



Board Report

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Crenshaw Project Corporation



One Gateway Plaza
Los Angeles, CA 90012

**CRENSHAW PROJECT CORPORATION BOARD MEETING
DECEMBER 03, 2020**

SUBJECT: CRENSHAW PROJECT CORPORATION ANNUAL FINANCIAL REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Crenshaw Project Corporation (CPC) **Annual Financial Report for the fiscal year (FY) ended June 30, 2020** (Attachment A).

ISSUE

The CPC bylaws require that an annual financial report be prepared for review by the CPC Directors no later than 120 days after the close of the CPC's fiscal year (June 30), or such later date permissible by Public Benefit Corporation Law. Attachment A presents this required financial report.

BACKGROUND

The CPC was formed on March 23, 2012 to act as the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan conduit borrower for the Crenshaw/LAX Transit Corridor Project (Crenshaw/LAX Project).

DISCUSSION

In September 2012, the CPC secured a \$545.9 million TIFIA loan from the United States Department of Transportation (USDOT). The TIFIA loan is secured by Measure R sales tax revenues allocated to the Crenshaw/LAX Project. As of June 30, 2020, USDOT has disbursed the maximum total of \$545.9 million in TIFIA loan funds. All loan disbursements were advanced to Metro for the purpose of

reimbursing the agency for eligible Crenshaw/LAX Project expenses. In addition, during FY20 the CPC paid \$22 thousand in expenses that consisted of loan fees and other charges. The CPC was reimbursed for these expenditures by Metro. The Annual Financial Report states that the net position of the CPC as of June 30, 2020 was \$0. Total assets of \$608,186 represent advances to Metro and the total liabilities represent the note payable to USDOT. Attachment A contains the CPC Audited Financial Statements for fiscal year ended June 30, 2020.

FINANCIAL IMPACT

The administrative costs associated with preparing the CPC annual financial report was funded in Metro's adopted FY21 budget in various cost centers.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal(s):
Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

NEXT STEPS

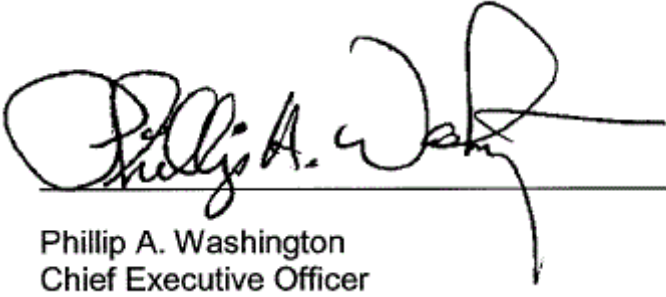
Staff will continue to provide CPC financial reports to the Board on an annual basis as required by the bylaws.

ATTACHMENTS

Attachment A - Crenshaw Project Corporation Financial Statements for the Fiscal Year Ended June 30, 2020

Prepared by: Jesse Soto, Executive Officer, Finance, (213) 922-6861

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



Phillip A. Washington
Chief Executive Officer



Crenshaw Project Corporation

**(A Component Unit of the Los Angeles County
Metropolitan Transportation Authority)**

Financial Statements

For the Year Ended June 30, 2020

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Financial Statements
For the Fiscal Year Ended June 30, 2020

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To the Board of Directors
Crenshaw Project Corporation
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Crenshaw Project Corporation (CPC), a

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require

those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CPC, as of June 30, 2020, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2020 on our consideration of the CPC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CPC's internal control over financial reporting and compliance.

Crowe LLP

Los Angeles, California
October 2, 2020

AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Crenshaw Project Corporation
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Crenshaw Project Corporation (CPC) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the CPC's basic financial statements, and have issued our report thereon dated October 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CPC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CPC's internal control. Accordingly, we do not express an opinion on the effectiveness of the CPC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CPC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Los Angeles, California
October 2, 2020

Crenshaw Project Corporation

(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2020

As management of the Crenshaw Project Corporation (CPC), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the CPC for the fiscal year ended June 30, 2020. This discussion and analysis is designed to assist the readers in focusing on the significant financial issues and activities of the CPC.

We encourage the readers to consider the information presented herein in conjunction with the financial statements beginning on page 8. The financial statements, the notes to the financial statements, and this discussion and analysis were prepared by management and are the responsibility of management.

All amounts are expressed in thousands of dollars unless otherwise indicated.

Background

The Crenshaw Project Corporation (CPC) was formed on March 23, 2012 for the sole purpose of participating in financing public transportation projects of the Los Angeles County Metropolitan Transportation Authority (LACMTA).

The CPC currently serves as the conduit borrower as part of a financing agreement with the United States Department of Transportation (USDOT) under its Transportation Infrastructure Finance and Innovation Act (TIFIA) program to partially finance the construction of LACMTA's Crenshaw/LAX Transit Corridor Project (Project).

Financial Highlights

- In September 2012, the CPC secured a \$545,900 TIFIA loan from the USDOT to partially finance the Project. The loan under the TIFIA program is secured by Measure R sales tax revenues allocated to the Project. As of June 30, 2020, CPC has drawn down the full amount of TIFIA loan proceeds.
- Total assets of \$608,186 consist of the \$13,367 cash balance in the TIFIA Debt Service Reserve accounts restricted to meet the debt service reserve requirements of the TIFIA loan funding agreement and the advances to LACMTA of \$594,819. Total liabilities of \$608,186 consist of the principal amount of \$545,900 and the aggregate interest accretion of \$62,286 on the TIFIA loan. Therefore, there is no net position as of June 30, 2020.
- Total operating expenses of \$22 consist mostly of loan fees and other administration charges that were reimbursed by LACMTA, net of investment earnings of \$7.

Overview of the Basic Financial Statements

This Management's Discussion and Analysis serves as an introduction to the CPC's basic financial statements. The CPC's basic financial statements are: 1) the Statement of Net Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, 3) the Statement of Cash Flows, and 4) the Notes to the Financial Statements.

Crenshaw Project Corporation

(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2020

The CPC's basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as promulgated by the Government Accounting Standards Board (GASB). The CPC is structured as an Enterprise Fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred. See the notes to the financial statements for the summary of the CPC's significant accounting policies.

The Statement of Net Position presents information on all of the CPC's assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the CPC's operations. The Statement of Cash Flows presents the cash flows generated by the CPC to meet its current maturing obligations. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Presented below are the condensed Statement of Net Position and condensed Statement of Revenues, Expenses, and Changes in Net Position as of and for the year ended June 30, 2020.

	2020	2019
Condensed Statement of Net Position		
Current assets	\$ 13,367	\$ —
Non-current assets	594,819	594,799
Total assets	608,186	594,799
Non-current liabilities	608,186	594,799
Total liabilities	608,186	594,799
Net position	\$ —	\$ —
Condensed Statement of Revenues, Expenses, and Changes in Net Position		
Operating revenues	\$ 15	\$ 24
Operating expenses	22	24
Operating income (loss)	(7)	—
Non-operating revenue	7	—
Change in net position	—	—
Net position - beginning of year	—	—
Net position - end of year	\$ —	\$ —

(1) The TIFIA loan was fully refunded on August 27, 2020 from LACMTA's issuance of Measure R Junior Subordinate Sales Tax Revenue Refunding Bonds, Series 2020-A, Green Bonds (see Note 4, Notes to the Financial Statements on page 13 for additional disclosure).

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(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2020

The increase in current assets of \$13,367 was due to the increase in cash resulting from the receipt of funds from LACMTA for TIFIA's debt service reserve requirement.

The increase in non-current liabilities of \$13,387 was due to the interest accretion on the TIFIA loan in fiscal year 2020.

Crenshaw Project Corporation

(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

Statement of Net Position

June 30, 2020

(Amounts expressed in thousands)

Assets	
Current assets	
Cash and cash equivalents - restricted	\$ 13,367
Non-current assets	
Advances to LACMTA	594,819
Total Assets	<u>608,186</u>
Liabilities	
Non-current liabilities	
Notes payable	608,186
Total Liabilities	<u>608,186</u>
Net Position	<u><u>\$ —</u></u>

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation

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Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2020

(Amount expressed in thousands)

Operating revenues		
Charges for services	\$	15
Operating expenses		
Professional, technical and other services		22
Operating loss		<u>(7)</u>
Non-operating revenues		
Investment earnings		7
Change in net position		<u>—</u>
Net position - beginning of year		<u>—</u>
Net position - end of year	\$	<u><u>—</u></u>

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation

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Statement of Cash Flows

For Fiscal Year Ended June 30, 2020

(Amounts expressed in thousands)

Cash flows from operating activities	
Receipts from LACMTA	\$ 15
Payments to vendors	(22)
Net cash used for operating activities	<u>(7)</u>
Cash flows from capital and related financing activities	
Receipts from LACMTA for TIFIA's debt service reserve requirement	13,367
Net cash flows from capital and related financing activities	<u>13,367</u>
Cash flows from investing activities	
Investment earnings	7
Net cash flows from investing activities	<u>7</u>
Net increase in cash and cash equivalents	13,367
Cash and cash equivalents - beginning of year	—
Cash and cash equivalents - end of year	<u><u>\$ 13,367</u></u>
Non-cash financing activity	
Interest accretion on notes payable	\$ 13,387

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation

(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)

Notes to the Financial Statements

June 30, 2020

The notes to the financial statements are a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying basic financial statements.

Unless otherwise stated, all dollar amounts are expressed in thousands.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Crenshaw Project Corporation (CPC) was formed for the specific purpose of securing a loan from United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program for the construction of LACMTA's Crenshaw/LAX Transit Corridor Project (Project). The Project has an approved life-of-project (LOP) budget of \$2.05 billion that covers the design and construction of a new 8.5-mile double-track Light Rail Transit (LRT) line, including eight transit stations, procurement of a minimum of 20 light rail vehicles, and the construction of a full service maintenance facility known as the "Southwestern Yard". The Project will extend from the EXPO Line (at the intersection of Exposition and Crenshaw Boulevards) and the Metro Green Line near the existing Aviation/LAX Station.

The CPC is governed by a Board of Directors (CPC Board) consisting of the same members of the Board of Directors of LACMTA (Metro Board). The Chair, First-Chair and Second-Chair of the Metro Board shall have the corresponding positions on the CPC Board. The Board members may serve only as long as they are members of the Metro Board. Each Director shall serve a term commensurate with his or her term on the Metro Board. The CPC is a blended component unit of LACMTA because it is financially dependent upon LACMTA, and LACMTA's approval is needed for the CPC to expend its budgets or charges and issue long-term debt. Although the CPC is a legally separate entity, it is in-substance part of LACMTA's operations, and therefore the data from the CPC is included in LACMTA's financial data. These financial statements present only the CPC and do not purport to, and do not, present fairly the financial position of LACMTA, as of June 30, 2020, or the changes in the financial position for the year then ended.

Fund Accounting

The proprietary fund type is used to account for ongoing operations and activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. The CPC uses the proprietary fund type to account for the goods and services provided to LACMTA on a cost reimbursement basis. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include reimbursements from LACMTA for operating expenses. Operating expenses include professional services and administrative expenses. The CPC

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Notes to the Financial Statements

June 30, 2020

applies all applicable Government Accounting Standard Board (GASB) pronouncements in accounting and reporting for its proprietary operations. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, including restricted assets with an original maturity date of 90 days or less, are considered to be cash and cash equivalents. Otherwise, they are considered to be investments.

Receivables and Payables

Interagency receivables/payables are amounts owed to/due from other LACMTA funds for services performed. Payables are amounts due to vendors for goods or services received. There were no accounts payable to vendors outstanding as of June 30, 2020.

Note 2 - Advances to LACMTA

Advances to LACMTA consist of cash advances to partially finance the construction of the Project. As of June 30, 2020, the outstanding balance of advances to LACMTA totaled \$594,819.

Note 3 - Notes Payable

In September, 2012, the CPC secured a direct loan not to exceed \$545,900 from the United States Department of Transportation (USDOT) under the TIFIA program to partially finance the construction of the Project. The loan, secured by a portion of LACMTA's Measure R sales tax revenues allocated to the Project, bears interest at 2.43% per annum on the outstanding balance with maturity date of June 1, 2034. At June 30, 2020, CPC has fully drawn the \$545,900 principal amount. On each June 1 and December 1, interest accrued in the six month period ending on such date, were added to the outstanding balance of the TIFIA loan. The principal amount is payable in annual installments on June 1 of each year commencing on June 1, 2021, while the interest payments are payable semi-annually on June 1 and December 1 of each year starting December 1, 2020. As of June 30, 2020, the outstanding balance of the TIFIA loan, including \$62,286 in interest accretion, was \$608,186.

In the event of default described under the provisions of the TIFIA Loan Agreement, the TIFIA Lender, by written notice to LACMTA, may declare the unpaid principal amount of the TIFIA loan to be immediately due and payable, together with the interest accrued thereon and all fees, costs, expenses, indemnities and other amounts payable under the Agreement and other TIFIA Loan Documents. The TIFIA Lender may suspend or debar LACMTA from further participation in any Government program administered by the TIFIA Lender and to notify other departments and agencies of such default.

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Notes to the Financial Statements

June 30, 2020

The CPC's annual debt service requirements (including future interest accretion to principal) are as follows:

Year Ending June 30	Principal	Interest	Total
2021	\$ (59) ⁽¹⁾	\$ 14,759	\$ 14,700
2022	8,620	14,780	23,400
2023	8,829	14,571	23,400
2024	9,024	14,376	23,400
2025	16,582	14,118	30,700
2026-2030	248,036	58,064	306,100
2031-2034	317,154	20,395	337,549
	<u>\$ 608,186</u>	<u>\$ 151,063</u>	<u>\$ 759,249</u>

(1) Amount represents interest accretion on TIFIA loan that is due and payable beginning June 1, 2022. The principal outstanding of \$608,186 includes interest accretion of \$62,286 as of June 30, 2020.

The annual debt service requirements were calculated based on allocation of loan payments from the principal amount of \$545,900.

Note 4 - Subsequent Event

In August 2020, LACMTA issued an aggregate principal amount of \$1.356 billion of Measure R Junior Subordinate Sales Tax Revenue Refunding Bonds, Series 2020-A (Green Bonds) to repay and retire its obligations under the TIFIA Loan Agreements, including CPC's TIFIA Loan. A portion of the proceeds, together with other available funds released from funds and accounts related to TIFIA funding agreements, were used to repay, on the date of issuance, CPC's outstanding loan balance of \$611,699, including accrued interest due under the TIFIA Loan Agreements, and pay the proportionate cost of issuance of the Series 2020-A Green Bonds.