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Agenda - Final

Wednesday, April 14, 2021

1:30 PM

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Finance, Budget and Audit Committee

James Butts, Chair
Kathryn Barger, Vice Chair
Fernando Dutra
Paul Krekorian
Holly Mitchell
Tony Tavares, 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 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

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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. Live Public Comment Instructions can also be translated if requested 72 hours in advance.

323.466.3876
x2 *Español (Spanish)*
x3 中文 *(Chinese)*
x4 한국어 *(Korean)*
x5 Tiếng Việt *(Vietnamese)*
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x7 русский *(Russian)*
x8 Հայերէն *(Armenian)*

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

Live Public Comment Instructions:

Live public comment can only be given by telephone.

The Committee Meeting begins at 1:30 PM Pacific Time on April 14, 2021; you may join the call 5 minutes prior to the start of the meeting.

Dial-in: 888-251-2949 and enter
English Access Code: 8231160#
Spanish Access Code: 4544724#

To give public comment on an item, enter #2 (pound two) when that item is taken up by the Board. Please note that the live video feed lags about 30 seconds behind the actual meeting. There is no lag on the public comment dial-in line.

Instrucciones para comentarios publicos en vivo:

Los comentarios publicos en vivo solo se pueden dar por telefono.

La Reunion de la Junta comienza a las 1:30 PM, hora del Pacifico, el 14 de Abril de 2021. Puedes unirte a la llamada 5 minutos antes del comienso de la junta.

Marque: 888-251-2949 y ingrese el codigo
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Para dar un comentario publico sobre un tema, ingrese #2 (Tecla de numero y dos) cuando ese tema mencionado por la Junta. Por favor tenga en cuenta que la transmission de video en vivo tiene un retraso de aproximadante 30 segundos con respecto a la reunión real. No hay retraso en la linea de comentarios publicos.

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Written public comments must be received by 5PM the day before the meeting.
Please include the Item # in your comment.
Email: goinsc@metro.net
Post Office Mail:
Board Secretary's Office
One Gateway Plaza
MS: 99-3-1
Los Angeles, CA 90012

CALL TO ORDER

ROLL CALL

APPROVE Consent Calendar Items: 5.

Consent Calendar items are approved by one vote unless held by a Director for discussion and/or separate action.

CONSENT CALENDAR

5. SUBJECT: DEBT POLICY 2021-0122

RECOMMENDATION

ADOPT the Debt Policy (included as Attachment A).

Attachments: Attachment A - Debt Policy (Redlined)

NON-CONSENT

7. SUBJECT: ALLOCATION OF FUNDING BALANCE FROM THE CORONAVIRUS RESPONSE AND RELIEF SUPPLEMENTAL APPROPRIATIONS (CRRSA) ACT 2021-0204

RECOMMENDATION

CONSIDER:

A. APPROVING the allocation of the balance of $126,807,083 from Los Angeles County's share of Federal Transit Administration (FTA) Section 5307/ Section 5337 funds from the CRRSA Act to transit operators, as described in Attachment A, for operating expenses;

B. APPROVING exchanges of CRRSA Act funding allocations, as appropriate, with other local or eligible State or Federal funds to accelerate grant approval and disbursement of funds by the FTA; and

C. AUTHORIZING the CEO or his designee to negotiate and execute all necessary agreements to implement Board approved support of transit programs in Los Angeles County.

Attachments: Attachment A - CRRSA Act Funding Allocation by Transit Operator/Agency

8. SUBJECT: PROPERTY INSURANCE PROGRAM 2020-0895

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to negotiate and purchase All Risk Property and Boiler and Machinery insurance policies for all property at increased policy limits at a not to exceed price of $4.75 million for the 12-month period May 10, 2021 through May 10, 2022.

Attachments: Attachment A - Recommended Pricing and Carriers
Attachment B - Alternatives Considered

9. SUBJECT: FISCAL YEAR 2022 BUDGET DEVELOPMENT UPDATE - METRO TRANSIT PROGRAM 2021-0171

RECOMMENDATION

RECEIVE AND FILE Fiscal Year 2022 Budget Development Update - Metro Transit Program.

Attachments: Attachment A - Metro Transit Operations Maintenance and State of Good Repai
Attachment B - Coronavirus Aid, Relief, and Economic Security (CARES) Act Fu

10. SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JULY 1, 2020 TO SEPTEMBER 30, 2020 2021-0138

RECOMMENDATION

RECEIVE AND FILE Office of Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of July 1, 2020 to September 30, 2020.

Attachments: Attachment A - Final Report on Statutorily Mandated Audit of Miscellaneous Exp
Presentation

SUBJECT: GENERAL PUBLIC COMMENT 2021-0197

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

File #: 2021-0122, **File Type:** Policy **Agenda Number:** 5.

FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 14, 2021

SUBJECT: DEBT POLICY

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

ADOPT the Debt Policy (included as Attachment A).

ISSUE

The Debt Policy recommends that it be reviewed periodically and presented to the Board for approval of changes. State law requires California issuers submit a report of proposed debt issuance to the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue. Effective 2017, California legislation requires the report of proposed debt issuance include a certification by the issuer that it has adopted a debt policy.

BACKGROUND

The Debt Policy provides guidelines for the issuance and management of debt issued by the Los Angeles County Metropolitan Transportation Authority ("LACMTA"). The policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, achieving the lowest possible cost of capital within prudent risk parameters and encouraging the use of small business enterprises ("SBE"), service disabled veteran business enterprises ("DVBE"), local and disadvantaged business enterprises ("DBE") advisors and underwriters when appropriate and in accordance with the LACMTA procurement policy.

DISCUSSION

The purpose of the Debt Policy is to establish guidelines for the issuance and management of our debt. The proposed changes to the Debt Policy reflect changes in debt issuance and disclosure standards and practices. Other changes include edits to reflect appropriate titles and edits made to clarify language and improve readability.

POLICY IMPLICATIONS

The Debt Policy governs the management of our overall debt program. The policy sets the guidelines to be used when considering the use of debt, as well as in the on-going management of existing obligations. Guidance is provided specifying appropriate uses, selection of acceptable debt and lease products and debt issuance limits. The processes for selection of professional services and financial products are also specified.

As of March 1, 2021, we had $5.1 billion of bonds outstanding in 27 transactions and three short-term borrowing programs for Proposition A, Proposition C and Measure R with $311.0 million outstanding, all subject to the Debt Policy.

DETERMINATION OF SAFETY IMPACT

The adoption of the updated policy will have no safety impact.

FINANCIAL IMPACT

There is no direct financial impact on the FY21 budget associated with implementing or not implementing the updates to this policy.

ALTERNATIVES CONSIDERED

The California Government Code requires an issuer certify that it has adopted a Debt Policy prior to issuing debt. The Government Finance Officers Association ("GFOA") recommends the adoption of a comprehensive Debt Policy as a Debt Management Best Practice. Properly updated policies governing the management of debt is essential to sound financial and debt management while providing guidance to effectively obtain the lowest cost of capital.

The Board may elect not to approve the proposed revisions to the Debt Policy. The existing Debt Policy shall remain in effect until a revised Debt Policy is adopted.

NEXT STEPS

Following adoption of the Debt Policy we will make it available on the Investor Relations section of our website and distribute it to rating agencies and other interested parties as part of our investor relations outreach.

ATTACHMENTS

Attachment A - Debt Policy (Redlined)

Prepared by: Rodney Johnson, Deputy Executive Officer, Finance, (213) 922-3417
Biljana Seki, Assistant Treasurer, (213) 922-2554

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

Phillip A. Washington
Chief Executive Officer

DEBT POLICY

~~February 2018~~April 2021

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DEBT POLICY

I. Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and management of debt issued by the Los Angeles County Metropolitan Transportation Authority ("LACMTA"). This Debt Policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, achieving the lowest possible cost of capital within prudent risk parameters and encouraging the use of small business enterprises ("SBE"), service disabled veteran business enterprises ("DVBE"), local and disadvantaged business enterprises ("DBE") advisors and underwriters when appropriate and in accordance with the LACMTA procurement policy. The Debt Policy goals are as follows:

1. Achieve the lowest cost of capital
2. Maintain a prudent level of financial risk
3. Preserve future financial flexibility
4. Maintain strong credit ratings and good investor relations
5. Ensure that SBE, DVBE, local and DBE investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles in accordance with the LACMTA procurement policy.

II. Scope and Authority

This Debt Policy shall govern, except as otherwise covered by the Investment Policy, Gas Hedging Guidelines, Defeased Lease Policy or Interest Rate Swap Policy, the issuance and management of bonds and other forms of indebtedness of LACMTA, together with any credit, liquidity or other security instruments and agreements that may be executed in connection with the issuance of bonds and other forms of indebtedness (collectively referred to as "Bonds" or "Debt")."

While adherence to this Debt Policy is generally required, it is recognized that changes in the capital markets, our programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Debt Policy and will require modifications or exceptions to best achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained or is authorized in this policy. The Chief Executive Officer, the Chief Financial Officer, the Treasurer, a Deputy Executive Officer, Finance and an Assistant Treasurer, each, an "Authorized Signatory," are each individually authorized to take all reasonable actions necessary to issue the debt and administer the debt on an ongoing basis. The administration is herein defined as "Administrative Actions." Administrative Actions may be taken when in the reasonable judgment of an Authorized

Signatory such action will be beneficial and consistent with the original objectives for entering into the transaction. Administrative Actions include both day-to-day administrative activities as well as actions that need to be taken to correct problems, such as with providers of services or financial facilities, agreements, insurance policies or surety policies. Such Administrative Actions may include, but are not limited to, amendment of terms and pricing, replacement of providers, amendment or replacement of agreements and facilities and substitution using different products and providing for the issuance of commercial paper, all to achieve the original purpose of the transaction. The failure by LACMTA to comply with any provision of this Debt Policy shall not affect the validity of any Debt that is otherwise duly authorized and executed.

The Debt Policy shall be reviewed at least annually and presented to the Board for approval of any changes as needed excluding changes to position titles. If no changes are needed, the existing approved Debt Policy will remain in effect until the Board approves the recommended update to the Debt Policy. The Treasurer shall have the day-to-day responsibility and authority for structuring, implementing and managing the debt and finance program. The Debt Policy requires that the Board specifically authorize each long-term debt and lease financing. However, as detailed in the following section, the authority is ongoing regarding issuance of commercial paper and other ~~short term~~short-term borrowings in support of Board authorized capital projects and expenditures, and to remedy matters being addressed as Administrative Actions.

III. Capital Budgeting and Debt Issuance Process

A. Capital Budgeting

1. The Capital Plan

   A Capital Plan shall be developed for consideration and adoption by the Board. The Capital Plan should have a planning horizon of at least a 5-year period and shall be updated at least annually. It is our current practice to include the Capital Plan in the Annual Budget for consideration and adoption.

2. Authorization for Issuance of Bonds and Leases

   Each bond issue or financial lease shall be presented to the Board for authorization. The Board's adoption of the Annual Budget does not constitute authorization for issuance of bonds or a financing lease.

3. Authorization for Interim Financing Programs

   Issuance of commercial paper and similar short-term borrowings such as revolving credit facilities are authorized by the Board approval of short-term borrowing programs. The Authorized Signatories may then take all actions necessary to cause the issuance of such short-term notes or draws on similar short-term borrowing facilities, to fund, refund or reimburse expenditures related to Board approved capital projects and expenditures, as well as to remedy matters being addressed as Administrative Actions.

B. Types of Debt Financing

1. Use of Long-Term Debt

a) *Purpose for Long-Term Debt*

Long-term debt is appropriate for financing essential capital projects and certain capital equipment where paying over time, with interest, allows us to meet certain public policy goals. Those goals may include accelerating the completion of improvements to increase mobility, taking advantage of available federal or other funding, and matching the payment for improvements with their use in recognition that future taxpayers can benefit from the capital investment. The use of long-term debt will be evaluated with pay-as-you-go capital investment and will not be used to fund non-capital operational expenditures or operating deficits.

In order to achieve strong credit ratings and the lowest cost of funding, the debt secured by Proposition A, Proposition C, Measure R or Measure M sales tax shall allow for each of the respective bond trust agreements to pledge the entire amount of the sales taxes received, except for the Local Return portion of that sales tax. Debt service attributable to the financing of a project will be charged to one or more ordinance categories in accordance with the applicable ordinance.

b) *Lease Financing*

Lease obligations are an appropriate means of financing capital equipment where lease financing will be more beneficial, either economically or from a policy perspective. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Capital equipment will generally be purchased on a pay-as-you-go basis where feasible. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with a pay-as-you-go strategy in lieu of lease financing. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding $10 million. All tax-exempt leases shall be implemented and maintained by the Treasury Department.

c) *Alternative Financing Programs*

Federal loans, state loans or other conduit pool loan programs as well as federally subsidized taxable and tax- exempt bond programs may be utilized to provide funding when such loans or bonds provide an attractive funding cost or provide other features deemed desirable for the circumstances, such as deep subordination of the repayment obligation, an unusually long repayment term, or other desirable features. Staff will evaluate these programs for any new risks and costs, and account for such factors in considering their use.

2. Use of Short-Term and Variable Rate Debt

a) *Interim Financing*

Commercial paper, and similar short-term borrowing programs as well as short-term fixed rate bond or grant anticipation notes, which generally have maturities of less than 3 years, are cash management tools that are primarily used to provide interim funding for capital expenditures that will ultimately be funded from another source such as a grant, a long-term bond issue, or a Federal loan program. The Board has previously authorized the ongoing use of the Proposition A, Proposition C and Measure R commercial paper or similar short-term borrowing programs, ~~respectively,~~respectively; to fund Board approved programs and expenditures. The Board may also authorize theongoing use of interim financing for Measure M programs.

b) *Variable Rate Debt*

In addition to interim financing, which includes commercial paper and similar short-term borrowing programs, it may be appropriate to issue long-term variable rate debt that bears an interest rate that is reset periodically at predetermined intervals, including entering into revolving credit facilities, to diversify the debt portfolio, reduce interest costs, and improve the match of variable rate assets (such as short-term investments and reserves) to liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt, and the total of hedged and un-hedged variable rate debt will not exceed ~~50%~~30% of all outstanding debt. Under no circumstances will variable rate debt be issued solely for the purpose of earning interest through arbitrage. If unhedged variable rate debt is outstanding, at least annually, it shall be determined whether it is appropriate to convert the debt to fixed interest rates.

IV. Debt Affordability Policy Limits

A. LACMTA Borrowings

The maximum amounts of revenues to be used to pay debt service are listed as percentages of the respective revenue sources. These limits in combination with the Capital Plan and multi-year planning documents ensure that we will be able to continue providing our essential operational services while planning for replacement, rehabilitation and expansion of our capital investments.

Proposition A Sales Tax Revenue Debt Affordability Limits		
Category	***Allowable Uses***	***Debt Policy Maximum***
Prop A Rail 35%	*Rail Operations & Capital.*	87% of Prop A Rail 35%.
Discretionary 40%	*Any transit purpose*. Current state law directs these funds to bus subsidies and incentives.	No further issuance.
Local Return 25%	*Any transit purpose.* Distributed to localities based on population.	N/A

Proposition C Sales Tax Revenue Debt Affordability Limits		
Category	***Allowable Uses***	***Debt Policy Maximum***
Discretionary 40%	*Bus & Rail, Capital & Operating.*	40% of Discretionary 40%.
Highway 25%	*Streets, Highways and Fixed Guideway Projects on Railroad Right-of-Way.*	60% of Highway 25%.
Commuter Rail 10%	*Commuter Rail and Park and Ride. Operations or capital.*	40% of Commuter Rail 10%.
Security 5%	*Transit Security.* Operations or capital.	No debt issuance.
Local Return 20%	*Any transit purpose and certain roadways heavily used by transit.* Distributed to localities based on population.	N/A

Measure R Sales Tax Revenue Debt Affordability Limits		
Category	***Allowable Uses***	***Debt Policy Maximum***
Transit Capital 35% – New Rail and/or Bus Rapid Transit	*New Rail and/or Bus Rapid Transit.*	87% of Transit Capital 35% – New Rail and/or Bus Rapid Transit.
Transit Capital 3% – Metrolink Capital Improvement Projects Within LA County	*Operations, Maintenance and Expansion for system improvements, rail yards and rail cars.*	87% of Transit Capital 3% – Metrolink Capital Improvements within LA County.
Transit Capital 2% – Metro Rail Capital	*System improvements, rail yards and rail cars.*	87% of Transit Capital 2% – Metro Rail Capital.
Highway Capital 20%	*Carpool lanes, highways, goods movement, grade separations and soundwalls.*	60% of Highway Capital 20%.
Operations 5% – Rail Operations	*Rail operations for new transit project operations and maintenance.*	No debt issuance.
Operations 20% – Bus Operations	*Bus operations for countywide bus service and maintenance.*	No debt issuance.
Local Return 15%	*Major street resurfacing, rehabilitation and reconstruction; pothole repair; left turn signals; bikeways, pedestrian improvements; streetscapes; signal synchronization; and transit.* Distributed to localities based on population.	N/A

Measure M Sales Tax Revenue Debt Affordability Limits		
Category	***Allowable Uses***	***Debt Policy Maximum***
Transit, First/Last Mile (Capital) 35% - Transit Construction	*Includes system connectivity projects-Airports, Union Station, and Countywide BRT.*	87% of Transit First/Last Mile (Capital) 35% – Transit Construction.
Transit Operating & Maintenance 20% – Transit Operations	*Operations for transit service, maintenance, and expansion.*	No debt issuance.

Measure M Sales Tax Revenue Debt Affordability Limits (continued from previous page)		
Category	***Allowable Uses***	***Debt Policy Maximum***
Highway, Active Transportation, Complete Streets (Capital) 17% – Highway Construction	*Includes System Connectivity Projects-Ports, Highway Congestion Programs, Goods Movement.*	87% of Highway, Active Transportation, Complete Streets (Capital) 17% – Highway Construction.
Local Return/Regional Rail 16% – Local Return	*Streets and roads, traffic control measures, active transportation, public transit services, public transit capital, transit oriented community investments, transportation marketing, congestion management program, transportation administration, and local funding contributions.* Distributed to localities based on population.	N/A
Transit Operating & Maintenance 5% – Metro Rail Operations	*Operating, regular and preventative maintenance for existing and new Metro Rail Lines, as well as the repair, replacement, and rehabilitation of Metro assets required for its rail transit vehicle fleet, systems and engineering, and stations.*	No debt issuance.
Highway, Active Transportation, Complete Streets (Capital) 2% – Metro Active	*Bicycle, Pedestrian, Complete Streets.*	87% of Highway, Active Transportation, Complete Streets (Capital) 2% – Metro Active Transportation.
Transit, First/Last Mile (Capital) 2% – Metro State of Good Repair	*Repair, replacement, and rehabilitation of Metro Rail assets.*	87% of Transit, First/Last Mile (Capital) 2% – Metro State of Good Repair. Issuance unlikely in the future.
Transit Operating & Maintenance 2% – ADA Paratransit	*ADA Paratransit for the Disabled; Metro Discounts for Seniors and Students.*	No debt issuance.
Local Return/Regional Rail 1% – Regional Rail	*Regional commuter rail operations and services for L.A. County.*	87% of Local Return /Regional Rail 1% – Regional Rail. Issuance unlikely in the future.

Other Revenue Debt Affordability Targets		
Category	***Allowable Uses***	***Debt Policy Maximum***
Fare Box Revenue	*Any transit purpose.*	No further issuance.
Federal Grant Revenues	*In accordance with grant.*	Limited issuance.(1)
State Grant Revenues	*In accordance with grant.*	No debt issuance.
Transportation Development Act ~~TDA~~	*Various transit purposes.*	Limited issuance.(1)
Benefit AssessmentLevies	*Historically to support rail construction.*	Limited issuance.(1)
Lease Revenues	*Any transit purpose.*	Limited issuance.(1)
Toll Revenues	*Permitted expenditures within the Corridor, as so determined.*	Limited issuance.(1)
Other System Revenues	*Any transit purpose.*	Limited issuance.(1)

(1) Based on revenue availability and capital program needs.

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B. Local Return Borrowings

California law prevents LACMTA from borrowing against the Local Return funds. LACMTA provides guidance to recipients of Local Return funds for borrowing against those funds through the Local Return Borrowing Guidelines. The borrowings are generally consistent for all four sales tax measures.

V. Purpose of Financing

A. New Money Financing

New money issues are financings that generate additional funding to be available for expenditure on capital projects. These financings may be long-term financings, or short-term financings for interim funding pending a long-term financing or receipt of funds. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money bond proceeds may not be used to fund non-capital operational expenditures. The funding requirement by sales tax ordinance category is determined in the context of the Capital Plan and Annual Budget. The financial advisor will recommend the financing structure based on the type of financial products available and in consideration of market conditions at the time of the sale.

B. Refunding Bonds

LACMTA shall continuously review its outstanding obligations for economic, ~~or~~ cost-effective opportunities, or other “non-economic” reasons to issue refunding ~~opportunities~~obligations. Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove restrictive covenants.

In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to the Board. The target savings amounts listed below are not applicable for refunding transactions that are not solely undertaken to achieve cost savings.

~~The target savings amount shall be measured using either a call option pricing model or the savings as percentage of the refunded par.~~

The traditional methodology of measuring the effectiveness of a refunding is to divide the net present value savings as a percentage of the refunded par amount. Absent any significant non-economic factors, ~~This policy incorporates the standard rule of thumb that~~ a refundingshould generate, at a minimum, net present value savings of at least 3% of the refunded par amount for a current refunding, where the outstanding bonds can be prepaid within 90 days. A higher savings requirement may be appropriate for an advance refunding, where the proceeds are placed in an escrow to call bonds in the future. In addition, the efficiency of the investments in the refunding escrow should be considered in recommending an advance refunding.

~~Alternatively, the value of the call option (using an option pricing model) can be used to evaluate a refunding whose sole purpose will be to achieve cost savings. The target savings from any particular refunding candidate, by maturity, shall be no less than 80% of the calculated value of the call option, net of all transaction expenses.~~

While the Treasurer will evaluate refunding savings for each outstanding maturity, these policy minimums recognize that individual maturities, particularly short maturities, may be appropriate to refund even at lower savings thresholds, recognizing that the value of the call option "asset" will be reduced with the passage of time. The Treasurer shall have discretion in making the final determination to include individual refunding candidates that are above or below the target in order to optimize the policy and/or financial objectives.

In the event that an interest rate swap or other derivative product is to be used as part of a refunding, the target savings shall be increased to account for any additional ongoing administrative costs, financial risk beyond that of a traditional fixed rate refunding, and loss of future financial flexibility.

VI. Types of Products

A. Current Coupon Bonds

Current coupon bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features may be adjusted to accommodate the market conditions at the time of sale, including changing the dollar amounts for annual principal maturities, offering discount and premium bond pricing, modifying the terms of the call provisions, and utilizing bond insurance.

B. Zero Coupon and Capital Appreciation Bonds

Zero coupon bonds and capital appreciation bonds have principal amortization that is much slower than level debt service resulting in increased interest expenditure over the life of the bond and, therefore, shall only be recommended in limited situations.

C. Lease Purchase Financing

Lease purchase financing represents a long-term financing lease that is suitable for financing capital expenditures, including the acquisition and/or construction of land, facilities, equipment and rolling stock.

1. Equipment

   We shall have the ability to consider lease purchase transactions, including certificates of participation, long-term vendor leases, and the use of master lease programs. Financing of equipment will be limited to contracts of at least $20,000 and a useful life that is greater than 3 years. The final maturity of equipment lease financings will be limited to the remaining useful life of the equipment.

2. Real Property

   The final maturity of the financing shall not exceed the remaining useful life of the facility. A lease financing generally should not have a final maturity exceeding 30 years. Principal payments related to real property acquisition or construction are to be amortized so that there will be level debt service payments, although a more rapid amortization may be used to accelerate the repayment.

D. Derivative Products

Derivative products will be considered appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where it is expected to reduce total financing cost. The Board approved Interest Rate Swap Policy sets forth the guidelines for interest rate swaps. For derivatives not addressed in the Interest Rate Swap Policy, an analysis of early termination costs and other conditional terms given certain financing and marketing assumptions will be completed. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Derivative products will only be utilized with prior Board approval except as otherwise specified in the Interest Rate Swap Policy.

VII. Structural Features

A. Maturity of Debt

The final maturity of the debt shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed. In no event shall the final maturity exceed 50 years, per the Public Utilities Code Section 130534.

B. Debt Service Structure

LACMTA shall design the debt service schedule and repayment of debt to take advantage of market conditions, provide flexibility and, as practical, to recapture or maximize its debt capacity for future use. In most cases, combined principal and interest payments for any particular bond issue will be structured to have approximately level annual debt servicepayments over the life of the bond issue. Nevertheless, the debt service of an individual bond issue can be structured to produce level aggregate debt service for each lien.

C. Lien Levels

Senior and Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint -- typically either cost or capacity -- thus allowing for the most beneficial use of the revenue source securing the bond.

D. Capitalized Interest

Unless required by a particular financing, interest on debt will not be capitalized out of debt proceeds. This avoids unnecessarily increasing the bond size. Certain types of financings such as lease-secured financings, direct federal loans, and certain revenue bond projects may require that interest on the debt be paid from capitalized interest until we have constructive use of the project and project related revenues are expected to be available to pay debt service.

E. Discount and Premium Bonds

Discount or premium bonds may reduce the interest cost of the bonds by better matching investors' desires in certain markets. We may limit the amount of discount or premium coupons to reduce the negative impact on any subsequent refunding of the bonds for interest savings.

F. Debt Service Reserve Fund

The LACMTA shall allocate a portion of the bond proceeds from a debt financing to a debt serve reserve fund "DSRF" if required by market conditions or the rating agencies to achieve the lowest possible financing cost. The ~~debt service reserve fund "DSRF,~~DSRF~~"~~ is generally cash funded with bond proceeds. The trustee maintains the DSRF throughout the life of the bonds. A cash funded DSRF is invested pursuant to investment of proceeds guidelines within the respective indenture and interest earnings are generally used to offset debt service payments. In the final year of the bond issue, thecash available in the DSRF is usually used to make the final debt service payment. ~~Since a cash funded DSRF generates interest income, the DSRF~~

~~has the potential to be cost neutral if the interest earnings equal or exceed the interest rate of the bonds.~~

An alternative to having a cash funded DSRF is to use a DSRF surety policy obtained from a highly rated bond insurer. The surety policy requires an up-front fee payment to the insurer and results in a loss of future income to the DSRF. The Treasurer with the financial advisor will evaluate and document the DSRF funding decision to ensure that this alternative provides a more cost effective solution to the bond issuance. ~~Factors to be considered in this evaluation include: arbitrage yieldrestrictions, current interest rates, availability and cost of a surety policy, foregone interest and capital gains from a cash funded DSRF, the relative size of the reserve requirement compared to the prior reserve requirement (refunding issues only), and opportunities for the use of the funds withdrawnfrom the DSRF including additional capital projects or investment opportunities.~~

To the extent a DSRF is not required under the authorizing documents for a bond issue, the financial advisor will be consulted to advise whether a DSRF should be included. The analysis will consider the anticipated net cost of carry for the DSRF, loss of additional bonding capacity, and impacts on ratings and bond pricing.

G. Amortization

Debt will be amortized within each lien to achieve overall level debt service or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The use of heavily back-loaded principal repayment, bullet and balloon maturities should be avoided, except to achieve wrapped debt service so as to level the aggregate outstanding debt service.

If debt is issued under an alternative structure, such as a direct federal loan, the amortization schedule may be modified in order to meet specific requirements of the financing program or utilize advantageous alternative repayment schedules.

H. Financial and Risk Analysis of Issuance

Net present value cost analysis, assessment of structural risks and complexities, and consideration of restrictions to future financing flexibility will be assessed and documented to determine the most efficient bond type and structuring features. Our long-term pooled investment rate will be used as the discount rate when comparing alternatives.

I. Call Provisions

In general, bonds issued should include a 10~~-~~-year par-call feature. However, if determined to be financially advantageous, bonds may be issued that have make-whole calls, are non-callable or include a par-call for periods longer or shorter than 10 years. Prior to the use of any such call provision, the option-adjusted yields on the bonds with and without a non-call provision will be analyzed to determine which is most beneficial.

J. Credit Enhancement

1. Bond Insurance

   Bond insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue. Bond insurance may be secured from third-party credit providers to the extent such credit enhancement is available upon competitive and ~~cost effective~~cost-effective terms. Selection of credit enhancement providers shall be subject to a competitive bid process. Credit enhancement may be used to improve or establish a credit rating on a debt obligation even if such credit enhancement is not cost effective if the use of such credit enhancement meets the organization's debt financing goals and objectives.

2. Bank Facilities

   The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of some form of bank facility, to ensure that the investor can sell their bond or note back when the interest rate is reset, in the form of a letter of credit, line of credit or standby bond purchase agreement. Alternatively, banks provide for variable rate direct lending to us such as through a revolving credit facility or direct purchase agreement.

   a) *Provider Selection*

      Depending on market conditions, the financial advisor will conduct a competitive process to recommend a bank facility provider. Banks will have short-term ratings of at least P-1/A-1, or equivalent ratings, by any two nationally recognized rating agencies including Moody's Investors Service, S&P Global Ratings, Fitch Ratings and Kroll Bond Rating Agency, Inc., in order to be solicited for bank liquidity or credit enhancement, such as letters of credit or standby bond purchase agreements. Minimum short-term ratings are not required for bank facilities where the bank lends directly to us. Selection criteria for Bank Facilities will include the following:

      i. The bank's acceptance of terms and conditions acceptable to us. A term sheet will be provided along with the request for qualifications and any requested modifications will be highlighted by the bank;
      ii. A review of a representative list of clients for whom the bank has provided Bank Facilities; and
      iii. Evaluation of fees; specifically, cost of credit and/or liquidity facility, draws, bank counsel and other administrative

charges, index (e.g., SIFMA or, LIBOR, or if LIBOR shall no longer be in general use, any successor index determined by the Alternative Reference Rates Committee) and the spread to the index for direct lending, and an estimate of the trading differential for a given bank.

VIII. Documentation of Transactions

The decision processes used in each financing process will be fully documented. The Treasurer and the Deputy Executive Officer, Finance overseeing the debt program will be responsible for maintaining information regarding the selection of the financing team, decisions on product selection and structuring features, selection of vendors providing ancillary services and selection of investment securities or products. This information will be compiled into a post-pricing book "transaction file," which will be retained along with the bond closing transcript for each financing.

Additionally, copies of all material documents related to the capital expenditures financed or refinanced by bond proceeds, copies of all contracts and arrangements involving the use of bond proceeds, copies of all contracts and arrangements involving the use of bond financed or refinanced assets, and copies of all records of investments, investment agreements, arbitrage reports and underlying documents including Trustee statements in connection with any investment agreements, and copies of bidding documents shall be maintained.

The documents shall be maintained for the term of each issue of bonds plus five years in accordance with LACMTA's record keeping policies.

IX. Credit Objectives

We will actively seek to:

1. Maintain and improve the credit ratings of our outstanding bonds.
2. Adhere to benchmarks, overall debt ratios and affordability targets.
3. Have frequent communications with the credit rating agencies.

X. Method of Bond Sale

The competitive bond sale process will be utilized when it is expected to provide the lowest interest cost for the bonds. However, there are three methods of sale: competitive, negotiated and private placement. Each type of bond sale has the potential to provide the lowest cost given the right conditions. The conditions under which each type of bond sale is best used are provided below.

A. Competitive Sale

1. Bond prices are stable and/or demand is strong.
2. Market timing and interest rate sensitivity are not critical to the pricing.

3. Participation from DBE / SBE firms is best efforts only and not required for winning bid.
4. Issuer has a strong credit rating.
~~5.~~ Issuer is well known to investors.
~~6.~~
~~7.~~5.
~~8.~~6. There are no complex explanations required during marketing regarding the issuer's projects, media coverage, political structure,political support, funding, or credit quality.
~~9.~~7. The bond type and structural features are conventional.
~~10.~~8. Manageable transaction size.

B. Negotiated Sale

1. Bond prices are volatile.
2. Demand is weak or supply of competing bonds is high.
3. Market timing is important, such as for marginal refundings.
4. Coordination of multiple components of the financing is required.
5. Participation from DBE / SBE firms is enhanced.
6. Issuer has lower or weakening credit rating.
7. Issuer or the particular credit is not well known to investors.
8. Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality.
9. The bond type and/or structural features are non-standard, such as for a forward delivery bond sale, issuance of variable rate bonds, use of derivative products or there is a specific structural feature required or desired which benefits from the negotiated process.
10. Early structuring and market participation by underwriters are desired.
11. The par amount for the transaction is significantly larger and would limit competition.
12. Demand for the bonds by retail investors is expected to be high.

For a negotiated bond sale, the financial advisor will conduct a competitive process to select underwriters, either for a specific bond issue or through the establishment of a pool of underwriters to be used for bond issues over a defined time period. Selection scoring will include the local preference criteria in accordance with the LACMTA procurement policy.

C. Private Placement

Private placement is a sale that is structured specifically for one purchaser such as a bank. A direct purchase agreement or a revolving credit facility are forms of private placement. If a private placement is the preferred method of sale, depending on market conditions, the financial advisor will conduct a competitive process to recommend the purchaser of the obligations. Selection criteria will include the following:

1. A term sheet will be provided along with the request for qualifications

and any requested modifications will be highlighted by the bank. The bank's acceptance of terms and conditions acceptable to us will be a factor in selection;

~~2.~~ A review of a representative list of clients for whom the bank has provided similar agreements; and

2.

3. Evaluation of fees; specifically, cost of the agreement including index, and spread and other administrative charges. The evaluation of fees, terms and conditions will be compared to other alternative financing methods.

In the event a private placement is utilized, Metro will provide information to the rating agencies currently rating our long term debt and will post on the Electronic Municipal Market Access "EMMA" website of the Municipal Securities Rulemaking Board.

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XI. Internal Controls

When issuing debt, in addition to complying with the terms of this Debt Policy, LACMTA shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, and investment of bond proceeds.

LACMTA will periodically review the requirements of and will remain in compliance with the following:

1. Any continuing disclosure undertakings under SEC Rule 15c2-12 such as filing our annual financial statements and other financial and operating data for the benefit of our bondholders within 195 days (January 11) of the close of thefiscal year and file material event notices on the EMMA website in a timely manner,

~~1.~~2. Any annual report to CDIAC for any issuance of debt that LACMTA has submitted a report of final sale on or after January 1, 2017. The annual report shall comply with Government Code Section 8855 and related regulations.

~~2.~~3. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and

~~3.~~4. LACMTA investment policies as they relate to the investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to LACMTA upon the submission of one or more written requisitions, or (b) by LACMTA, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by LACMTA.

XII. Investment of Bond Proceeds

A. Purchase and Sale of Investments

Compliance shall be maintained with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested. The Treasurer may direct the investment of bond and lease proceeds in accordance with the permitted investments for any particular bond issue or lease. Providers of structured investment products and professional services required to implement the product or agreement will be recommended based on a competitive process conducted by the financial advisor or investment advisor.

B. Diversification

Investment contracts shall be diversified in order to reduce risk exposure to investment providers, types of investment products and types of securities held.

C. Disclosure

It shall be required that all fees resulting from investment services or sale of products to us be fully disclosed to ensure that there are no conflicts of interest and investments are being purchased at a fair market price. Underwriters of the bonds, but not the financial or investment advisor, may bid on the sale of investment products for the proceeds. The financial or investment advisor shall document the bidding process and results and shall certify in writing that a competitive and fair market price was received.

XIII. Market Relationships

A. Rating Agencies

The Chief Executive Officer, the Chief Financial Officer and the Treasurer shall be primarily responsible for maintaining our relationships with Moody's Investors Service, Standard & Poor's ~~and~~ Fitch Ratings, Kroll bond Rating Agency or any other nationally recognized rating agency. In addition to general communications, the Chief Executive Officer, the Chief Financial Officer, and the Treasurer, or their appropriate designees, shall communicate with the analysts of each agency providing an underlying rating at least annually, and prior to each competitive or negotiated sale.

B. Investor Relations

An Investor Relations section on or linked to our website shall be maintained and updated on a regular basis with relevant financial and debt information. Timely and accurate information shall be provided in response to inquiries from investors in order to maintain positive ongoing investor relations.

C. Board Communication

As a means of providing feedback from rating agencies and/or investors regarding our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board as material information develops.

XIV. Initial Disclosure

For each public offering of long-term bonds, we are generally required to prepare a preliminary official statement ("POS") and final official statement ("FOS"). Along with our legal counsel and financial advisor, we will review and discuss necessary disclosure information in drafting the official statement ("OS") and utilize appropriate disclosure procedures in order to comply with Federal Securities Law, including SEC Rule 10b-5. A draft of the POS will be provided to the Board for its review and comment prior to the posting of the POS. In connection with each bond issue, we should retain legal counsel for assistance and advice regarding our disclosure responsibilities with respect to the OS. This legal counsel may be the Bond Counsel for the issue or it may be separately engaged Disclosure Counsel. Disclosure policies and procedures will be maintained to assist in the disclosure process.

XV. Consultants

The financial advisors and bond and disclosure counsel will be selected by competitive process through a Request for Proposals ("RFP"). Our contracting policies that are in effect at the time will apply to the contracts with finance professionals. Selection may be based on a best value approach for professional services or the lowest responsive ~~cost effective~~cost-effective bid based upon pre-determined criteria, in accordance with LACMTA's procurement policy.

A. Financial Advisor

At least three financial advisors will be selected to assist in the debt issuance and debt administration processes. Additionally, the financial advisors will conduct competitive processes to recommend providers of financial services and products, including but not limited to: bond underwriters, remarketing agents, trustees, credit providers, investment advisors and managers, investment measurement services, and custody services.

Selection of the financial advisors should, at a minimum, be based on the following:

1. Experience in providing consulting services to complex issuers.
2. Knowledge and experience in structuring and analyzing complex issues.
3. Ability to conduct competitive selection processes to obtain investment products and financial services.
4. Experience and reputation of assigned personnel.
5. Independence of the advisor from the firms and industries that will be affected by the advice the advisor provides to LACMTA. The firm should be free from actual conflict of interest and free from any potential or perceived conflict of interest. For example, an advisor for a bond transaction should not be a bond underwriter or bond broker/dealer.

6. Fees and expenses.
7. Registered with the Municipal Securities Rulemaking Board and in good standing.
8. The financial advisor shall be an Independent Registered Municipal Advisor (IRMA) as defined by the Securities and Exchange Commission.

Financial advisory services provided to us shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance.
2. Monitoring of the debt portfolio and bond proceeds investments to alert us to opportunities to refund or restructure bond issues or modify investments.
3. Evaluation and recommendation regarding proposals submitted by investment banking firms.
4. Structuring and pricing bond issues, financial instruments and investments.
5. Preparation of requests for proposals and selection of providers for bond counsel, underwriters, remarketing agents, letter of credit banks, investment products, financial products and financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, investment management services, custody services etc.).
6. Provide advice, assistance and preparation for presentations with rating agencies and investors.

B. Bond Counsel

Transaction documentation for debt issues shall include a written opinion by legal counsel affirming we are authorized to issue the proposed debt, that we have met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt’s federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The counsel will be selected from the pool of bond counsel firms.

C. Disclosure Counsel

When undertaking a bond sale, disclosure counsel may be retained to prepare the official statement if additional independence or expertise is needed. Disclosure counsel will be responsible for ensuring that the official statement complies with all applicable rules, regulations and guidelines. Disclosure counsel will be a nationally recognized firm with extensive experience in public finance. The disclosure counsel will typically be selected from the pool of bond counsel firms. Most frequently, the disclosure counsel function will be administered by either bond counsel or underwriter’s counsel.

D. Disclosure by Financing Team Members

We expect that all of our financial advisory team will at all times provide us with objective advice and analysis, maintain the confidentiality of our financial plans, and be free from any conflicts of interest. All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in our best interests or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

XVI. Post-Issuance Compliance Procedures

We will establish and document procedures to ensure that LACMTA is in compliance with annual reporting requirements under California Government Code Section 8855(k) and with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is and will remain tax-exempt. Additionally, as part of the post issuance compliance procedures, LACMTA will ensure that proceeds of the debt issuance are directed to the intended use. The Post-Issuance Compliance Procedures will be reviewed at least every three years.

# # # #

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

File #: 2021-0204, **File Type:** Budget **Agenda Number:** 7.

FINANCE, BUDGET & AUDIT COMMITTEE
APRIL 14, 2021

SUBJECT: ALLOCATION OF FUNDING BALANCE FROM THE CORONAVIRUS RESPONSE AND RELIEF SUPPLEMENTAL APPROPRIATIONS (CRRSA) ACT

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

A. APPROVING the allocation of the balance of $126,807,083 from Los Angeles County's share of Federal Transit Administration (FTA) Section 5307/ Section 5337 funds from the CRRSA Act to transit operators, as described in Attachment A, for operating expenses;

B. APPROVING exchanges of CRRSA Act funding allocations, as appropriate, with other local or eligible State or Federal funds to accelerate grant approval and disbursement of funds by the FTA; and

C. AUTHORIZING the CEO or his designee to negotiate and execute all necessary agreements to implement Board approved support of transit programs in Los Angeles County.

ISSUE

On April 1, 2021, the Regional Council and Transportation Committee of the Southern California Association of Governments (SCAG) unanimously approved to allocate to Los Angeles County $126,807,083 the balance from the $954,900,781 in Section 5307/ Section 5337 funds that the FTA apportioned to the Los Angeles- Long Beach- Anaheim Urbanized Area (UZA) from the CRRSA Act. SCAG's "Round 2" allocation is in addition to its March 2021 partial ("Round 1") allocation. SCAG's action formalizes the inter-county allocation methodology its staff had recommended on February 1, 2021. It also formalizes the agreement that the CEO reached with the Orange County Transportation Authority (OCTA), San Bernardino County Transportation Authority (SBCTA) and Riverside County Transportation Commission (RCTC). These agencies had disputed SCAG's methodology and proposed using a different approach that would have resulted in Los Angeles County not receiving $126,807,083 from the "Round 2" balance that remained to be allocated by SCAG.

BACKGROUND

The CRRSA Act, signed into law on December 27, 2020, appropriated $14 billion for transit nationwide, to remain available until expended, for eligible expenses incurred starting on January 20, 2020. These funds are in addition to the $25 billion that were appropriated by the “Coronavirus Aid, Relief, and Economic Security Act’’ (CARES Act) that was signed into law on March 27, 2020. The Metro Board of Directors approved the allocation of Los Angeles County’s share of CARES Act funds totaling about $1.069 billion at its May 28, 2020 regular meeting. Also, the Metro Board of Directors approved the allocation of Los Angeles County’s share of $784,942,958 at its March 25, 2021 meeting based on SCAG’s “Round 1” inter-county distribution that was included in the agenda of the Regional Council’s March 4, 2021 meeting.

The dispute by OCTA, SBCTA and RCTC of SCAG’s delayed the allocation of much needed funding for transit operators in Los Angeles County. It also created a precedent for SCAG staff to take their recommended inter-county allocation methodology for approval through its committees and the Regional Council instead of handling such approvals administratively as has been the case in prior years with the inter-county allocation of federal funds that Congress appropriates and the FTA apportions to UZAs each year.

DISCUSSION

Staff discussed options for Metro and Los Angeles County to pursue should: i) OCTA, SBCTA and RCTC continued disputing SCAG’s staff recommended inter-county allocation methodology, and ii) SCAG’s standing committees and Regional Council voted against the staff recommendation and supported the distribution methodology that these three agencies proposed. This inter-departmental effort also included reaching out to elected officials, transit operators, cities, Councils of governments and other stakeholders throughout Los Angeles County to explain the issue and seek their support for SCAG’s staff recommended inter-county allocation methodology. Over 70 stakeholder representatives, including Board Offices, participated in a call that staff organized for this purpose. These efforts and the support of the Metro Board of Directors resulted in the positive action we had envisioned. The inter-county methodology that SCAG approved is fair, transparent, and implements the intent of the CRRSA Act.

Funding Allocations

The balance of $126,807,083 allocated to Los Angeles County (“Round 2”) follows the same methodology as the “Round 1” CRRSA Act fund allocations that the Metro Board of Directors approved at its March 2021. Los Angeles County’s CRRSA Act funding allocations are shown for each transit operator/agency in Attachment A. Metro, the Municipal Operators, Metrolink, Access Services, as well as local and regional small operators and countywide transit programs, receive “Round 2” funding allocations.

Equity Platform

The recommendation supports access to opportunities, particularly the third pillar (“Focus and Deliver”) of Metro’s Equity Platform. The additional funding that was secured from the CRRSA Act is proposed to be allocated to transit operators throughout Los Angeles County. The third pillar calls for investments to operate the existing transportation system. Overall, the recommendation supports the ability of communities throughout Los Angeles County to access that transportation system.

DETERMINATION OF SAFETY IMPACT

Adoption of this item will provide funding for increased safety efforts by providing continued supplemental relief funding to Los Angeles County transit operators impacted by the coronavirus pandemic, ensuring resources are available to continue enhanced cleaning routines and access to personal protective equipment, and maintaining service levels.

FINANCIAL IMPACT

A total of $126,807,083 in CRRSA Act “Round 2” funding will be distributed to transit agencies throughout Los Angeles County as shown in Attachment A. Los Angeles County’s overall share of CRRSA Act Section 5307/ Section 5337 funds, including SCAG’s partial “Round 1” allocation, is $911,750,041. Taking into consideration allocations to support the mobility of seniors and persons with disabilities (Section 5310) and for rural areas (Section 5311), Los Angeles County’s share of CRRSA Act funds apportioned by the FTA is $914,322,718.

Impact to Budget

Use of the CRRSA Act funds will continue to help mitigate, but not eliminate the funding gaps experienced by transit operators throughout Los Angeles County.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports achieving all of the goals outlined in the Vision 2028 Plan.

ALTERNATIVES CONSIDERED

The Board of Directors may choose not to approve the allocation of “Round 2” CRRSA Act funding as shown in Attachment A and instruct staff to allocate funds through some other Board directed process. This is not recommended, as this will cause significant delays in the receipt of funds for all transit operators and agencies in Los Angeles County.

NEXT STEPS

Should the Board of Directors approve the staff recommendation:

- Staff will work with transit operators and agencies on final administrative requirements and fund distribution details;
- Staff will combine “Round 1” and “Round 2” allocations by transit operator/agency, after any funding exchanges with Metro, and notify SCAG of the allocation of Los Angeles County’s share of the CRRSA Act funds for inclusion in its “split letter” to the FTA; and
- SCAG will send the “split letter” to the FTA to allow the designated recipients of the funds to submit grant applications to the FTA for approval and begin drawing down the funds.

Staff will also continue to update the Board on the impacts of the COVID-19 pandemic on Metro and the region, as well as bring for approval the allocation of Los Angeles County's share of the funds from the American Rescue Plan Act that President Biden signed into law on March 11, 2021.

ATTACHMENTS

Attachment A - CRRSA Act Funding Allocation by Transit Operator/Agency

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Phillip A. Washington
Chief Executive Officer

ATTACHMENT A

Coronavirus Response and Relief Supplemental Appropriations Act
(CRRSAA)

	Metro Board Adopted CARES Act Allocation	Distribution %	Adopted CRRSA Act Allocation Round 1	Proposed CRRSA Act Allocation Round 2	CRRSA Act Allocation Proposed Total
Metro Bus Ops	$ 334,196,361	33.4838%	$ 262,753,645	$ 42,459,836	$ 305,213,481
Metro Rail Ops	$ 252,941,922	25.3428%	$ 198,869,346	$ 32,136,414	$ 231,005,760
Municipal Operators					
Arcadia	$ 413,118	0.0414%	$ 324,804	$ 52,487	$ 377,291
Claremont	153,038	0.0153%	120,322	19,444	139,766
Commerce	834,418	0.0836%	656,041	106,013	762,054
Culver City	6,573,119	0.6586%	5,167,953	835,118	6,003,071
Foothill Transit	29,856,920	2.9914%	23,474,267	3,793,339	27,267,606
Gardena	6,650,248	0.6663%	5,228,594	844,918	6,073,511
La Mirada	123,098	0.0123%	96,783	15,640	112,423
Long Beach	29,203,837	2.9260%	22,960,796	3,710,364	26,671,160
Montebello	10,175,268	1.0195%	8,000,054	1,292,774	9,292,827
Norwalk	3,807,217	0.3815%	2,993,331	483,709	3,477,040
Redondo Beach	906,679	0.0908%	712,854	115,194	828,048
Santa Monica	24,360,412	2.4407%	19,152,773	3,095,004	22,247,777
Torrance	7,910,110	0.7925%	6,219,129	1,004,984	7,224,113
Subtotal- Municipal Operators	**$ 120,967,484**	**12.1200%**	**$ 95,107,700**	**$ 15,368,987**	**$ 110,476,687**
Eligible Operators					
Antelope Valley	$ 4,239,043	0.4247%	$ 3,332,843	$ 538,573	$ 3,871,415
LADOT	15,831,270	1.5862%	12,446,945	2,011,372	14,458,317
Santa Clarita	3,776,194	0.3783%	2,968,940	479,768	3,448,707
Foothill BSCP	3,160,600	0.3167%	2,484,944	401,556	2,886,500
Subtotal - Eligible Operators	**$ 27,007,107**	**2.7059%**	**$ 21,233,671**	**$ 3,431,268**	**$ 24,664,939**
Tier 2 Operators					
LADOT Community Dash	$ 3,612,073	0.3619%	$ 2,839,903	$ 458,916	$ 3,298,819
Glendale	524,420	0.0525%	412,312	66,628	478,940
Pasadena	305,610	0.0306%	240,278	38,828	279,106
Burbank	91,935	0.0092%	72,282	11,680	83,962
Subtotal - Tier 2 Operators	**$ 4,534,038**	**0.4543%**	**$ 3,564,775**	**$ 576,052**	**$ 4,140,828**
Other Operators					
Metrolink	$ 56,432,000	5.6540%	$ 44,368,268	$ 7,169,717	$ 51,537,985
Access Services	$ 33,500,000	3.3564%	$ 26,338,549	$ 4,256,194	$ 30,594,742
Regional Transit Support	$ 160,220,592	16.0528%	$ 125,969,488	$ 20,356,116	$ 146,325,604
Regional Paratransit Operators					
Agoura Hills	$ 48,095	0.0048%	$ 37,814	$ 6,110	$ 43,924
Antelope Valley, Elderly & Disabled	243,028	0.0243%	191,075	30,877	221,952
Beverly Hills Taxi & Lift Van	2,721	0.0003%	2,139	346	2,485
Culver City Community Transit and LA County	43,774	0.0044%	34,416	5,561	39,978
Gardena, Hawthorne and LA County	139,616	0.0140%	109,770	17,738	127,508
Glendale Paratransit and La Canada Flintridge	192,538	0.0193%	151,378	24,462	175,840
Inglewood Transit and LA County	151,856	0.0152%	119,393	19,293	138,686
LA County (Whittier et al)	151,691	0.0152%	119,263	19,272	138,535
LA County (Willowbrook)	31,049	0.0031%	24,411	3,945	28,356
Los Angeles Taxi & Lift Van, City Ride	290,748	0.0291%	228,594	36,940	265,533
Los Angeles Dial-a-Ride, City Ride	792,892	0.0794%	623,392	100,737	724,129
Monrovia D.A.R. and LA County	77,486	0.0078%	60,921	9,845	70,766
Palos Verdes PTA D.A.R.	30,357	0.0030%	23,867	3,857	27,724
Palos Verdes PTA - PV Transit	286,240	0.0287%	225,049	36,367	261,416
Pasadena Community Transit, San Marino and LA County	342,211	0.0343%	269,055	43,478	312,533
Pomona Valley TA - E&D (Get About)	574,519	0.0576%	451,702	72,993	524,695
Pomona Valley TA General Public (VC)	54,589	0.0055%	42,919	6,936	49,855
Redondo Beach Community Transit and Hermosa Beach	2,961	0.0003%	2,328	376	2,704
Santa Clarita D.A.R.	663,633	0.0665%	521,765	84,315	606,080
West Hollywood (DAR)	186,218	0.0187%	146,409	23,659	170,069
West Hollywood (Taxi)	10,038	0.0010%	7,892	1,275	9,167
Whittier (DAR)	208,253	0.0209%	163,733	26,459	190,192
Subtotal - Regional Paratransit Operators	**$ 4,524,511**	**0.4533%**	**$ 3,557,285**	**$ 574,842**	**$ 4,132,127**
Voluntary Reporters					
City of Alhambra (MB and DR)	$ 84,471	0.0085%	$ 66,413	$ 10,732	$ 77,146
City of Artesia (DR)	3,914	0.0004%	3,077	497	3,574
City of Azusa (DR)	29,336	0.0029%	23,065	3,727	26,792
City of Baldwin Park (MB and DR)	72,257	0.0072%	56,811	9,180	65,991
City of Bell (MB/DR)	17,398	0.0017%	13,679	2,210	15,889
City of Bell Gardens (MB and DR)	46,183	0.0046%	36,310	5,868	42,177
City of Bellflower (MB and DR)	30,034	0.0030%	23,613	3,816	27,429
City of Burbank (MB)*	82,583	0.0083%	64,929	10,492	75,421
City of Calabasas (MB and DR)	40,163	0.0040%	31,577	5,103	36,680
City of Carson (MB and DT)	137,089	0.0137%	107,783	17,417	125,200
City of Cerritos (MB)	74,555	0.0075%	58,617	9,472	68,089
City of Compton (MB)	40,566	0.0041%	31,894	5,154	37,048
City of Covina (DR)	19,094	0.0019%	15,012	2,426	17,438
City of Cudahy (MB and DR)	17,293	0.0017%	13,597	2,197	15,794
City of Downey (MB and DR)	62,640	0.0063%	49,249	7,958	57,208
City of Duarte (MB)	19,643	0.0020%	15,444	2,496	17,940
City of El Monte (MB and DR)	94,913	0.0095%	74,623	12,059	86,682

Coronavirus Response and Relief Supplemental Appropriations Act
(CRRSAA)

			Adopted	Proposed	
	Metro Board Adopted CARES Act Allocation	Distribution %	CRRSA Act Allocation Round 1	CRRSA Act Allocation Round 2	CRRSA Act Allocation Proposed Total
City of Glendora (MB and DR)	57,825	0.0058%	45,464	7,347	52,810
City of Glendale (MB)*	207,050	0.0207%	162,788	26,306	189,094
City of Huntington Park (MB)	67,347	0.0067%	52,950	8,557	61,507
City of Los Angeles -- Community DASH* (MB)	803,714	0.0805%	631,900	102,112	734,012
City of Los Angeles -- Department of Aging (DR)	124,047	0.0124%	97,529	15,760	113,289
LA County Dept. of Public Works -- Avocado Heights (MB)	12,214	0.0012%	9,603	1,552	11,155
LA County Dept. of Public Works -- East Valinda (MB)	13,745	0.0014%	10,806	1,746	12,553
LA County Dept. of Public Works -- East LA (MB and DR)	99,948	0.0100%	78,582	12,698	91,280
LA County Dept. of Public Works -- Willowbrook (MB)	25,658	0.0026%	20,173	3,260	23,433
LA County Dept. of Public Works -- King Medical (MB)	11,017	0.0011%	8,662	1,400	10,062
LA County Dept. of Public Works -- Athens (MB)	11,502	0.0012%	9,043	1,461	10,505
LA County Dept. of Public Works -- Lennnox (MB)	9,012	0.0009%	7,085	1,145	8,230
LA County Dept. of Public Works -- South Whittier (MB)	63,799	0.0064%	50,161	8,106	58,266
LA County Dept. of Public Works -- Florance/Firestone (MB)	15,080	0.0015%	11,856	1,916	13,772
City of Lakewood (DR)	19,546	0.0020%	15,368	2,483	17,851
City of Lawndale (MB)	24,480	0.0025%	19,247	3,110	22,357
City of Lynwood (MB)	42,490	0.0043%	33,407	5,398	38,805
City of Malibu (DT)	4,623	0.0005%	3,635	587	4,222
City of Manhattan Beach (DR)	15,286	0.0015%	12,018	1,942	13,961
City of Maywood (DR)	17,879	0.0018%	14,057	2,271	16,328
City of Monterey Park (MB and DR)	76,017	0.0076%	59,767	9,658	69,425
City of Pasadena (MB)*	205,942	0.0206%	161,917	26,165	188,082
City of Pico Rivera (DR)	6,470	0.0006%	5,087	822	5,909
City of Rosemead (MB and DR)	54,916	0.0055%	43,177	6,977	50,154
City of Santa fe Springs (DR)	6,262	0.0006%	4,923	796	5,719
City of South Gate (DT and MB)	110,407	0.0111%	86,804	14,027	100,832
City of South Pasadena (DR)	11,118	0.0011%	8,742	1,413	10,154
City of West Covina (MB and DR)	71,080	0.0071%	55,885	9,031	64,915
City of West Hollywood (MB)	35,696	0.0036%	28,065	4,535	32,600
Subtotal - Voluntary Reporters	**$ 3,096,305**	**0.3102%**	**$ 2,434,394**	**$ 393,387**	**$ 2,827,781**
Other Special Projects					
Avalon Ferry Subsidy	$ 324,669	0.0325%	$ 255,263	$ 41,249	$ 296,512
Avalon Transit Services (Jitney and Dial-a-Ride)	74,858	0.0075%	58,855	9,511	68,366
Hollywood Bowl Shuttle Service	263,750	0.0264%	207,367	33,510	240,877
Subtotal - Other Special Projects	**$ 663,277**	**0.0665%**	**$ 521,485**	**$ 84,270**	**$ 605,755**
Grand Total	**$ 998,083,598**	**100.0000%**	**$ 784,718,607**	**$ 126,807,083**	**$ 911,525,690**

Note: For comparison, the CARES Act Allocation excludes funds appropriated directly to agencies - $69,924,688.

File #: 2020-0895, **File Type:** Program **Agenda Number:** 8.

FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 14, 2021

SUBJECT: PROPERTY INSURANCE PROGRAM

ACTION: PURCHASE ALL RISK PROPERTY AND BOILER AND MACHINERY INSURANCE

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to negotiate and purchase All Risk Property and Boiler and Machinery insurance policies for all property at increased policy limits at a not to exceed price of $4.75 million for the 12-month period May 10, 2021 through May 10, 2022.

ISSUE

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2021.

DISCUSSION

Property insurance protects against losses to our structures, fleets, and improvements, which are valued at approximately $13.6 billion, up from last year's $13.3 billion. The increase in total insured value is primarily due to general replacement cost growth along with revaluation of both heavy and light rail vehicles. Last year we included the value of the Crenshaw/LAX Line in our total insured values. However, through an agreement with our insurance carriers, we did not pay for the premium incurred by adding the Line since the Line was not accepted by Metro during the insurance term. We will pay premium attributed to the addition of the Crenshaw/LAX Line this policy period. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating assets.

Our insurance broker, USI Insurance Services ("USI") marketed the property program to qualified insurance carriers to obtain property insurance pricing with coverage limits of $425 million. This limit is $25 million more than the last program to reflect an increase in insured values for Metro's assets over the years. Quotations for our property insurance program were received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. Final pricing is pending, so the quotes including contingency for unanticipated adjustments serve as a not to exceed cost before policy binding.

The Recommended Program secures the All Risk deductible at $250,000 with no earthquake coverage and a flood deductible at 5% per location subject to a $250,000 minimum. USI continues negotiations with carriers regarding deductible limits on selected Metro assets including rolling stock, non-revenue vehicles and potential flooding in subway tunnels. If a loss exceeds the deductible, All Risk coverage is provided up to $425 million per occurrence for losses except for flood related damages that are covered up to $150 million (tunnels are covered up to $50 million with a $500,000 deductible for flood damages). The recommended program is the same as the prior year program with the exception of the increased limits as noted. Attachment A shows the outline of the recommended program structure. The not to exceed premium price includes a contingency for premium adjustments, taxes and fees due to on-going negotiations with insurance carriers.

The recommended program does not include earthquake coverage. We received quotes estimated at $7 million for $50 million in limits with a 5% of total insured value deductible. Metro has not purchased earthquake coverage in previous years. In the event of a major disaster, we believe funding would be available through federal and state sources to restore public transportation in Southern California. The lack of earthquake coverage is consistent with decisions made by other large local government agencies.

We evaluated terrorism coverage options this renewal cycle and have not opted to purchase the coverage. Terrorism coverage is available but does not appear to be cost effective at a quoted cost of $320,000 for $425 million limits with a $50,000 deductible. The Terrorism Risk Insurance Act (TRIA) provides government support by providing mechanisms for spreading losses across policyholders. In the past, we rejected this coverage because of the high likelihood of federal and state funding to restore transportation services as a result of a serious terrorism incident. We will continue to reject terrorism coverage at the present time.

The current and recommended programs of insurance are layered structures. Several insurance carriers participate in the program with each contributing a portion of coverage which maintains a diversified portfolio of insurance carriers. Continual monitoring through internal methods, as well as updates provided by USI, ensure that all carriers maintain the required financial ratings indicated by financial reporting agencies and as determined by A.M. Best.

In January, February, and March 2021, USI contacted multiple domestic and international insurance providers to present our property risks and supplemental data. USI provided an overview of the Metro transit system during discussions with the underwriters, including our extensive security infrastructure, fire protection, loss control and minimal risk of flood exposures. USI provided information and statistics on system operations, assets, and our excellent loss history over the past twenty years with one fixed property insurable event and under $1.8 million insurable losses of rolling stock and non-revenue vehicles.

The Metro property program continues to be well received by insurers due to our favorable loss history and the growth of the account from $7.8 billion in values in 2010 to $13.6 billion for this renewal. As such, USI presented the submission to incumbent and competing insurers to create competition in the insurance marketplace. The marketing effort resulted in maintaining many of our incumbent carriers for the recommended program. Our rate per million dollars of insurable value is $349 for the recommended program which represents a 27.7% rate increase per million dollars of insured value over the prior year. Some of the major factors driving the rate increase are summarized in the following paragraphs.

The property insurance market is continuing to experience major disruption. Capital (and therefore capacity) has either been exhausted or withdrawn from the market in a way that has not been seen since 2001. Losses over the past five years continue to show higher than expected loss development. The 2020 most active hurricane season on record losses were historic in nature followed by the 2021 Texas deep freeze losses. The spring brought hailstorms and tornados to the US. Hurricane Laura caused estimated insurable losses of $8 billion to $12 billion. Insurable losses from the summer riots in the US were around $775 million, and the insurable losses from the Beirut port explosion are estimated to be about $3 billion. Losses from the numerous wildfires that hit the nation's West Coast in late summer are sure to be high as well. Carriers are looking to return their portfolios to profit and this has led to continuing universal rate increases (even for insureds that are claims-free).

"There are times when carriers view past renewal increases as adequate and are now offering a more moderate rate increase," says Harry Tucker, Amwins National Property Practice Leader. "However, accounts with difficult exposure characteristics and/or poor loss experience are still seeing stout price increases and more restrictive coverage." "This is not a traditional hard market. In this market, supply and demand are not the principal drivers of pricing," Tucker says. "There is ample capacity in the market, its availability is dependent on risk perception and rate." In 2020, many carriers pulled out of unprofitable classes of business. This year, carriers are looking at those classes again if the rate and terms are deemed adequate. Overall, carriers are looking to get back to profitability and continue to re-engineer their books, given the pre-2018 prolonged soft market pricing, loss experience and low interest rate investment environment according to the Amwins 2021 1Q State-of-the-Market report.

Along with premium increases, carriers are looking for higher deductibles and more restrictive terms. Carriers are rating on the potential for loss (regardless of good loss history) and with increased valuations on buses and rail cars, are rating on total loss estimates. Many carriers are reducing their capacity by 20%-50%, in some cases requiring more carriers to participate on programs in order to maintain limits. For this renewal, our broker was able to retain last year's incumbent carriers.

Metro has enjoyed some of the lowest rates among transit systems and remains an attractive client within this space. Unfortunately, the space is not held in the same regard it was just a few years ago. This year's renewal reflects our continuing favorable insurability and ability to take full advantage of USI marketing efforts in a very different and demanding market environment from previous years while adding our Crenshaw/LAX Line to Metro's portfolio of property.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The funding for two months of $792,000 for this action is included in the FY21 budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). In FY21, an estimated $3.8 million will be expensed for property insurance.

The remaining ten months of premiums will be partially included in the FY22 budget, cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). Additional funds required to cover premium costs beyond FY22 budgeted amounts will be addressed by fund reallocations during the year.

Impact to Budget

Additional funds required to cover premium costs beyond FY21 budgeted amounts will be addressed by fund reallocations during the year. The current fiscal year funding for this action will come from the Enterprise, General and Internal Service funds. No other sources of funds were considered for this activity because these are the funds that benefit from the insurance. This activity will result in a minor change to operating costs from the prior fiscal year.

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 risk management programs includes the use of insurance to mitigate large financial risks resulting from damage to or loss of Metro property.

ALTERNATIVES CONSIDERED

The current program, the recommended program and an option with earthquake coverage are summarized in Attachment B. Based upon our past history of favorable renewal and losses, we recommend continuing the current program of insurance but adding an additional $25 million in limits as the most cost effective and prudent program. The option of adding earthquake coverage is not recommended because the high cost of the earthquake premium does not justify the benefit of the coverage.

NEXT STEPS

Upon Board approval of this action, we will advise USI to proceed with placement of the property insurance program outlined herein effective May 10, 2021.

ATTACHMENTS

Attachment A - Recommended Pricing and Carriers
Attachment B - Alternatives Considered

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

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

Phillip A. Washington
Chief Executive Officer

ATTACHMENT A

RECOMMENDED PROGRAM PRICING AND CARRIERS

USI Insurance Services
Proposed Property/B&M Insurance Summary 2020 - 2021 (as of March 29, 2021)
Los Angeles County Metropolitan Transportation Authority

Limit	Excess of	Coverage	Carrier - Best Rating	Participation ($)	Participation (%)	Premium (incl taxes & fees)
$275M	$150M	All Risk Excluding Flood & Earthquake	Chubb Bermuda - AA	$275,000,000	100.00%	465,000
				$275,000,000	**100.00%**	**465,000**
$150M	Underlying Deductibles	All Risk Excluding Earthquake	Lexington Insurance Co - A XV	$60,000,000	40.00%	1,367,400
			Liberty Mutual Fire Insurance Co- A XV	$15,000,000	10.00%	534,500
			Ironshore Specialty Ins Co - A XIV	$10,000,000	6.67%	367,920
			Starr Specialty Insurance Agency - A XV	$30,000,000	20.00%	732,720
			Kemah/Markel	$10,000,000	6.67%	253,391
			HDI/Mitsui/Travelers	$25,000,000	16.67%	932,928
				$150,000,000	**100.01%**	**4,188,859**
			TOTAL LIMITS	**$425,000,000**		

Terrorism pricing is not included above.
Earthquake pricing is not included above.

Estimated Program Premiums *	**$4,653,859**
Contingency for carrier premium, tax and fee adjustments	**$96,141**
Estimated Program Not-To-Exceed Total	**$4,750,000**

*** Subject to finalization of on-going negotiations with carriers. Amounts show are estimates only.**

2021/22 Total Insurable Values: $13,613,293,012

ATTACHMENT B

ALTERNATIVES CONSIDERED

	Current Program	Recommended Program*	Recommended Program With Earthquake*
Deductibles	$250,00 All Risk / 5% of location value for Flood **	$250,00 All Risk / 5% of location value for Flood **	$250,000 All Risk/5% of structure value for Earthquake and Flood **
All Risk Limits	$400 Million	$425 Million	$425 Million
Flood Limits	$150 Million	$150 Million	$150 Million
Earthquake Limits	None	None	$50 Million after first 5% per location deductible
Terrorism	None	None	None
Total not to Exceed or Actual Premium	$3,636,952	$4,750,000	$11,750,000

* recommended programs are not to exceed amounts.
** $50 million limit on flood in tunnels with a $500,000 deductible.

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

File #: 2021-0171, **File Type:** Informational Report **Agenda Number:** 9.

FINANCE, BUDGET, AND AUDIT COMMITTEE
APRIL 14, 2021

SUBJECT: FISCAL YEAR 2022 BUDGET DEVELOPMENT UPDATE - METRO TRANSIT PROGRAM

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Fiscal Year 2022 Budget Development Update - Metro Transit Program.

ISSUE

This report is the third in a series of budget development updates leading to the Fiscal Year 2022 (FY22) Budget adoption for Board consideration in May 2021. This update highlights the Metro Transit program, consisting of operating and maintenance of Metro bus and rail services, projects to keep Metro transit systems in a state of good repair, as well as the latest update of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). As the economy recovers from the impacts of COVID-19, we will continue to monitor and make adjustments as needed during FY22 Midyear Budget assessment.

DISCUSSION

As the economy and Metro financials gradually recover from the last two fiscal years of COVID-19 impact, Metro's budget outlook for FY22 is slightly more optimistic than the previous fiscal year. However, it does not fully address all the long-term costs associated with service recovery, new operational initiatives, customer experience pilots, and a new security model. Together with the accelerated roll out of COVID-19 vaccinations in Los Angeles County, continued federal stimulus of Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and resulting economic inflection point anticipated in the third quarter of FY22, the Metro Transit program is gearing up to operate pre-COVID-19 bus and rail service levels. In February 2021, Board Motion 27.1 provided staff a clear timeline to restore bus service to 7 million annualized pre-COVID-19 revenue service hour (RSH) level by September 2021. The FY22 Budget proposes concrete plans to deliver the service level according to the Board motion.

In addition, the Metro Transit program is poised to begin operation of both the Crenshaw/LAX and

Regional Connector rail lines, which will completely change the inter-/intra- city rail transportation landscape in Los Angeles County, and at the same time posing significant operation service changes for Metro. The FY22 Budget includes capitalizable pre-revenue service hours for testing the transition to seamlessly integrate these two rail lines. Once the operations are safely and successfully integrated, the pre-revenue service hours can be transferred to passenger carrying revenue services in the upcoming fiscal year.

In the past few months, the Metro Board, the public and Metro customers are expecting fundamental changes in safety, security, and customer experience in the public transportation system and Metro services. In June 2020, the Board approved Motions 37.0 and 37.1 to form a Public Safety Advisory Committee (PSAC) to develop a community-based approach to public safety on the transit system. In March 2021, the Board approved Motion 26.2, committing significant Metro resources to re-define post-pandemic public safety and community-based approaches to policing and addressing unhoused issues on Metro transit services. The FY22 Proposed Budget includes several initiatives and considerations to improve customer experience, system safety and security, as well as evaluating budget resource allocation through an equity lens.

Finally, Los Angeles County representatives made up of the Metro Board of Directors, elected officials, transit operators and staff were successful in keeping the Round 2 CRRSAA funding of $127 million for Los Angeles County. Metro's share is estimated at $95 million and will be incorporated during the FY22 Midyear budget process, as the Board considers customer experience initiatives, PSAC recommendations, additional transit system integration needs and other initiatives. This month, the Board will consider approval of the CRRSA Round 2 allocations. As we continue to monitor the financial situation, the post-pandemic sales tax projections, and fare revenues, we will be able to better articulate the resources available to support the Board's policy decisions during the FY22 Midyear discussion.

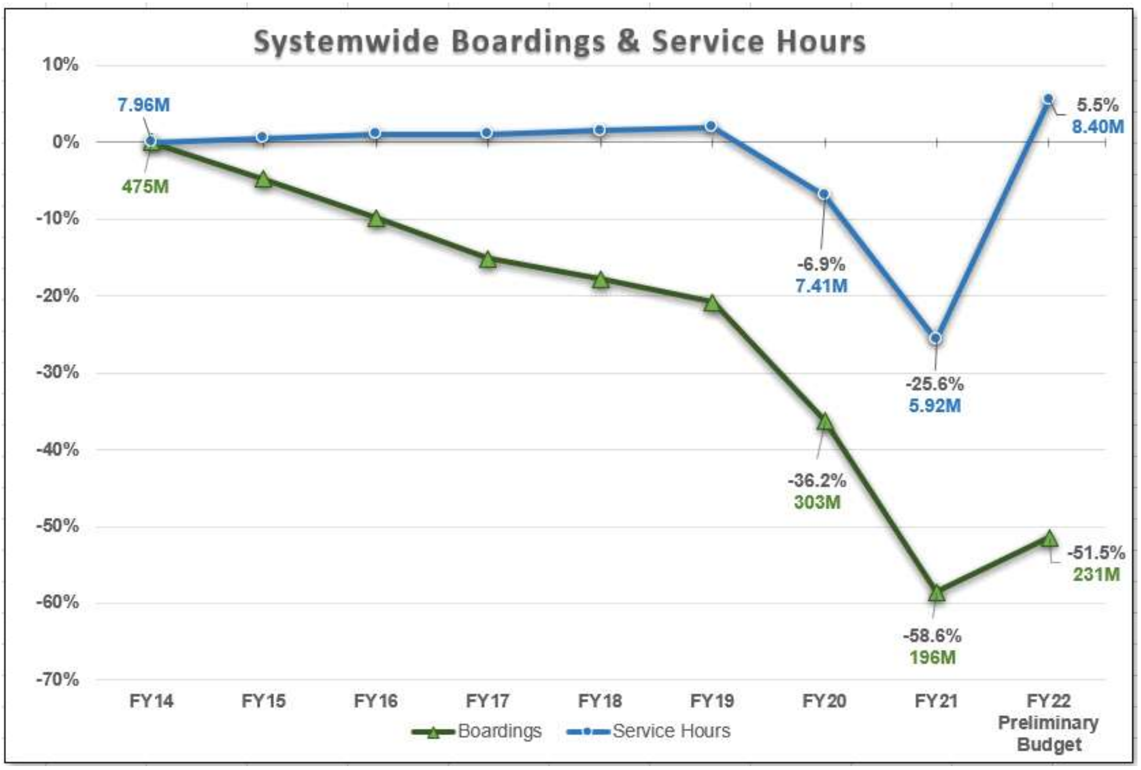
Metro Transit

Bus and Rail Service Plan

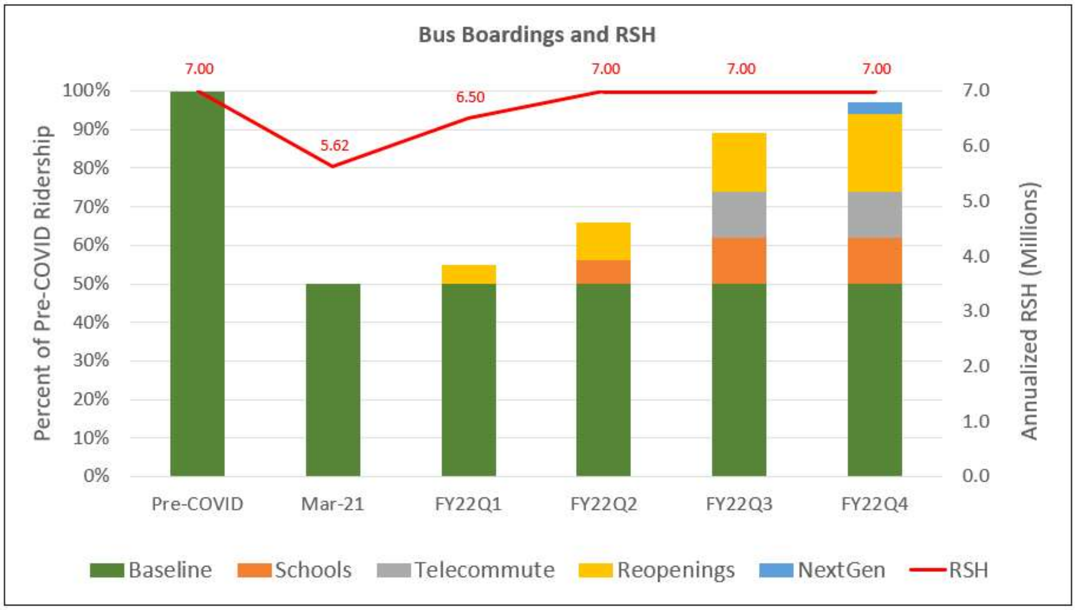
In the FY22 Operation plan, bus and rail service will be restored back to pre-COVID-19 levels by September 2021, per Motion 27.1 adopted in February 2021. To provide this service, bus and rail operator availability is one of the most critical challenges. COVID-19 has had significant impacts this past year, resulting in much higher incidences of missed operator assignments. COVID-19 mandatory quarantines, caregiving, and childcare accounted for an additional 17% of bus operator absences above and beyond the typical rate of sick leave and vacation. In preparation for returning to pre-COVID-19 service levels, Metro has resumed and accelerated operator hiring. Adding service without sufficient operator availability not only creates possible cancelled services, which upsets Metro riders, but also leads to overworked operators and increased overtime.

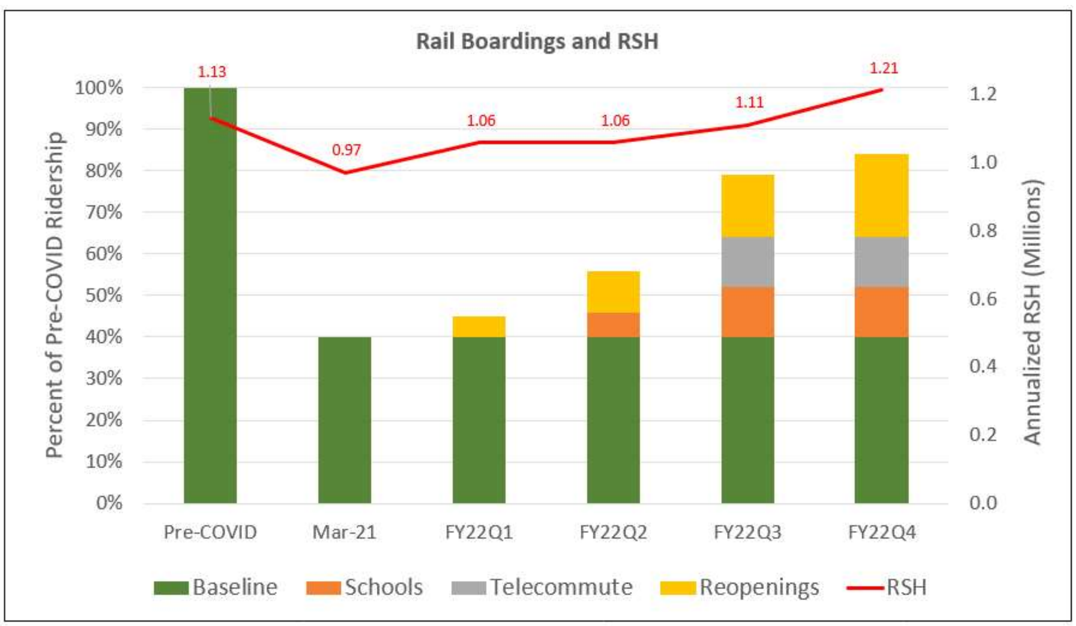
While Metro increases the pace of operator hiring, the FY22 Proposed Budget service plan reflects a restoration of service that outpaces ridership projections, and will continue to address remaining physical distancing needs, overcrowding and service reliability issues. Operations continuously monitors the crowding issue and makes ad-hoc adjustments in service frequency to address these observations.

The chart below demonstrates that the operational service hours recovery plan including bus, rail and Microtransit is still ahead of passenger load increases by comparing systemwide RSH and boarding projections. Restoring bus service back to 7 million RSH will prevent rider overcrowding on high capacity lines, provide more transit options and more frequent service.



The FY22 service plan does more than just restore service levels, the plan makes service improvements designed to support ridership recovery. The NextGen bus improvement plan invests in improving the boarding and riding experience, for full implementation in FY22. NextGen will significantly change the current network reallocating underutilized services to high ridership lines. In addition, as part of the NextGen plan, the Microtransit program is expanding to include nine zones of service to address customers' desire for trip-making options in the lower density areas of the region suited to the Micro Transit model of operation. Bus and Rail boardings will phase-in over time to get us back to pre-COVID-19 service levels. A quarterly breakout showing Percent of pre-COVID-19 Ridership and Annualized RSH for FY22 separated by Bus and Rail is shown in the charts below:





<u>Rail Pre-Revenue Service</u>

Included in the FY22 proposed service plan are capitalizable pre-revenue service hours for the new Metro Rail extensions: Crenshaw/LAX and Regional Connector. This supports an effort to bring multiple Rail lines into revenue service at the same time. Regional Connector will provide a one-seat ride for traveling across Los Angeles County. Passengers will be able to travel between Azusa and Long Beach (A Line), and between East Los Angeles and Santa Monica (E Line), without transferring. The Crenshaw/LAX line will extend transit service from the existing Expo Line (E Line) to, and merging with, the Green Line (C Line). Once in operation, these two new rail extensions will significantly improve the connectivity of the region's transportation network and riders will have easier connections within the Metro Rail system.

Metro Transit Expenses

Metro Transit Programs ($ in Millions)		FY21 Budget	FY22 Prelim	$ Change	% Change	% of Total
Metro Transit - Operations	Bus	$1,283.9	$1,375.0	$ 91.1	7.1%	56.4%
	Rail	533.1	572.9	39.8	7.5%	23.5%
	Microtransit	27.1	39.6	12.5	46.1%	1.6%
Metro Transit - Operations Total		**$1,844.1**	**$1,987.5**	**$ 143.4**	**7.8%**	**81.5%**
Metro Transit - SGR		521.4	452.3	(69.1)	-13.3%	18.5%
Total Metro Transit		**$2,365.5**	**$2,439.8**	**$ 74.3**	**3.1%**	**100.0%**
Capitalized System Integration						
Pre-Revenue Crenshaw		26.9	34.5	7.6	28.3%	
Pre-Revenue Regional Connector		-	26.1	26.1		
Total Capitalized System Integration		$ 26.9	$ 60.6	$ 33.7	125.3%	
Total Metro Transit and Pre-Revenue		**$2,392.4**	**$2,500.4**	**$ 108.0**	**4.5%**	

*Totals may not add due to rounding

The FY22 preliminary budget for the Metro Transit program, including Operations & Maintenance (O&M) and State of Good Repair (SGR), is $2.4 billion, an increase of 3.1% over FY21. Expenditures are based on operating-eligible funding for both O&M and SGR. Service restoration is the priority for FY22 budget planning. The Operating budget totals $1.987 billion, which includes allowances for additional labor and overtime to support running 8.26 million revenue service hours to operate Bus, Microtransit, and Rail services. An additional $33.7 million is needed for the pre-revenue service expenses for Crenshaw and Regional Connector.

State of Good Repair (SGR)

The SGR program proposes asset replacement and improvement projects based on the Chief

Executive Officer's prioritization criteria:

1. Project interdependency/safety and reliability
2. Grant funding
3. Equity
4. Project readiness & financial risk

The objective is to maintain existing transit infrastructure at a high level of safety, quality, and reliable operability. In addition to the prioritization criteria, each SGR project proposal was reviewed based on industry standards, age-based condition assessments, and asset modernization needs due to obsolescence or technology advancement. The Chief Executive Officer has directed staff to standardize the evaluation consideration under the context of operational need to produce an SGR financial policy document / statement during FY22.

In FY22, $452 million is allocated to maintain Metro's Bus, Rail, regional, and critical information systems. The FY22 budget reflects planned project activities and the cash flow required to complete FY22 milestones and deliverables. See Attachment A for detailed Bus/Rail Operating costs and State of Good Repair costs.

Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act) Update for Metro Transit Program supplemental revenue to augment bus and rail eligible funds

The Metro Transit program is primarily funded with local sales taxes and the pandemic had a significant impact to the Metro transit program. In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed providing essential funding to maintain transit service and lost revenues. Following the intent of the CARES Act, Metro utilized these funds to maintain transit service and preserve jobs (see Attachment B). Federal stimulus funding continues to be critical in mitigating these financial challenges.

In December 2020, additional federal relief was provided through the CRRSA Act, supplementing the CARES funding which is needed to maintain and restore bus service in FY22. Following the intent of the CRRSA Act, Metro will use these funds for bus and rail operating expenses. In March 2021, the Metro Board approved CRRSA Act "Round 1" allocations and this month CRRSA Act "Round 2" will be brought to the Metro Board for approval, adding an additional $127 million for Los Angeles County transit operators.

Public Outreach Update

As we move into further development of the budget, we have planned an extensive schedule of outreach events with our key stakeholder groups, customers, and the public. Metro will ensure it is providing access to meeting participants by moving forward with engagement and education of the FY22 Budget in a transparent and equitable manner. We will continue to solicit input via public workshops, budget briefings, key stakeholder meetings, the legally required Public Hearing and Board Meetings and receiving comments by email, regular mail, and the budget questionnaire.

Participants will have the opportunity to comment using an online comment feature allowing them to provide live public comments by phone, in English and Spanish. Additionally, upon request, sign language interpretation, materials in alternative formats and other accommodations are available to the public. Keeping in line with Metro policy on social distancing, meetings will be held on video conference platforms, thus continuing to fulfill all public involvement and participation requirements during COVID-19 pandemic. Please note that all meetings are subject to change and we will continue to accept request for Budget Briefings until adoption of the FY22 Budget at the May 27, 2021 Board meeting.

Furthermore, with the recent Customer Experience Survey, feedback and results are being used to prioritize customer experience investments as well as to track trends and develop methods that will gauge success over time. These results will be used to work with the departments to help identify what is included in the budget.

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 FY22 Budget. Budgets and assumptions 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

Metro staff will review and finalize the FY22 Budget proposal by May 2021 for Board consideration of adoption and in time for public hearing on May 19th. Staff will also continue conducting outreach to stakeholder groups for in-depth and technical discussions of Transit Services and Transportation Programs included in the FY22 Proposed Budget. The planned SGR projects and Bus/Rail service budgets are preliminary and are subject to change as the budget development process concludes.

ATTACHMENTS

Attachment A - Metro Transit: Operations & Maintenance and State of Good Repair
Attachment B - Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding

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Phillip A. Washington
Chief Executive Officer

ATTACHMENT A

Metro Transit: Operations & Maintenance and State of Good Repair

Metro Transit: Operations & Maintenance

Bus Operations and Maintenance Expenses

Bus service will be restored to pre-COVID-19 levels. The FY22 Preliminary Budget for bus is $1.4 billion and includes $39.6 million in Microtransit. This will allow operating service on nine zones of planned deployment. The table below details the breakdown by expense type:

Bus Operations and Maintenance Expenses					
Operations & Maintenance ($ in Millions)	**FY21 Budget**	**FY22 Prelim**	**$ Change**	**% Change**	**% of Total**
Labor	$ 851.3	$ 940.2	$ 88.9	10.4%	66.5%
Parts & Supplies	69.5	73.8	4.2	6.1%	5.2%
Fuel	25.6	31.5	5.9	23.1%	2.2%
Contract / Professional Services	128.8	98.4	(30.4)	-23.6%	7.0%
Other Operating Expenses	208.8	231.1	22.3	10.7%	16.3%
Bus Total	$ 1,284.0	$ 1,375.0	$ 91.0	7.1%	97.2%
Microtransit	27.0	39.6	12.6	46.6%	2.8%
Grand Total	**$ 1,311.0**	**$ 1,414.5**	**$ 103.5**	**7.9%**	**100.0%**

*Totals may not add due to rounding
*Other Operating Costs include Customer Experience, and other cost allocations

Labor makes up 66.5% of the total Bus budget. The 10.4% increase is due to additional staffing requirements and overtime to support the increased bus service. Parts & supplies budget is increasing by $4.2 million to support bus maintenance needs based on current usage rate. CNG fuel budget is increasing by $5.9 million primarily due to unit cost increases of about 28%. Other Operating Costs include funds to support security contract costs until December 2021, as well as allocating budget to rail according to current expense rates. The Other Operating Expenses category includes budget to support and maintain Metro Bus and Rail facilities. Budget has been added to accommodate increased frequency of cleaning to ensure a sanitary, healthful, and safe environment for our customers & employees. Facilities budget this year also provides additional funds for restrooms at layover zones since business restrooms are not available to the public due to the pandemic. Other Operating Costs include funds to support Customer Experience initiatives and other cost allocations.

Rail Operations and Maintenance Expenses

Rail service will be slightly less than pre-COVID-19 levels. The Rail Operations and Maintenance budget totals $572.9 million, a $39.8 million, (7.5%) increase from FY21.

Rail Operations and Maintenance Expenses					
Operations & Maintenance ($ in Millions)	**FY21 Budget**	**FY22 Prelim**	**$ Change**	**% Change**	**% of Total**
Labor	$ 307.4	$ 318.9	$ 11.5	3.7%	55.7%
Parts & Supplies	20.8	19.5	(1.3)	-6.2%	3.4%
Propulsion Power	29.1	30.4	1.3	4.6%	5.3%
Contract / Professional Services	131.4	152.0	20.7	15.7%	26.5%
Other Operating Expenses	44.4	52.1	7.6	17.1%	9.1%
Grand Total	**$ 533.1**	**$ 572.9**	**$ 39.8**	**7.5%**	**100.0%**

*Totals may not add due to rounding
*Other Operating Costs include Customer Experience, and other cost allocations

Labor makes up 55.7% of the total Rail budget with an increase of 3.7%. The increase is partially offset by a reduction in ATU Overtime due to department's cost saving efforts. Parts & Supplies budget is decreasing by $1.3 million (6.2%) for existing Rail lines as a result of FY21 current usage rates. Propulsion power is increasing by $1.3 million (4.6%) for existing rail lines; this is slightly lower than the service increase due to a decrease in forecasted energy rate from FY21 to FY22. Security contract funds have been reallocated in FY22 between Bus and Rail, resulting in a net increase in Rail program to better reflect actual security deployment needs. Facilities contracts reflect COVID-19 related increase in cleaning needs based on current expense rate, as well as providing ongoing elevator and escalator maintenance. Other Operating Costs include funds to support Customer Experience initiatives and other cost allocations.

Customer Experience

Board Motion 26.2 from March 2021 introduces alternatives to security enforcement by policing, directing the CEO to invest at least $40 million in resources for Public Safety and Homelessness initiatives. Public Safety initiatives include transit ambassadors for an increased presence at facilities and on Metro vehicles, elevator attendants at stations, dispatch of homeless outreach, mental health specialists, and security in appropriate situations, blue light boxes, studies to prevent intrusion onto Metro Rights of Way. Homelessness initiatives include short-term shelters, homeless outreach, and methods to gauge the success of homelessness efforts. These initiatives and programs will address demonstrations for racial justice and attempt to define the role of police in society. The FY22 O&M and SGR budget is augmented to support these efforts. The amount of customer experience projects total $48.5 million. The table below lists the projects identified in the Motion:

Items included in FY22 Prelim Budget according to Motion 26.2			FY22 Prelim Budget
1. Public Safety:			
a	Transit ambassador program that provides staffed presence at Metro facilities and on Metro vehicles and offers riders assistance and connections to resources, modeled after the S.F. BART program.	$	20,000,000
b	Elevator attendants at stations		1,000,000
c	Flexible dispatch system that enables response by homeless outreach workers, mental health specialists, and/or unarmed security ambassadors in appropriate situations.		1,000,000
d	Call Point Security Project Blue light boxes recommended by Women and Girls Governing Council to improve security on the BRT and rail system.		5,000,000
e	Funds to initiate a study to develop recommendations to prevent intrusion onto Metro rail rights-of-way, including but not limited to subway platform-edge doors.		8,255,196
f	Pilot safety strategies on board buses to be recommended by PSAC.		3,000,000
2. Homelessness:			
a	Short term shelter for homeless riders.		2,000,000
b	Enhanced homeless outreach teams and related mental health, addiction, nursing, and shelter services.		5,000,000
c	Regular counts to monitor trends and gauge the success of Metro efforts to address homelessness.		250,000
d	Pilot homelessness strategies to be recommended by PSAC		3,000,000
	TOTAL	**$**	**48,505,196**

*Totals may not add due to rounding

System Security and Law Enforcement

In March 2021, the Metro Board approved the law enforcement contract increase through December 2021. The FY22 Proposed Budget reflects the board authorization in Metro Transit program for the first 6 months of the fiscal year. Additional safety and security operations will be reviewed and proposed during Midyear while the board considers PSAC recommendations.

State of Good Repair (SGR)

The SGR program proposes asset replacement and improvement projects based the CEO prioritization criteria:

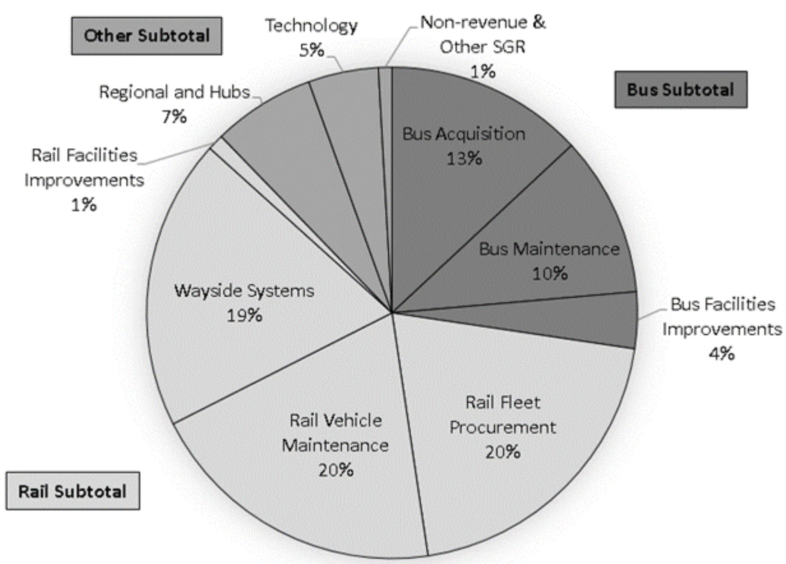
1. Project interdependency/safety and reliability.
2. Grant funding.
3. Equity.
4. Project readiness (shovel ready) & financial risk.

The objective aims to maintain existing transit infrastructure at a high level of safety, transit quality, and reliable operability. In addition to the prioritization criteria listed before for all Metro projects, the individual SGR project proposal was also reviewed based on industry standards, age-based condition assessment, and asset modernization needs due to obsolescence or technology advancement. CEO has directed staff to standardize the evaluation consideration under the context of operational needs to produce a financial policy during FY22.

In FY22, $452 million is allocated to maintain Metro's Bus, Rail, regional, and critical information systems. The FY22 budget request reflects planned project activities and the cash flow required to complete FY22 milestones and deliverables. A profile of the SGR program is shown in the table below:

Metro Transit - State of Good Repair (SGR)								(Millions)
Subprogram		FY2021 Budget		FY2022 Preliminary		Δ	Δ%	% of Total SGR Budget
Bus Acquisition	$	208.7	$	59.1	$	(149.6)	-71.7%	13.1%
Bus Maintenance		33.7		47.7		14.0	41.5%	10.6%
Bus Facilities Improvements		16.8		16.8		(0.0)	-0.1%	3.7%
Bus Subtotal	**$**	**259.3**	**$**	**123.7**	**$**	**(135.6)**	**-52.3%**	**27.3%**
Rail Fleet Procurement		73.8		91.9		18.0	24.4%	20.3%
Rail Vehicle Maintenance		45.7		89.9		44.2	96.8%	19.9%
Wayside Systems		91.7		86.6		(5.1)	-5.5%	19.2%
Rail Facilities Improvements		7.6		4.8		(2.8)	-36.6%	1.1%
Rail Subtotal	**$**	**218.8**	**$**	**273.2**	**$**	**54.4**	**24.9%**	**60.4%**
Regional and Hubs		22.8		30.5		7.7	33.7%	6.7%
Technology		17.2		20.9		3.7	21.4%	4.6%
Non-Revenue & Other SGR		3.2		4.0		0.8	23.6%	0.9%
Other Subtotal	**$**	**43.3**	**$**	**55.4**	**$**	**12.1**	**28.0%**	**12.3%**
Grand Total	**$**	**521.4**	**$**	**452.3**	**$**	**(69.1)**	**-13.2%**	**100.0%**

*Totals may not add due to rounding



Bus State of Good Repair

Bus Acquisition, Bus Maintenance, and Bus Facilities Improvements make up $123.7 million, 27.3% of the total SGR budget.

<u>Bus Acquisition</u>

Approximately $59 million, 13.1% of the total budget is allocated for the bus procurement effort. In FY22 Metro anticipates delivery of approximately 80 forty-foot near zero emission CNG buses and 5 sixty-foot ZEB's. Since 2019 Metro has modernized the fleet with the receipt of 415 forty-foot CNG buses, 106 sixty-foot CNG buses, and 40 sixty-foot ZEB buses.

To pursue an environmentally sustainable bus fleet, Metro is working towards converting the entire fleet of approximately 2,300 buses from Compressed Natural Gas (CNG) to Zero Emission Electric Vehicles (ZEB). FY22 Bus acquisitions represent continued steps towards realizing this goal. CNG buses are being delivered to bridge the gap between available electric bus technology and existing bus retirement schedules, to ensure continuation of services. The first Electric/ZEB Buses have already been deployed on the G Line (Orange).

<u>Bus Maintenance</u>

Bus maintenance projects represent $48 million, 10.6% of the SGR budget. These projects include refurbishment of buses when they reach mileage, age, overhaul standards, or exceed reliability standards. Refurbishment activities for 109 buses include: structural inspections, engine replacements, system overhauls, safety, ADA, security, and farebox upgrades. The budget request reflects the specific resource needs and cash flows to perform maintenance and adhere to maintenance schedules.

<u>Bus Facilities Improvements</u>

To ensure that Bus facilities at the divisions and transit centers remain safe for occupancy, comply with regulatory standards, and keep pace with changing service needs, Metro has a comprehensive facilities maintenance program. Bus Facilities Improvements make up $17 million, 3.7% of the SGR budget. These projects include replacement of underground fuel storage tanks, roof ventilation retrofits, upgrade of fire alarm systems, and pavement replacement. Improvements also include development of plans for facility upgrades, site refurbishment, and site reconfigurations to upgrade facilities.

<u>**Rail State of Good Repair**</u>

Rail Fleet Procurement, Vehicle Maintenance, Facilities Improvements, and Wayside Systems repair and replacement total $273.2 million, 60.4% of the total SGR budget.

<u>Rail Fleet Procurement</u>

Light and Heavy Rail Vehicle procurement and delivery is $92 million, 20.3% of the SGR budget. Vehicle deliveries are slated for both rail expansion and existing vehicle replacement.

Light rail vehicle deliveries are in the final stage of the production and final deliveries are scheduled in the current contract When final inspection and close-out activities are complete and vehicles are accepted, final progress payments will be paid. These vehicles are ready to be deployed for existing service and for expansion service, as service parameters are defined. Approximately 235 rail cars have been delivered since this procurement began in 2016.

Heavy Rail vehicles are being produced for both expansion and replacement. Before production of the 287 cars begins, two vehicles were delivered for rigorous testing and evaluation procedures. This is the first step towards replacing of the original B Line (Red) cars that began service in 1992, and allows for new cars for the D Line (Purple) extension.

Rail Vehicle Maintenance

Rail Vehicle Maintenance projects are allocated $90 million, 19.9% of the budget. As with Bus Midlife Refurbishments, Heavy Rail vehicles go through a midlife overhaul. This overhaul consists of replacement of critical system components to 43 cars, to extend their useful life. Some vehicles scheduled for midlife refurbishment will be sent offsite and brought back for testing, inspection, and final acceptance.

On-site refurbishment projects are also proposed in this category Systems scheduled for on-site overhaul include refurbishment of gearboxes, Heating, Ventilation, and Air Conditioning (HVAC) systems, and other major components that require specialized technical skills to rebuild.

Rail Facilities Improvements

Rail Facilities Improvement projects make up $5 million, 1.1% of the SGR budget. Improvement efforts will maintain or upgrade existing Rail facilities, Rail stations and Operating Divisions. Some safety upgrades include installation of station/facility fire detection systems and installation/rehabilitation of station elevator and escalators. Other projects include ETEL/PTEL fire/life safety system replacement, station platform gate replacement, rail station/facility lighting retrofits, roof replacements, ventilation retrofits, pavement replacement, and driveway widening.

Wayside Systems

Wayside system improvements make up $87 million, 19.2% of the SGR budget. It will ensure components such as track, signals, and tunnels are safe and reliable. Projects include B Line (Red) tunnel lighting improvements, C Line (Green) track circuit/control overhaul, upgrade/conversion of systems that have fiber optic technology, and overhaul/replacement of warning and trip systems on the A Line (Blue). Other projects include replacement of Metro’s B Line (Red) Supervisory Control and Data Acquisition

(SCADA) system, which allows staff to make real-time decisions to improve safety and reliability. Overhead Catenary System (OCS) inspection /refurbishment and B Line (Red) tunnel corrosion repair will also be performed.

Other Asset Improvements

Other Asset Improvements total $55 million, 12.3% of the budget, consisting of regional infrastructure improvements, replacement/maintenance of critical information management systems, and technology upgrades. Specific projects include completion of the Willowbrook/Rosa Parks station refurbishment, as well as on-going Patsaouras Plaza station improvements. Implementation of a new asset, inventory, and time tracking system is also a priority. This system will augment asset replacement prioritization and planning processes.

Various projects are in development and will be brought to the board for approval when design and construction details are fully defined. This includes initiation of design and engineering effort for a co-located Rail Operations Center (ROC) and Bus Operations Center (BOC). Co-locating ROC and BOC will allow for centralized oversight and better management in the event of a major emergency.

Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)

CRRSAA funding will be used to support the Metro Transit Program, the Municipal and Tier 2 Operators, regional paratransit, Metrolink and Access Services through the provision of supplemental revenue to augment bus and rail eligible funds.

The SCAG Regional Council approved the distribution of a total of $911.5 million, in two separate rounds (Round 1 and Round 2) to Los Angeles County. Figures below reflect a summary of both the Metro board approved, and proposed allocation of these funds.

Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)

	Metro Board Adopted CARES Act Allocation	Distribution %	Adopted CRRSA Act Allocation Round 1	Proposed CRRSA Act Allocation Round 2	CRRSA Act Allocation Proposed Total
Metro	$ 747,358,876	74.8794%	$ 587,592,479	$ 94,952,366	$ 682,544,845
Municipal Operators *	124,128,084	12.4366%	97,592,644	15,770,543	113,363,187
Eligible Operators*	23,846,507	2.3892%	18,748,728	3,029,712	21,778,440
Tier 2 Operators	4,534,038	0.4543%	3,564,775	576,052	4,140,828
Metrolink	56,432,000	5.6540%	44,368,268	7,169,717	51,537,985
Access Services	33,500,000	3.3564%	26,338,549	4,256,194	30,594,742
Regional Paratransit/Vol. Reporters	8,284,094	0.8300%	6,513,164	1,052,499	7,565,663
	$ 998,083,598	**100.0000%**	**$ 784,718,607**	**$ 126,807,083**	**$ 911,525,690**

Note: For comparison, the CARES Act Allocation excludes funds appropriated directly to agencies - $69,924,688.

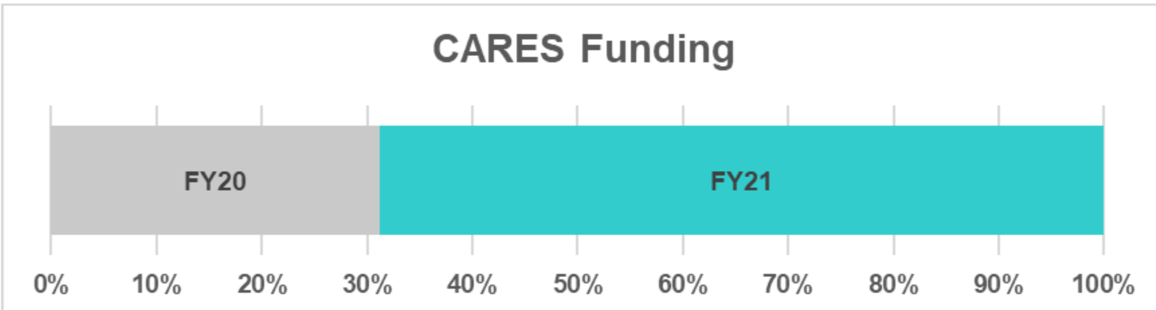
* Foothill BSCP Included in Municipal Operators

*Totals may not add due to rounding

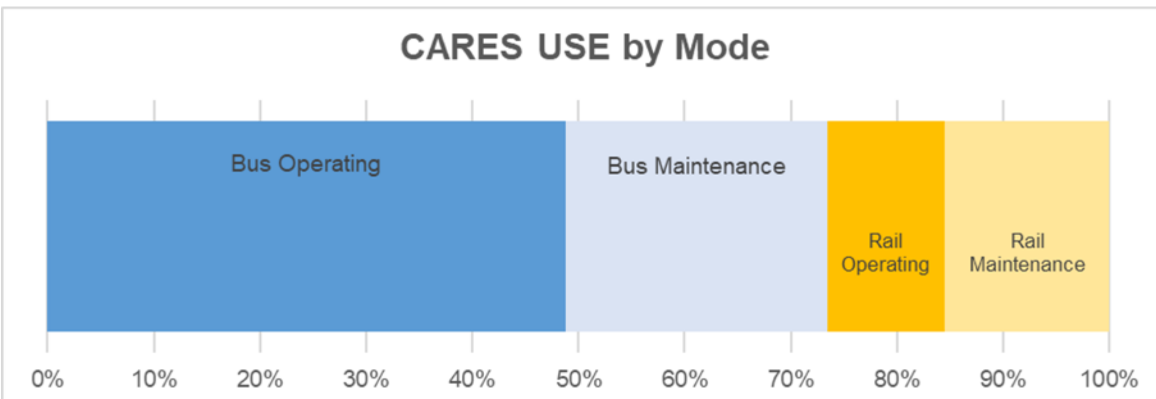
ATTACHMENT B

Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding

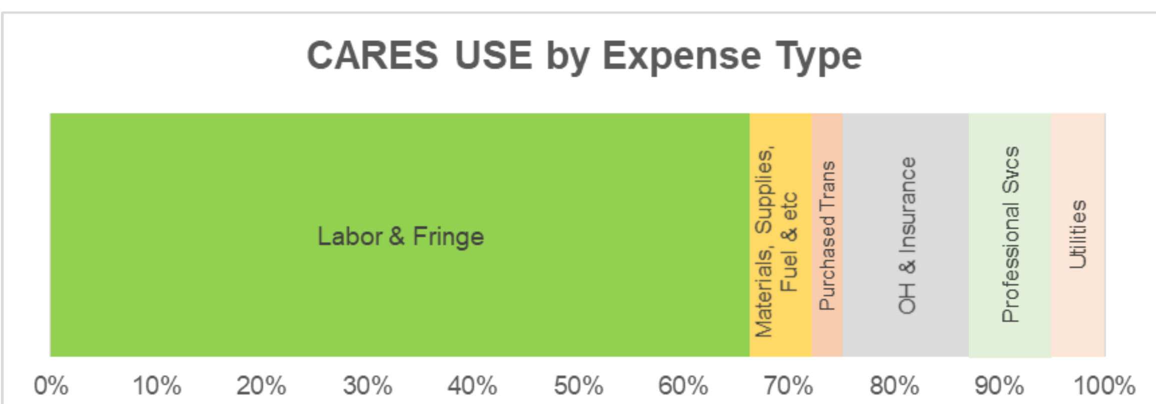
In March 2020, Congress approved and signed into law the CARES Act, providing for over $1 billion in transit funding for LA County. In May 2020, the Metro Board approved allocations to Metro totaling received $874.8 million, which included fund exchanges for other transit operators in LA County. In September 2020, Metro completed full draw down of all these funds to operate and maintain the transit system. The CARES funding helped mitigate losses in FY20 and in FY21, as shown in the table below.



The use of CARES funding by mode aligns with how the allocations of funds, with over 70% used to fund bus operations and maintenance, as shown in the table below.



The CARES Act funding provided reimbursement for operating costs to maintain service and lost revenue. The table below summarizes the use of CARES by expense type, with almost 70% utilized on labor and payroll expenses.



File #: 2021-0138, **File Type:** Informational Report **Agenda Number:** 10.

FINANCE, BUDGET, AND AUDIT COMMITTEE
APRIL 14, 2021

SUBJECT: AUDIT OF MISCELLANEOUS EXPENSES FOR THE PERIOD OF JULY 1, 2020 TO SEPTEMBER 30, 2020

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE Office of Inspector General (OIG) Final Report on the Statutorily Mandated Audit of Miscellaneous Expenses for the Period of July 1, 2020 to September 30, 2020.

ISSUE

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from July 1, 2020 to September 30, 2020. This audit was performed pursuant to Public Utilities Code section 130051.28(b), which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses, such as travel, meals, refreshments, and membership fees.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards, purchase orders, and travel & business expense reports. Each option has its own policies, procedures, or guidelines.

The Accounting Department's Accounts Payable Section is responsible for the accurate and timely processing of payment for miscellaneous expenses.

This audit covered Metro miscellaneous expenses for the period of July 1, 2020 to September 30, 2020. Between July 1 to September 30, 2020, miscellaneous expenses totaled $484,398with 166 transactions. We reviewed a sample of 30 expenses totaling $96,672. The miscellaneous expenses for the subject audit period dropped significantly compared to $1.8 million for the same quarter of the prior year. This is a direct result of a memo the Chief Executive Officer sent to the Senior Leadership Team in April 2020, "Immediate Cost Reduction Actions," which discussed cost-cutting measures including ceasing expenditures for travel, seminars, business meals, training, and other miscellaneous items from April 1 to October 1, 2020.

DISCUSSION

Findings

The miscellaneous expenses we reviewed for the period of July 1, 2020 to September 30, 2020 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for three of the expenses reviewed, policy requirements were not followed for travel, P-Card, and media expenses. We also determined that the CEO's cost reduction actions were effective for travel, seminar, business meal, training, and membership. These costs were reduced by 90 to 98 percent in comparison to last year.

Recommendations

We recommend that:

Human Capital and Development (Pension and Benefits):

1. Remind staff to submit TBE Reports timely and accurately.

Human Capital and Development (General Services Administration):

2. Continue to work with Information Technology Services to create additional program features in the travel system that will generate a "late filers" report and automatically send a reminder to travelers to submit their Travel and Business Expense report on the due date, if they have not yet done so.

Communications (Creative Services):

3. Ensure that Purchase Cardholders obtain adequate itemized receipts before approving the monthly P-Card log.

Communications (Marketing):

4. Instruct the Project Manager to review all invoices under the contract with Civilian and other vendors to ensure they are appropriate and accurate.

Office of the CEO

5. Consider extending the moratorium period beyond October 1, 2020 on CEO interoffice memo dated April 20, 2020 to Senior Leadership Team for "Immediate Cost Reduction Actions through October 1, 2020" related to expenditures on travel, seminar, business meal, training, and membership.

FINANCIAL IMPACT

There is no financial or budgetary impact by accepting the report, but compliance with the recommendations would contribute to cost savings and improve the system of internal control.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendations support strategic plan goal no. 5.2: Metro will exercise good public policy judgment and sound fiscal stewardship.

NEXT STEPS

Metro management will implement corrective action plans.

ATTACHMENTS

Attachment A - Final Report on Statutorily Mandated Audit of Miscellaneous Expenses for the Period July 1, 2020 to September 30, 2020 (Report No. 21-AUD-06)

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Los Angeles County
Metropolitan Transportation Authority
Office of the Inspector General

Statutorily Mandated Audit of Miscellaneous Expenses for the Period July 1, 2020 to September 30, 2020

Report No. 21-AUD-06 **March 26, 2021**

Metro

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Los Angeles County
Metropolitan Transportation Authority

Metro

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DATE: March 26, 2021

TO: Metro Board of Directors
Metro Chief Executive Officer

FROM: Yvonne Zheng, Senior Manager, Audit
Office of the Inspector General

E-SIGNED by Yvonne Zheng
on 2021-03-26 09:51:14 PDT

SUBJECT: Final Report on Statutorily Mandated Audit of Metro Miscellaneous Expenses From July 1, 2020 to September 30, 2020 (Report No. 21-AUD-06)

INTRODUCTION

The Office of the Inspector General (OIG) performed an audit of Metro miscellaneous expense transactions processed from July 1, 2020 to September 30, 2020. This audit was performed pursuant to Public Utilities Code section 130051.28(b), which requires the OIG to report quarterly to the Board of Directors on the expenditures of the Los Angeles County Metropolitan Transportation Authority (Metro) for miscellaneous expenses such as travel, meals, refreshments, and membership fees.

OBJECTIVES, METHODOLOGY AND SCOPE OF AUDIT

The objectives of the audit were to determine if miscellaneous expenses were adequately supported by appropriate documentation and complied with Metro policies, procedures, and guidelines.

This audit covered Metro miscellaneous expenses for the period of July 1, 2020 to September 30, 2020. Between July 1 to September 30, 2020, miscellaneous expenses totaled $484,398[1] with 166 transactions. We reviewed a sample of 30 expenses totaling $96,672. (See Attachment A for details.) Twenty-seven of the expense transactions were statistically selected, and three were judgmentally selected due to their large dollar amounts. The miscellaneous expenses for the subject audit period dropped significantly compared to $1.8 million for the same quarter of the prior year. This is a direct result of a memo the CEO sent to the Senior Leadership Team in April 2020, "Immediate Cost Reduction Actions," which discussed cost-cutting measures including ceasing expenditures for travel, seminars, business meals, training, and other miscellaneous items from April 1 to October 1, 2020. See the "Observations" section for more discussion.

To achieve the audit objectives, we performed the following procedures:

- Obtained and reviewed applicable policies and procedures;

[1] This total does not include transactions that were $200 or less, offsetting debits/credits, and transactions from the OIG and Transit Court Departments.

- Interviewed Metro personnel including staff in Accounting, Communications, Art & Design, Pension and Benefits, Vendor Contract Management; and
- Reviewed invoices, receipts, justification memos, and other supporting documents.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objectives.

BACKGROUND

All Metro expenditures are categorized into various expense accounts and recorded in Metro's Financial Information System (FIS). Metro employees have several options for seeking payment for miscellaneous expenses incurred, such as check requests, purchase cards, purchase orders, and travel & business expense reports. Each option has its own policies, procedures, or guidelines. The Accounting Department's Accounts Payable Section is responsible for the accurate and timely processing of payment for miscellaneous expenses.

RESULTS OF AUDIT

Our audit of Metro miscellaneous expenses from July to September 2020 found that the sampled transactions we reviewed generally complied with policies, were reasonable, and adequately supported by required documents. However, we noted issues on the following three transactions:

1. Non-Compliance with Travel and Business Expense Policy

Criteria. Metro's Travel and Business Expense policy (FIN 14) requires traveling employees to submit a completed and signed travel request/authorization form in a timely manner to the Travel Program Administrator for processing. It also requires employees to request reimbursement for travel expenses by submitting a travel & business expense report (TBE) with their receipts within 30 calendar days after returning from travel.

TBE Was Submitted Late. A Metro Pension and Benefits employee attended a conference in Oakland, CA from October 27 to October 30, 2019. However, the Traveler did not submit her TBE form until July 2020 (nearly 9 months later). The Traveler was aware of the 30-day policy requirement and could not explain the submission delay other than attributing it to oversight. However, she stated she will ensure that in the future the TBE form is submitted within 30 days after travel is complete as required. It is important that TBE reports are submitted in a timely manner in order for the expense to be recorded in the proper accounting period and for their department's budget balances to be updated. Furthermore, the possibilities of errors and omission or loss of receipts may increase if the employee submits the TBE report several months after his/her travel.

We reported the issue of TBEs being submitted late in a prior OIG report—*Statutorily Mandated Audit of Miscellaneous Expenses for the Period January 1, 2020 to March 31, 2020* (Report No. 21-AUD-01, October 23, 2020). That report recommended that the Travel Program Administrator consult with the Information Technology Services (ITS) department and implement a reminder through the Travel System[2] to travelers who do not complete their TBE reports in a timely manner. According to the Travel Program Administrator, as a result of this audit, a service request was sent to ITS in October 2020 and another in December 2020 to implement an electronic notification process to be sent to Travelers who have not submitted their TBE reports. She explained that implementation depends on the ITS workload which she has no control over. Further, in June/July 2020, she conducted an audit to identify all outstanding TBEs then contacted the delinquent travelers, reminding them to submit their TBEs. We understand that ITS has strained resources due to the impacts of the pandemic and this is a low priority item, but they should keep this on their list to do when possible.

2. Inadequate Receipt

Criteria. Purchase Cardholders are required to complete a Monthly Purchase Card Log of purchases made on their Metro purchase cards (P-Card) and attach the supporting itemized receipts. The documentation is reviewed and signed by the Approving Official and submitted to Accounts Payable. Completing this log is important to ensure:

- all purchases on the monthly P-Card log are reconciled to the receipts and each transaction is supported;
- all purchases on the monthly P-Card log are reconciled to the credit card statement for accuracy; and
- credits, credit card statement errors, or disputed items are identified.

Receipt Was Inadequate. A sample expense item for $2,500 was paid to SlideRoom Technologies using a Metro Art and Design department P-Card. The receipt for this expense did not show what was procured. It only showed the amount charged, the vendor, and the credit card that was used. It is important that adequate support is provided with the P-Card logs to ensure that the receipts are accurate and also are for legitimate Metro purposes. The Cardholder explained that the charge was to pay the vendor for being a repository that tracks submittals from artists who wish to be considered for potential artwork commissions. She said that there had been 250 submittals for which the vendor charged Metro $10 each for a total of $2,500. At our request, the Cardholder provided a report that itemized the 250 submissions. The Cardholder agreed that the receipt was inadequate and should have been itemized. She said it was an oversight. In the future, she plans to pay for the charge using check requests and will ensure that that proper support is provided.

[2] Travel System is an electronic application that allows Metro employees to electronically submit travel requests and requests for reimbursement.

3. Invoices Were Not Being Consistently Reviewed

Criteria. In 2002, the Board issued a memo giving the CEO authority to expedite the procurement of communication media. Metro's Communications department contracts with a Media Buyer (Civilian) who has the responsibility to obtain and analyze bids from media outlets, negotiate rates, and recommend the most efficient and cost-effective choices to Communications. This allows Metro to secure the desired media at favorable rates with favorable placement quickly. Procurement policy requires the monitoring of contracts and the approval of invoices.

Invoices Were Not Being Consistently Reviewed. Two invoices from Civilian were in our sample: $14,366 for project managing services in August 2020 and $5,500 for research services in July 2020. We found no issues with the procurements: they were justified, accurate, approved, and supported. However, one issue came to our attention. The Project Manager acknowledged that he was not reviewing all of the invoices. He thought it was appropriate to only review a sample of the invoices because via the contract Civilian has a media plan budget that they cannot exceed. This method is not adequate because it only ensures that the budget plan is not exceeded and does not ensure that all charges to Metro are proper. We believe it is essential that all the invoices be reviewed for appropriateness and accuracy to ensure that the charges are for legitimate services and to monitor the expenditures. The Project Manager understood our concerns and agreed that in the future, he will review all invoices.

4. Observations

On April 20 2020, Metro CEO issued an interoffice memo to the Senior Leadership Team titled "Immediate Cost Reduction Actions" to implement immediate cost saving actions necessary to contain costs and maximize cash on hand during the COVID-19 pandemic. The memo listed several cost cutting measures, effective from April 20, 2020 to October 1, 2020. The memo specifically asked Metro staff to cease expenditures for travel, seminar, business meal, training, and membership. There were some payments made during the quarter under audit which were approved by the Department Heads as they were deemed necessary in the operations of Metro.

We compared the spending for travel, seminar, business meal, training, and membership for the third quarter of 2019 and 2020. We found there was a significant reduction in expenses in all five accounts. Business Meals, Seminars/Conferences, and Business Travel decreased by 94 percent or more. Professional Memberships decreased by 90 percent, and training declined by 96 percent. See Table 1 for details.

Table 1. Comparison of Spending Between July 1 to September 30, 2019 and July 1 to September 30, 2020

Account	Account Description	Expenses for July 1 - September 30		
		2019	2020	% Decrease in Spending
50213	Training Program	$37,542	$1,324	96%
50903	Business Meals	$114,258	$6,899	94%
50912	Professional Membership	$67,845	$6,946	90%
50915	Seminar/Conference	$135,041	$3,261	98%
50917	Business Travel	$142,339	$6,621	95%

The significant reduction in expenditures across these accounts shows that the CEO's cost cutting measures were effective.

Training (Account 50213). This account is for expenses incurred for off-site contracted training for which there exists a written agreement between Metro and a consultant for a specific training/training programs required by Metro. During July 1 to September 30, 2020, there were two transactions for training expenses totaling $1,324 (See Table 2.) One expense for K9 toys/food (Metro has a working canine employee) was incorrectly charged to the Training Account.

Table 2. Training Expenses from July 1 to September 30, 2020

Cost Center No.	Cost Center	Training	Amount
8420	Environment Compliance/Sustainability	Anser Advisory Professional Management Course	$1,080
2610	System Security & Law Enforcement (SSLE)	K9 toys/food - this expense was placed in wrong Account	$244
		Total Amount:	**$1,324**

Business Meals (50903). This account is for meals and food incurred while participating in industry conferences and other related business meetings. During July 1 to September 30, 2020, there were eight business meal transactions totaling $6,899 (See Table 3).

Table 3. Business Meal Expenses from July 1 to September 30, 2020

Cost Center No.	Cost Center	Business Meal	Amount
3818	Maintenance Division 18	CHP Inspection	$1,176
3802	Maintenance Division 02	CHP Celebration	$856
3802	Maintenance Division 02	CHP Inspection	$262
3609	Maintenance Division 09	CHP BBQ	$1,032
3601	Maintenance Division 01	CHP Inspection	$976
3366	CMS	Hydration stations	$218
3232	Executive Director, Transportation	Meals for event – closing of Division 10	$1,113
1110	Office of Board Secretary	Meals to Board of Directors and their staff during Board/Committee Meetings	$1,266
		Total Amount:	**$6,899**

Memberships (Account 50912). This account is for professional membership fees or dues paid by Metro for its employees. During July 1 to September 30, 2020, there were eight professional membership transactions totaling $6,946 (See Table 4).

Table 4. Professional Membership Expenses from July 1 to September 30, 2020

Cost Center No.	Cost Center	Membership	Amount
8320	Major Capital Project Engineering	Structural Engineering Association	$315
8110	Quality Assurance/Compliance	American Standard Quality membership and American Welding Society	$426
7120	Art Program	American for the Arts Organization Membership	$1,370
6430	Building Services	International Facility Management Association	$311
5210	Treasury	Association of Public Treasurers	$289
5110	Accounting	ORACLE Users Group (FIS)	$965*
2510	Management Audit	Institute of Internal Auditors	$2,970
2415	Regional Rail	American Society of Civil Engineers	$300
		Total Amount:	**$6,946**

**This transaction was also reviewed as part of our original sample of 30.*

Seminars/Conference Fees (Account 50915). This account is for fees to attend a seminar, conference, or certification program. The table below shows the seminars attended by Metro staff between July 1, 2020 and September 30, 2020 (See Table 5).

Table 5. Seminar/Conference Expenses from July 1 to September 30, 2020

Cost Center No.	Cost Center	Course/Note	Amount
8610	Product Control and Administration	APTA rail event	$295
6810	Corporate Safety	OSHA recertification class	$525
6810	Corporate Safety	Refresher class and Asbestos Annual Refresher Class	$392
5610	Office of Management and Budget	FTA COVID Response webinar	$244
3590	Contract Services	Computer supply incorrectly recorded as seminar; vendor mistakenly overcharged Metro for $2,415 instead of $345. Corrected in October 2020.	$2,415
2610	System Security & Law Enforcement (SSLE)	Harvard Business School Online – Leadership Principles Course	$1,750
2415	Regional Rail	Fred Pryor Class - paid on March 18, 2020	$499*
	Various	Credits for refund of prior quarter's P-Card charges	($2,859)
		Total Amount:	**$3,261**

**This transaction was also reviewed as part of our original sample of 30.*

Travel (Account 50917). There were nine transactions in the Travel account, totaling $6,621, paid between July 2020 and September 2020 (See Table 6). Seven of the transactions were for travel expenses. We found that for all seven of these transactions, the TBEs were submitted late (from 3 months to 11 months). As discussed previously, it is important that TBEs are submitted within 30 days after travel is concluded so that the expense is recorded in the proper accounting period and the department's budget balances are updated. In addition, another transaction for business meals was incorrectly charged to the Travel Account. This expense should have been charged to Account 50903 – Business Meals.

Table 6. Travel Expenses from July 1 to September 30, 2020

Cost Center No.	Cost Center	Travel Period	Date TBE/Expense Submitted	Amount
6821	Asset Management	7/12 - 7/18/2019	6/29/2020	$801
5211	Pension & Benefits	11/19 - 11/22/2019	7/15/2020	$277
5211	Pension & Benefits	10/28 - 10/30/19	7/22/2020	$219*
3320	Vehicle Technology & Acquisition	1/6 – 1/10/20	5/15/2020	$433
2031	Office of Extraordinary Innovation	10/2 - 10/5/2019	7/2/2020	$1,402
2010	Chief Executive Office	10/13 - 10/16/2019	7/9/2020	$2,211
2010	Chief Executive Office	10/23 - 10/24/2019	7/10/2020	$699
3250	Maintenance Instruction	Business meal; expense was recorded in wrong account	n/a	$257
2420	Employee & Labor Relations	3/23/ - 3/26/2019	4/11/2019	$322**
			Total Amount:	**$6,621**

**This transaction was also reviewed as part of our original sample of 30.*

*** This amount pertains to the difference between the actual travel expenses ($2,734) and the amount reimbursed by Workforce Development Aging, and Community Services ($2,412). The unreimbursed amount of $322 was charged back to Account 50917 - Travel in September 2020.*

CONCLUSION

The miscellaneous expenses we reviewed for the period of July 1, 2020 to September 30, 2020 generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for three of the expenses reviewed, policy requirements were not followed for travel, P-Card, and media expenses. We also determined that the CEO's cost reduction actions were effective for travel, seminar, business meal, training, and membership. These costs were reduced by 90 to 98 percent in comparison to last year.

RECOMMENDATIONS

We recommend that:

Human Capital and Development (Pension and Benefits):

1. Remind staff to submit TBE Reports timely and accurately.

Human Capital and Development (General Services Administration):

2. Continue to work with Information Technology Services to create additional program features in the travel system that will generate a "late filers" report and automatically send a reminder to travelers to submit their Travel and Business Expense report on the due date, if they have not yet done so.

Communications (Creative Services):

3. Ensure that Purchase Cardholders obtain adequate itemized receipts before approving the monthly P-Card log.

Communications (Marketing):

4. Instruct the Project Manager to review all invoices under the contract with Civilian and other vendors to ensure they are appropriate and accurate.

Office of the CEO:

5. Consider extending the moratorium period beyond October 1, 2020 on CEO interoffice memo dated April 20, 2020 to Senior Leadership Team for "Immediate Cost Reduction Actions through October 1, 2020" related to expenditures on travel, seminar, business meal, training, and membership.

MANAGEMENT COMMENTS TO RECOMMENDATIONS

On March 12, 2021, we provided Metro Management a draft report. On March 24, 2021, the management completed their responses that summarized their corrective actions, as shown in Attachment B.

OIG EVALUATION OF MANAGEMENT RESPONSE

Metro Management's responses and corrective actions taken are responsive to the findings and recommendations in the report. Therefore, we consider all issues related to the recommendations resolved and closed based on the corrective actions taken.

Attachment A

Summary of Sampled Expenses Audited
For the Period from July 1, 2020 to September 30, 2020

Account	Account Description	Total Amount	Sample Amount
50213	Training Program	$ 1,324	$ 244
50903	Business Meals	6,899	1,237
50905	Corporate Membership	151,516	25,000
50910	Mileage / Parking	2,135	760
50912	Professional Membership	6,946	1,280
50914	Schedule Checkers	2,839	0
50915	Seminar and Conference Fee	3,261	499
50917	Business Travel	6,621	219
50918	Advertising	76,264	34,511
50999	Other Miscellaneous Expenses	226,593	32,922
	Total	**$ 484,398**	**$ 96,672**

Management Comments to Draft Report

Metro

Interoffice Memo

Date	March 24, 2021
To	Yvonne Zheng Senior Manager, Audit
From	Patrice McElroy, Patrice McElroy Interim Chief HC&D Officer Yvette Rapose, Chief Communication Officer Nadine Lee, Chief of Staff
Subject	Management Response to OIG Audit Report No. 21-AUD-06

Human Capital & Development, Communications, and Office of Chief Executive Officer have received and reviewed Audit Report No. 21-AUD-06: Audit of Metro Miscellaneous Expenses from July 1, 2020, to September 30, 2020. We are pleased that the Audit determined that the CEO's cost reduction actions were effective for travel, seminar, business meal, training, and membership. Additionally, the Audit identified a reduction in cost from 90 to 98 percent in comparison to the previous year; the report made five recommendations.

The departments agree with the overall findings and provided the following in response to the recommendations.

Human Capital and Development (Pension and Benefits):

1. Remind staff to submit TBE Reports timely and accurately.

The department agrees that it is important that TBE reports are submitted timely so that the expense is recorded in the proper accounting period and the department's budget balance is updated. The department will ensure that in the future, the TBE form is submitted within 30 days after travel is complete as required by the policy.

Human Capital and Development (General Services Administration):

2. Continue to work with Information Technology Services to create additional program features in the travel system that will generate a "late filers" report and automatically send a reminder to travelers to submit their Travel and Business Expense report on the due date, if they have not yet done so.

The department is continuing to work with the Information Technology Services Department to create automated reminders to travelers requesting that they submit *their Travel and Business Expenses before the due date if they have not yet done so.*

Communications (Creative Services):

3. Ensure that Purchase Cardholders obtain adequate itemized receipts before approving the monthly P-Card log.

The department agrees that it should have asked for a complete accounting for the 250 submissions of art repositories that together accounted for the invoice of $2,500. In the future, staff will more carefully vet the invoice commensurate with the services and ensure that it is reflected in a more transparent manner. It is agreed that the reflection of services on the invoice is important.

Communications (Marketing):

4. Instruct the Project Manager to review all invoices under the contract with Civilian and other vendors to ensure they are appropriate and accurate.

The department agrees that all invoices shall be reviewed and scrutinized indifferent of dollar amount. Clarity has been provided to staff and they understand the expectation going forward.

Office of the CEO:

5. Consider extending the moratorium

OCEO will extend the moratorium to the end of FY2021

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Audit of Miscellaneous Expenses
July to September 2020

OIG Report No. 21-AUD-06

Karen Gorman, Inspector General

April 14, 2021

Objectives

The objectives of the audit were to determine whether:

- Expenses charged were proper, reasonable, and in accordance with Metro policies and procedures.
- Expenses had proper approval, receipts, and other supporting documentation.
- Policies and procedures are adequate to ensure that expenses are documented and properly accounted for.

Results

Based on our sample reviews for the covered period, the expenses incurred generally complied with policies, were reasonable, and adequately supported by required documents. However, we found that for three of the expenses reviewed, policy requirements were not followed for travel, Purchase Card, and media expenses.

We also determined that the CEO's cost reduction measures were effective for travel, seminar, business meal, training, and membership. These costs were reduced by 90 to 98 percent in comparison to prior year.

We made five recommendations to improve the monitoring and payment of Metro miscellaneous expenses.