

# **Metro**

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



## **Agenda - Final**

**Wednesday, January 15, 2020**

**1:00 PM**

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

### **Finance, Budget and Audit Committee**

*Kathryn Barger, Chair  
Ara Najarian, Vice Chair  
Jacquelyn Dupont-Walker  
Paul Krekorian  
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 must be submitted electronically using the tablets available in the Board Room lobby. Individuals requesting to speak will be allowed to speak for a total of three (3) minutes per meeting on agenda items in one minute increments per item. For individuals requiring translation service, time allowed will be doubled. The Board shall reserve the right to limit redundant or repetitive comment.

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 one (1) minute during this Public Comment period or at the discretion of the Chair. Speakers will be called according to the order in which their requests are submitted. Elected officials, not their staff or deputies, may be called out of order and prior to the Board's consideration of the relevant item.

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.

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 and is available at [www.metro.net](http://www.metro.net) or on CD's and as MP3's 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

A Spanish language interpreter is available at all Committee and Board Meetings. All other languages must be requested 72 hours in advance of the meeting by calling (213) 922-4600 or (323) 466-3876.



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## HELPFUL PHONE NUMBERS

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

Internet Access to Agendas - [www.metro.net](http://www.metro.net)

TDD line (800) 252-9040

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

## CALL TO ORDER

## ROLL CALL

16. **SUBJECT: FISCAL YEAR 2021 BUDGET DEVELOPMENT PROCESS** [2019-0876](#)

### **RECOMMENDATION**

RECEIVE AND FILE the Fiscal Year 2021 (FY21) Budget Development Process.

17. **SUBJECT: RISK MANAGEMENT INSURANCE BROKERAGE SERVICES** [2019-0795](#)

### **RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to award a five-year, firm fixed price Contract No. PS63853000 to USI Insurance Services LLC in the amount of \$1,268,600 for a five-year base term, \$530,503 for the first 2-year option, and \$562,811 for the second 2-year option, for a combined total amount of \$2,361,914, effective June 1, 2020 subject to resolution of protest(s), if any.

**Attachments:** [Attachment A - Procurement Summary](#)  
[Attachment B - DEOD Summary](#)

- SUBJECT: GENERAL PUBLIC COMMENT** [2020-0037](#)

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**

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**File #:** 2019-0876, **File Type:** Informational Report**Agenda Number:** 16.

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**FINANCE, BUDGET, AND AUDIT COMMITTEE  
JANUARY 15, 2020****SUBJECT: FISCAL YEAR 2021 BUDGET DEVELOPMENT PROCESS****ACTION: RECEIVE AND FILE****RECOMMENDATION**

RECEIVE AND FILE the Fiscal Year 2021 (FY21) Budget Development Process.

**ISSUE**

This is the first of a series of monthly updates to the Board to kick-off the FY21 Budget development process, scheduled for May 2020 Board Adoption. The budget process is meant to estimate and allocate resources that are available and eligible to achieve Metro Vision 2028 goals in a manner that is fiscally sound and financially responsible. In the upcoming months, the FY21 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 FY21 and 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 FY21, 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 FY21 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 approved policies and guidelines. In the following months, the FY21 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
January	Budget Parameters: <ul style="list-style-type: none"> <li>• Budget Development Process and Schedule</li> <li>• Stakeholder Outreach Plan</li> <li>• Sales Tax Forecast, Resources Assumption</li> <li>• Cost Inflation Estimate</li> <li>• Other Expense Assumptions</li> </ul>
February	New Infrastructure Planning and Construction: <ul style="list-style-type: none"> <li>• New Transit Rail and Bus</li> <li>• Highway</li> <li>• Regional Rail</li> </ul> Service Parameters: Revenue Service Hours (presented by Operations department in the Operations, Safety and Customer Experience Committee)
March	Transit Operations and Metro State of Good Repair (SGR): <ul style="list-style-type: none"> <li>• Metro Transit – Operations &amp; Maintenance</li> <li>• Metro Transit – State of Good Repair</li> </ul>
April	Subsidy Funding and Other Operating Programs: <ul style="list-style-type: none"> <li>• Subsidy Funding Program</li> </ul>

May	<b>Public Hearing and Board Adoption:</b> <ul style="list-style-type: none"><li>• Consolidated Agency-wide Expenses and FTEs Budget Proposal</li><li>• Public Hearing on May 20, 2020</li><li>• Summary of Public Comment and Stakeholder Review</li><li>• Final Board Adoption on May 28, 2020</li></ul>
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## Board of Directors Updates

Beginning in January, 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 FY21. In addition to these ongoing regular briefings, staff will also provide monthly updates to the Board. In February, Transit Operations will present Revenue Service Hours (RSH) in the Operations, Safety, and Customer Experience Committee to provide an opportunity for the Board to provide input and feedback.

## Public and Stakeholder Outreach

In preparation for the FY21 Budget, we will be undertaking an extensive process of educating and soliciting meaningful input from the public and key stakeholders to identify budget priorities. The comprehensive budget outreach program ensures that Metro is successfully engaging the public and key stakeholders as well as working collaboratively with all departments to provide complete budget information. To acquire greater participation, detailed location information of public forums, community meetings and other avenues will be advertised through multiple channels, including social media campaigns, advertising aboard Metro vehicles, Telephone Town Halls, and other technology to reach Los Angeles County Residents.

### Public Outreach

To encourage public involvement and promote transparency, the budget process includes numerous options and opportunities for informing and engaging the public. Many public forums are available for direct participation. Also, 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 engage and learn about the FY21 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 FY21 Budget:

- Public Hearing - A public hearing on the FY21 Budget will be held on May 20, 2020, and the public is encouraged to attend and provide their comments on the proposed budget to the Board. Notices of the public hearing will follow statutory requirements (multiple languages,

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published in multiple newspapers, etc.)

- Metro Service Councils Workshops - Metro's Five Service Councils are located throughout the County to allow residents more opportunities for input on service issues in their communities. This is an ideal forum for interested residents to learn about the budget process and for Metro to obtain direct and immediate feedback from our transit riders on their transit priorities.
- The Source/El Pasajero/Facebook/Instagram/Twitter - Staff will be using Metro's social media outlets to inform the public throughout the FY21 Budget development process, including Facebook ads, Instagram and Twitter.
- Interactive Budget Tool - This tool will be an interactive application to promote financial transparency, educate and engage the public on the budgeting process. The simple survey will educate and allow us to acquire feedback from the public and key stakeholders on their individual transit priorities. It will be available as a link from the *Metro.net* website - Finance and Budget Page, and announced through social media outlets such as email, Facebook, Instagram and Twitter.
- Finance and Budget Website - An FY21 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. The website will include a budget educational video with direct links to the budget tool, other community meetings and forums for the public and key stakeholders to fully engage in the budget process.
- E-mail - [budgetcomments@metro.net](mailto: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 throughout Los Angeles County that promote and/or rely on Metro services. For budget information, traditional budget workshops are scheduled in March and April 2020. These meetings include and are not limited to Metro Service Councils, Citizens Advisory Councils (CAC), Policy Advisory Committee (PAC), Technical Advisory Committee (TAC), Bus Operators Subcommittee, (BOS), Local Transit Systems Subcommittee (LTSS), and Streets and Freeways Subcommittee, Aging, Disability and Transportation Network (ADTN).



## Sales Tax Revenue Assumptions

Metro relies on sales taxes for more than half of its total revenues. In addition, cities and transit providers in Los Angeles County plan their operation based on our revenue projections. This fact necessitates a careful evaluation and forecasting of the sales tax growth rate to determine the funding levels for FY21.

In order to generate a realistic forecast of sales tax revenues, long term and short term historical receipts as well as 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.

Compared to past years, recent actual five-year growth has been positive with growth rates staying in between 1.2% and 6.0% since FY15 for an average annual growth rate of 3.4%. This mirrors the steady growth of the region's economy over the same period.

Figure 1:

	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Estimated Actual	FY21 Assumption
Sales Tax (\$ in Millions)	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 846.8	\$ 880.0	\$ 910.0
% Change	4.0%	2.4%	3.4%	6.0%	1.2%	3.9%	3.4%

Figure 1 displays Metro's FY20 estimated actual and FY21 sales tax receipt projection per ordinance. As a result of the US Supreme Court's ruling in *South Dakota v. Wayfair*, new state legislation was enacted allowing additional sales tax collections from e-commerce vendors who do not have a physical presence in the state. It is anticipated that approximately \$7.0 million of additional sales tax receipt per ordinance will be generated from this change on top of our adopted budget of \$873.0 million, leading to a re-estimated actual of \$880.0 million in FY20.

The unusual sales tax growth rates in FY18 and FY19 were caused by the California Department of Tax and Fee Administration's (CDTFA) system upgrade in May 2018 which resulted in delayed paper returns and sales tax receipt. FY21 sales tax annual growth rate should resume a normal growth rate at 3.4%, the percentage growth before the California system change in FY17. This will provide a sales tax receipt projection of \$910.0 million per ordinance.

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

Metro sales tax budget forecast has been consistently more accurate than the leading Los Angeles County forecasts. Figures 2 and 3 show how Metro's budget estimates have compared to actual receipts and the leading local forecasts since FY15. Using an average difference to the actual as a measurement year over year, Metro has the lowest five-year Mean Absolute Percentage Error (MAPE) at 1.2% comparing to the other leading forecasting agencies.

Figure 2:

**Sales Tax Forecast Comparison of Metro and other Forecasting Agencies including  
UCLA, Beacon Economics and Muni Services**

(\$ in Millions)

Forecasting Source	FY15	FY16	FY17	FY18	FY19
<b>Actual Sales Tax Receipt per Ordinance</b>	\$ 745.7	\$ 763.7	\$ 789.4	\$ 836.7	\$ 846.8
<b>Metro - Adopted</b>	734.2	763.5	795.7	802.0	844.0
<b>UCLA</b>	733.2	772.1	807.4	810.0	863.6
<b>Beacon Economics</b>	751.7	766.2	806.2	816.9	835.4
<b>Muni Services</b>	741.5	785.8	806.2	803.6	827.7

Figure 3:

Fiscal Year	UCLA	Beacon Economics	Muni Services	Metro-Adopted
FY15	1.7%	0.8%	0.6%	0.8%
FY16	1.1%	0.3%	2.9%	0.0%
FY17	2.3%	2.1%	2.1%	0.8%
FY18	3.2%	2.4%	4.2%	4.1%
FY19	2.6%	1.4%	2.3%	0.3%
<b>5YR MAPE</b>	<b>2.2%</b>	<b>1.4%</b>	<b>2.4%</b>	<b>1.2%</b>

## Other Resource Assumptions

### State Transit Assistance (STA) and Senate Bill 1 (SB1) Revenues

Sales tax revenues depend upon actual consumption and price of diesel and gasoline. \$215.8 million in STA and \$30.1 million in SB1 revenues are expected in FY21. This assumption will be re-assessed during the budget process to reflect the State Controller's Office (SCO) estimate which is due for release in mid-February 2020.

### Passenger Fares

No fare increase is assumed in FY21. Total estimated fare revenue for FY21 is \$281.6 million which is based on 70 cents of fare per boarding and upward public transit ridership due to the anticipated opening of the Crenshaw Line in FY21 and other transit system improvements.

### Toll, Advertising and Others

\$61.0 million in toll revenues are projected in FY21 which include ExpressLanes usage and violation fees from the existing I-10, I-110. For advertising revenue, \$27.2 million based on new and existing contracts is expected in FY21. Other revenues including bike program, Union Station, park and ride, lease, film, Service Authority Freeway Emergencies (SAFE), county buy down, auto registration fees, transit court fees, CNG credits, investment income and other miscellaneous revenues are anticipated at a total of \$72.4 million in FY21.

### Grant Resources

An overall of \$1.6 billion in local, state and federal grant resources are projected in FY21 to support Metro's transit planning, operating, state of good repair and construction activities.

## **Resource Assumption Summary**

Figure 4:

Resources (\$ in Millions)	FY20 Reforecasted	FY21 Assumption	% Change
Sales Tax and TDA Revenues	\$ 3,960.0	\$ 4,095.0	3.4%
STA and SB1 Revenues	245.9	245.9	0.0%
Passenger Fares	284.5	281.6	-1.0%
Toll, Advertising and Others	155.2	160.6	3.5%
Grant Resources	1,184.8	1,620.8	36.8%
<b>Total (exclude New Bond Proceeds)</b>	<b>\$ 5,830.4</b>	<b>\$ 6,404.0</b>	<b>9.8%</b>

Figure 4 summarizes all FY21 projected available resources (excludes new bond proceeds). New debt issuances will be used as a last resort to mitigate the shortfalls in state of good repair, transit construction and highway types of activities. The amounts required will be determined at a later stage as we finalize the FY21 expense budget and are subject to CEO approval and separate Board authorization.

### Ten-Year Resource Outlook

Looking forward the next 10 years of Metro's major funding sources starting in FY21, Sales Tax growth rate is assumed to be stable at approximately 3% each year. State legislature allows STA and SB1 to grow at inflation. These sales tax revenues will continue to outweigh all other funding

sources for the region's transit and transportation investments. Passenger fare revenue is anticipated to grow in lock step with the openings of new Transit Rail lines and BRT improvements. Toll, Advertising and Other Revenues will experience small growth. Federal, state and local grant resources will continue at least at current rate. Together with judicious usage of debt financing, the grand total of Metro's ten-year resources is estimated to be roughly \$85 billion.

### 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.

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. Both UCLA and Beacon Economics expect the CPI rate to cool down in FY20 and FY21 due to slowing global economy and housing markets. Given recent trends and current forecasts, we assume the FY21 CPI rate will remain stagnate at 2.3% as shown in Figure 5. We will continue to monitor CPI trends and updates from the economic forecasts as we go through the budget process.

Figure 5:

Annual Change in Consumer Price Index (CPI)

Forecast Source	FY16	FY17	FY18	FY19	FY20	FY21
Actual	1.73%	2.10%	3.48%	3.40%	2.28%*	
Metro	1.97%	1.85%	1.75%	2.25%	2.28%	2.30%
UCLA	2.25%	2.70%	2.78%	2.42%	2.60%	2.19%
Beacon Economics	1.57%	1.98%	2.00%	2.15%	1.83%	2.30%

\* Preliminary based on FY20 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 FY21. There is a minimum 3.75% to 4.5% increase in salary and wage for represented employees based on the collective bargaining agreements and a projected increase in fringe benefits of 6% on average based on the last few years trend. These cost assumptions outpace both the sales tax and CPI projected growth for FY21. From a non-labor cost perspective, CPI is also used as a key assumption for cost inflation.

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### Service and Metro Transit

Metro Transit Bus and Rail service levels and service scenarios will be presented to the service councils and Board of Directors for consideration in February at the Operations, Safety and Customer Experience Committee. These scenarios will reflect service reallocations in the Board-adopted NextGen service plan. The State of Good Repair (SGR) program will continue to preserve Metro infrastructure and ready for future Rail expansion projects. The emphasis will be on delivery of cleaner burning Compressed Natural Gas (CNG) and Zero Emission Buses (ZEB), as well as electrification infrastructure needed for fleet conversion. Commitments are also in place to deliver new rail vehicles, overhaul the existing bus and rail fleet, and maintain and upgrade 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. The expansion includes the planning and construction of the voter approved Measure R and M projects such as Westside Purple Line Extensions 1-3, Regional Connector, Gold Line Foothill Extension projects and East San Fernando Valley Light Rail Transit construction. Highway projects will continue to support several Measure M and R Caltrans projects.

### Subsidy Funding Programs

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

### **Pathway to Financial Stability**

Consistent with the CEO's goal of exercising fiscal discipline to ensure financial stability as an organization, we will be focused on seeking revenue growth and exploring new innovative opportunities to ensure long-term viability of our agency, while staying vigilant in achieving cost efficiency in meeting all legally-mandated requirements.

Metro's aggressive mobility and transportation plan presents a unique challenge to the agency due to the significant demand of programs and the expenditures required. Metro will be working with staff and the Board to prioritize the programs and projects that best utilize the available resources. The mitigation will be reflected in the annual budget development process while arriving at a balanced budget for FY21 and beyond. Metro is committed to understanding the challenges ahead and to ensure the agency stays on a pathway to financial stability as we look into the next decade.

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## **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 FY21 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**

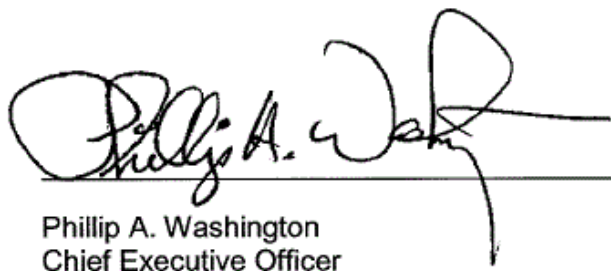
The annual budget serves as the legal authority to obligate and spend funds. Failure to adopt the budget would severely impact Metro's stated goal of improving transportation in Los Angeles County.

## **NEXT STEPS**

As described earlier in this report, Metro staff will provide regular 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.

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Phillip A. Washington  
Chief Executive Officer

# **Fiscal Year 2021 Budget Development Update**

Finance, Budget and Audit Committee  
January 15, 2020

# Metro Vision 2028 Goals

Targeting a balanced budget for FY21, 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.

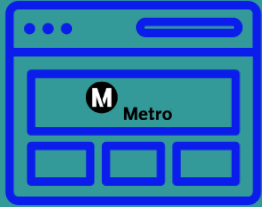


# FY21 Budget Process and Schedule

Month	Topic
January	Budget Parameters: <ul style="list-style-type: none"> <li>• Budget Development Process and Schedule</li> <li>• Stakeholder Outreach Plan</li> <li>• Sales Tax Forecast, Resources Assumption</li> <li>• Cost Inflation Estimate</li> <li>• Other Expense Assumptions</li> </ul>
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March	Transit Operations and Metro State of Good Repair (SGR): <ul style="list-style-type: none"> <li>• Metro Transit – Operations &amp; Maintenance</li> <li>• Metro Transit – State of Good Repair</li> </ul>
April	Subsidy Funding and Other Operating Programs: <ul style="list-style-type: none"> <li>• Subsidy Funding Program</li> <li>• Debt Service</li> </ul>
May	Public Hearing and Board Adoption: <ul style="list-style-type: none"> <li>• Consolidated Agency-wide Expenses and FTEs Budget Proposal</li> <li>• Public Hearing on May 20, 2020</li> <li>• Summary of Public Comment and Stakeholder Review</li> <li>• Final Board Adoption on May 28, 2020</li> </ul>



# Outreach Initiatives



## METRO

- Website Banner
- Finance & Budget Site



## TELEPHONE TOWN HALL



## INTERACTIVE BUDGET TOOL



## Soliciting Public Comments

- Email
- Metro Website
- Budget Tool
- Workshops & Meetings
- Telephone Town Hall
- Public Hearing

## LOS ANGELES COUNTY



## WORKSHOPS & MEETINGS

- Service Councils throughout LA County
- Key Stakeholders



Metro

# Resource Assumptions

Resources (\$ in Millions)	FY20 Reforecasted	FY21 Assumption	% Change
Sales Tax and TDA Revenues	\$ 3,960.0	\$ 4,095.0	3.4%
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Passenger Fares	284.5	281.6	-1.0%
Toll, Advertising and Others	155.2	160.6	3.5%
Subtotal Non-Grant	4,645.6	4,783.1	3.0%
Grant Resources	1,184.8	1,620.8	36.8%
<b>Total (exclude New Bond Proceeds)</b>	<b>\$ 5,830.4</b>	<b>\$ 6,403.9</b>	<b>9.8%</b>

- Sales Tax and TDA Revenues is the largest resource category, providing about two-thirds of Metro revenues.
- It has been growing steadily for the past five years at an average rate of 3.4% per year; leading economic forecasts and Metro's internal projection expect that growth to continue in FY21.

# Other Resource Assumptions

- Fare revenues of \$281.6 million are projected. This is based on underlying assumptions of \$.70/boarding and a slight uptick in systemwide boardings related to the anticipated opening of the Crenshaw line and other transit system improvements in FY21.
- Other revenues, including Expresslanes tolls, advertising and STA and State SB1 funding are currently budgeted close to FY20 budget levels, but will be revised during the FY21 budget process as more information becomes available.
- Grant revenues are expected to rise to \$1.6 billion in FY21 reflecting increasing federal, state and local grant receipts supporting Metro's transit infrastructure development program. These funds are dedicated to specific projects.
- Cost inflation for non-labor items is expected to rise at +2.30% in FY21 based on a composite of various economic sources.

# 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
  - Highlighting mitigation efforts to address upcoming challenges in order to balance the budget for FY21
- **Public hearing of the proposed budget will take place on May 20<sup>th</sup>**
- **Final board adoption expected on May 28<sup>th</sup>**
  - Board adoption legally required before fiscal year start

**Board Report**

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**File #:** 2019-0795, **File Type:** Contract**Agenda Number:** 17.

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
JANUARY 15, 2020****SUBJECT: RISK MANAGEMENT INSURANCE BROKERAGE SERVICES****ACTION: APPROVE CONTRACT AWARD****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to award a five-year, firm fixed price Contract No. PS63853000 to USI Insurance Services LLC in the amount of \$1,268,600 for a five-year base term, \$530,503 for the first 2-year option, and \$562,811 for the second 2-year option, for a combined total amount of \$2,361,914, effective June 1, 2020 subject to resolution of protest(s), if any.

**ISSUE**

Metro's current brokerage services contract with USI Insurance Services LLC ("USI"), expires on May 31, 2020.

**BACKGROUND**

An insurance broker of record is required for Metro to purchase insurance from commercial markets. Insurance is necessary because it covers risks such as potentially catastrophic property and liability damages that are better managed through commercial insurance. Additionally, many of our contracts and other agreements require commercial insurance coverage.

**DISCUSSION**

Metro uses a licensed broker to purchase insurance for its non-construction exposures. The broker markets Metro's excess liability insurance (\$300 million in limits with \$8 million self-insured retention), all risk property and flood coverage, (\$400 million in limits, no earthquake and varying deductibles), drone insurance, and railroad liability insurance (\$60 million in limits currently which is adjusted every three years based on Consumer Price Index). The broker has also handled major insurance project specific umbrella insurance (up to \$300 million historically) as well other coverages such as pollution legal liability, owner's protective, fraud and fidelity, and public official's directors and officers. Currently, Metro's total excess liability and property insurance premiums are about \$9.1 million per year.

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In addition to handling required marketing and placement of coverage, the broker reviews contracts to determine appropriate insurance requirements, insurance coverage placed by contractors to ensure compliance with contract terms and gives Metro staff expert advice on insurance matters including construction insurance coverage matters. The broker also provides insurance guidance on Measure M and R construction projects including Regional Connector, Westside Subway Extensions, Crenshaw Transportation Corridor, Gold Line Foothill Extensions and others.

### **DETERMINATION OF SAFETY IMPACT**

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

### **FINANCIAL IMPACT**

The funding of \$172,025 for the remainder of this fiscal year is included in the FY20 budget in cost center 0531, Risk Management - Non-Departmental under various project numbers, account 50316 - Professional Services.

Since this is a multi-year contract, the cost center manager and the Chief Risk, Safety and Asset Management Officer will be responsible for budgeting this expense in future years.

#### **Impact to Budget**

The current year funding for this action will come from a combination of bus and rail operating funds. No other sources of funds were considered for this activity because the insurance coverage placed by the broker protects the agency against operational losses.

### **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

Recommendation supports strategic plan goal # 5 "Provide responsive, accountable and trustworthy governance within the LA Metro organization." The responsible administration of Metro's insurance and claims administration programs requires the use of proficient insurance brokers and actuaries.

### **ALTERNATIVES CONSIDERED**

The Board may elect not to approve the new contract. However, this action is not recommended because the fee proposed by USI represents the most competitive fee for services provided by the marketplace. Further, as USI is also the current broker of record for the agency, the addition of the nine-year term allows us to build upon the existing relationship and lock in the pricing advantage of today's highly competitive brokerage environment.

### **NEXT STEPS**

Upon Board approval, staff will execute Contract No. PS63853000 to USI Insurance Services LLC for brokerage services, effective June 1, 2020.

**ATTACHMENTS**

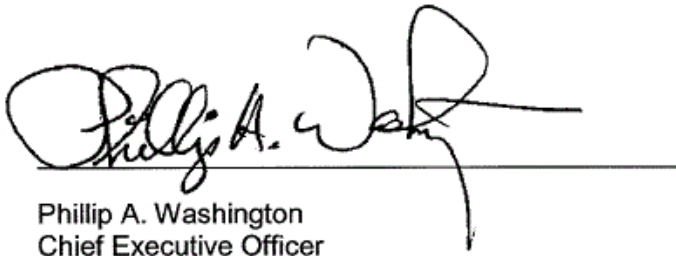
Attachment A - Procurement Summary

Attachment B - DEOD Summary

Prepared by: Tim Rosevear, Manager, Risk Financing, (213) 922-6354

Reviewed by: Kenneth Hernandez, Chief Risk, Safety and Asset Management Officer, (213) 922-2990

Debra Avila, Chief, Vendor/Contract Management Officer, (213) 418-3051



Phillip A. Washington  
Chief Executive Officer



## PROCUREMENT SUMMARY

## RISK MANAGEMENT INSURANCE BORKERAGE SERVICES

1.	<b>Contract Number:</b> PS63853000	
2.	<b>Recommended Vendor:</b> USI INSURANCE SERVICES LLC	
3.	<b>Type of Procurement (check one):</b> <input type="checkbox"/> IFB <input checked="" type="checkbox"/> RFP <input type="checkbox"/> RFP-A&E <input type="checkbox"/> Non-Competitive <input type="checkbox"/> Modification <input type="checkbox"/> Task Order	
4.	<b>Procurement Dates:</b>	
	<b>A. Issued:</b> August 12, 2019	
	<b>B. Advertised/Publicized:</b> August 12, 2019	
	<b>C. Pre-Proposal Conference:</b> August 28, 2019	
	<b>D. Proposals Due:</b> September 16, 2019	
	<b>E. Pre-Qualification Completed:</b> Pending	
	<b>F. Conflict of Interest Form Submitted to Ethics:</b> December 3, 2019	
	<b>G. Protest Period End Date:</b> 1/20/20	
5.	<b>Solicitations Picked up/Downloaded:</b> 30	<b>Bids/Proposals Received:</b> 4
6.	<b>Contract Administrator:</b> Marc Margoni	<b>Telephone Number:</b> (213) 922-1304
7.	<b>Project Manager:</b> Tim Rosevear	<b>Telephone Number:</b> (213) 922-6354

**A. Procurement Background**

This Board Action is to approve the award of Contract No. PS63853000 to USI Insurance Services LLC to provide insurance brokerage services. Board approval of contract awards are subject to resolution of any properly submitted protest.

On August 12, 2019, Request for Proposal (RFP) No. PS63853 was issued in accordance with Metro's Acquisition Policy. The contract type is firm fixed price. This RFP was issued with a DBE goal of 15%.

One amendment was issued during the solicitation phase of this RFP:

- Amendment No. 1, issued on September 10, 2019 extended the proposal due date.

A pre-proposal conference was held on August 28, 2019, and was attended by eight participants representing six firms. There were 40 questions received and responses were provided prior to the proposal due date. A total of 30 firms downloaded the RFP and were included on the plan holders list.

A total of four proposals were received on September 16, 2019 from firms listed below in alphabetical order:

- Alliant Insurance Services, Inc.
- Aon Risk Insurance Services West, Inc.

- Arthur J. Gallagher & Co., Insurance Brokers of California, Inc.
- USI Insurance Services LLC

## **B. Evaluation of Proposals**

A Proposal Evaluation Team (PET) consisting of staff from Risk Management and San Diego Metropolitan Transit System (MTS), was convened and conducted a comprehensive technical evaluation of the proposals received.

On October 8, 2019, the PET met to review the evaluation criteria package, process confidentiality and conflict of interest forms and take receipt of the four proposals to initiate the evaluation phase. Evaluations were conducted from October 8, 2019 through October 23, 2019.

The proposals were initially evaluated based on pass/fail minimum qualifications criteria to determine proposals that are “technically acceptable.” The pass/fail criteria included experience in specialized insurance coverages, experience in the public sector, and having the required insurance licenses.

Of the four proposals received, Aon Risk Insurance Services West, Inc. was deemed non-responsive for failure to meet the DBE goal. The remaining three proposals were deemed technically acceptable and were further evaluated based on the following weighted evaluation criteria:

- |  |            |
|--|------------|
| • Qualification of Key Personnel Assigned                        | 35 Percent |
| • Qualifications of Contractor                                   | 35 Percent |
| • Commission Rate Earned on Major Construction Umbrella Policies | 10 Percent |
| • Brokerage Cost Proposal  | 20 Percent |

Several factors were considered in developing these weights, giving the greatest importance to both the qualifications of key personnel assigned and the qualifications of the contractor.

### **Qualification Summary of Firms:**

#### **Alliant Insurance Services, Inc.**

Founded in 1925, Alliant Insurance Services, Inc. (Alliant) is headquartered in Newport Beach, CA. It is a nationwide distributor of diversified insurance products and services. Operating through a national network of offices, Alliant offers a comprehensive portfolio of services including risk solutions, employee benefits, co-brokered solutions, risk control consulting and property valuation.

### **Arthur J. Gallagher & Co., Insurance Brokers of CA, Inc.**

Arthur J. Gallagher & Co., Insurance Brokers of CA, Inc. is a U.S. based insurance brokerage and risk management services firm with principal place of business in Rolling Meadows, Illinois. The firm was established in 1927 and is one of the largest insurance brokers in the world. It provides personal, commercial, surety, life, health, and long-term care insurance solutions for individuals, families, and businesses.

### **USI Insurance Services LLC:**

Founded in 1994 Insurance Services LLC (USI) provides integrated distribution of general and specialty property and casualty insurance, as well as financial services including employee benefits outsourcing and related consulting. USI has served over 150,000 clients covering several industry sectors. Within the public sector, USI handles all lines of property/casualty insurance, employee benefits and bonds. Clients include Metropolitan Transit Authority of Harris County, San Joaquin Regional Transit District, Utah Department of Transportation and the Cities Atlanta, Chicago, Dallas, Charlotte and San Antonio.

On October 23, 2019, the PET reconvened and USI Insurance Services LLC was determined to be the top ranked firm.

The following is a summary of the PET Scores:

1	Firm	Average Score	Factor Weight	Weighted Average Score	Rank
2	<b>USI Insurance Services, LLC</b>				
3	Qualification of Key Personnel Assigned	91.69	35.00%	32.09	
4	Qualifications of Contractor	89.00	35.00%	31.15	
5	Commission Rate Earned on Major Construction Umbrella Policies	100.00	10.00%	10.00	
6	Brokerage Cost Proposal	81.70	20.00%	16.34	
7	<b>Total</b>		<b>100.00%</b>	<b>89.58</b>	<b>1</b>
8	<b>Alliant Insurance Services, Inc.</b>				
9	Qualification of Key Personnel Assigned	89.20	35.00%	31.22	
10	Qualifications of Contractor	91.34	35.00%	31.97	
11	Commission Rate Earned on Major Construction Umbrella Policies	100.00	10.00%	10.00	
12	Brokerage Cost Proposal	71.50	20.00%	14.30	
13	<b>Total</b>		<b>100.00%</b>	<b>87.49</b>	<b>2</b>

<b>14</b>	<b>Arthur J. Gallagher &amp; Co., Insurance Brokers of CA, Inc.</b>				
<b>15</b>	Qualification of Key Personnel Assigned	86.69	35.00%	30.34	
<b>16</b>	Qualifications of Contractor	83.66	35.00%	29.28	
<b>17</b>	Commission Rate Earned on Major Construction Umbrella Policies	75.00	10.00%	7.50	
<b>18</b>	Brokerage Cost Proposal	100.00	20.00%	20.00	
<b>19</b>	<b>Total</b>		<b>100.00%</b>	<b>87.12</b>	<b>3</b>

### **C. Cost/Price Analysis**

The recommended price has been determined to be fair and reasonable based upon adequate price competition, price analysis, technical analysis, fact finding, and historical costs. The recommended price is lower than Metro's independent cost estimate (ICE). Metro's ICE included a three percent rate of inflation for each year during the period of performance, inclusive of the option periods, while the proposed price included an escalation rate for the option periods only.

	<b>Proposer Name</b>	<b>Proposal Amount</b>	<b>Metro ICE</b>	<b>Negotiated or NTE amount</b>
1.	USI Insurance Services	\$2,361,914	<b>\$4,063,642</b>	<b>\$2,361,914</b>
2.	Alliant Insurance Services, Inc.	\$2,700,000		
3.	Arthur J. Gallagher & Co., Insurance Brokers of Ca, Inc.	\$1,930,050		

### **D. Background on Recommended Contractor**

The recommended firm, USI Insurance Services LLC (USI), is headquartered in Valhalla, New York. It is one of the largest insurance brokerage and consulting firms in the world, delivering property and casualty, employee benefits, personal risk programs, and retirement solutions throughout the United States. It is a leading insurance brokerage nationwide approaching \$2 billion in revenue and over \$12 billion in premium placements.

For the past eight years, USI has been assisting Metro in identifying risk exposure, coverages and trends that are unique to a transit agency and performance has been satisfactory. USI's team includes a DBE subcontractor, Barragan Corp International, that will provide associated safety and loss control services.

The proposed Project Manager has 40 years of large account experience and is well versed in all aspects of Metro's property and casualty programs. She has worked with Metro since 2011 and has been actively involved in every facet of Metro's insurance

brokerage program including marketing, placements, coverage and policy review, contract analyses and claims advocacy.

## DEOD SUMMARY

## RISK MANAGEMENT INSURANCE BORKERAGE SERVICES

**A. Small Business Participation**

The Diversity and Economic Opportunity Department (DEOD) established a 15% Disadvantaged Business Enterprise (DBE) goal for this solicitation. USI Insurance Services made a 15% DBE commitment.

<b>Small Business Goal</b>	<b>15% DBE</b>	<b>Small Business Commitment</b>	<b>15% DBE</b>
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	<b>DBE Subcontractors</b>	<b>% Committed</b>
1.	Barragan Corp International	15%
	<b>Total Commitment</b>	<b>15%</b>

**B. Living Wage and Service Contract Worker Retention Policy Applicability**

The Living Wage and Service Contract Worker Retention Policy (LW/SCWRP) is not applicable to this contract.

**C. Prevailing Wage Applicability**

Prevailing wage is not applicable to this contract.

**D. Project Labor Agreement/Construction Careers Policy**

Project Labor Agreement/Construction Careers Policy is not applicable to this Contract. Project Labor Agreement/Construction Careers Policy is applicable only to construction contracts that have a construction contract value in excess of \$2.5 million.