ensure that transferred, terminated, and retired employees are removed at least quarterly from the Electronic Key Dispenser database.	7/31/2018	1/31/2019
20	Operations	17-OMB-P02 Performance Audit of the Farebox Revenue Process	4	We recommend that Operations Maintenance Management work with Revenue Collections to update the UFS Standard Operating Procedures to include procedures for probing and vaulting out of service buses, including: Who is responsible for probing and vaulting out service buses; What time frame the buses should be probed; How the portable probes will be stored and used in emergency situations (in collaboration with TAP and Revenue Collections); Requirement that all 12 portable probes are in good working condition. In addition, once the SOP is updated, communicate it to all Divisions.	12/31/2018	
21	Vendor/Contract Management	17-VCM-P04 Performance Audit of Contract Pre-Award Process	1	We recommend the Chief Vendor/Contract Management Officer to establish a process that requires maintaining an electronic backup of hard copy contract files in a centralized location and limit the access to appropriate staff. We recommend this process be performed at each phase of the vendor contract management process which includes Planning, Solicitation, Evaluation, etc. and reside in a secured environment with limited access to prevent deletion or modifications to files.	2/28/2019	

Any findings that have not been corrected 90 days after the due date are reported as late.

Appendix D

Open Audit Recommendations as of December 31, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
22	Vendor/Contract Management	18-VCM-P01 Annual Audit of Business Interruption Fund Pilot Program	1	We recommend that Business Interruption Fund Program Management require PCR to revise its Standard Operating Procedures (SOP) to include adequate validation process in ensuring the accuracy of financial records submitted by business owners. At a minimum, PCR should develop the level of validation needed according to the type and quality of supporting evidence provided by the businesses to demonstrate the revenue loss. PCR must document the validation performed for each grantee business to support the amount of grant awarded to the businesses. Update: Closed as of January 2019.	1/31/2019	

Appendix E

OIG Open Audit Recommendations as of December 31, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
1	Operations	17-AUD-04 Review of Metro Safety Culture and Rail Operational Safety	28 Total	The 117 recommendations included in this report address findings in Safety Culture, Red Signal Violations, Safety Assessment of Infrastructure Elements, Technology, Operations and Maintenance, Human Resources, and etc. Update: As of November 2018, 89 of 117 recommendations were closed.	Pending	
2	Communications	18-AUD-04 Increasing Public Transit and Rideshare Use Study	1	Increase marketing to specific audience groups to increase ridership by developing additional marketing programs directly aimed at user groups such as students, business and government entities, and employees "Live Near Your Work" campaigns.	Pending	
3	Communications	18-AUD-04 Increasing Public Transit and Rideshare Use Study	2	Coordinate with other LA County public agencies to encourage additional use of public transit and participation in rideshare programs, including maximizing allowable transit subsidies over parking subsidies. For example: a) The City of LA could increase its monthly transit subsidy to be more in line with monthly transit costs. b) The County of LA could expand its current commuter programs to provide employees subsidies for using public transit/ rideshare for commute trips for all County work locations at a monthly rate closer to actual costs.	12/31/2019	
4	Communications	18-AUD-04 Increasing Public Transit and Rideshare Use Study	3	Explore modifications to Metro's Employer Annual Pass Program to further encourage transit usage, such as the addition of a monthly pass option.	Pending	
5	Communications	18-AUD-04 Increasing Public Transit and Rideshare Use Study	4	Work with partner agencies to ensure that the Guarantee Ride Home Program is publicized to employees.	Pending	
6	Vendor/Contract Management	18-AUD-04 Increasing Public Transit and Rideshare Use Study	5	Encourage use of public transit at meetings and events where contractors will be present.	Pending	
7	Vendor/Contract Management	18-AUD-04 Increasing Public Transit and Rideshare Use Study	6	Consider whether any programs can be created that specifically address vendor/contractor use of public transit.	Pending	
8	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	1a	We recommend that the Maintenance Department should ensure that Maintenance management communicate to staff the importance of completing inspection forms in accordance with Metro's policies and procedures. Update: Closed as of January 2019.	8/31/2018	
9	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	1b	We recommend that the Maintenance Department should ensure that Maintenance management determine how the documentation of mileage will be handled on inspection forms. Update: Closed as of January 2019.	8/31/2018	

OIG Open Audit Recommendations as of December 31, 2018						
No.	Area	Audit Number & Title	Rec. No.	Recommendation	Original Completion Date	Extended Completion Date
10	Operations	18-AUD-05 Audit of Metro Bus Maintenance Program	2	We recommend that the Maintenance Department should ensure Maintenance management clarifies in the Preventive Maintenance Inspection Guidelines that mileage should also be recorded on the inspection forms. Update: Closed as of January 2019.	8/31/2018	
11	Operations	19-AUD-01 Metro Transit Security Performance Review	7	Metro Operations should monitor and track the amount of time required to transfer calls requiring a law enforcement response to the appropriate law enforcement dispatch center and take appropriate actions to ensure calls are quickly processed.	Pending	
12	Program Management	19-AUD-05 Audit of Miscellaneous Expenses and Check Requests for the Period January 1, 2018 to March 31, 2018	1	The Chief Program Management Officer should ensure that Construction Management staff are made aware of Metro's Travel and Business Expense (FIN 14) policy. Update: Closed as of January 2019.	1/31/2019	
13	Civil Rights	19-AUD-05 Audit of Miscellaneous Expenses and Check Requests for the Period January 1, 2018 to March 31, 2018	2	The Chief Civil Rights Program Officer should ensure the Cardholder submits P-Card logs in a timely manner. Update: Closed as of January 2019.	1/31/2019	
14	Communications	19-AUD-05 Audit of Miscellaneous Expenses and Check Requests for the Period January 1, 2018 to March 31, 2018	3	The Chief Communications Officer should require the Senior Manager, Signage & Environment Graphic Design to obtain the vendor's actual travel costs and obtain a refund, if appropriate.	1/31/2019	



Board Report

File #: 2018-0596, File Type: Resolution

Agenda Number: 11.

FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 20, 2019

SUBJECT: PROPOSITION C BONDS

ACTION: AUTHORIZE COMPETITIVE SALE OF BONDS

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the issuance of bonds by competitive sale to refund the Proposition C Series 2009-E Bonds, consistent with the Debt Policy to achieve approximately \$8.9 million in net present value savings over the ten-year life of the bonds;
- B. APPROVES the forms of Notice of Intention to Sell Bonds, Notice Inviting Bids, Supplemental Trust Agreement, Escrow Agreement, Continuing Disclosure Certificate and Preliminary Official Statement on file with the Board Secretary as set forth in the resolution all as subject to modification as set forth in the resolution; and
- C. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of bond documentation associated with the issuance of the refunding bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

Low interest rates offer an opportunity for Metro to lower its debt service costs by refunding on a current basis the outstanding Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-E (the "2009-E Bonds"). Approximately \$72.585 million of the outstanding 2009-E Bonds can be refunded. Under current market conditions, the issuance of the Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds (the "Refunding Bonds") would achieve approximately \$8.9 million in net present value savings over the ten year life of the bonds.

BACKGROUND

The 2009-E Bonds may be current refunded in early April, 2019 as their call date is July 1, 2019. The Debt Policy establishes criteria to evaluate refunding opportunities. The refunding of the 2009-E Bonds is currently estimated to provide net present value savings in excess of the minimum 3% of

the refunded par amount set forth in the Debt Policy criteria for evaluating refunding opportunities.

DISCUSSION

The Refunding Bonds will be sold as fixed rate bonds. The Refunding Bonds will be issued using a competitive process where prospective underwriters bid on the date of sale. The Refunding Bonds will be sold to the underwriter offering the lowest true interest cost. The timing of the bond sale is contingent upon our ability to take advantage of favorable market conditions as they arise. In the event that bids do not meet our criteria, all bids will be rejected and the sale will be rescheduled.

DETERMINATION OF SAFETY IMPACT

Approval of this report will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The costs of issuance for the Refunding Bonds will be paid from proceeds of the financing and will be budget neutral. Savings from the Refunding Bonds will be reflected in future budgets under principal account 51101 and the bond interest account 51121.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal(s):

Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

ALTERNATIVES CONSIDERED

The Board could defer the issuance of the Refunding Bonds to a later time or indefinitely. This is not recommended because we cannot predict that interest rates will remain low enough to generate comparable benefit. Federal Reserve Bank actions and political and other market and economic conditions may push interest rates higher and result in a loss of refunding savings.

NEXT STEPS

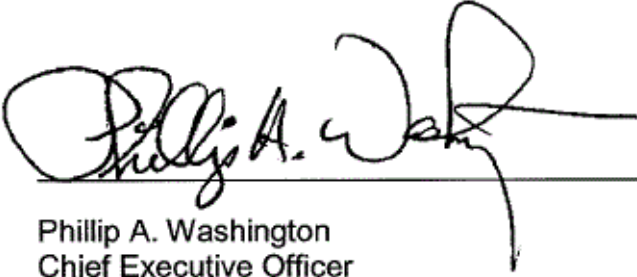
- Develop bond issuance documentation
- Obtain ratings
- Distribute the Preliminary Official Statement and Notice Inviting Bids to prospective underwriters and potential investors and publish the Notice of Intention to Sell Bonds
- Receive electronic bids from underwriters
- Finalize bond documentation and deliver the Refunding Bonds

ATTACHMENTS

Attachment A - Authorizing Resolution

Prepared by: LuAnne Edwards Schurtz, Deputy Executive Officer, Finance (213) 922-2554
Donna Mills, Treasurer (213) 922-4047

Reviewed by: Nalini Ahuja, Chief Financial Officer (213) 922-3088



Phillip A. Washington
Chief Executive Officer

Additional Documents

http://libraryarchives.metro.net/DB_Attachments/2018-0596_LACMTA_Proposition_2019_C_Refunding_Bonds.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0596_Prop_C_2019C_Continuing_Disclosure_Certificate.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0596_Prop_C_2019C_Escrow_Agreement.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0596_Prop_C_2019C_Notice_of_Intention_to_Sell.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0596_Prop_C_2019C_Thirtieth_Supplemental_Trust_Agreement.pdf

Authorizing Resolution

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF ITS LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY PROPOSITION C SALES TAX REVENUE REFUNDING BONDS, APPROVING THE EXECUTION AND/OR DELIVERY OF A SUPPLEMENTAL TRUST AGREEMENT, AN ESCROW AGREEMENT, A CONTINUING DISCLOSURE CERTIFICATE, A NOTICE OF INTENTION TO SELL BONDS, A NOTICE INVITING BIDS AND PRELIMINARY AND FINAL OFFICIAL STATEMENTS, AND THE TAKING OF ALL OTHER ACTIONS NECESSARY IN CONNECTION THEREWITH.

(PROPOSITION C SALES TAX)

W I T N E S S E T H:

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transit system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission was authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval by the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 49 adopted August 28, 1990 ("Ordinance No. 49"), imposed a ½ of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition C Tax"), and such tax was approved by the electors of the County on November 6, 1990; and

WHEREAS, the revenues received by the LACMTA from the imposition of the transactions and use tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payments or provision for the payment of the principal of the bonds and any premium, interest on the bonds and the costs of issuance of the bonds; and

WHEREAS, the LACMTA is planning and engineering a Countywide rail, bus and highway transit system (the "Rail, Bus and Highway Transit System") to serve the County and has commenced construction of portions of the Rail, Bus and Highway Transit System; and

WHEREAS, to facilitate the development and construction of the Rail, Bus and Highway Transit System, the LACMTA, as authorized by the Act, pursuant to the terms of the Amended

and Restated Trust Agreement, dated as of January 1, 2010, as amended and supplemented (the “Trust Agreement”), by and between the LACMTA and U.S. Bank National Association, as trustee (the “Trustee”), has issued multiple series of bonds, including its Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-B; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-D; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2009-E (the “Series 2009-E Bonds”); Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2010-A; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2012-A; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2012-B; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2013-A; Proposition C Sales Tax Revenue Bonds, Senior Bonds, Series 2013-B; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2013-C; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2014-A; Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2016-A; Proposition C Sales Tax Revenue Bonds, Senior Bonds, Series 2017-A; and Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2018-A (collectively, the “Prior Senior Bonds”); and

WHEREAS, the LACMTA now desires to provide for the issuance of one or more series of its Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, from time to time and in one or more transactions (collectively, the “Refunding Bonds”) to: (a) current refund all or a portion of the outstanding Series 2009-E Bonds (the Series 2009-E Bonds so refunded shall be collectively referred to herein as the “Refunded Series 2009-E Bonds”), provided that the refunding of the Refunded Series 2009-E Bonds is consistent with the Debt Policy of the LACMTA (the “Debt Policy”) as in effect at the time of pricing of the applicable series of Refunding Bonds; (b) fund or make provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds; and (c) pay certain costs of issuance related thereto (collectively, the “Financing”); and

WHEREAS, the LACMTA desires to sell the Refunding Bonds on a competitive basis in accordance with the Debt Policy; and

WHEREAS, forms of the following documents are on file with the Secretary of the Board of Directors of the LACMTA and have been made available to the members of the Board of Directors of the LACMTA (the “Board”):

- (a) a Supplemental Trust Agreement (the “Supplemental Trust Agreement”), by and between the LACMTA and the Trustee, which will supplement the Trust Agreement for the purposes of providing the terms and conditions of the Refunding Bonds;
- (b) an Escrow Agreement (the “Escrow Agreement”), among the LACMTA, the Trustee and U.S. Bank National Association, as escrow agent, which will be executed and delivered in connection with the refunding and defeasance of the Refunded Series 2009-E Bonds;
- (c) a Preliminary Official Statement (the “Preliminary Official Statement”), which will provide information about the Refunding Bonds, the LACMTA, the

Proposition C Tax and certain other related matters, and will be used, from time to time, in connection with the offer and sale of the Refunding Bonds;

(d) a Notice of Intention to Sell Bonds (the “Notice of Intention to Sell Bonds”), which will be published in connection with any proposed sale of the Refunding Bonds;

(e) a Notice Inviting Bids (the “Notice Inviting Bids”), which will set forth the terms and the manner in which proposals from qualified bidders for the purchase of the Refunding Bonds shall be received; and

(f) a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”), which will be executed by the LACMTA and will be used in order to assist the underwriters of the Refunding Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), and which will provide for the annual and periodic update of certain financial and operating information with respect to the LACMTA and the collection of the Proposition C Tax, among other things, and certain enumerated events; and

WHEREAS, the LACMTA has been advised by its Bond Counsel that such documents are in appropriate form, and the LACMTA hereby acknowledges that said documents will be modified and amended to reflect the various details applicable to the Refunding Bonds, whether the Refunding Bonds are issued in a single issuance or multiple issuances, and that said documents are subject to completion to reflect the results of the sale of the Refunding Bonds; and

WHEREAS, the LACMTA has pledged the Proposition C Tax (less the 20% local allocation and the California Department of Tax and Fee Administration’s costs of administering such tax) (the “Pledged Taxes”) pursuant to the terms of the Trust Agreement to secure the Prior Senior Bonds and certain other obligations of the LACMTA, and once issued, the Refunding Bonds will be “Bonds” and “Senior Bonds” as defined in the Trust Agreement and will be secured by the pledge of the Pledged Revenues under the Trust Agreement; and

WHEREAS, the LACMTA desires to designate the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA (or such other titles as the LACMTA may from time to time assign for such respective positions), and any such officer serving in an acting or interim capacity, and any written designee of any of them as an “Authorized Authority Representative” for all purposes under the Trust Agreement and the Supplemental Trust Agreement; and

WHEREAS, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the governing body of a public body obtain from an underwriter, financial advisor or private lender and disclose, prior to authorizing the issuance of bonds with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the bonds, (b) the sum of all fees and charges paid to third parties with respect to the bonds, (c) the amount of proceeds of the bonds expected to be received net of the fees and charges paid to third parties and any reserves or

capitalized interest paid or funded with proceeds of the bonds, and (d) the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees and charges paid to third parties not paid with the proceeds of the bonds; and

WHEREAS, the LACMTA is duly authorized and empowered, pursuant to each and every requirement of law, to authorize the Financing and to authorize the execution and/or delivery of a Supplemental Trust Agreement, an Escrow Agreement, a Notice of Intention to Sell Bonds, a Notice Inviting Bids and a Continuing Disclosure Certificate, the preparation of one or more Preliminary Official Statements and the preparation, execution and delivery of one or more Official Statements (as hereinafter defined) for the purposes, in the manner and upon the terms provided; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings. The LACMTA hereby finds and determines that:

(a) The issuance of one or more series of its Refunding Bonds under the Trust Agreement to current refund all or a portion of the Series 2009-E Bonds (provided that the refunding of the Refunded Series 2009-E Bonds is consistent with the Debt Policy as in effect at the time of pricing of the applicable series of Refunding Bonds), to fund or make provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds, and to pay certain costs related to the issuance of the Refunding Bonds, is in the public interest.

(b) Under the provisions of Ordinance No. 49, all of the Pledged Taxes are revenues of the LACMTA available for rail, bus and highway transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Senior Bonds were issued, pledged, along with the Pledged Revenues, to secure the Prior Senior Bonds and are pledged to secure the Refunding Bonds, and, by this Resolution, such pledge is reaffirmed.

(c) The provisions contained in the Trust Agreement, as previously amended and supplemented, and to be set forth in the Supplemental Trust Agreement, are reasonable and proper for the security of the holders of the Refunding Bonds.

Section 2. Issuance of Refunding Bonds. The Board hereby authorizes the issuance by the LACMTA of one or more series of Refunding Bonds, from time to time and in one or more transactions, for the purposes of (a) current refunding all or a portion of the Series 2009-E Bonds (provided that the refunding of the Refunded Series 2009-E Bonds is consistent with the Debt Policy as in effect at the time of pricing of the Refunding Bonds as determined and calculated at the discretion of the Treasurer of the LACMTA, which shall be conclusive for all purposes of this Resolution), (b) funding or making provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds, and (c) paying certain costs of issuance related to the

issuance of the Refunding Bonds. The aggregate principal amount of the Refunding Bonds issued by the LACMTA shall not exceed an amount sufficient (taking into account any original issue discount) to refund all or a portion of the Series 2009-E Bonds, fund or make provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds, and pay certain costs related to the issuance of the Refunding Bonds (including, but not limited to, underwriters' discount), and in any event the aggregate principal amount of all Refunding Bonds shall not exceed \$73 million. The True Interest Cost of the Refunding Bonds shall not exceed 5.00%, as such shall be calculated by LACMTA's municipal advisor as of the date of delivery of each series of the Refunding Bonds. The Refunding Bonds shall not mature later than the final maturity date of the Refunded Series 2009-E Bonds that are being refunded with proceeds of the Refunding Bonds.

The Refunding Bonds shall be issued in a manner by which the interest thereon is excludable from gross income under the Internal Revenue Code of 1986, as amended. The Chief Executive Officer of the LACMTA, the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA (or such other titles as the LACMTA may from time to time assign for such respective positions), and any such officer serving in an acting or interim capacity, and any written designee of any of them (each, a "Designated Officer"), acting in accordance with this Section 2, are each hereby severally authorized to determine the actual aggregate principal amount of the Refunding Bonds to be issued (not in excess of the maximum amount set forth above), and to direct the execution and authentication of the Refunding Bonds in such amount. Such direction shall be conclusive as to the principal amounts hereby authorized. The Refunding Bonds shall be in fully registered form and shall be issued as Book-Entry Bonds as provided in the Supplemental Trust Agreement. Payment of the principal of, interest on and premium, if any, on the Refunding Bonds shall be made at the place or places and in the manner provided in the Supplemental Trust Agreement.

As used herein, the term "True Interest Cost" shall be the interest rate (compounded semiannually) necessary to discount the debt service payments from their respective payment dates to the dated date of the Refunding Bonds and to the principal amount, and premium or discount if any, of the Refunding Bonds. For the purpose of calculating the True Interest Cost, the principal amount of the Refunding Bonds scheduled for mandatory sinking fund redemption as part of a term bond shall be treated as a serial maturity for such year. The calculation of the True Interest Cost shall include such other reasonable assumptions and methods as determined by the LACMTA's municipal advisor.

Section 3. Terms of the Refunding Bonds. The Refunding Bonds shall be issued as current interest bonds and shall be available in denominations of \$5,000 and integral multiples thereof. The Refunding Bonds, when issued, shall be in the aggregate principal amounts and shall be dated as shall be provided in the final form of the Supplemental Trust Agreement. The Refunding Bonds may be issued as serial bonds or as term bonds or as both serial bonds and term bonds, all as set forth in the Supplemental Trust Agreement. Interest on the Refunding Bonds shall be paid at the rates and on the dates set forth in the Supplemental Trust Agreement. No Refunding Bond shall bear interest at a rate in excess of 6.00% per annum. The Refunding Bonds shall be subject to redemption at the option of the LACMTA on such terms and conditions as shall be set forth in the Supplemental Trust Agreement, or not be subject to redemption. The

Refunding Bonds issued as term bonds also shall be subject to mandatory sinking fund redemption as shall be set forth in the Supplemental Trust Agreement(s).

Execution and delivery of the Supplemental Trust Agreement, which document will contain the maturities, principal amounts, interest rates and the fixed interest payment obligations of the LACMTA within parameters set forth in this Resolution, shall constitute conclusive evidence of the LACMTA's approval of such maturities, principal amounts, interest rates and payment obligations.

Section 4. Special Obligations. The Refunding Bonds shall be special obligations of the LACMTA secured by and payable from the Pledged Revenues and from the funds and accounts held by the Trustee under the Trust Agreement. The Refunding Bonds shall also be secured by and be paid from such other sources as the LACMTA may hereafter provide

Section 5. Form of Refunding Bonds. The Refunding Bonds and the Trustee's Certificate of Authentication to appear thereon shall be in substantially the form set forth in Exhibit A to the Supplemental Trust Agreement on file with the Secretary of the Board and made available to the Board, with such necessary or appropriate variations, omissions and insertions as permitted or required by the Trust Agreement or the Supplemental Trust Agreement or as appropriate to adequately reflect the terms of such Refunding Bonds and the obligations represented thereby.

Section 6. Execution of Refunding Bonds. Each of the Refunding Bonds shall be executed on behalf of the LACMTA by any Designated Officer and any such execution may be by manual or facsimile signature, and each bond shall be authenticated by the endorsement of the Trustee or an agent of the Trustee. Any facsimile signature of such Designated Officer shall have the same force and effect as if such officer had manually signed each of such Refunding Bonds.

Section 7. Approval of Documents, Authorization for Execution. The form, terms and provisions of the Supplemental Trust Agreement, the Escrow Agreement, the Notice of Intention to Sell Bonds, the Notice Inviting Bids and the Continuing Disclosure Certificate on file with the Secretary of the Board and made available to the Board within the parameters set forth in this Resolution are in all respects approved, and each of the Designated Officers is hereby severally authorized, empowered and directed to execute, acknowledge and deliver in the name of and on behalf of the LACMTA one or more Supplemental Trust Agreements, one or more Escrow Agreements, one or more Notices of Intention to Sell Bonds, one or more Notices Inviting Bids and one or more Continuing Disclosure Certificates, including counterparts thereof. The Supplemental Trust Agreement(s), the Escrow Agreement(s), the Notice(s) of Intention to Sell Bonds, the Notice(s) Inviting Bids and the Continuing Disclosure Certificate(s), as executed and delivered, shall be in substantially the forms now on file with the Secretary of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the Board's approval of any and all changes or revisions therein from the form of the Supplemental Trust Agreement, the Escrow Agreement, the Notice of Intention to Sell Bonds, the Notice Inviting Bids and the Continuing Disclosure Certificate now on file with the Secretary of the Board and made available to the Board; and from and after the execution and

delivery of each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate.

Section 8. Sale of Refunding Bonds.

(a) Each Designated Officer is hereby authorized, from time to time, to choose such times and dates as such Designated Officer shall, in his or her discretion, deem to be necessary or desirable to provide for the sale of the Refunding Bonds, to receive proposals from qualified bidders for the purchase of the Refunding Bonds (through the receipt of bids through the use of computerized bidding systems) upon the terms and in the manner set forth in each Notice Inviting Bids.

(b) Each Designated Officer is hereby authorized and directed to execute one or more Notices Inviting Bids, from time to time, in such form as the Designated Officer executing the same shall approve, and call for bids for the sale of the Refunding Bonds from qualified bidders in accordance with each such Notice Inviting Bids.

(c) Each Designated Officer is hereby authorized and directed to cause each Notice of Intention to Sell Bonds to be published from time to time (after completion, modification or correction thereof reflecting the terms of each series of the Refunding Bonds, as approved by said Designated Officer, such approval to be conclusively evidenced by such publication) in *The Bond Buyer* (or such other publication as may be selected by Bond Counsel and/or a Designated Officer), a financial publication generally circulated throughout the State of California or reasonably expected to be disseminated among prospective bidders for the Refunding Bonds, at least five days prior to the sale of each series of the Refunding Bonds in accordance with Section 53692 of the Government Code of the State of California and any such action previously taken is hereby confirmed, ratified and approved.

(d) Each Designated Officer is authorized and directed to cause each Notice Inviting Bids to be published, if determined by Bond Counsel and/or a Designated Officer to be necessary or desirable (after completion, modification or correction thereof reflecting the terms of each series of the Refunding Bonds, as approved by said Designated Officer, such approval to be conclusively evidenced by such publication) in such publication(s) as selected by a Designated Officer and Bond Counsel and any such action previously taken is hereby confirmed, ratified and approved.

(e) Each Designated Officer is authorized and directed to distribute each Notice Inviting Bids (including via electronic methods) to such municipal broker-dealers, banking and financial institutions and other persons as such Designated Officer deems necessary or desirable, and any such action previously taken is hereby confirmed, ratified and approved.

(f) Each Designated Officer is hereby authorized and directed for and on behalf of the LACMTA to accept the best bid for the Refunding Bonds received from qualified bidders pursuant to and subject to the terms and conditions set forth in this Resolution and the Notice(s) Inviting Bids herein approved and to award the Refunding Bonds, from time to time, to such best bidder(s).

(g) Each Designated Officer is hereby authorized and directed to take any other action such Designated Officer determines is necessary or desirable to cause any such competitive sale to comply with the LACMTA's Debt Policy and applicable law.

Section 9. Preliminary Official Statement and Official Statement. One or more Preliminary Official Statements shall be used by the LACMTA in connection with the sale and issuance of the Refunding Bonds. The form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board is hereby approved. The Preliminary Official Statement shall be substantially in the form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board with such changes as a Designated Officer approves (such approval to be conclusively evidenced by the execution and delivery of the certificate referenced in the following sentence). The Preliminary Official Statement shall be circulated for use in selling the Refunding Bonds at such time or times as a Designated Officer shall deem such Preliminary Official Statement to be final within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, said determination to be conclusively evidenced by a certificate signed by said Designated Officer to said effect. The Preliminary Official Statement shall contain a description of the finances and operations of the LACMTA, a description of the Proposition C Tax and a description of historical receipts of sales tax revenues substantially in the form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board with such changes as any Designated Officer determines are appropriate or necessary. The Preliminary Official Statement shall also contain a description of the Refunding Bonds and the terms and conditions of the Trust Agreement and the Supplemental Trust Agreement together with such information and description as a Designated Officer determines is appropriate or necessary.

Upon the sale of the Refunding Bonds, one or more of the Designated Officers shall provide for the preparation, publication, execution and delivery of one or more final Official Statements in substantially the form of the Preliminary Official Statement deemed final by a Designated Officer with such changes as any Designated Officer approves, such approval to be conclusively evidenced by the execution of such final Official Statement. Any Designated Officer is hereby authorized and directed to execute and deliver one or more final Official Statements in the name and on behalf of the LACMTA. One or more supplements to the final Official Statement(s) or revised final Official Statement(s) may be prepared and delivered reflecting updated and revised information as any Designated Officers deems appropriate or necessary. Each final Official Statement shall be circulated (via written format and/or through electronic means) for use in selling the Refunding Bonds at such time or times as a Designated Officer deems appropriate after consultation with the LACMTA's Municipal Advisor, LACMTA's Disclosure Counsel and LACMTA's Bond Counsel and such other advisors as a Designated Officer believes to be useful.

Section 10. Trustee, Paying Agent and Registrar. U.S. Bank National Association is hereby appointed as Trustee, Paying Agent and Registrar for the Refunding Bonds. Such appointments shall be effective upon the issuance of the Refunding Bonds and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 11. Escrow Agent. U.S. Bank National Association is hereby appointed as Escrow Agent under the Escrow Agreement. Such appointment shall be effective upon the issuance of the Refunding Bonds and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 12. Authorized Authority Representative. The Board hereby designates each of the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA, and any such officer serving in an acting or interim capacity, as an “Authorized Authority Representative” for all purposes under the Trust Agreement, the Supplemental Trust Agreement, and any amendments or supplements to the Trust Agreement or the Supplemental Trust Agreement. Such appointment shall remain in effect until modified by resolution. The prior designation of officers, including the Chairperson of the Board and the Chief Executive Officer of the LACMTA, as Authorized Authority Representatives under the Trust Agreement and any amendments or supplements thereto shall continue.

Section 13. Additional Authorization. The Designated Officers, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the issuance of the Refunding Bonds, and the execution and delivery of each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate, and to carry out the terms thereof. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments and take all other actions that may be required in order to carry out the authority conferred by this Resolution or the provisions of the Trust Agreement, each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the direction (from time to time) by a Designated Officer of the investment of the proceeds of the Refunding Bonds and of the Pledged Revenues including the execution and delivery of investment agreements or purchase agreements related thereto, the execution by a Designated Officer and the delivery of one or more tax certificates as required by each Supplemental Trust Agreement for the purpose of complying with the rebate and arbitrage requirements and restrictions of the Internal Revenue Code of 1986, as amended; and the execution and delivery of documents required by The Depository Trust Company in connection with the Book-Entry Bonds. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

Any Designated Officer, on behalf of the LACMTA, is further authorized and directed to cause written notice(s) to be provided to the California Debt and Investment Advisory Commission (“CDIAC”) of the proposed sale of the Refunding Bonds, said notice(s) to be

provided in accordance with Section 8855 et seq. of the California Government Code, to file the notice(s) of final sale with CDIAC, to file the rebates and notices required under section 148(f) and 149(e) of the Internal Revenue Code of 1986, as amended, if necessary, and to file such additional notices and reports as are deemed necessary or desirable by such Designated Officer in connection with the Refunding Bonds, and any such notices are hereby ratified, confirmed and approved.

Section 14. Continuing Authority of Designated Officers. The authority of any individual serving as a Designated Officer under this Resolution by a written designation signed by the Chief Executive Officer, the Chief Financial Officer, the Treasurer, any Deputy Executive Officer, Finance, or any Assistant Treasurer (or such other titles as the LACMTA may from time to time assign for such respective positions), shall remain valid notwithstanding the fact that the individual officer of the LACMTA signing such designation ceases to be an officer of the LACMTA, unless such designation specifically provides otherwise.

Section 15. Investments. From and after the delivery of the Refunding Bonds, each Designated Officer is hereby authorized to invest the proceeds of the Refunding Bonds in accordance with the Trust Agreement, the Supplemental Trust Agreement, the Escrow Agreement and the LACMTA's Investment Policy and is further authorized to enter into or to instruct the Trustee to enter into one or more investment agreements, float contracts, swaps or other hedging products (hereinafter collectively referred to as the "Investment Agreement") providing for the investment of moneys in any of the funds and accounts created under the Trust Agreement, the Supplemental Trust Agreement and the Escrow Agreement, on such terms as the Designated Officer shall deem appropriate. Pursuant to Section 5922 of the California Government Code, the LACMTA hereby finds and determines that the Investment Agreement will reduce the amount and duration of interest rate risk with respect to amounts invested pursuant to the Investment Agreement and is designed to reduce the amount or duration of payment, rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the Refunding Bonds or enhance the relationship between risk and return with respect to investments.

Section 16. Good Faith Estimates. In accordance with SB 450, good faith estimates of the following are set forth in Exhibit A attached hereto: (a) the true interest cost of the Refunding Bonds, (b) the sum of all fees and charges paid to third parties with respect to the Refunding Bonds, (c) the amount of proceeds of the Refunding Bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Refunding Bonds, and (d) the sum total of all debt service payments on the Refunding Bonds calculated to the final maturity of the Refunding Bonds plus the fees and charges paid to third parties not paid with the proceeds of the Refunding Bonds

Section 17. Further Actions. From and after the delivery of the Refunding Bonds, the Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify each Supplemental Trust Agreement, each Escrow Agreement and each Continuing Disclosure Certificate at any time and from time to time and in any manner determined to be necessary or desirable by the Designated Officer executing such amendment, supplement, or modification, upon consultation with the LACMTA's municipal advisor and

LACMTA's Bond Counsel, the execution of such amendment, supplement or other modification being conclusive evidence of the LACMTA's approval thereof.

Section 18. Costs of Issuance. The LACMTA authorizes funds of the LACMTA, together with the proceeds of the Refunding Bonds, to be used to pay costs of issuance of the Refunding Bonds, including, but not limited to, costs of attorneys, accountants, verification agents, municipal advisors, trustees, escrow agents, the costs associated with rating agencies, printing, publication and mailing expenses and any related filing fees.

Section 19. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 20. Effective Date. This Resolution shall be effective upon adoption and shall be effective with respect to the Refunding Bonds issued on or before December 31, 2019.

[Remainder of page intentionally left blank]

CERTIFICATION

The undersigned, duly qualified and acting as Board Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____, 2019.

[SEAL]

By _____
Board Secretary, Los Angeles County
Metropolitan Transportation Authority

Dated: _____, 2019

EXHIBIT A

GOOD FAITH ESTIMATES

The following information was obtained from Public Resources Advisory Group (the “Municipal Advisor”) with respect to the bonds (the “Refunding Bonds”) approved in the attached Resolution, and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the Refunding Bonds:

Section 1. True Interest Cost of the Refunding Bonds. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the Refunding Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Refunding Bonds, is 1.88%.

Section 2. Finance Charge of the Refunding Bonds. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the finance charge of the Refunding Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Refunding Bonds), is \$342,330, as follows:

(a)	Underwriters’ Discount	\$97,330
(b)	Bond Counsel and Disbursements	50,000
(c)	Disclosure Counsel and Disbursements	50,000
(d)	Municipal Advisor and Disbursements	30,000
(e)	Rating Agencies	83,000
(f)	Other	<u>32,000</u>
	Total	<u>\$342,330</u>

Section 3. Amount of Proceeds to be Received. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the amount of proceeds expected to be received by the LACMTA for sale of the Refunding Bonds less the finance charge of the Refunding Bonds described in Section 2 above and any reserves or capitalized interest paid or funded with proceeds of the Refunding Bonds, is \$55,661,814.

Section 4. Total Payment Amount. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the LACMTA will make to pay debt service on the Refunding Bonds plus the finance charge of the Refunding Bonds described in Section 2 above not paid with the proceeds of the Refunding Bonds, calculated to the final maturity of the Refunding Bonds, is \$60,421,804.

Attention is directed to the fact that the foregoing information constitutes good faith estimates only. The actual interest cost, finance charges, amount of proceeds and total payment

amount may vary from the estimates above due to variations from these estimates in the timing of Refunding Bonds sale, the amount of Refunding Bonds sold, the amortization of the Refunding Bonds sold and market interest rates at the time of each sale. The date of sale and the amount of Refunding Bonds sold will be determined by the LACMTA based on need to provided funds for the Financing and other factors. The actual interest rates at which the Refunding Bonds will be sold will depend on the bond market at the time of each sale. The actual amortization of the Refunding Bonds will also depend, in part, on market interest rates at the time of sale. Market interest rates are affected by economic and other factors beyond the LACMTA's control. The LACMTA has approved the issuance of the Refunding Bonds with a maximum true interest cost of 5.00%.



Board Report

File #: 2018-0597, **File Type:** Resolution

Agenda Number: 12.

**FINANCE, BUDGET AND AUDIT COMMITTEE
FEBRUARY 20, 2019**

SUBJECT: PROPOSITION A BONDS

ACTION: AUTHORIZE COMPETITIVE SALE OF BONDS

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the issuance of bonds by competitive sale to refund the Proposition A Series 2009-A Bonds, consistent with the Debt Policy to achieve approximately \$8.9 million in net present value savings over the seven-year life of the bonds;
- B. APPROVES the forms of Notice of Intention to Sell Bonds, Notice Inviting Bids, Supplemental Trust Agreement, Escrow Agreement, Continuing Disclosure Certificate and Preliminary Official Statement on file with the Board Secretary as set forth in the resolution all as subject to modification as set forth in the resolution; and
- C. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of bond documentation associated with the issuance of the refunding bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

Low interest rates offer an opportunity for Metro to lower its debt service costs by refunding on a current basis the outstanding Proposition A Sales Tax Revenue Refunding Bonds Senior Bonds, Series 2009-A (the "2009-A Bonds"). Approximately \$104.6 million of the outstanding 2009-A Bonds can be refunded. Under current market conditions, the issuance of the Proposition A Sales Tax Revenue Refunding Bonds (the "Refunding Bonds") would achieve approximately \$8.9 million in net present value savings over the seven year life of the bonds.

BACKGROUND

The 2009-A Bonds may be current refunded in early April, 2019. The Debt Policy establishes criteria to evaluate refunding opportunities. The refunding of the 2009-A Bonds is currently estimated to provide net present value savings in excess of the minimum 3% of the refunded par amount set forth

in the Debt Policy criteria for evaluating refunding opportunities.

DISCUSSION

The Refunding Bonds will be sold as fixed rate bonds. The Refunding Bonds will be issued using a competitive process where prospective underwriters bid on the date of sale. The Refunding Bonds will be sold to the underwriter offering the lowest true interest cost. The timing of the bond sale is contingent upon our ability to take advantage of favorable market conditions as they arise. In the event that bids do not meet our criteria, all bids will be rejected and the sale will be rescheduled

DETERMINATION OF SAFETY IMPACT

Approval of this report will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The costs of issuance for the Refunding Bonds will be paid from proceeds of the financing and will be budget neutral. Savings from the Refunding Bonds will be reflected in future budgets under principal account 51101 and the bond interest account 51121.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal(s):

Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

ALTERNATIVES CONSIDERED

The Board could defer the issuance of the Refunding Bonds to a later time or indefinitely. This is not recommended because we cannot predict that interest rates will remain low enough to generate comparable benefit. Federal Reserve Bank actions, political and other market and economic conditions may push interest rates higher and result in a loss of refunding savings.

NEXT STEPS

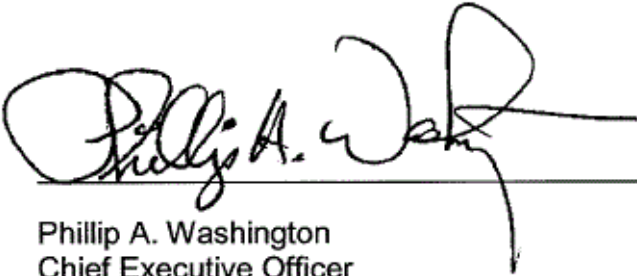
- Develop bond issuance documentation
- Obtain ratings
- Distribute the Preliminary Official Statement and Notice Inviting Bids to prospective underwriters and potential investors and publish the Notice of Intention to Sell Bonds
- Receive electronic bids from underwriters
- Finalize bond documentation and deliver the Refunding Bonds

ATTACHMENTS

Attachment A - Authorizing Resolution

Prepared by: LuAnne Edwards Schurtz, Deputy Executive Officer, Finance (213) 922-2554
Donna Mills, Treasurer (213) 922-4047

Reviewed by: Nalini Ahuja, Chief Financial Officer (213) 922-3088



Phillip A. Washington
Chief Executive Officer

Additional Documents

http://libraryarchives.metro.net/DB_Attachments/2018-0597_LACMTA_Proposition_A_POS_2019_Refunding_Bonds.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0597_Prop_A_2019A_Continuing_Disclosure_Certificate.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0597_Prop_A_2019A_Escrow_Agreement.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0597_Prop_A_2019A_Fortieth_Supplemental_Trust_Agreement.pdf

http://libraryarchives.metro.net/DB_Attachments/2018-0597_Prop_A_2019A_Notice_Inviting_Bids.pdf

Authorizing Resolution

RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF ITS LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY PROPOSITION A FIRST TIER SENIOR SALES TAX REVENUE REFUNDING BONDS, APPROVING THE EXECUTION AND/OR DELIVERY OF A SUPPLEMENTAL TRUST AGREEMENT, AN ESCROW AGREEMENT, A CONTINUING DISCLOSURE CERTIFICATE, A NOTICE OF INTENTION TO SELL BONDS, A NOTICE INVITING BIDS AND PRELIMINARY AND FINAL OFFICIAL STATEMENTS, AND THE TAKING OF ALL OTHER ACTIONS NECESSARY IN CONNECTION THEREWITH.

(PROPOSITION A SALES TAX)

W I T N E S S E T H:

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transit system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission was authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval by the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 16 adopted August 20, 1980 ("Ordinance No. 16"), imposed a 1/2 of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition A Tax"), and such tax was approved by the electors of the County on November 4, 1980; and

WHEREAS, the revenues received by the LACMTA from the imposition of the transactions and use tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payment or provision for the payment of the principal of the bonds and any premium, interest on the bonds and the costs of issuance of the bonds; and

WHEREAS, the LACMTA, on an on-going basis, is planning and engineering a County-wide public transportation system (the "Public Transportation System") to serve the County and on an on-going basis is constructing portions of the Public Transportation System; and

WHEREAS, to facilitate the development and construction of the Public Transportation System, as authorized by the Act, pursuant to the terms of a Trust Agreement, dated as of July 1,

1986, as amended and supplemented (the “Trust Agreement”) between the Commission, as predecessor to the LACMTA, and First Interstate Bank of California, the predecessor trustee to The Bank of New York Mellon Trust Company, N.A. (the “Trustee”), the LACMTA has issued several series of bonds, including its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2009-A (the “Series 2009-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2012-A (the “Series 2012-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2013-A (the “Series 2013-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2014-A (the “Series 2014-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2015-A (the “Series 2015-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2016-A (the “Series 2016-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Bonds Series 2017-A (Green Bonds) (the “Series 2017-A Bonds”), its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2017-B (the “Series 2017-B Bonds”), and its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2018-A (the “Series 2018-A Bonds,” and collectively with the Series 2009-A Bonds, the Series 2012-A Bonds, the Series 2013-A Bonds, the Series 2014-A Bonds, the Series 2015-A Bonds, the Series 2016-A Bonds, the Series 2017-A Bonds and the Series 2017-B Bonds, the “Prior Senior Lien Bonds”); and

WHEREAS, the LACMTA now desires to provide for the issuance of one or more series of its Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, from time to time and in one or more transactions (collectively, the “Refunding Bonds”) to: (a) current refund all or a portion of the outstanding Series 2009-A Bonds (the Series 2009-A Bonds so refunded shall be collectively referred to herein as the “Refunded Series 2009-A Bonds”), provided that the refunding of the Refunded Series 2009-A Bonds is consistent with the Debt Policy of the LACMTA (the “Debt Policy”) as in effect at the time of pricing of the applicable series of Refunding Bonds; (b) fund or make provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds; and (c) pay certain costs of issuance related thereto (collectively, the “Financing”); and

WHEREAS, the LACMTA desires to sell the Refunding Bonds on a competitive basis in accordance with the Debt Policy; and

WHEREAS, forms of the following documents are on file with the Secretary of the Board of Directors of the LACMTA and have been made available to the members of the Board of Directors of the LACMTA (the “Board”):

(a) a Supplemental Trust Agreement (the “Supplemental Trust Agreement”), by and between the LACMTA and the Trustee, which will supplement the Trust Agreement for the purposes of providing the terms and conditions of the Refunding Bonds;

(b) an Escrow Agreement (the “Escrow Agreement”), among the LACMTA, the Trustee and The Bank of New York Mellon Trust Company, N.A., as escrow agent, which will be executed and delivered in connection with the refunding and defeasance of the Refunded Series 2009-A Bonds;

(c) a Preliminary Official Statement (the “Preliminary Official Statement”), which will provide information about the Refunding Bonds, the LACMTA, the Proposition A Tax and certain other related matters, and will be used, from time to time, in connection with the offer and sale of the Refunding Bonds;

(d) a Notice of Intention to Sell Bonds (the “Notice of Intention to Sell Bonds”), which will be published in connection with any proposed sale of the Refunding Bonds;

(e) a Notice Inviting Bids (the “Notice Inviting Bids”), which will set forth the terms and the manner in which proposals from qualified bidders for the purchase of the Refunding Bonds shall be received; and

(f) a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”), which will be executed by the LACMTA and will be used in order to assist the underwriters of the Refunding Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), and which will provide for the annual and periodic update of certain financial and operating information with respect to the LACMTA and the collection of the Proposition A Tax, among other things, and certain enumerated events; and

WHEREAS, the LACMTA has been advised by its Bond Counsel that such documents are in appropriate form, and the LACMTA hereby acknowledges that said documents will be modified and amended to reflect the various details applicable to the Refunding Bonds, whether the Refunding Bonds are issued in a single issuance or multiple issuances, and that said documents are subject to completion to reflect the results of the sale of the Refunding Bonds; and

WHEREAS, the LACMTA has pledged the Proposition A Tax, less the 25% allocated to local jurisdictions and less the State Board of Equalization’s costs of administering the Proposition A Tax (as further defined in the Trust Agreement, the “Pledged Revenues”) pursuant to the terms of the Trust Agreement to secure the Prior Senior Lien Bonds and certain other obligations of the LACMTA, and once issued, the Refunding Bonds will be “Bonds” as defined in the Trust Agreement and will be secured by the pledge of the Pledged Revenues under the Trust Agreement; and

WHEREAS, the LACMTA desires to designate the Chief Executive Officer of the LACMTA, the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA (or such other titles as the LACMTA may from time to time assign for such respective positions), and any such officer serving in an acting or interim capacity, and any written designee of any of them as an “Authorized Commission Representative” and an “Authorized Authority Representative” for all purposes under the Trust Agreement and the Supplemental Trust Agreement; and

WHEREAS, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the governing body of a public body obtain from an underwriter, financial advisor or private lender and disclose, prior to authorizing the issuance of

bonds with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the bonds, (b) the sum of all fees and charges paid to third parties with respect to the bonds, (c) the amount of proceeds of the bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the bonds, and (d) the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees and charges paid to third parties not paid with the proceeds of the bonds; and

WHEREAS, the LACMTA is duly authorized and empowered, pursuant to each and every requirement of law, to authorize the Financing and to authorize the execution and/or delivery of a Supplemental Trust Agreement, an Escrow Agreement, a Notice of Intention to Sell Bonds, a Notice Inviting Bids and a Continuing Disclosure Certificate, the preparation of one or more Preliminary Official Statements and the preparation, execution and delivery of one or more Official Statements (as hereinafter defined) for the purposes, in the manner and upon the terms provided; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

Section 1. Findings. The LACMTA hereby finds and determines that:

(a) The issuance of one or more series of its Refunding Bonds under the Trust Agreement to current refund all or a portion of the Series 2009-A Bonds (provided that the refunding of the Refunded Series 2009-A Bonds is consistent with the Debt Policy as in effect at the time of pricing of the applicable series of Refunding Bonds), to fund or make provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds, and to pay certain costs related to the issuance of the Refunding Bonds, is in the public interest.

(b) Under the provisions of Ordinance No. 16, all of the Pledged Taxes are revenues of the LACMTA available for rail, bus and highway transit purposes and are available to be and are, by the terms of the resolutions and the Trust Agreement under which the Prior Senior Lien Bonds were issued, pledged, along with the Pledged Revenues, to secure the Prior Senior Lien Bonds and are pledged to secure the Refunding Bonds, and, by this Resolution, such pledge is reaffirmed.

(c) The provisions contained in the Trust Agreement, as previously amended and supplemented, and to be set forth in the Supplemental Trust Agreement, are reasonable and proper for the security of the holders of the Refunding Bonds.

Section 2. Issuance of Refunding Bonds. The Board hereby authorizes the issuance by the LACMTA of one or more series of Refunding Bonds, from time to time and in one or more transactions, for the purposes of (a) current refunding all or a portion of the Series 2009-A Bonds (provided that the refunding of the Refunded Series 2009-A Bonds is consistent with the Debt

Policy as in effect at the time of pricing of the Refunding Bonds as determined and calculated at the discretion of the Treasurer of the LACMTA, which shall be conclusive for all purposes of this Resolution), (b) funding or making provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds, and (c) paying certain costs of issuance related to the issuance of the Refunding Bonds. The aggregate principal amount of the Refunding Bonds issued by the LACMTA shall not exceed an amount sufficient (taking into account any original issue discount) to refund all or a portion of the Series 2009-A Bonds, fund or make provision for one or more reserve funds or accounts, if necessary, for the Refunding Bonds, and pay certain costs related to the issuance of the Refunding Bonds (including, but not limited to, underwriters' discount), and in any event the aggregate principal amount of all Refunding Bonds shall not exceed \$80 million. The True Interest Cost of the Refunding Bonds shall not exceed 5.00%, as such shall be calculated by LACMTA's municipal advisor as of the date of delivery of each series of the Refunding Bonds. The Refunding Bonds shall not mature later than the final maturity date of the Refunded Series 2009-A Bonds that are being refunded with proceeds of the Refunding Bonds.

The Refunding Bonds shall be issued in a manner by which the interest thereon is excludable from gross income under the Internal Revenue Code of 1986, as amended. The Chief Executive Officer of the LACMTA, the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA (or such other titles as the LACMTA may from time to time assign for such respective positions), and any such officer serving in an acting or interim capacity, and any written designee of any of them (each, a "Designated Officer"), acting in accordance with this Section 2, are each hereby severally authorized to determine the actual aggregate principal amount of the Refunding Bonds to be issued (not in excess of the maximum amount set forth above), and to direct the execution and authentication of the Refunding Bonds in such amount. Such direction shall be conclusive as to the principal amounts hereby authorized. The Refunding Bonds shall be in fully registered form and shall be issued as Book-Entry Bonds as provided in the Supplemental Trust Agreement. Payment of the principal of, interest on and premium, if any, on the Refunding Bonds shall be made at the place or places and in the manner provided in the Supplemental Trust Agreement.

As used herein, the term "True Interest Cost" shall be the interest rate (compounded semiannually) necessary to discount the debt service payments from their respective payment dates to the dated date of the Refunding Bonds and to the principal amount, and premium or discount if any, of the Refunding Bonds. For the purpose of calculating the True Interest Cost, the principal amount of the Refunding Bonds scheduled for mandatory sinking fund redemption as part of a term bond shall be treated as a serial maturity for such year. The calculation of the True Interest Cost shall include such other reasonable assumptions and methods as determined by the LACMTA's municipal advisor.

Section 3. Terms of the Refunding Bonds. The Refunding Bonds shall be issued as current interest bonds and shall be available in denominations of \$5,000 and integral multiples thereof. The Refunding Bonds, when issued, shall be in the aggregate principal amounts and shall be dated as shall be provided in the final form of the Supplemental Trust Agreement. The Refunding Bonds may be issued as serial bonds or as term bonds or as both serial bonds and term bonds, all as set forth in the Supplemental Trust Agreement. Interest on the Refunding Bonds

shall be paid at the rates and on the dates set forth in the Supplemental Trust Agreement. No Refunding Bond shall bear interest at a rate in excess of 6.00% per annum. The Refunding Bonds shall be subject to redemption at the option of the LACMTA on such terms and conditions as shall be set forth in the Supplemental Trust Agreement, or not be subject to redemption. The Refunding Bonds issued as term bonds also shall be subject to mandatory sinking fund redemption as shall be set forth in the Supplemental Trust Agreement(s).

Execution and delivery of the Supplemental Trust Agreement, which document will contain the maturities, principal amounts, interest rates and the fixed interest payment obligations of the LACMTA within parameters set forth in this Resolution, shall constitute conclusive evidence of the LACMTA's approval of such maturities, principal amounts, interest rates and payment obligations.

Section 4. Special Obligations. The Refunding Bonds shall be special obligations of the LACMTA secured by and payable from the Pledged Revenues and from the funds and accounts held by the Trustee under the Trust Agreement. The Refunding Bonds shall also be secured by and be paid from such other sources as the LACMTA may hereafter provide

Section 5. Form of Refunding Bonds. The Refunding Bonds and the Trustee's Certificate of Authentication to appear thereon shall be in substantially the form set forth in Exhibit A to the Supplemental Trust Agreement on file with the Secretary of the Board and made available to the Board, with such necessary or appropriate variations, omissions and insertions as permitted or required by the Trust Agreement or the Supplemental Trust Agreement or as appropriate to adequately reflect the terms of such Refunding Bonds and the obligations represented thereby.

Section 6. Execution of Refunding Bonds. Each of the Refunding Bonds shall be executed on behalf of the LACMTA by any Designated Officer and any such execution may be by manual or facsimile signature, and each bond shall be authenticated by the endorsement of the Trustee or an agent of the Trustee. Any facsimile signature of such Designated Officer shall have the same force and effect as if such officer had manually signed each of such Refunding Bonds.

Section 7. Approval of Documents, Authorization for Execution. The form, terms and provisions of the Supplemental Trust Agreement, the Escrow Agreement, the Notice of Intention to Sell Bonds, the Notice Inviting Bids and the Continuing Disclosure Certificate on file with the Secretary of the Board and made available to the Board within the parameters set forth in this Resolution are in all respects approved, and each of the Designated Officers is hereby severally authorized, empowered and directed to execute, acknowledge and deliver in the name of and on behalf of the LACMTA one or more Supplemental Trust Agreements, one or more Escrow Agreements, one or more Notices of Intention to Sell Bonds, one or more Notices Inviting Bids and one or more Continuing Disclosure Certificates, including counterparts thereof. The Supplemental Trust Agreement(s), the Escrow Agreement(s), the Notice(s) of Intention to Sell Bonds, the Notice(s) Inviting Bids and the Continuing Disclosure Certificate(s), as executed and delivered, shall be in substantially the forms now on file with the Secretary of the Board and made available to the Board and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute

conclusive evidence of the Board's approval of any and all changes or revisions therein from the form of the Supplemental Trust Agreement, the Escrow Agreement, the Notice of Intention to Sell Bonds, the Notice Inviting Bids and the Continuing Disclosure Certificate now on file with the Secretary of the Board and made available to the Board; and from and after the execution and delivery of each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate.

Section 8. Sale of Refunding Bonds.

(a) Each Designated Officer is hereby authorized, from time to time, to choose such times and dates as such Designated Officer shall, in his or her discretion, deem to be necessary or desirable to provide for the sale of the Refunding Bonds, to receive proposals from qualified bidders for the purchase of the Refunding Bonds (through the receipt of bids through the use of computerized bidding systems) upon the terms and in the manner set forth in each Notice Inviting Bids.

(b) Each Designated Officer is hereby authorized and directed to execute one or more Notices Inviting Bids, from time to time, in such form as the Designated Officer executing the same shall approve, and call for bids for the sale of the Refunding Bonds from qualified bidders in accordance with each such Notice Inviting Bids.

(c) Each Designated Officer is hereby authorized and directed to cause each Notice of Intention to Sell Bonds to be published from time to time (after completion, modification or correction thereof reflecting the terms of each series of the Refunding Bonds, as approved by said Designated Officer, such approval to be conclusively evidenced by such publication) in *The Bond Buyer* (or such other publication as may be selected by Bond Counsel and/or a Designated Officer), a financial publication generally circulated throughout the State of California or reasonably expected to be disseminated among prospective bidders for the Refunding Bonds, at least five days prior to the sale of each series of the Refunding Bonds in accordance with Section 53692 of the Government Code of the State of California and any such action previously taken is hereby confirmed, ratified and approved.

(d) Each Designated Officer is authorized and directed to cause each Notice Inviting Bids to be published, if determined by Bond Counsel and/or a Designated Officer to be necessary or desirable (after completion, modification or correction thereof reflecting the terms of each series of the Refunding Bonds, as approved by said Designated Officer, such approval to be conclusively evidenced by such publication) in such publication(s) as selected by a Designated Officer and Bond Counsel and any such action previously taken is hereby confirmed, ratified and approved.

(e) Each Designated Officer is authorized and directed to distribute each Notice Inviting Bids (including via electronic methods) to such municipal broker-dealers, banking and financial institutions and other persons as such Designated Officer deems necessary or desirable, and any such action previously taken is hereby confirmed, ratified and approved.

(f) Each Designated Officer is hereby authorized and directed for and on behalf of the LACMTA to accept the best bid for the Refunding Bonds received from qualified bidders pursuant to and subject to the terms and conditions set forth in this Resolution and the Notice(s) Inviting Bids herein approved and to award the Refunding Bonds, from time to time, to such best bidder(s).

(g) Each Designated Officer is hereby authorized and directed to take any other action such Designated Officer determines is necessary or desirable to cause any such competitive sale to comply with the LACMTA's Debt Policy and applicable law.

Section 9. Preliminary Official Statement and Official Statement. One or more Preliminary Official Statements shall be used by the LACMTA in connection with the sale and issuance of the Refunding Bonds. The form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board is hereby approved. The Preliminary Official Statement shall be substantially in the form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board with such changes as a Designated Officer approves (such approval to be conclusively evidenced by the execution and delivery of the certificate referenced in the following sentence). The Preliminary Official Statement shall be circulated for use in selling the Refunding Bonds at such time or times as a Designated Officer shall deem such Preliminary Official Statement to be final within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, said determination to be conclusively evidenced by a certificate signed by said Designated Officer to said effect. The Preliminary Official Statement shall contain a description of the finances and operations of the LACMTA, a description of the Proposition A Tax and a description of historical receipts of sales tax revenues substantially in the form of the Preliminary Official Statement on file with the Secretary of the Board and made available to the Board with such changes as any Designated Officer determines are appropriate or necessary. The Preliminary Official Statement shall also contain a description of the Refunding Bonds and the terms and conditions of the Trust Agreement and the Supplemental Trust Agreement together with such information and description as a Designated Officer determines is appropriate or necessary.

Upon the sale of the Refunding Bonds, one or more of the Designated Officers shall provide for the preparation, publication, execution and delivery of one or more final Official Statements in substantially the form of the Preliminary Official Statement deemed final by a Designated Officer with such changes as any Designated Officer approves, such approval to be conclusively evidenced by the execution of such final Official Statement. Any Designated Officer is hereby authorized and directed to execute and deliver one or more final Official Statements in the name and on behalf of the LACMTA. One or more supplements to the final Official Statement(s) or revised final Official Statement(s) may be prepared and delivered reflecting updated and revised information as any Designated Officers deems appropriate or

necessary. Each final Official Statement shall be circulated (via written format and/or through electronic means) for use in selling the Refunding Bonds at such time or times as a Designated Officer deems appropriate after consultation with the LACMTA's Municipal Advisor, LACMTA's Disclosure Counsel and LACMTA's Bond Counsel and such other advisors as a Designated Officer believes to be useful.

Section 10. Trustee, Paying Agent and Registrar. The Bank of New York Mellon Trust Company, N.A. is hereby appointed as Trustee, Paying Agent and Registrar for the Refunding Bonds. Such appointments shall be effective upon the issuance of the Refunding Bonds and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 11. Escrow Agent. The Bank of New York Mellon Trust Company, N.A. is hereby appointed as Escrow Agent under the Escrow Agreement. Such appointment shall be effective upon the issuance of the Refunding Bonds and shall remain in effect until the LACMTA, by supplemental agreement, resolution or other action, shall name a substitute or successor thereto.

Section 12. Authorized Commission Representative/Authority Representative. The Board hereby designates each of the Chief Executive Officer of the LACMTA, the Chief Financial Officer of the LACMTA, the Treasurer of the LACMTA, any Deputy Executive Officer, Finance of the LACMTA, any Assistant Treasurer of the LACMTA, and any such officer serving in an acting or interim capacity, as an "Authorized Commission Representative" and an "Authorized Authority Representative" for all purposes under the Trust Agreement, the Supplemental Trust Agreement, and any amendments or supplements to the Trust Agreement or the Supplemental Trust Agreement. Such appointment shall remain in effect until modified by resolution. The prior designation of Authorized Commission Representatives and Authorized Authority Representatives under the Trust Agreement and any amendments or supplements thereto shall continue.

Section 13. Additional Authorization. The Designated Officers, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the issuance of the Refunding Bonds, and the execution and delivery of each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate, and to carry out the terms thereof. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments and take all other actions that may be required in order to carry out the authority conferred by this Resolution or the provisions of the Trust Agreement, each Supplemental Trust Agreement, each Escrow Agreement, each Notice of Intention to Sell Bonds, each Notice Inviting Bids and each Continuing Disclosure Certificate or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the direction (from time to time) by a Designated Officer of the investment of the proceeds of the Refunding Bonds and of the Pledged Revenues including the execution and delivery of investment agreements or purchase agreements related thereto, the execution by a Designated Officer and the delivery of one or more tax certificates as required by each Supplemental Trust Agreement for the purpose of complying with the rebate and arbitrage

requirements and restrictions of the Internal Revenue Code of 1986, as amended; and the execution and delivery of documents required by The Depository Trust Company in connection with the Book-Entry Bonds. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

Any Designated Officer, on behalf of the LACMTA, is further authorized and directed to cause written notice(s) to be provided to the California Debt and Investment Advisory Commission (“CDIAC”) of the proposed sale of the Refunding Bonds, said notice(s) to be provided in accordance with Section 8855 et seq. of the California Government Code, to file the notice(s) of final sale with CDIAC, to file the rebates and notices required under section 148(f) and 149(e) of the Internal Revenue Code of 1986, as amended, if necessary, and to file such additional notices and reports as are deemed necessary or desirable by such Designated Officer in connection with the Refunding Bonds, and any such notices are hereby ratified, confirmed and approved.

Section 14. Continuing Authority of Designated Officers. The authority of any individual serving as a Designated Officer under this Resolution by a written designation signed by the Chief Executive Officer, the Chief Financial Officer, the Treasurer, any Deputy Executive Officer, Finance, or any Assistant Treasurer (or such other titles as the LACMTA may from time to time assign for such respective positions), shall remain valid notwithstanding the fact that the individual officer of the LACMTA signing such designation ceases to be an officer of the LACMTA, unless such designation specifically provides otherwise.

Section 15. Investments. From and after the delivery of the Refunding Bonds, each Designated Officer is hereby authorized to invest the proceeds of the Refunding Bonds in accordance with the Trust Agreement, the Supplemental Trust Agreement, the Escrow Agreement and the LACMTA’s Investment Policy and is further authorized to enter into or to instruct the Trustee to enter into one or more investment agreements, float contracts, swaps or other hedging products (hereinafter collectively referred to as the “Investment Agreement”) providing for the investment of moneys in any of the funds and accounts created under the Trust Agreement, the Supplemental Trust Agreement and the Escrow Agreement, on such terms as the Designated Officer shall deem appropriate. Pursuant to Section 5922 of the California Government Code, the LACMTA hereby finds and determines that the Investment Agreement will reduce the amount and duration of interest rate risk with respect to amounts invested pursuant to the Investment Agreement and is designed to reduce the amount or duration of payment, rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the Refunding Bonds or enhance the relationship between risk and return with respect to investments.

Section 16. Good Faith Estimates. In accordance with SB 450, good faith estimates of the following are set forth in Exhibit A attached hereto: (a) the true interest cost of the Refunding Bonds, (b) the sum of all fees and charges paid to third parties with respect to the Refunding Bonds, (c) the amount of proceeds of the Refunding Bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Refunding Bonds, and (d) the sum total of all debt service payments on the Refunding Bonds calculated to the final maturity of the Refunding Bonds plus the fees and charges paid to third parties not paid with the proceeds of the Refunding Bonds

Section 17. Further Actions. From and after the delivery of the Refunding Bonds, the Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify each Supplemental Trust Agreement, each Escrow Agreement and each Continuing Disclosure Certificate at any time and from time to time and in any manner determined to be necessary or desirable by the Designated Officer executing such amendment, supplement, or modification, upon consultation with the LACMTA's municipal advisor and LACMTA's Bond Counsel, the execution of such amendment, supplement or other modification being conclusive evidence of the LACMTA's approval thereof.

Section 18. Costs of Issuance. The LACMTA authorizes funds of the LACMTA, together with the proceeds of the Refunding Bonds, to be used to pay costs of issuance of the Refunding Bonds, including, but not limited to, costs of attorneys, accountants, verification agents, municipal advisors, trustees, escrow agents, the costs associated with rating agencies, printing, publication and mailing expenses and any related filing fees.

Section 19. Severability. The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof.

Section 20. Effective Date. This Resolution shall be effective upon adoption and shall be effective with respect to the Refunding Bonds issued on or before December 31, 2019.

[Remainder of page intentionally left blank]

CERTIFICATION

The undersigned, duly qualified and acting as Board Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____, 2019.

[SEAL]

By _____
Board Secretary, Los Angeles County
Metropolitan Transportation Authority

Dated: _____, 2019

EXHIBIT A

GOOD FAITH ESTIMATES

The following information was obtained from KNN Public Finance, LLC (the “Municipal Advisor”) with respect to the bonds (the “Refunding Bonds”) approved in the attached Resolution, and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the Refunding Bonds:

Section 1. True Interest Cost of the Refunding Bonds. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the Refunding Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Refunding Bonds, is 2.00%.

Section 2. Finance Charge of the Refunding Bonds. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the finance charge of the Refunding Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Refunding Bonds), is \$615,000, as follows:

(a)	Underwriters’ Discount	\$300,000
(b)	Bond Counsel and Disbursements	50,000
(c)	Disclosure Counsel and Disbursements	50,000
(d)	Municipal Advisor and Disbursements	55,000
(e)	Rating Agencies	130,000
(f)	Other	<u>30,000</u>
	Total	<u>\$615,000</u>

Section 3. Amount of Proceeds to be Received. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the amount of proceeds expected to be received by the LACMTA for sale of the Refunding Bonds less the finance charge of the Refunding Bonds described in Section 2 above and any reserves or capitalized interest paid or funded with proceeds of the Refunding Bonds, is \$66,500,000.

Section 4. Total Payment Amount. Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the LACMTA will make to pay debt service on the Refunding Bonds plus the finance charge of the Refunding Bonds described in Section 2 above not paid with the proceeds of the Refunding Bonds, calculated to the final maturity of the Refunding Bonds, is \$72,000,000.

Attention is directed to the fact that the foregoing information constitutes good faith estimates only. The actual interest cost, finance charges, amount of proceeds and total payment

amount may vary from the estimates above due to variations from these estimates in the timing of Refunding Bonds sale, the amount of Refunding Bonds sold, the amortization of the Refunding Bonds sold and market interest rates at the time of each sale. The date of sale and the amount of Refunding Bonds sold will be determined by the LACMTA based on need to provided funds for the Financing and other factors. The actual interest rates at which the Refunding Bonds will be sold will depend on the bond market at the time of each sale. The actual amortization of the Refunding Bonds will also depend, in part, on market interest rates at the time of sale. Market interest rates are affected by economic and other factors beyond the LACMTA's control. The LACMTA has approved the issuance of the Refunding Bonds with a maximum true interest cost of 5.00%.



Board Report

File #: 2018-0607, File Type: Policy

Agenda Number: 13.

FINANCE, BUDGET AND AUDIT COMMITTEE FEBRUARY 20, 2019

SUBJECT: INVESTMENT POLICY

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

- A. ADOPTING the Investment Policy in Attachment B;
- B. APPROVING the Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials, Attachment C; and
- C. APPROVING the Local Agency Investment Fund (LAIF) Resolution authorizing LAIF to honor LACMTA Authorized Signatures, Attachment D; and
- D. DELEGATING to the Treasurer or her designees, the authority to invest funds for a one year period, pursuant to California Government Code ("Code") Section 53607.

ISSUE

Section 53646 of the Code, requires that the Board, on an annual basis and at a public meeting, review and approve the Investment Policy. Section 53607 of the Code, requires that the Board delegate investment authority to the Treasurer on an annual basis.

Section 10.8 of the Investment Policy requires that the Treasurer submit the Financial Institutions Resolutions to the Board annually for approval. The Local Agency Investment Fund (LAIF) Resolution also requires updating due to staff title changes.

BACKGROUND

Metro's investment policy allows for temporary idle funds to be invested consistent with Board approved investment policy guidelines. The policy is updated on an annual basis and was last updated March 1, 2018.

DISCUSSION

The Board approves the objectives and guidelines that direct the investment of operating funds. Subsequent to the last approval in March 2018, our investment policy underwent two peer reviews. The first was performed by the Association of Public Treasurers of the United States & Canada (APTUSC). As a result they presented LACMTA with their Investment Policy Certificate of Excellence Award. The second was a peer review performed by the California Municipal Treasurer's Association (CMTA). CMTA determined that our Investment Policy adheres to California Government Code and meets the program's best practices requirement in 18 different investment policy topic areas. The CMTA reviewers made recommendations to further clarify our policy that are incorporated here. Additional changes to the Investment Policy have been made to incorporate changes to the California Government Code. A Summary of Investment Policy Changes is presented as Attachment A and the redline version of the investment policy is presented in Attachment B.

Financial Institutions require Board authorization to establish custody, trustee and commercial bank accounts. The changes to the Financial Institutions resolution and the LAIF resolution reflect position title changes of key personnel. A redlined version of the Financial Institutions resolution is presented as Attachment C and the LAIF resolution is presented as Attachment D.

To streamline this board report, the following reference materials may be found on the Internet:

Current Investment Policy:

[<http://media.metro.net/about_us/finance/images/investment_policy.pdf>](http://media.metro.net/about_us/finance/images/investment_policy.pdf)

California Government Code: Section 53600 to 53609, Section 53646, Section 53652, Section 16429.1 to 16429.4:

[http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=2.&title=5.&part=1.&chapter=4.&article=1.](http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=2.&title=5.&part=1.&chapter=4.&article=1)

FINANCIAL IMPACT

The funds required to update the Investment Policy are included in the FY19 budget in cost center 5210 and project number 610340.

Impact to Budget

The sources of funds budgeted to manage assets in accordance with the Investment Policy are Proposition A, Proposition C, Measure R, Measure M and TDA administration funds. These funds are not eligible for bus and rail operating and capital expenses.

ALTERNATIVES CONSIDERED

The Investment Policy and California Government Code require an annual review and adoption of the Investment Policy, delegation of investment authority, and approval of Attachment B - Financial Institutions Resolution. In order for LAIF to process our transactions, the resolution must reflect current staff titles. Should the Board elect not to delegate the investment authority annually or

approve the resolutions, the Board would assume daily responsibility for the investment of working capital funds and for the approval of routine administrative actions.

NEXT STEPS

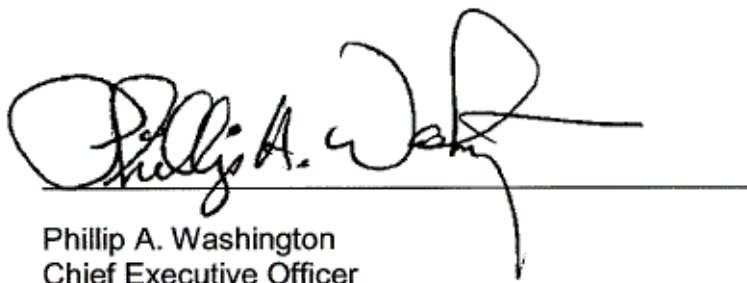
Upon Board approval, distribute the Investment Policy to external investment managers and broker-dealers. Issue copies of the Investment Policy and the Financial Institutions Resolution to our financial institutions and the LAIF Resolution to the State of California Local Agency Investment Fund.

ATTACHMENTS

Attachment A - Summary of Investment Policy Changes
Attachment B - Investment Policy (redlined)
Attachment C - Financial Institutions Resolution (redlined)
Attachment D - LAIF Financial Institutions Resolution

Prepared by: Marshall M. Liu, Sr. Investment Manager, (213) 922-4285
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Donna R. Mills, Treasurer, (213) 922-4047

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922 3088



Phillip A. Washington
Chief Executive Officer

Attachment A - Summary of Investment Policy Changes

Section Change	Current	Revised	Rationale
Page 3 – Section 2.1	This investment policy sets forth the guidelines for the investment of surplus General, Special ... and Benefit Assessment District) and Pension Trust Funds.	This investment policy sets forth the guidelines for the investment of surplus General, Special ... and Benefit Assessment District), <i>Other Post Employment Benefit (OPEB) Trust funds</i> and Pension Trust Funds.	To explicitly exempt the Other Post Employment Benefit (OPEB) trust funds from this Investment Policy. Recommended by CMTA reviewer
Page 4 – Section 3.3	Investments shall be made with the judgement ... risk of substantial loss.	When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing ...	Conforming language to expanded definition in CA Govt code.
Page 4 – Section 5.1	All funds which are not required for immediate cash expenditures shall be invested in income ... as defined in Section 5.1A and as specifically authorized by the Code, (Sections 53600, et seq.).	All funds which are not required for immediate cash expenditures shall be invested in income ... as defined in Section 5.1A and as specifically authorized by the Code, (Sections 53600, et seq.). <i>Securities held by the LACMTA must be in compliance with Section 5.0 Permitted Investments at the time of purchase.</i>	To clarify the investment policy per recommendation of CMTA reviewer
Page 11 – Benchmarks	Bank of America/Merrill Lynch AAA-A 1-5 year Government & Corporate Index (BV10)	<i>ICE</i> Bank of America/Merrill Lynch AAA-A 1-5 year Government & Corporate Index (BV10)	Change reflects name change of index to Inter Continental Exchange
Page 15 – Footnote k	... Further limited to securities rated in a rating category of "AAA", and issued by an issuer having an "A" or higher rating for the issuer's debt as provided for by a nationally recognized statistical rating organization.	... Further limited to securities rated in a rating category of " <i>AA</i> " or its equivalent or better as provided for by a nationally recognized statistical rating organization.	Incorporating change to CA Govt Code that removed issuer rating and relaxed debt rating
Page 15 – Footnote l	... CMOS: Limited to Government Agency or Government Sponsored Issuers "AAA" rated by a nationally recognized statistical rating organization. CMOS: Limited to Government Agency or Government Sponsored Issuers <i>and Planned Amortization Classes (PAC) only. Securities eligible for investment under this category shall be rated "AA" or its equivalent or better by a nationally recognized statistical rating organization. ...</i>	Incorporating change to CA Govt Code that removed issuer rating and relaxed debt rating
Page 20 – Glossary	FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES): U.S. Government related organizations, the largest of which are governmental financial intermediaries ... ◆ Student Loan Marketing Association (SLMA or "Sallie Mae")	FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES): U.S. Government related organizations, the largest of which are government financial intermediaries ◆ Student Loan Marketing Association (SLMA or "Sallie Mae")	Removed Student Loan Marketing Association (SLMA or "Sallie Mae") as it is no longer a Federal Agency

Los Angeles County Metropolitan Transportation Authority

INVESTMENT POLICY

Approved on ~~March 1~~~~January 2~~February 28⁴, 2018⁹

INVESTMENT POLICY

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1.0 Policy

It is the policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings, and conforming to state and local statutes governing the investment of public funds.

This investment policy conforms to the California Government Code ("Code") as well as to customary standards of prudent investment management. Investments may only be made as authorized by the Code, Section 53600 et seq., Sections 16429.1 through 16429.4 and this investment policy. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this investment policy. Changes to the Code that are less restrictive than this investment policy may be adopted by the Board of Directors (Board).

2.0 Scope

- 2.1 This investment policy sets forth the guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, and any new fund created by the Board, unless specifically exempted. Excluded from this investment policy are guidelines for the investment of proceeds related to debt financing, defeased lease transactions, Agency (Deferred Compensation, 401K, and Benefit Assessment District), [Other Post Employment Benefit \(OPEB\) Trust funds](#), [LMI](#) and Pension Trust Funds.
- 2.2 Internal and external portfolio managers may be governed by Portfolio Guidelines that may on an individual basis differ from the total fund guidelines outlined herein. The Treasurer is responsible for monitoring and ensuring that the total funds subject to this investment policy remain in compliance with this investment policy, and shall report to the Board regularly on compliance.

3.0 Investment Objectives

- 3.1 The primary objectives, in priority order, of investment activities shall be:
 - A. Safety: Safety of principal is the foremost objective of the investment program. The investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The LACMTA shall seek to ensure that capital losses are avoided whether from institutional default, broker-dealer default, or erosion of market value. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - B. Liquidity: The investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
 - C. Return on Investments: The LACMTA shall manage its funds to maximize the return on investments consistent with the two objectives above, with the goal of exceeding the performance benchmarks (Section 12.0) over a market cycle (typically a three to five year period).
- 3.2 It is policy to hold investments to maturity. However, a security may be sold prior to its maturity and a capital gain or loss recorded if liquidity needs arise, or in order to improve the quality, or rate of return of the portfolio in response to market conditions and/or LACMTA risk preferences.

Internal and external investment managers shall report such losses to the Treasurer and Chief Financial Officer immediately.

- 3.3 ~~Investments shall be made with the judgment, skill, and diligence of a prudent investor acting in like capacity under circumstances then prevailing, for the sole benefit of the LACMTA, and shall take into account the benefits of diversification in order to protect the investment from the risk of substantial loss. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing LACMTA funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.~~

[LM2]

- 3.4 The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy, written portfolio guidelines and procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the quarterly investment report to the Board, and appropriate action is taken to control adverse developments.

4.0 Delegation of Authority

- 4.1 The Board shall be the trustee of funds received by the LACMTA. In accordance with Code Section 53607, the Board hereby delegates the authority to invest or reinvest the funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the Treasurer for a one year period, who thereafter assumes full responsibility for such transactions and shall make a monthly report of those transactions to the Board. Subject to review by the Board, the Board may renew the delegation of authority each year.
- 4.2 The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Treasurer may engage independent investment managers to assist in the investment of its financial assets.
- 4.3 No person may engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the Treasurer.
- 4.4 Officers and employees involved in the investment process shall be governed by the standards regarding ethical behavior and conflicts of interest established in the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the Ethics Office.

5.0 Permitted Investments

- 5.1 All funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as defined in Section 5.1A and as specifically authorized by the Code, (Sections 53600, et seq.). Securities held by the LACMTA's custodial bank must be in compliance with Section 5.0 Permitted Investments at the time of purchase.[LM3]

- 5.2 In order to reduce overall portfolio risk, investments shall be diversified among security type, maturity, issuer and depository institutions. See Section 5.1A for specific concentration limits by type of investment.
- A. Percentage limitations where listed are only applicable at the date of purchase.
 - B. In calculating per issuer concentration limits commercial paper, bankers' acceptances, medium term notes, asset-backed securities, placement service assisted deposits, and negotiable certificates of deposit shall be included; deposits collateralized per Section 7.3 of this investment policy are excluded from this calculation.
 - C. Credit requirements listed in this investment policy indicate the minimum credit rating (or its equivalent by any nationally recognized statistical rating organization) required at the time of purchase without regard to modifiers (e.g., +/- or 1,2,3), if any.
- 5.3 Maturities of individual investments shall be diversified to meet the following objectives:
- A. Investment maturities will be first and foremost determined by anticipated cash flow requirements.
 - B. Where this investment policy does not state a maximum maturity in Section 5.1A, no investment instrument shall be purchased which has a stated maturity of more than five years from the date of purchase, unless the instrument is specifically approved by the Board or is approved by the Board as part of an investment program and such approval must be granted no less than three months prior to the investment. The Board hereby grants express authority for the purchase of new issue securities with a 5 year stated maturity with extended settlement of up to 30 days from date of purchase.
 - C. The average duration of the externally managed funds subject to this investment policy shall not exceed 150% of the benchmark duration. The weighted average duration of the internal portfolios shall not exceed three (3) years.
- 5.4 State and local government sponsored Investment Pools and money market mutual funds as authorized by this investment policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1A, #11 and #12.
- 5.5 This investment policy specifically prohibits the investment of any funds subject to this investment policy in the following securities:
- A. Derivative securities, defined as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or puttable securities with no other option features, securities with one interest rate step-up feature, and inflation indexed securities meeting all other requirements of this investment policy are excluded from this prohibition, as are fixed rate mortgage-backed securities and asset-backed securities.

B. ~~B.~~ Reverse repurchase agreements and securities lending agreements.

6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers

- 6.1 To minimize the risk to the overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of Financial Institutions in which funds are deposited or invested. The LACMTA's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.
- A. In selecting Depositories pursuant to Code Sections 53630 (et seq.), the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency. The main depository institutions will be selected on a periodic and timely basis.
 - B. Deposits which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the collateralization requirements of Section 7.3 of this investment policy, at the Treasurer's discretion. A written waiver of securitization shall be executed, provided to the Depository Institution, and kept on file in the Treasury Department.
 - C. The Treasurer shall seek opportunities to deposit funds with disadvantaged business enterprises, provided that those institutions have met the requirements for safety and reliability and provide terms that are competitive with other institutions.
- 6.2 In selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost within the parameters of this investment policy and the Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.
- 6.3 Pursuant to Code Section 53601.5, the LACMTA and its investment managers shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.
- A. Internal investment manager will only purchase or sell securities from broker-dealers that are Primary Dealers in U.S. Government Securities or are a direct affiliate of a Primary Dealer. Internal investment manager will only purchase securities from broker-dealers who have returned a signed Receipt of Investment Policy and completed the Broker-Dealer Questionnaire, and have been approved by the Treasurer (see Appendices B and C). A current copy of the Broker-Dealer's financial statements will be kept on file in the Treasury Department. Should market conditions limit access to inventory, the Treasurer may approve executing transactions through non-Primary Dealers who meet all of the criteria listed below:
 - a. The broker dealer must qualify under Securities Exchange Commission rule 15C3-1 (Uniform Net Capital Rule);

- b. Must be licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations Code or a member of a federally registered securities exchange (i.e. FINRA, SEC, MSRB);
- c. Have been in operation for more than five years; and
- d. Have a minimum annual trading volume of \$100 billion in money market instruments or \$500 billion in U.S. Treasuries and Agencies.

B. In addition to Primary Dealers in U.S. Government Securities and direct affiliates of a Primary Dealer, external investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a member of the Financial Industry Regulatory Authority. External investment managers shall submit, at least quarterly, a list of the non-Primary Dealers used during the period.

C. External investment managers must certify in writing that they will purchase securities in compliance with this investment policy, LACMTA Procedures, and applicable State and Federal laws.

6.4 Financial institutions and external investment managers conducting investment transactions with or for LACMTA shall sign a Certification of Understanding. The Certification of Understanding (see Appendix A) states that the entity:

- A. Has read and is familiar with the Investment Policy and Guidelines as well as applicable Federal and State Law;
- B. Meets the requirements as outlined in this investment policy;
- C. Agrees to make every reasonable effort to protect the assets from loss;
- D. Agrees to notify the LACMTA in writing of any potential conflicts of interest.

Completed certifications shall be filed in the Treasurer's Office. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, or investment manager and/or the rescission of any and all authority to act as an agent to purchase or invest funds.

6.5 All broker-dealers who do business with the LACMTA's internal investment managers shall sign a Receipt of Investment Policy. The Receipt of Investment Policy (see Appendix B) states that the broker dealer:

- A. Has received, read, and understands this investment policy;
- B. Has communicated the requirements of this investment policy to all personnel who may select investment opportunities for presentation.

Failure to submit a Receipt of Investment Policy shall preclude the LACMTA from purchasing or selling securities from such broker-dealer. Completed receipts shall be filed in the Treasurer's Office.

7.0 Custody and Safekeeping of Securities and LACMTA Funds

- 7.1 A Master Repurchase Agreement must be signed with the bank or dealer before any securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the LACMTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the LACMTA and the bank. Specific collateralization levels are defined in Section 5.1A.
- 7.2 All investment transactions shall be settled "delivery vs. payment", with the exception of deposits, money market mutual fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 7.3 Funds deposited shall be secured by a Depository in compliance with the requirements of Code Section 53652. Such collateralization shall be designated and agreed to in writing.

8.0 Reports and Communications

- 8.1 The Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the quarterly Board report as stated in Section 8.3 of this investment policy.
- 8.2 The Treasurer shall annually submit a statement of investment policy to the Board for approval. The existing approved investment policy will remain in effect until the Board approves the recommended statement of investment policy.
- 8.3 The Treasurer shall render a quarterly cash, investment, and transaction report to the CEO and Board, and quarterly to the Internal Auditor within 30 days following the end of the quarter covered by the report. The report shall include a description of LACMTA's funds, investments, or programs that are under the management of contracted parties, including lending programs. The report shall include as a minimum:
 - A. Portfolio Holdings by Type of Investment and Issuer
 - B. Maturity Schedule and Weighted Average Maturity (at market)
 - C. Weighted Average Yield to Maturity
 - D. Return on Investments versus Performance Benchmarks on a quarterly basis
 - E. Par, Book and Market Value of Portfolio for current and prior quarter-end
 - F. Percentage of the portfolio represented by each investment category
 - G. Total Interest Earned
 - H. Total Interest Received
 - I. A statement of compliance with this investment policy, or notations of non-compliance.

- J. At each calendar quarter-end a subsidiary ledger of investments will be submitted with the exception listed in 8.3K.
- K. For investments that have been placed in the Local Agency Investment Fund, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in National Credit Union Administration insured accounts in a credit union, in a county investment pool, or in shares of beneficial interest issued by a diversified management company that invest in the securities and obligations as authorized by this investment policy and the Code, the most recent statement received from these institutions may be used in lieu of the information required in 8.3 J.
- L. At each calendar quarter-end the report shall include a statement of the ability to meet expenditure requirements for the next six months.
- M. A quarterly gain or loss report on the sale or disposition of securities in the portfolio.

8.4 Internal and external investment managers shall monitor investments and market conditions and report on a regular and timely basis to the Treasurer.

- A. Internal and external investment managers shall submit monthly reports to the Treasurer, such reports to include all of the information referenced in Section 8.3, items A-J of this investment policy. Portfolios shall be marked-to-market monthly and the comparison between historical cost (or book value) and market value shall be reported as part of this monthly report.
- B. Internal and external investment managers shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this investment policy, the investment manager shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.
- C. External and internal investment managers shall immediately inform the Treasurer, or the Chief Financial Officer in writing of any major adverse market condition changes and/or major portfolio changes. The Chief Financial Officer or the Treasurer shall immediately inform the Board in writing of any such changes.
- D. External investment managers shall notify the LACMTA internal managers daily of all trades promptly, via fax or via email.
- E. Internal investment managers will maintain a file of all trades.

9.0 Portfolio Guidelines

Portfolio Guidelines are the operating procedures used to implement this investment policy approved by the Board. The Treasurer may impose additional requirements or constraints within the parameters set by this investment policy.

10.0 Internal Control

- 10.1 The Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees or agents. Such internal controls shall be approved by the Chief Financial Officer and shall include authorizations and procedures for investment transactions, custody/safekeeping transactions, opening and dosing accounts, wire transfers, and clearly delineate reporting responsibilities.
- 10.2 Treasury personnel and LACMTA officials with signature authority shall be bonded to protect against possible embezzlement and malfeasance, or at the option of the governing board self-insured.
- 10.3 Electronic transfer of funds shall be executed upon the authorization of two official signatories.
- 10.4 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 10.5 All investment accounts shall be reconciled monthly with custodian reports and broker confirmations by a party that is independent of the investment management function. Discrepancies shall be brought to the attention of the investment manager, the Treasurer and ~~Assistant Treasurer~~ [Deputy Executive Officer, Finance in the Treasury Department](#), the Controller, and if not resolved promptly, to the Chief Financial Officer.
- 10.6 The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide independent confirmation of compliance with policies and procedures.
- 10.7 The Treasurer is responsible for the preparation of the cash flow model. The cash flow model shall be updated monthly based upon the actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the cash flow requirements for the next twelve months. The Treasurer shall monitor actual to maximum maturities within the parameters of this investment policy.
- 10.8 The Treasurer shall annually submit the Financial Institutions Resolution to the Board for approval. The existing resolution will remain in effect until the Board approves the recommended resolution.

11.0 Purchasing Guidelines

- 11.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to the LACMTA. The liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment maturities prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, if possible.
- 11.2 Such competitive bids/offers shall be documented on the investment managers' trade documentation. Supporting documentation from the Wall Street Journal, Bloomberg or other financial information system shall be filed with the trade documentation as evidence of general market prices when the purchase or sale was effected.

12.0 Benchmarks

Internal and external investment managers' performance shall be evaluated against the following agreed upon benchmarks. If the investment manager does not meet its benchmark over a market cycle (3 to 5 years), the Treasurer shall determine and set forth in writing reasons why it is in the best interests of the LACMTA to replace or retain the investment manager.

Portfolio	Investment Benchmarks
Intermediate Duration Portfolios	ICE Bank of America/Merrill Lynch AAA-A 1-5 year Government & Corporate Index (BV10) ^[LM4]
	year Government & Corporate Index (BV10)
Short Duration Portfolios	Three month Treasury

**Los Angeles County Metropolitan Transportation Authority
Section 5.1A
Statement of Investment Policy ^a**

* The percentage of portfolio authorized is based on market value.

Investment Type	Maximum Maturity	Maximum Allowable Percentage of Portfolio *	Minimum Quality and Other Requirements
Bonds Issued by the LACMTA	5 years ^b	100%	None
U.S. Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for payment of principal and interest	5 years ^b	100%	None
Registered state warrants or treasury notes or bonds of the other 49 states in addition to California.	5 years ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California	5 years ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government –sponsored enterprises	5 years ^b	50% ^d	See Footnote d
Bills of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances	180 days	40% ^c	The issuer's short-term debt must have the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization
Commercial paper or "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization	270 days	25% ^c	See Footnote e
Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state licensed branch of a foreign bank, or a federally licensed branch of a foreign bank.	5 years ^b	30% ^c	See Footnote f

Placement Service Assisted Deposits	5 years b	30% c	See Footnote g
Investments in repurchase agreements	90 days	20%	Limited to no more than 90 days. See Footnote h
United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank.	5 years b	30% c	Maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments shall be rated "AA" or better by a nationally recognized statistical rating organization and shall not exceed 30% of the portfolio.
Medium-term notes issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States	5 years b	30% c	Must be rated "A" or better by a nationally recognized statistical rating organization. If rated by more than one rating agency, both ratings must meet the minimum credit standards.
Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission, as authorized by Code Section 53601	Not applicable	20% c	See Footnote i
State of California Local Agency Investment fund (LAIF) Code Section 16429.1 through 16429.4 or other Local Government Investment Pool (LGIP) established by public California entities pursuant to Section 53684	Not applicable	Set by LAIF and LGIP	See Footnote j
Asset-backed Securities	5 years b	15% combined with mortgage-backed securities	See Footnote k
Mortgage-backed Securities	5 years b	15% combined with asset-backed securities	See Footnote l

**Los Angeles County Metropolitan Transportation Authority
Statement of Investment Policy**

Footnotes for Section 5.1A Statement of Investment Policy	
a	Sources: California Government Code Sections 16429.1, 53601, 53601.8, 53635 and 53638
b	Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to the purchase. New issue securities with a stated 5 year maturity can be purchased in the primary market with extended settlements of up to 30 days from the date of purchase.
c	Limited to no more than 10% of the portfolio in any one issue (i.e. bankers' acceptances, commercial paper, negotiable certificates of deposit, medium-term notes, and money market funds)
d	No more than 15% of portfolio in any one Federal Agency or government-sponsored issue
e	Eligible paper is further limited to 10% of the outstanding paper of an issuing corporation, the issuing corporation must be organized and operating within the United States and having total assets in excess of \$500,000,000 and have an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by a nationally recognized statistical rating organization. Issuing corporations that are organized and operating within the United States and have total assets in excess of \$500 million dollars and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided by a nationally recognized statistical rating organization
f	The legislative body of the local agency, the treasurer or other official of the local agency having custody of the money are prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union
g	Investments in placement services assisted deposits is authorized under Sections 53601.8, 53635.8, and 53601 (i) of the California Government Code.
h	Repurchase agreements shall be executed through Primary Broker-Dealers. The repurchase agreement must be covered by a master repurchase agreement. Repurchase agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with an initial margin of at least 102% of the value of the investment, and shall be in compliance if brought back up to 102% no later than the next business day. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the LACMTA's investment manager (for internal funds) or external investment manager. Investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The LACMTA shall obtain a first lien and security interest in all collateral
i	Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized statistical rating organizations, or (2) retained an investment advisor registered or exempt with the Securities and-Exchange Commission, with no less than five years experience investing in the securities and obligations authorized by California Government Code \$53601 a-k inclusive and m-o inclusive and with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies

j	<p>Maximum investment per individual pool limited to the amount for LAIF as set by the State Treasurer's Office. Limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the Treasurer, as to credit worthiness, security, and conformity to state and local laws. An evaluation should cover, but is not limited to establishing, a description of who may invest in the program, how often, what size deposit and withdrawal; the pool's eligible investment securities, obtaining a written statement of investment policy and objectives, a description of interest calculations and how it is distributed; how gains and losses are treated; a description of how the securities are safeguarded and how often the securities are priced and the program audited. A schedule for receiving statements and portfolio listings. A fee schedule, when and how fees are assessed</p>
k	<p>Limited to senior class securities with stated maturities of no more than 5 years. Further limited to securities rated in a rating category of "AAA" or its equivalent, and issued by an issuer having an "A" or better higher rating for the issuer's debt as provided for by a nationally recognized statistical rating organization. Further limited to fixed rate, publicly offered, generic credit card, automobile receivables, and equipment receivables only. Deal size must be at least \$250 million, and tranche size must be at least \$25 million [LM5]</p>
l	<p>Pass-Through securities: Limited to Government Agency or Government Sponsored issuers, fixed rate, stated maturity no more than 5 years. CMOS: Limited to Government Agency or Government Sponsored Issuers and Planned Amortization Classes (PAC) only. Securities eligible for investment under this category shall be rated "AA" or its equivalent or better by a "AAA" rated by a nationally recognized statistical rating organization. Planned Amortization Classes (PAC) only. The following are prohibited: ARMS, floaters, interest or principal (IOs, POs), Targeted Amortization Classes, companion, subordinated, collateral classes, or zero accrual structures [LM6]</p>

APPENDIX A

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY

CERTIFICATION OF UNDERSTANDING

The Los Angeles County Metropolitan Transportation Authority (LACMTA) Investment Policy as approved by the Board of Directors requires that all Financial Institutions and Investment Managers' conducting investment transactions with or for LACMTA sign a Certification of Understanding acknowledging that:

1. *You have read and are familiar with the LACMTA's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets from loss.*
4. *You agree to notify the LACMTA in writing of any potential conflicts of interest.*
5. *You agree to notify the LACMTA in writing of any changes in personnel with decision-making authority over funds within 24 hours of such event.*

Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of the LACMTA for the purchase of securities or investment of funds on behalf of LACMTA.

The Board of Directors is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

SIGNED: _____ DATE: _____
Print Name and Title _____

After reading and signing this Certification of Understanding please return with *any* supporting documentation to:

LACMTA
Treasury Department
Attention: Treasurer
One Gateway Plaza
Los Angeles, CA 90012-2932

LACMTA use only:
Approved: _____ Disapproved: _____ Date: _____
Signature: _____
LACMTA Treasurer

APPENDIX B

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the Los Angeles County Metropolitan Transportation Authority's (LACMTA) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering LACMTA's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to LACMTA.

Signed _____	_____
Name	Name
_____	_____
Title	Title

Firm Name	
_____	_____
Date	Date

After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

LACMTA
Treasury Department
Attention: Treasurer
One Gateway Plaza
Los Angeles, CA 90012-2932

LACMTA use only:
Approved: _____ Disapproved: _____ Date: _____
Signature: _____
LACMTA Treasurer

APPENDIX C

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY

BROKER/DEALER QUESTIONNAIRE

1. Name of Firm _____

2. Address _____
(Local) (National Headquarters)

3. Telephone No. () _____ Telephone No. () _____
(Local) (National Headquarters)

4. Primary Representative Manager/Partner-in-Charge

Name _____	Name _____
Title _____	Title _____
Telephone No. _____	Telephone No. _____
No. of Yrs. in Institutional Sales _____	No. of Yrs. in Institutional Sales _____
Number of Years with Firm _____	Number of Years with Firm _____

5. Are you a Primary Dealer in U.S. Government Securities? [] YES [] NO

If NO, Is the parent company or its subsidiary a Primary Dealer in U.S. Government Securities? Provide proof of certification.

[] YES [] NO

Please explain your firm's relationship to the Primary Dealer below:

Please provide proof certification from the National Association of Securities Dealer.

6. Are you a Broker instead of Dealer, i.e., you DO NOT own positions of Securities?
[] YES [] NO

7. What is the net capitalization of your Firm? _____

8. What is the date of your Firm's fiscal year-end? _____

9. Is your Firm owned by a Holding Company? If so, what is its name and net capitalization?

10. Please provide your Wiring and Delivery Instructions.

11. Which of the following instruments are offered regularly by your local desk?

- T-Bills Treasury Notes/Bonds Discount Notes NCD's
 Agencies (specify) _____
 BA's (Domestic) BA's (Foreign) Commercial Paper
 Med-Term Notes Repurchase Agreements

12. Does your Firm specialize in any of the instruments listed above?

13. Please identify your comparable government agency clients in the LACMTA's geographical area.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
---------------	-----------------------	----------------------	---------------------

_____	_____	_____	_____
_____	_____	_____	_____

14. What reports, confirmations, and other documentation would LACMTA receive? Please include samples of research reports or market information that your firm regularly provides to government agency clients.

15. What precautions are taken by your Firm to protect the interests of the public when dealing with government agencies as investors?

16. Have you or your Firm been censored, sanctioned or disciplined by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the past five years? YES NO

17. If yes, please explain

18. Please provide your most recent audited financial statements within 120 days of your fiscal year-end.

19. Please indicate the current licenses of the LACMTA representatives:

Agent: _____ License or registration: _____

APPENDIX D
LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
INVESTMENT POLICY GLOSSARY

ASKED: The price at which securities are offered from a seller.

BANKERS' ACCEPTANCE (BA): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (or issuer - the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BID: The price offered by a buyer of securities.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable (marketable or transferable).

COLLATERAL: Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

CUSTODY or SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: Delivery of securities with a simultaneous exchange of money for the securities.

FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES): U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). They include:

- ◆ Federal Home Loan Banks (FHLB)
- ◆ Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
- ◆ Federal National Mortgage Association (FNMA or "Fannie Mae")
- ◆ Federal Farm Credit Banks (FFCB)
- ◆ ~~Student Loan Marketing Association (SLMA or "Sallie Mae")~~^[LM7]
- ◆ Tennessee Valley Authority (TVA)

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Interest bearing, continuously offered debt, issued in the 9 month to ten year maturity range. Deposit notes, like Certificates of Deposit, actually represent an interest bearing deposit at a bank or other depository institution.

OFFER: The price asked by a seller of securities.

PAR VALUE: The face value, or principal amount payable at maturity.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

REPURCHASE AGREEMENT (RP OR REPO): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, whereby the security "buyer" in effect lends the "seller" money for the period of the agreement, and the difference between the purchase price and sale price determining the earnings. Dealers use RP extensively to finance their positions.

SECURITIES & EXCHANGE COMMISSION (SEC): An agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES AND BONDS: Long-term U.S. Treasury securities having initial maturities of 2 to 30 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

FINANCIAL INSTITUTIONS RESOLUTION

RESOLVED, that any financial institutions, including all banks and their correspondent banks doing business with the Los Angeles County Metropolitan Transportation Authority (LACMTA), are hereby authorized, requested and directed to honor all checks, drafts, wires, or other orders for payment of money drawn in the LACMTA’s name on its account(s) (including those drawn on the individual order of any person or persons whose names appear thereon as a signer or signers thereof) when bearing the original and/or facsimile signature of the Chair; Chief Executive Officer; Deputy Chief Executive Officer; Chief Financial Officer; Treasurer; Deputy Executive Officer, Finance in Treasury; or Assistant Treasurer (collectively, LACMTA Officials). LACMTA Officials are the only representatives empowered to open, close or authorize changes to accounts on behalf of LACMTA. LACMTA Officials may designate individuals as Official Signatories for financial accounts. The duties of Official Signatories shall be limited to check signing, wire or fund transfers, balance reporting and/or monitoring of bank processes.

And, those financial institutions, including correspondent banks, currently doing business with LACMTA shall be entitled to honor and charge LACMTA for all such checks, drafts, wires, or other orders for the payment of money, regardless of by whom or by what means when the actual or facsimile signature or signatures resemble the specimens filed with those financial institutions by the Secretary or other officer of LACMTA.

CERTIFICATION

The undersigned, duly qualified and acting as Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____.

Dated: _____

Michele Jackson
Board Secretary

(SEAL)

RESOLUTION

Los Angeles County Metropolitan Transportation Authority (LACMTA)

One Gateway Plaza, mailstop 99-21-2
Los Angeles, CA 90012-2952

213-922-4143

AUTHORIZING INVESTMENT OF MONIES IN THE LOCAL AGENCY INVESTMENT FUND

WHEREAS, The Local Agency Investment Fund is established in the State Treasury under Government Code section 16429.1 et. seq. for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

WHEREAS, the LACMTA Board of Directors hereby finds that the deposit and withdrawal of money in the Local Agency Investment Fund in accordance with Government Code section 16429.1 et. seq. for the purpose of investment as provided therein is in the best interests of the LACMTA;

NOW THEREFORE, BE IT RESOLVED, that the LACMTA Board of Directors hereby authorizes the deposit and withdrawal of LACMTA monies in the Local Agency Investment Fund in the State Treasury in accordance with Government Code section 16429.1 et. seq. for the purpose of investment as provided therein.

BE IT FURTHER RESOLVED, as follows:

Section 1. The following LACMTA officers holding the title(s) specified herein below or their successors in office are each hereby authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund and may execute and deliver any and all documents necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby:

NAME	TITLE
NALINI AHUJA	CHIEF FINANCIAL OFFICER
DONNA R. MILLS	TREASURER
MARY E. MORGAN	DEPUTY EXECUTIVE OFFICER, FINANCE
LUANNE EDWARD SCHURTZ	DEPUTY EXECUTIVE OFFICER, FINANCE
RODNEY JOHNSON	SENIOR DIRECTOR, FINANCE
MARSHALL LIU	SENIOR INVESTMENT MANAGER
DANNY JASPER	DEBT MANAGER
SUSAN CARIASA-GINSBERG	MANAGER, ADMINISTRATION & FINANCIAL SERVICES
JIN YAN	PRINCIPAL FINANCIAL ANALYST

ATTACHMENT D

Section 2. This resolution shall remain in full force and effect until rescinded by the LACMTA Board of Directors by resolution and a copy of the resolution rescinding this resolution is filed with the State Treasurer's Office.

PASSED AND ADOPTED, by the Board of Directors of the Los Angeles County Metropolitan Transportation Authority, County of Los Angeles, State of California on _____.