

# **Metro**

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



## **Agenda - Final**

**Wednesday, April 11, 2018**

**12:00 PM**

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

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

*Kathryn Barger, Chair*

*Paul Krekorian, Vice Chair*

*John Fasana*

*Janice Hahn*

*Ara Najarian*

*Carrie Bowen, non-voting member*

*Phillip A. Washington, Chief Executive Officer*

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(ALSO APPLIES TO BOARD COMMITTEES)

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

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

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

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

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

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

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

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

**CALL TO ORDER****ROLL CALL****APPROVE Consent Calendar Item(s): 10**

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

CONSENT CALENDAR**10. [2018-0160](#)**

APPROVE Metro's participation in the Hollywood Entertainment District Business Improvement District for a period of ten years beginning January 1, 2019 to December 31, 2028 for an estimated amount of \$2,891,282 through 2028.

**Attachments:** [Attachment A – BID Benefit Boundaries](#)  
[Attachment B – Map of Proposed BID Boundaries](#)  
[Attachment C – Evaluation of BID Benefits to Metro](#)  
[Attachment D – Metro Parcels included in BID](#)

NON-CONSENT**11. [2018-0120](#)**

APPROVE programming of up to \$55 million to upgrade aging bus farebox equipment and rail station validators that will enhance security, prepare for new payment technologies, ensure near real time communications, simplify regional fares and requirements, and ensure that customers and future 2028 Summer Olympic visitors experience a convenient and barrier-free fare payment system.

**Attachments:** [Attachment A – Draft Timeline for TAP Equipment Procurement and Installation](#)

**12. [2018-0059](#)**

RECEIVE AND FILE TAP Mobile and Account-Based System update.

**Attachments:** [Presentation](#)

**13. [2018-0060](#)**

RECEIVE AND FILE the Fiscal Year 2018 (FY18) Second Quarter Year-To-Date (YTD) Financial and Performance Report.

Attachments: [Presentation](#)

14. [2018-0080](#)

RECEIVE AND FILE report on FY 2019 Budget Development Status.

Attachments: [Presentation](#)

15. [2018-0102](#)

RECEIVE AND FILE status report on Access Services - ADA Paratransit.

Attachments: [Presentation](#)

16. [2018-0014](#)

AUTHORIZE the Chief Executive Officer to negotiate and award All Risk Property and Boiler and Machinery insurance policies for all property at the current policy limits at a not to exceed price of \$2.5 million for the 12-month period May 10, 2018 through May 10, 2019.

Attachments: [Attachment A - Premium History.pdf](#)  
[Attachment B - Recommended Program.pdf](#)  
[Attachment C - Alternatives Considered.pdf](#)

7. [2018-0128](#)

ESTABLISH a Toll Bond Pool of underwriters, listed in Attachment A, from which underwriters will be selected for future negotiated debt issues for toll revenue bonds and other toll revenue backed debt issued under the ExpressLanes program through June 30, 2021, with two further 1-year options to extend.

Attachments: [Attachment A - Summary of Underwriter Selection.pdf](#)

(ALSO ON AD HOC CONGESTION, HIGHWAY AND ROADS COMMITTEE)

## 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.

## **Adjournment**



## Board Report

File #: 2018-0160, File Type: Program

Agenda Number: 10.

### FINANCE, BUDGET AND AUDIT COMMITTEE APRIL 11, 2018

**SUBJECT: HOLLYWOOD ENTERTAINMENT DISTRICT  
BUSINESS IMPROVEMENT DISTRICT**

**ACTION: APPROVE RECOMMENDATION**

#### **RECOMMENDATION**

APPROVE Metro's participation in the Hollywood Entertainment District Business Improvement District for a period of ten years beginning January 1, 2019 to December 31, 2028 for an estimated amount of \$2,891,282 through 2028.

#### **ISSUE**

The Hollywood Entertainment District Business Improvement District Ad-Hoc Steering Committee is seeking to renew a property-based Business Improvement District ("BID"). This BID will have an annual assessment to improve and convey special benefits to properties located within the Hollywood Entertainment District Business Improvement District ("District") area. The BID will provide improvements and activities, including implementation of a Clean and Safe Program, Communication Program, and Administrative/Office Program.

Improvements and activities are designed to meet the District's goals to:

- improve the safety of each individual parcel within the District;
- increase building occupancy and lease rates;
- encourage new business development;
- increase transit ridership thereby attracting more customers to businesses; and
- attract ancillary businesses and services for parcels within the District.

Metro is being asked as a property owner in the District to sign a petition confirming the inclusion of Metro-owned properties in the BID. Metro has participated in the original Hollywood Entertainment District BID since its inception through 2018.

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## **DISCUSSION**

Establishment of the BID is a two-step process that includes (1) submission of favorable petitions from property owners representing more than 50% of total assessments to be paid; and (2) return of mail ballots evidencing a majority of ballots cast in favor of the assessment. Ballots are weighted by each property owner's assessment as proportionate to the total proposed District assessment amount.

Metro has supported the formation of BIDs when the service or improvements provided a direct benefit to Metro properties, employees, and customers. Under Proposition 218, the assessing agency that proposes an assessment identifies all parcels that will receive a special benefit. The special benefit for each parcel is determined by: (1) the relationship of the capital cost of a public improvement; (2) the maintenance and operation of a public improvement; or (3) the cost of the property related services being provided. No assessment can be imposed on any parcel that exceeds the reasonable cost of the proportional special benefit on that parcel. All publicly-owned parcels are required to pay their proportional share of costs based on the special benefits conferred to those individual parcels. Only special benefits are assessable. The BID considers the special benefit to government assessed parcels to be an increase in District customers, an increased likelihood of attracting and retaining employees that follows from having a cleaner and safer area, increased use of the public facilities, and increased attraction to the neighborhood. Proposition 218 provides that parcels within a district that are owned or used by any agency *"...shall not be exempt from assessment unless the agency can demonstrate by clear and convincing evidence that the property will receive no benefit."*

The Metro Board adopted Guidelines on Metro Participation in Proposed Assessment Districts ("Guidelines") in June 1998. The Guidelines require staff to analyze each assessment district based on whether it provides benefit to Metro properties, facilities, Metro employees, and/or Metro's passengers, or reduce costs for the agency. Staff is to provide the Board with an analysis, on a case-by-case basis, that determines whether Metro property benefits from the proposed services or improvements; and whether the benefit to the property exceeds the cost of the assessment. An evaluation of the Hollywood Entertainment District BID's benefits to Metro is attached (see Attachment C).

### **Description of BID**

The Hollywood Entertainment District BID will have a ten (10) year life beginning January 1, 2019 and ending December 31, 2028 and will be governed by an Owner's Association which will oversee the day-to-day implementation of services as described in the BID's Management Plan.

The boundary of the Hollywood Entertainment District BID was created to include the Hollywood Entertainment District and the expiring Sunset and Vine Improvement District area of Hollywood. The boundary of the Hollywood Entertainment District incorporates two main east-west corridors in Hollywood, Hollywood Boulevard, and Sunset Boulevard. Commercial parcels up to a block north and south of both streets are included from Hollywood's western border (La Brea) and Sunset's western border (Cassil Place) to the 101 Freeway to the East. Significant north-south arteries are included, such as Highland (from Franklin to Selma); Cahuenga (from Yucca to De Longpre); Vine (from Yucca to Santa Monica Blvd.); and Gower (from Hollywood to Fountain).

The property uses within the general boundaries of the Hollywood Entertainment District BID are a



mix of retail, office, cultural, educational, religious, parking, hotel, production studio, residential, mixed-use, utility, and publicly-owned parcels. Services and improvements provided by the District are designed to provide special benefits in the form of improving economic vitality in the District by increasing building occupancy and lease rates and encouraging new business development.

There are different zones set up depending on the benefit provided. The zones are evaluated based on major street frontage, pedestrian traffic, and frequency of service. Metro has 23 parcels and all are in Zone 1. Among Zones 1-4, Zone 1 receives the highest benefit.

### Services Provided

The District will provide Clean and Safe Programs and a Communications Program. The Safety Team Program will provide safety services for parcels located within the District in the form of patrolling bicycle personnel, and nighttime vehicle patrol. The purpose of the Safe Team Program is to prevent, deter, and report illegal activities taking place on the streets, sidewalks, storefronts, parking parcels and alleys. The presence of the Safe Team Program is intended to deter such illegal activities as public urination, indecent exposure, trespassing, drinking in public, prostitution, illegal panhandling, illegal vending, and illegal dumping.

The Clean Program provides services to assessed parcels within the District's boundaries. The services include sidewalk cleaning, trash collection and graffiti removal. The specific services include removal of litter, debris, and refuse from sidewalks and gutters, collecting trash from receptacles as needed, disposal of illegal food vendors' inventory, collection of illegally dumped large bulky items, and removal of graffiti. Graffiti removal is accomplished through painting, the use of solvent and pressure washing. The response time is within 24 hours on weekdays. This particular District also polishes the Walk of Fame stars.

In addition to the actual services, the District will maintain a web site to provide increased awareness of the businesses within the District and their individual offerings to attract new customers. The increase in commercial activity supports increases in lease rates and enhanced commerce. All of the services provided by the BID are services over and above the City's baseline of services and are not provided by the City.

### **DETERMINATION OF SAFETY IMPACT**

The Board action will not have an impact on safety standards for Metro. However, the BID's safety program will increase safety and crime prevention in the area around Metro-owned properties.

### **FINANCIAL IMPACT**

Metro's assessment for the Year 2019 under the proposed BID is \$252,208.88 and represents 3.4 % of total BID revenue collected from assessments. The assessments will be subject to annual increases ranging from 0.01% to 3% annually as approved by the BID's Board of Directors. The total estimated ten-year cost to Metro will be \$2,891,282.

### Impact to Budget

Funding to participate in this BID is included in the Fiscal Year 2019 Operating Budget request for

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Non- Departmental Real Estate (Cost Center 0651) to pay for bus and rail operations (Project No. 300044 and 306006), Account No. 50799 (Taxes). Funds for subsequent years will be budgeted annually. Funds are eligible for bus and rail operations.

### **ALTERNATIVES CONSIDERED**

Metro could refrain from signing the petition and casting a ballot. This would not stop the assessment of Metro's parcels. Based on the evaluation of the benefits to Metro, participation in the BID is recommended.

### **NEXT STEPS**

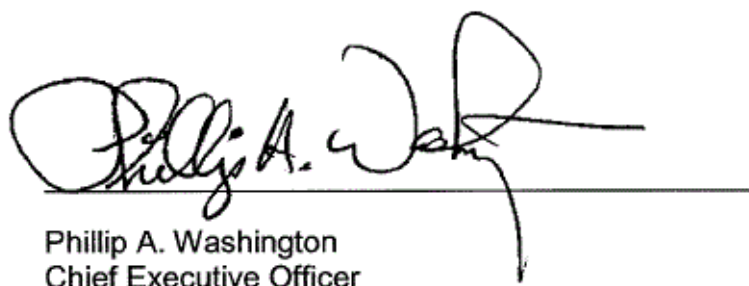
Upon approval of the recommendation, staff will authorize Metro's participation in the Hollywood Entertainment District BID by signing ballots accepting parcel assessments.

### **ATTACHMENTS**

- Attachment A - BID Benefit Boundaries
- Attachment B - Map of Proposed BID Boundaries
- Attachment C - Evaluation of BID Benefits to Metro
- Attachment D - Metro Parcels included in BID

Prepared by: Nick Szamet, Sr. Admin. Analyst, Countywide Planning & Development, (213) 922-2441  
John Potts, DEO, Countywide Planning & Development, (213) 922-2435

Reviewed by: Therese W. McMillan, Chief Planning Officer, (213) 922-7077  
Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington  
Chief Executive Officer

**HOLLYWOOD ENTERTAINMENT DISTRICT BID BENEFIT ZONE BOUNDARIES**

**Zone 1 includes all property fronting on the following streets:**

- Hollywood Boulevard from La Brea to Gower Street
- Sunset Boulevard from Cahuenga Boulevard to Gower Street
- Highland Avenue from Selma Avenue to Franklin Place
- Cahuenga Boulevard from Sunset Boulevard to Yucca Street
- Vine Street from De Longpre Avenue to Yucca Street
- Argyle Avenue from Sunset Boulevard to Yucca Street

**Zone 2 includes all property fronting the following streets:**

- Yucca Street from West of Wilcox Avenue to Argyle Avenue
- Hollywood Boulevard from Gower Street to 101 Freeway
- Selma Avenue from Highland Avenue to Gower Street
- Sunset Boulevard from Cassil Place to Cahuenga Boulevard
- Sunset Boulevard from Gower Street to 101 Freeway
- Vine Street from De Longpre Avenue to Santa Monica Boulevard
- Wilcox Avenue from De Longpre Avenue to Yucca Street
- Cahuenga Avenue from Homewood Avenue to Sunset Boulevard

**Zone 3 includes all property fronting the following streets:**

- Fountain Avenue from Ivar Avenue to Vine Street
- Homewood Avenue from Ivar Avenue to Vine Street
- De Longpre Avenue from Hudson Avenue to east of Vine Street
- De Longpre Avenue from El Centro Avenue to Gower Street
- Leland Way from Vine Street to El Centro Avenue
- Hawthorn Avenue from West of Orange Drive to McCadden Place
- Gower Street from Fountain Avenue to Hollywood Boulevard
- El Centro Avenue from De Longpre Avenue to Hollywood Boulevard
- Bronson Avenue north & south of Hollywood Boulevard
- Ivar Avenue from Fountain to Yucca Street
- Morningside Court from Sunset Boulevard to Selma Avenue
- Cole Avenue from De Longpre Avenue to Sunset Boulevard
- Schrader Boulevard from Sunset Boulevard to Hollywood Boulevard
- Hudson Avenue from Hollywood Boulevard to Yucca Street
- Whitley Avenue from Hollywood Boulevard to Yucca Street
- Cherokee Avenue from Hollywood Avenue to Yucca Street
- Las Palmas Avenue from Selma Avenue to Yucca street
- McCadden Place from Selma Avenue to Yucca street
- Orange Drive from Hawthorn Avenue to North Hollywood Boulevard
- Sycamore Avenue north & south of Hollywood Boulevard
- El Cerrito Place from north of Hollywood Boulevard
- La Brea Avenue north & south of Hollywood Boulevard
- Seward Street south of Sunset Boulevard
- Cassil Place north of Sunset Boulevard

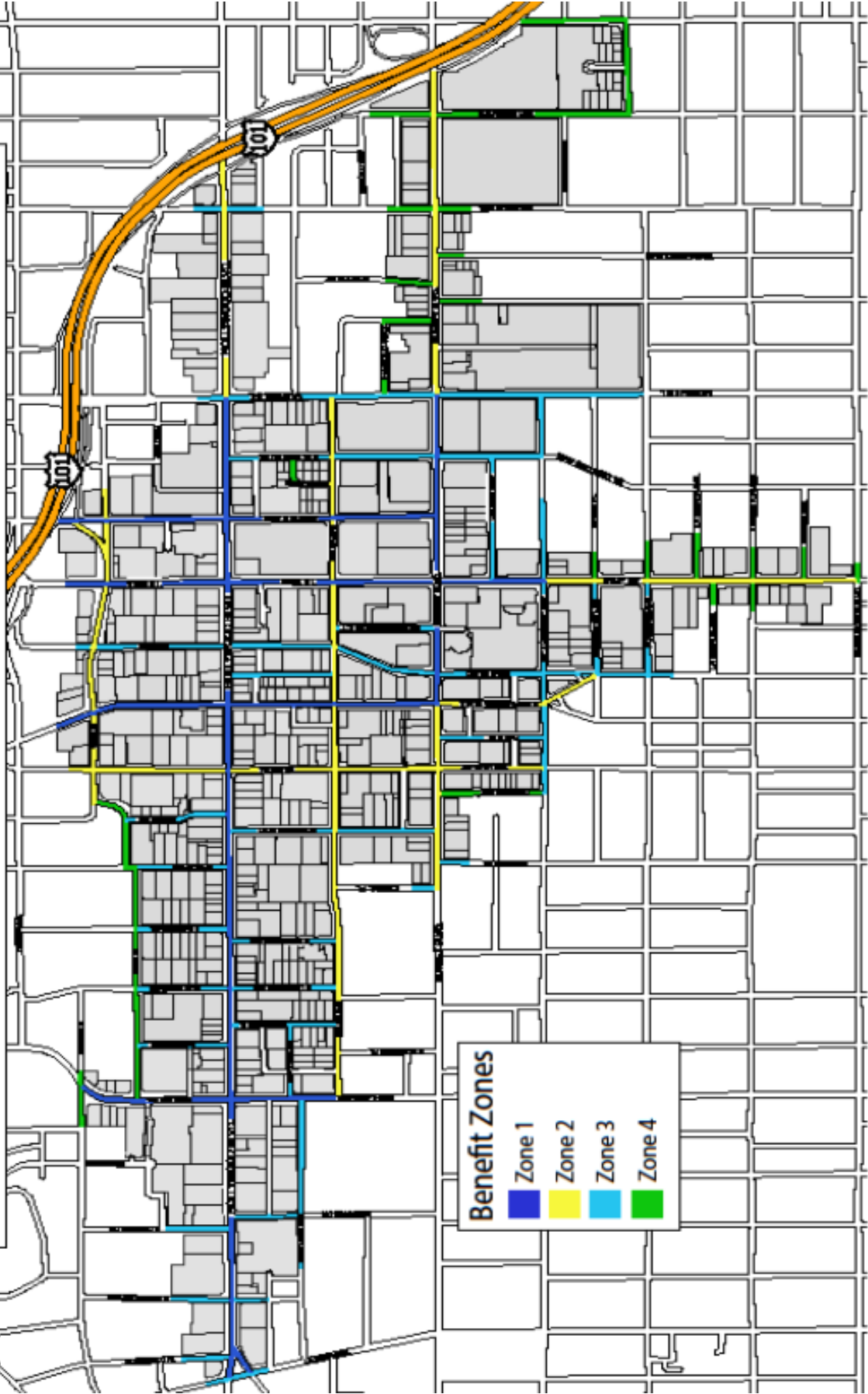
**Zone 4 includes all property fronting the following streets:**

- Yucca street from Highland Avenue to Hudson Avenue
- Vista Del Mar Avenue from Selma Avenue to El Centro Avenue
- Harold Way from Gower Street to La Baig Avenue
- La Baig Avenue from Harold Way to Sunset Boulevard
- Gordon Street north & south of Sunset Boulevard
- Tamarind Street south of Sunset Boulevard
- Bronson Avenue north & south of Sunset Boulevard
- Van Ness Avenue from Fountain Avenue to 101 Freeway

## ATTACHMENT A

- Wilton Place from Fountain Avenue to 101 Freeway
- Alton Place east of Vine Street
- Fountain Avenue east of Vine Street
- La Mirada Avenue east & west of Vine Street
- Lexington Avenue east & west of Vine Street
- Banner Avenue east of Vine Street
- Santa Monica Boulevard east of Vine Street
- Hudson Avenue from De Longpre Avenue to Sunset Boulevard
- South side of Franklin Place from one parcel east & west of Highland Avenue

**Map of Proposed Boundaries**  
**Hollywood Entertainment District Property and Business Improvement District**  
**2019-2028 (10 years)**



**Benefit Zones**

- Zone 1
- Zone 2
- Zone 3
- Zone 4

**EVALUATION OF HOLLYWOOD ENTERTAINMENT DISTRICT BUSINESS  
IMPROVEMENT DISTRICT BENEFITS TO MTA**

**Evaluation of Benefits to MTA**

The proposed BID includes twenty-three (23) parcels owned by MTA. The largest group of parcels is improved along the Metro Red Line.

The total proposed District budget for the 2019 year of operation is \$7,466,416. Assessments will be subject to annual increases not to exceed 3% each year. Revenue for the ten-year term of the BID is expected to total approximately \$ 85,594,100. The budget will cover improvements, activities and services which include (1) enhanced safety programs such as bicycle patrol, night vehicle patrol and foot patrol in the area; and (2) enhanced clean programs such as sidewalk sweeping, sidewalk pressure washing graffiti and handbill removal, trash removal, landscape programs and tree trimming. The proposed Hollywood Entertainment District BID assessment to MTA over the ten-year period is estimated to be \$2,891,223 which is approximately 3.4% of the total BID revenue.

**Analysis of Benefit to MTA**

The Guidelines on MTA Participation in Proposed Assessment Districts (“Guidelines”) established general guidelines for determining benefits to MTA properties as outlined below. A list of MTA properties included in the proposed BID is attached, with an indication of the assessment to each parcel (ATTACHMENT D). The guidelines requires an analysis of each new assessment district service and/or improvement based on whether it improves MTA property or facilities, benefits MTA employees, benefits the MTA riding public or reduce costs for the MTA.

Following is the analysis of benefits to MTA from the Hollywood Entertainment District Business Improvement District based on the Guidelines.

**TIER 1 – NO BENEFIT**

- Subsurface easements
- Aerial easements
- Right of Way – Red Line
- Vacant Land
- 

**TIER 2 – MINOR OR NO POTENTIAL BENEFIT**

- Parking Lots

**TIER 3 – MINOR OR SOME POTENTIAL BENEFIT**

- Bus Division – None
- Bus Terminals – Hollywood & Vine bus layover facility.
- Customer Service Centers - None
- USG Headquarters Building – None
- Maintenance Facilities –
- Rail Division –
- Rail Terminus –
- Stations – Implementation of the BID will decrease MTA’s maintenance expenses associated with the properties in the area of sidewalk maintenance and graffiti removal from building and walls/fences. The District will enhance the environment of the area around the Metro Red Line Stations and will in all likelihood increase the desirability of the area for future development.
- Miscellaneous Buildings

**TIER 4 – ACTUAL BENEFIT – APPLICABLE**

Joint Development Projects – The existing Joint Development projects will benefit by being located in a well maintained neighborhood.

MTA Benefits – The MTA Property fronting on a public street benefits from the Hollywood Entertainment District BID services. The services provided are categorized as Safe and Clean Programs.

The Clean Team Program provides the following special services to MTA parcels:

- Provides maintenance services at and around MTA parcels 6 days/week from 7:30am-2pm
- Zone 1 MTA parcels receive increased frequency of maintenance services
- BID services/empties/disposes of trash bags at BID receptacles at and around MTA parcels
- BID sidewalk sweeper personnel sweep up trash/debris from sidewalks, gutters, tree wells, and fence lines around MTA parcels
- Monthly pressure washing of sidewalks and street furniture around MTA parcels, sidewalks in front of Red line stations are regular hot spots
- Graffiti and handbill removal from buildings, sidewalks, fencing, light standards, street trees, street furniture, and news racks around MTA parcels
- Bulky items picked up around MTA parcels, occurrences more frequent around vacant land parcels
- Weed removal on sidewalks and tree wells around MTA parcels
- Tree trimming around MTA parcels

The Safe Team Program provides the following special services to MTA parcels:

- Provides safety services 7 days/week from 1:30pm-12am at and around MTA parcels
- Zone 1 MTA parcels receive increased frequency of safety services, safety foot and bicycle patrol 8 to 10 times per day
- Safety Patrols prevent, deter, report, and address District quality of life issues around MTA parcels
- Patrols respond to loitering, thefts, transients, illegal vending, graffiti, fights, drug dealing around MTA parcels, with the most frequency around Red line stations
- Safety patrols respond and work collaboratively with LAPD and private Metro security to address common issues around MTA parcels
- Safety patrols patrol and monitor the perimeter of park and ride lot looking for safety issues
- Safety patrols patrol and monitor vacant parcels for homeless and dumping activity
- Safety patrols provide hospitality services (directions, etc.) to transit riders around MTA parcels

Communication Program:

- BID marketing has made the District an attractive destination which provides benefit to Red line parcels with increased transit ridership
- BID marketing events promote riding Metro Red line to access Hollywood Entertainment District
- BID banner program covers light standards in the commercial corridors of in the District. The banners provide a physical connection between the Red line stations and the commercial area of the District and provide benefit to MTA parcels.
- BID website highlights businesses and draws customers to District, providing a benefit to Red line stations with increased transit ridership
- BID Partnership with Metro on destination discount program with District businesses. Metro riders show proof of riding transit and receive discounts at participating District businesses. Program benefits Red line stations with increased ridership.

**SUMMARY OF MTA PARCELS INCLUDED IN HOLLYWOOD ENTERTAINMENT DISTRICT  
BID**

<b>APN</b>	<b>OWNERSHIP</b>	<b>ZONE</b>	<b>2019 Amount</b>	<b>%</b>
5546-029-941	LACMTA	1	51,716.16	.72
5546-029-942	LACMTA	1	50,723.29	.70
5546-029-943	LACMTA	1	10,937.55	.15
5546-029-944	LACMTA	1	10,056.93	.14
5546-029-945	LACMTA	1	888.71	.01
5546-029-946	LACMTA	1	10,983.83	.15
5546-029-947	LACMTA	1	10,983.33	.15
5546-029-948	LACMTA	1	6,303.01	.09
5546-029-949	LACMTA	1	5,978.51	.08
5546-029-950	LACMTA	1	9,686.14	.13
5546-029-951	LACMTA	1	9,361.75	.13
5546-029-952	LACMTA	1	2,764.87	.04
5546-029-953	LACMTA	1	2,282.27	.03
<b>SUBTOTAL</b>			<b>182,666.85</b>	<b>2.53</b>
5547-011-900	LACMTA	1	1,453.60	.02
5548-004-901	LACMTA	1	41,274.09	.57
5548-004-902	LACMTA	1	2,440.83	.03
5548-004-907	LACMTA	1	49.39	.00
5548-004-908	LACMTA	1	6,324.12	.09
5548-004-909	LACMTA	1	369.25	.01
5548-004-910	LACMTA	1	60.18	.00
5548-004-903	LACMTA	1	4,345.16	.09
5548-004-915	LACMTA	1	6,412.05	.09
5548-004-919	LACMTA	1	6,807.34	.09
<b>SUBTOTAL</b>			<b>69,536.01<sup>1</sup></b>	<b>.96</b>
<b>TOTAL</b>			<b>252,202.88</b>	<b>3.4</b>

<sup>1</sup> The petition shows 69,536.03. Reflects a rounding difference in how the numbers were entered. The Total assumes the .03.





## Board Report

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**File #:** 2018-0120, **File Type:** Program

**Agenda Number:** 11.

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### FINANCE, BUDGET AND AUDIT COMMITTEE APRIL 11, 2018

**SUBJECT: UPGRADE AGING BUS FAREBOXES AND STATION VALIDATORS**

**ACTION: APPROVE PROGRAMMING OF UP TO \$55 MILLION FOR FAREBOX AND RAIL STATION VALIDATOR REFURBISHMENT PLAN**

#### **RECOMMENDATION**

APPROVE programming of up to \$55 million to upgrade aging bus farebox equipment and rail station validators that will enhance security, prepare for new payment technologies, ensure near real time communications, simplify regional fares and requirements, and ensure that customers and future 2028 Summer Olympic visitors experience a convenient and barrier-free fare payment system.

#### **ISSUE**

TAP fareboxes on buses and station validators at light rail stations were purchased in 2002. This equipment has exceeded its life expectancy by five (5) years and is not compatible with current and future fare collection technologies. Staff recommends upgrading the equipment for Metro and the municipal TAP partner agencies.

#### **BACKGROUND**

Over the course of the last year, TAP staff has been in discussions with the TAP partner agencies on farebox upgrade options. Upgrade options include hardware and software that will enhance system security, communicate in near real time, and support the future TAP mobile app and other new payment technologies.

TAP staff is assisting municipal operators in selecting the replacement options and will continue to provide support throughout the upgrade process.

One of the efforts that staff will pursue with our regional partners as we work with them in upgrading the fare collection equipment is to simplify the Region's current fare structure for example, between 26 TAP participating agencies, the TAP system contains over 675 fare products, and three different ages for senior reduced fare. A universal regional fare structure can allow customers to travel simply and seamlessly throughout the system.

## DISCUSSION

Staff recommends a multi-phase upgrade approach to address equipment obsolescence, enhance security of the fare collection system and prepare for new payment technologies including open payments. This report addresses only Phase 1 upgrades.

Phase 1 consists of hardware and software upgrades to the fareboxes and station validators to address aging equipment, enhance system security, and enable new payment integration. Phase 2 will consist of software enhancements to accept credit and debit card payment (open payment). Phase 2 requires credit and debit card companies to accelerate their verification technology to ensure customers can pay fare on buses and trains in a timely manner. While Phase 1 provides the necessary equipment upgrades for open payment, an additional future software enhancement will be required.

### TAP Fareboxes

TAP fareboxes are operating beyond their expected life span by five (5) years and are in need of an upgrade or replacement. The fareboxes are operating with motherboards that are repairable but are no longer available for purchase. Unlike station validators and gates, the fareboxes were not designed to communicate in real-time which results in a 24 to 48-hour latency period between the time a customer purchases a fare product online and the time the fare product can be used onboard the bus. In addition, current fareboxes have the capacity to only process up to 20,000 fare orders at a time. New equipment will enable fareboxes to process double that capacity. With the upgrade, TAP fareboxes will be able to process online orders in near real-time, accept more secured smartcards, and be ready for new payment options.

To address the issues of the aging farebox, staff recommends an upgrade of the current farebox and replacement of the Operator Control Unit. Staff recommends an integrated third-party commercial off-the-shelf (COTS) solution with a software upgrade.

This approach upgrades the existing farebox hardware and software to increase its functionality and extend its useful life without costly wholesale replacement. It also provides bus operators with a state-of-the-art touchscreen that is easier to see and operate.

### Station Validators

Like the fareboxes, the rail station validators are operating beyond their expected life span by five (5) years. The validators are operating with obsolete circuitry. Replacement will improve security and new payment options and technologies can be embraced. Staff recommends systemwide replacement with the next generation of station validators. The station validators will have larger memory capacity and be able to accept security enhanced cards and new payment technologies.

### Tentative Schedule

The goal for procurement and installation of the new fare collection equipment is to procure, and install all necessary equipment and software in less than two (2) years. This is a very aggressive

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schedule and concentrated efforts from Metro, the municipal partner agencies, and vendors will be necessary. (See Attachment A for a draft timeline).

### **DETERMINATION OF SAFETY IMPACT**

No adverse safety impacts are anticipated.

### **FINANCIAL IMPACT**

The initial cost estimate of Metro's station validators and farebox refurbishment for Metro and the TAP partner agencies is estimated to be a total of \$55 million. The cost of fareboxes, validators and software for Metro is \$45 million. This is a preliminary estimate which does not include an amount for Metro's labor and related overhead costs. The upgrade cost for the other nine municipal operators with old fareboxes is estimated at \$10 million and staff will work with the municipal operators to develop a cost sharing plan.

#### **Impact to Budget**

Upon Board approval, \$25 million will be added to the FY19 Proposed Budget. Since this is a multi-year effort, the Executive Officer of TAP Operations and Project Manager will be responsible for budgeting costs in future years.

The sources of funding for this project will include a mix of Federal, State and, if necessary, local funds including, but not limited to, Federal Section 5307 funds, Regional Improvement Program (RIP), and/or Senate Bill 1 (SB1) funds. Most of these funds are eligible for bus and rail operations.

### **ALTERNATIVES CONSIDERED**

The alternative to the proposed farebox and station validators upgrades is to not proceed. This is not recommended as customers will not benefit from the new payment technologies, and frequent equipment breakdowns may result in lost revenue.

As Metro expedites rail construction projects in preparation of the 2028 Summer Olympics, it is important that TAP equipment is also upgraded to complement the enhanced infrastructure and provide visitors state-of-the-art payment options for effortless travel across Los Angeles County.

### **NEXT STEPS**

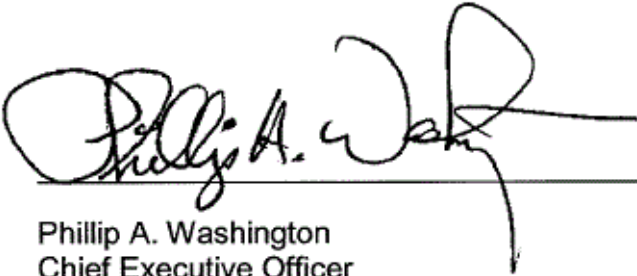
Staff will return to the Board in June 2018 with final costs, recommendations for contract awards, and an installation schedule to ensure a seamless transition between the old and new equipment. Complete installation is expected within two (2) years of Notice to Proceed (NTP). Staff will also present cost arrangements, and associated cost impacts with partnering agencies at a future date.

### **ATTACHMENTS**

Attachment A - Draft Timeline for TAP Equipment Procurement and Installation

Prepared by: Mauro Arteaga, Jr., Senior Director, TAP, (213) 922-2953  
David Sutton, Executive Officer, TAP, (213) 922-5633

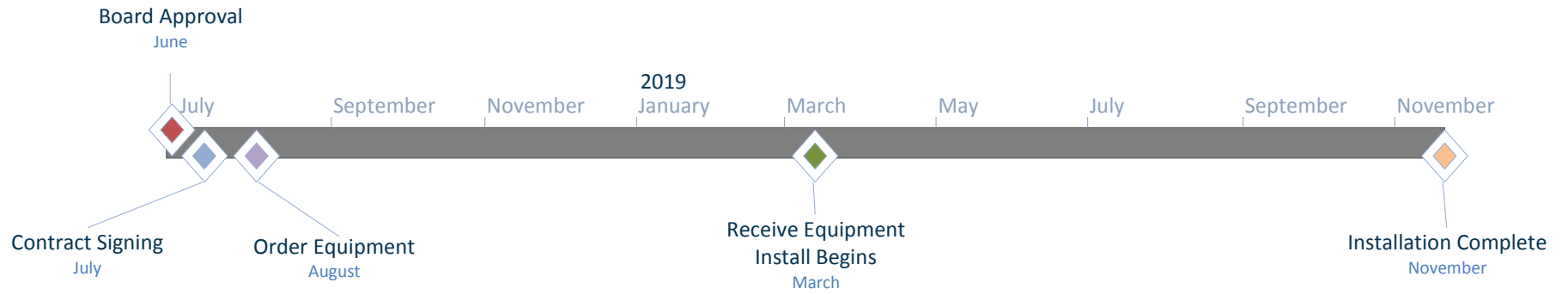
Reviewed by: Nalini Ahuja, Chief Financial Officer, 213-922-3088



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Phillip A. Washington  
Chief Executive Officer

# Attachment A – Draft Timeline for TAP Equipment Procurement and Installation





## Board Report

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File #: 2018-0059, File Type: Informational Report

Agenda Number: 12.

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### FINANCE, BUDGET AND AUDIT COMMITTEE APRIL 11, 2018

**SUBJECT: TAP MOBILE AND ACCOUNT-BASED SYSTEM UPDATE**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE TAP Mobile and Account-Based System update.

#### **ISSUE**

The Finance, Budget and Audit Committee requested an update on TAP technology development, including 1) update on enabling TAP to be used to pay for multi-modal account-based programs such as Bike Share; 2) update on the TAP mobile app and; 3) next steps for TAP.

#### **DISCUSSION**

##### The Account-Based System

Metro continues to enhance the TAP system to improve and expand payment options for our customers. One of the biggest changes in TAP includes building the architecture for a hybrid, account-based system with Salesforce. This account-based solution is layered on top of TAP's existing smart card system, used by 26 regional agencies. While the TAP card was designed for fare payment on the transit system, account-based architecture is necessary for much-needed integration with outside entities such as Bike Share, LIFE, Electric Vehicle Car Charging, Microtransit, Ride-Hailing and more.

##### TAP App Features

A new TAP mobile app as well as the existing *taptogo.net* website will feature seamless connectivity and convenient registration for new multi-modal programs, all in one centralized place. The app and the website will enable cash participation by customers without credit cards as well as numerous other fare payment options, including Apple Pay and Google Pay. Plans include rewards to incentivize behaviors and discounts that can be personalized for any program. Customers can also take advantage of other tools such as geo-located trip planning, transit arrival times and TAP partner information. In phase one, the customer will be able to load a physical TAP card by tapping it on the app, and in phase two, the customer will be able to actually use the phone itself as a TAP card.

##### Regional TAP App Functions

The new app will offer the ability to filter by transit mode or agency and will support all regional TAP partners. Customers can search for TAP information, vendor locations, frequently asked questions (FAQs) and more. TAP Partners will be able to take advantage of customizable discounts that may be

applied quickly and easily to their own agency fares.

#### Entertainment and Sports Partnerships

Bar code ticketing opportunities will be available on the app for joint efforts with college or professional teams and other sports/entertainment events such as festivals, concerts or the Olympics. The app will be able to provide tickets that will not only provide entry into the event, but also enable transit rides that will reduce traffic and incentivize further transit use.

#### Innovative, Cost Effective Solution

This hybrid account-based solution is very innovative and cost-effective, especially in light of the fact that other major transit systems such as Chicago, New York and Boston are spending hundreds of millions of dollars on full account-based systems. TAP's solution is being built at a fraction of the cost and will feature nearly all the same benefits, without changing out our base system. Changing a base system can be very difficult for customers, with associated steep learning curves. Adding onto our existing system with beneficial and updated features offers lesser impacts and a much better customer experience.

#### Access for the Unbanked

Multiple modern account loading choices will interface with all programs, and provide a unified customer service. Both the TAP website and the TAP app will provide the ability to load cash into a customer's TAP account. This process enables the unbanked to participate in programs in which they were unable to participate in the past, due to the lack of a credit card. This will enable all the customizable rewards, incentives, event-ticketing capabilities and discounts that credit card customers enjoy.

#### Other TAP Initiatives

Additional TAP initiatives that are ongoing are: transfer on 2nd boarding, chain store off-the-shelf TAP cards, addition of Stored Value purchases on bus, token transition to TAP, TAP wearables, Regional TAP Vending Machines, and TAP Vending Machine screen upgrades.

### **FINANCIAL IMPACT**

There is no additional financial impact of the items in this report, since they have been previously budgeted in the FY2017 and FY2018 budgets.

### **ALTERNATIVES CONSIDERED**

Alternatives considered could be to stop any or all of the progress on the above items but this is not recommended, as customer experience will be negatively affected.

### **NEXT STEPS**

TAP will finish building the hybrid account-based system with Salesforce by February 2019.

The Mobile App will begin testing in Summer 2018 with focus groups and user interface testing. Public launch is expected in Winter 2018.

Equipment upgrades are being explored for outdated fareboxes that exist on the nine original agencies on TAP to take advantage of many of the new abilities that the account-based system

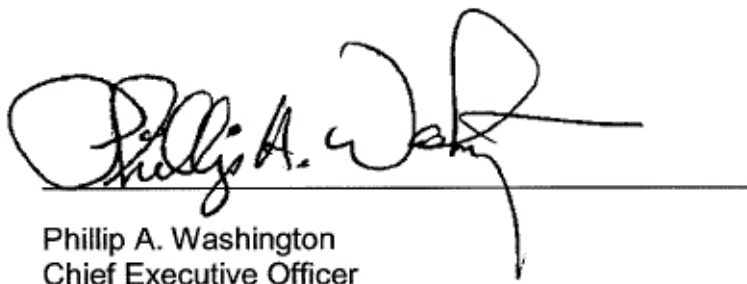
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offers. This fare equipment has more than outlived its life expectancy (since 2002) and will need to be replaced in order to continue the security necessary to interact with modern mobile devices and keep our passengers' information safe. Staff will report back to the Board in the coming months.

TAP will also continue to actively work along with other major cities on nationwide efforts toward open payment, and banking and credit card regulations that are favorable for transit customers.

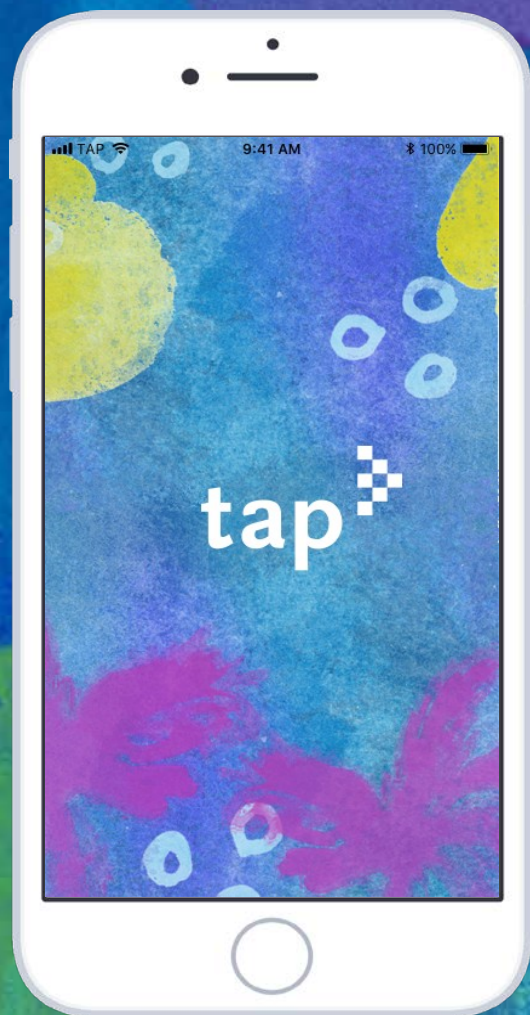
Prepared by: Robin O'Hara, Deputy Executive Officer, (213) 922-2411  
David Sutton, Executive Officer, (213) 922-5633

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



Phillip A. Washington  
Chief Executive Officer





# TAP Mobile and Account-Based System Update

Finance, Budget and Audit Committee

April 11, 2018

Robin O'Hara, Deputy Executive Officer, TAP

David Sutton, Executive Officer, TAP







# Program Integration

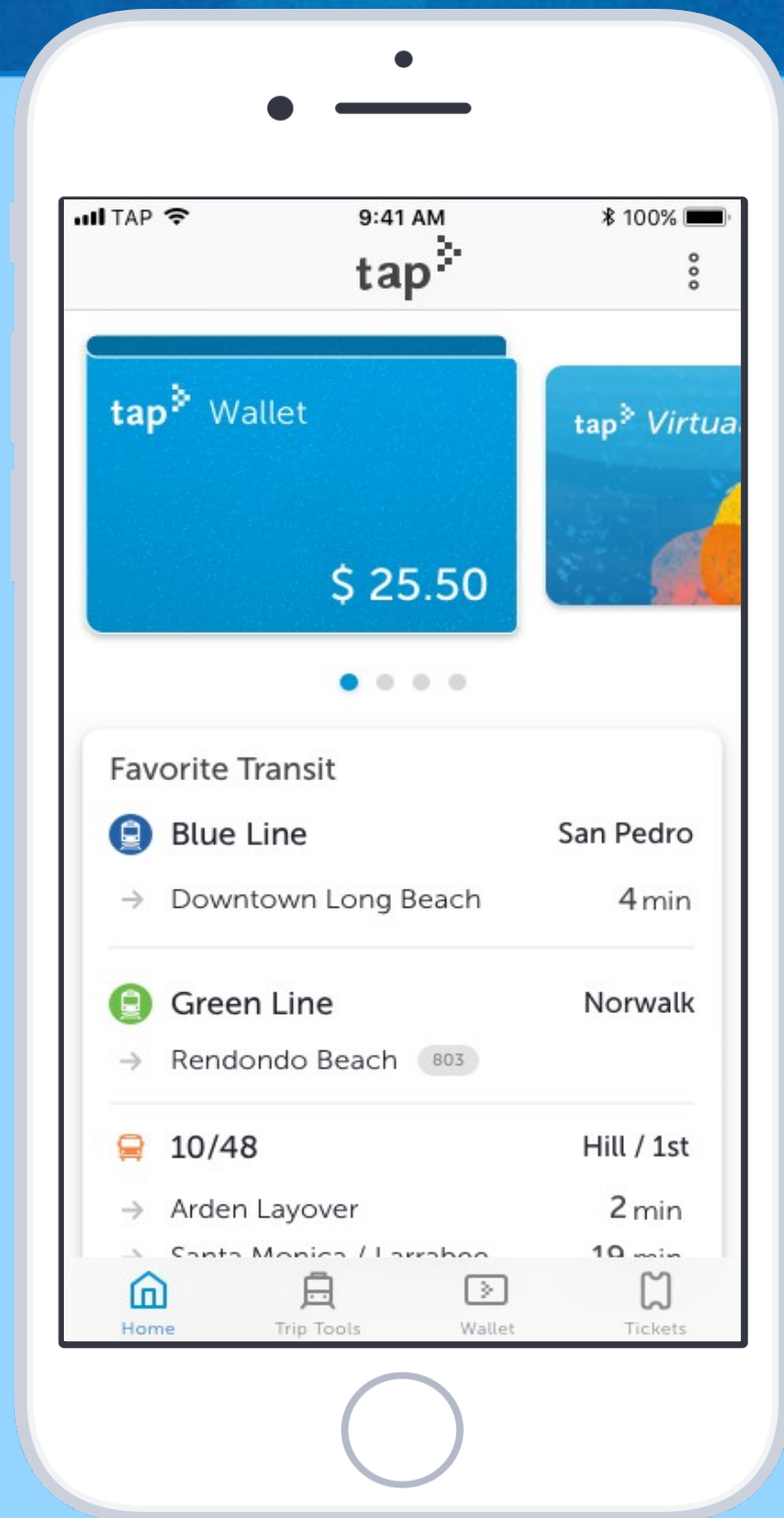
- Bike Share
- LIFE
- Electric Vehicle Car Charging
- Parking
- Mobility Hubs
- Ride Hailing Services (VIA and Microtransit)
- Chain Store Hanging Stock
- Cash Purchase Options

## What's next for TAP?

- Build a hybrid account-based system with Salesforce
- Interface with numerous programs
- Allow unbanked to participate
- Provide discounts across programs
- Offer customizable rewards
- Incentivize behaviors
- Enable sporting and entertainment "flash pass" integration
- Provide account loading choices

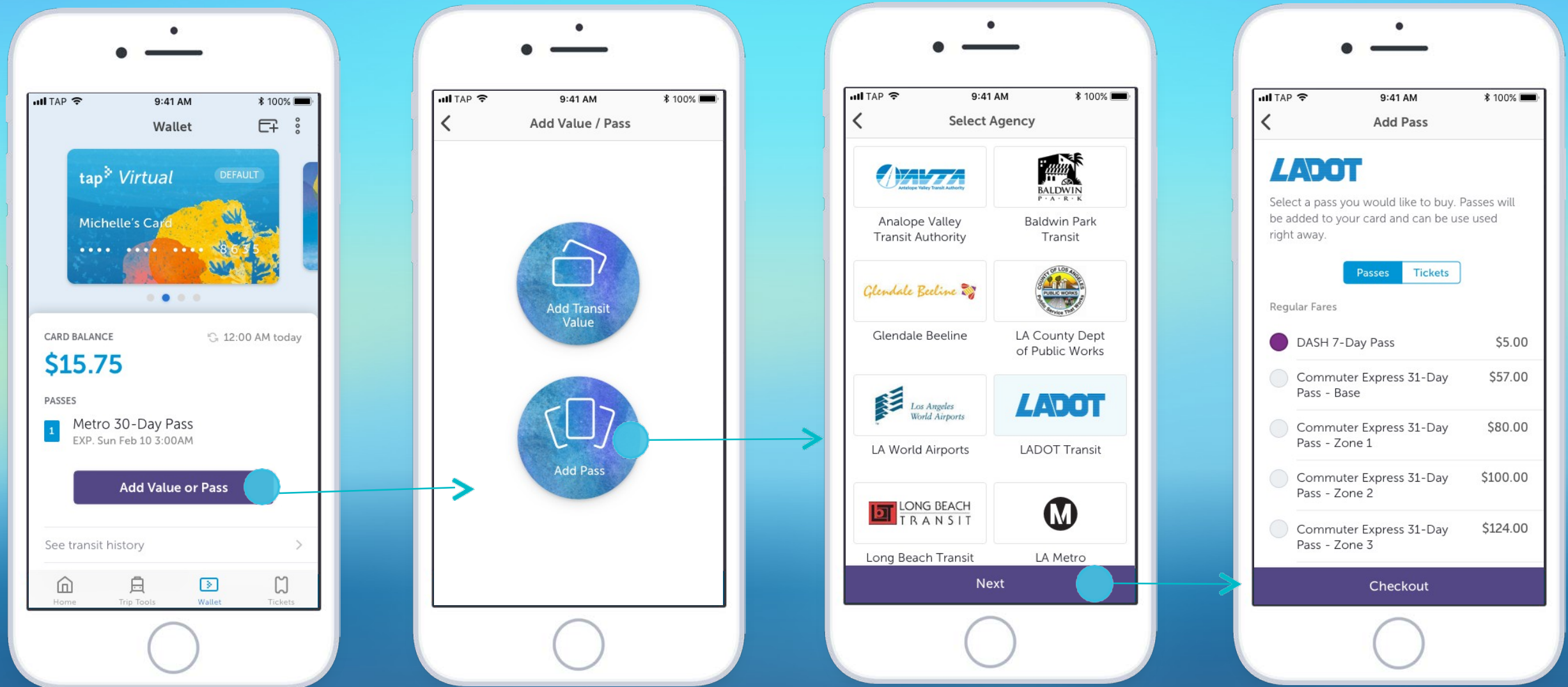


# Mobile App Development



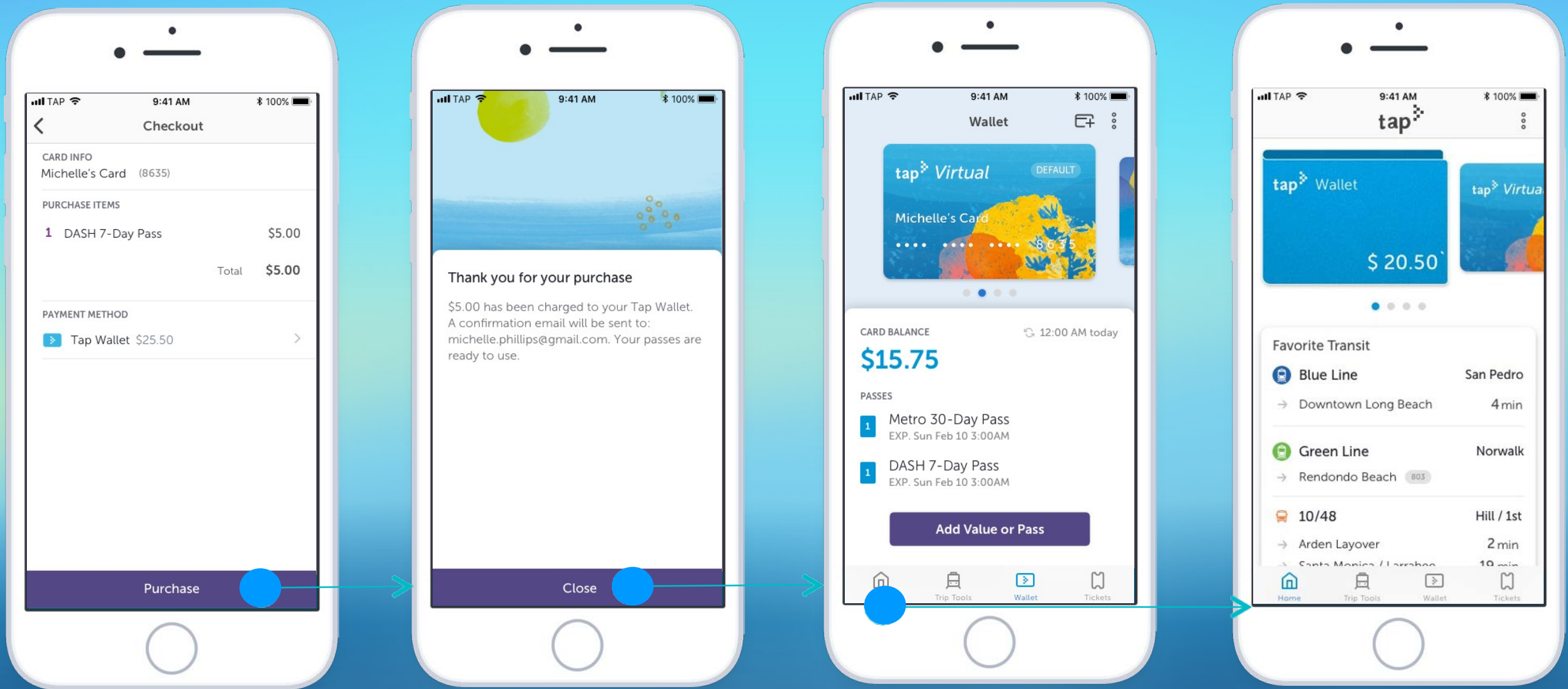
- Architecture for Account-Based System now being built
- Includes TAP Wallet with ability to load a TAP card and pay for new account-based programs
- Ability to integrate with any program such as Bikeshare, Fare Subsidy Programs, EV Car-Charging, Via, Microtransit, and more
- Ability to save favorite transit
- Ability to hold all physical as well as virtual TAP cards

# Add Pass to Virtual TAP Card

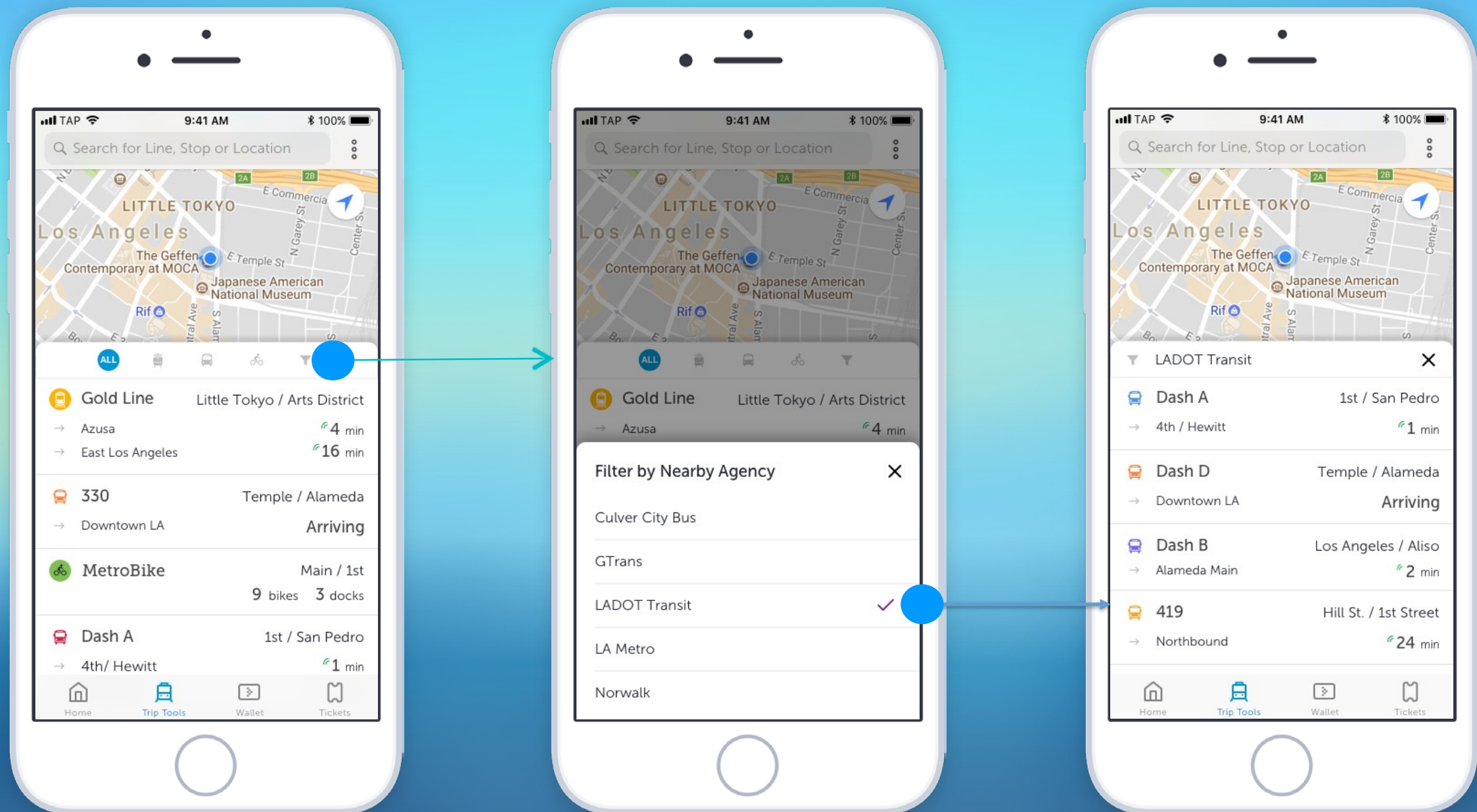




# Add Pass to Virtual TAP Card (cont.)



# Nearby Transit





# My TAP Wallet Info

The smartphone screen displays the 'Create an Account' form. The status bar at the top shows 'TAP', signal strength, Wi-Fi, 9:41 AM, and 100% battery. The form fields are as follows:

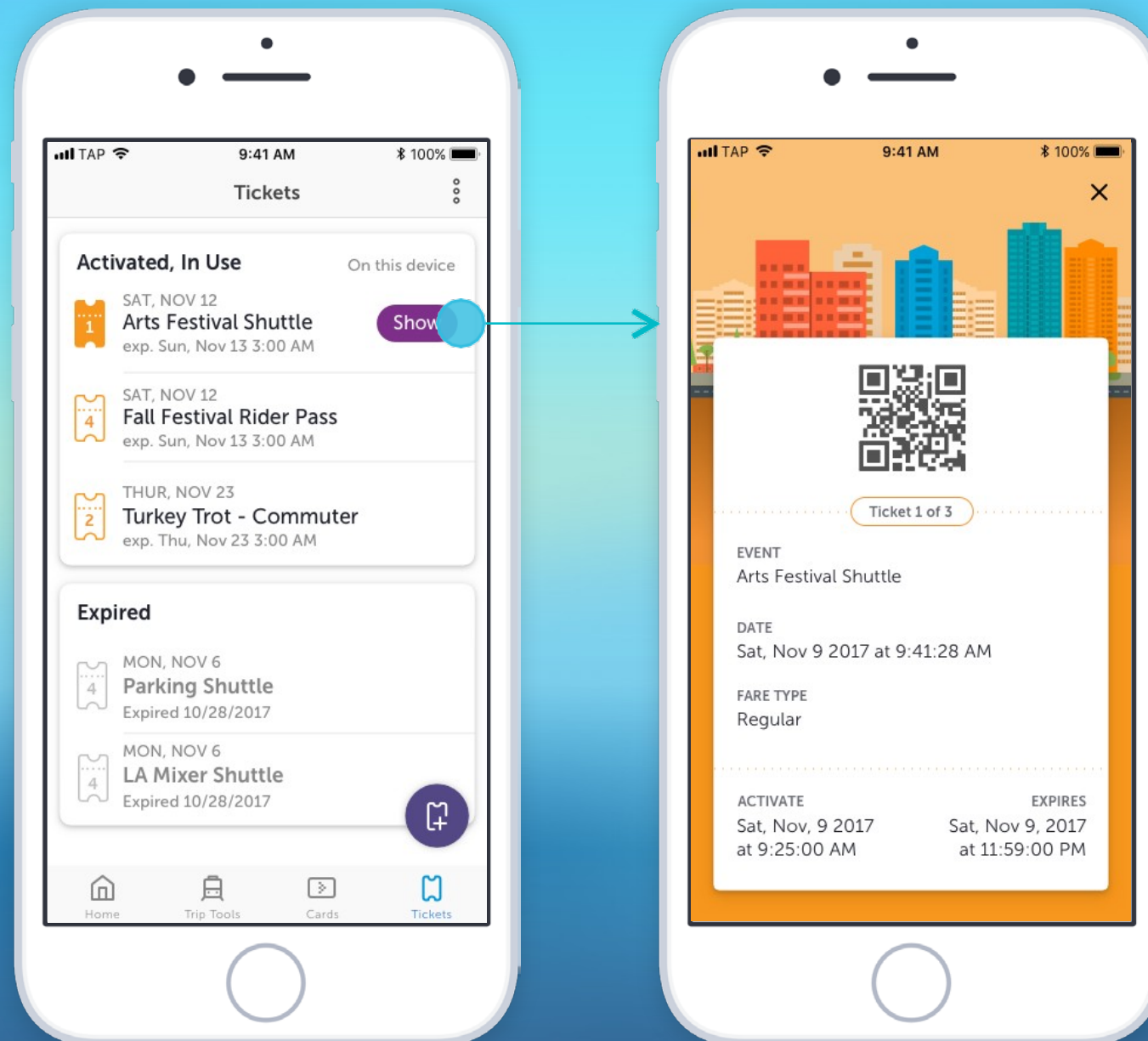
- FIRST NAME:** Michelle
- LAST NAME:** Phillips
- EMAIL:** michelle.phillips@gmail.com
- ADDRESS:** Street Address 1
- APT OR UNIT (OPTIONAL):** Apt./Unit/...
- CITY:** Los Angeles
- STATE:** CA
- ZIP CODE:** 90210
- PHONE NUMBER (OPTIONAL):** 1 (702) 341-2434

A purple 'Submit' button is located at the bottom of the form.

The smartphone screen displays the user profile page for Michelle Phillips. The status bar at the top shows 'TAP', signal strength, Wi-Fi, 9:41 AM, and 100% battery. The page content includes:

- Hi, Michelle** (with a settings gear icon)
- michelle.phillips@gmail.com**
- SUPPORT** section with options:
  - Call Us (Mon - Fri: 6:30 am - 7:00 pm)
  - Email Us (customerservice@taptogo.net)
  - Submit a Help Request
- TAP INFORMATION** section with options:
  - Retail Vendor Locator
  - Customer Centers
  - FAQ's
  - Privacy Policy
- PARTNERS** section with option:
  - Regional Partners

# Events – Visual Ticketing





# Modern Account Loading Possibilities: Gets Cash Out of the System





# Farebox Upgrade

- Fareboxes and Station Validators purchased in 2002
- Exceeded their life expectancy
- Working with Muni partner agencies to develop replacement plan
- Return to the Board within the next several months





## Board Report

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**File #:** 2018-0060, **File Type:** Informational Report

**Agenda Number:** 13.

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
APRIL 11, 2018**

**SUBJECT: FISCAL YEAR 2018 - SECOND QUARTER  
YEAR-TO-DATE FINANCIAL AND PERFORMANCE  
REPORT**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE the Fiscal Year 2018 (FY18) Second Quarter Year-To-Date (YTD) Financial and Performance Report.

**ISSUE**

This report summarizes Metro's performance for FY18 through the second quarter ending December 31, 2017, demonstrating Metro's ability to deliver safe and reliable transportation services within budget. The budgeted numbers are within the Board authorized amounts and bounded by the legally controlled fund levels.

The CEO introduced and implemented an agency wide performance management system which takes a comprehensive approach by linking four measurements of performance. The four measurements are budget/fulltime employee (FTE) variance, Key Performance Indicators (KPI) target achievement, capital project delivery and cost savings and new revenue generation through the risk allocation matrix (RAM). All measurements are linked to department priorities which in turn are related to the agency goals to deliver the most efficient and effective transportation system. Further, this performance management system will act as a tool for the agency to monitor performance, strengthen fiscal discipline and ensure accountability.

This report will first cover Metro's financial performance and will later highlight the measurements of performance which includes KPI attainment, expense budget spent and fulltime employee (FTE) variance which are correlated to the agency goals.

**DISCUSSION**

A. Summary of Revenues and Expenses

Revenues / Expenses (\$ in millions)	YTD December 31, 2017			
	Budget	Actual	Variance	% of Budget
1 Sales Tax and Operating Revenues	\$ 2,048.7	\$ 2,116.8	\$ 68.1	103.3%
2 Reimbursement Revenues <sup>1</sup>	941.6	483.8	(457.8)	51.4%
3 Total Expenses/Expenditures <sup>2</sup>	2,990.3	2,602.7	387.6	87.0%
4 Revenues Over/(Under) Expenses	\$ -	\$ (2.1)	\$ (2.1)	

<sup>1</sup> Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

<sup>2</sup> \$2.1 million underfunded condition represents a timing difference for capital projects billings that should balance by year-end.

Overall, the agency delivered \$2,602.7 million worth of services which \$2,116.8 million came from sales tax and operating revenues and the remaining \$483.8 million from resources based on reimbursement from grant and debt financing. Sales tax and operating revenues came in higher than the budget by \$68.1 million while reimbursement revenues ended short of budget by \$457.8 million. Total expenses of \$2,602.7 million came in under the budgeted amount of \$2,990.3 million resulting in a \$387.6 million variance. The net result leads to \$2.1 million of expenses in excess of revenues. The \$2.1 million variance represents a timing difference for capital projects billings that is expected to be balanced by year end.

B. Summary of Revenues

Overall, the second quarter total sales tax and operating revenues came in at \$2,116.8 million which is \$68.1 million higher than budget primarily attributed to TDA and STA revenues. Of the \$68.1 million variance, \$33.1 million is from sales tax and TDA revenues which are 2% higher than budget. Reimbursement revenues totaled \$483.8 million or 51.4% of the \$941.6 million budget, representing a variance under budget of \$457.8 million.

		YTD December 31, 2017			
Source (\$ in millions)		Budget	Actual	Over / (Under) Budget	% of Budget
1	<u>Sales Tax, TDA &amp; STA Revenues</u>				
2	Proposition A	\$ 401.0	\$ 408.0	\$ 7.0	101.7%
3	Proposition C	401.0	408.0	7.0	101.7%
4	Measure R	401.0	408.0	7.0	101.7%
5	Measure M	381.0	389.6	8.6	102.3%
6	Transportation Development Act	200.5	204.0	3.5	101.7%
7	Subtotal Sales Tax & TDA Revenues	1,784.5	1,817.6	33.1	101.9%
8	State Transit Assistance Fund	30.0	58.3	28.3	194.3%
9	<b>Subtotal Sales Tax, TDA &amp; STA Revenues <sup>1</sup></b>	<b>\$ 1,814.5</b>	<b>\$ 1,875.9</b>	<b>\$ 61.4</b>	<b>103.4%</b>
10	<u>Operating &amp; Other Revenues</u>				
11	Passenger fares	\$ 161.7	\$ 150.5	\$ (11.2)	93.1%
12	Toll Revenue	31.5	37.2	5.7	118.1%
13	Advertising	12.5	12.2	(0.3)	97.6%
14	Union Station	4.8	5.6	0.8	116.7%
15	Bike Revenue	0.7	0.4	(0.3)	57.1%
16	Parking Unit	1.2	0.4	(0.8)	33.3%
17	Low Carbon Fuel Standard Sales	-	9.8	9.8	N/A
18	Investment Income	1.0	4.8	3.8	480.0%
19	Other Income <sup>2</sup>	20.8	20.0	(0.8)	96.2%
20	<b>Subtotal Operating &amp; Other Revenues</b>	<b>\$ 234.2</b>	<b>\$ 240.9</b>	<b>\$ 6.7</b>	<b>102.9%</b>
21	<b>Total Sales Tax &amp; Operating Revenues</b>	<b>\$ 2,048.7</b>	<b>\$ 2,116.8</b>	<b>\$ 68.1</b>	<b>103.3%</b>
22	<b>Reimbursement Revenues <sup>3</sup></b>	<b>\$ 941.6</b>	<b>\$ 483.8</b>	<b>\$ (457.8)</b>	<b>51.4%</b>
23	<b>Total Revenues</b>	<b>\$ 2,990.3</b>	<b>\$ 2,600.6</b>	<b>\$ (389.7)</b>	<b>87.0%</b>

<sup>1</sup> Actual Proposition A, Proposition C, Measure R, Measure M and TDA Revenues represent advanced amounts released by the State Board of Equalization for the first six months and estimated second quarter clean up amount which publishes on March 15, 2018. The actual for STA represents amounts released by State Controller's Office for the second quarter.

<sup>2</sup> Includes CNG tax credits, lease revenues, vending, and other miscellaneous revenues.

<sup>3</sup> Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

- Sales Tax, TDA & STA Revenues

Sales Tax and TDA revenues for the second quarter of FY18 came in \$33.1 million, 1.9% higher than the adopted budget. Of this surplus \$8.6 million is from Measure M, which was budgeted at 95% of Proposition A, C and Measure R in its inaugural year, whereas the actual is 95.5%.

The State Transit Assistance revenue is budgeted based on the Board of Equalization's forecast of sales tax revenues on diesel fuel and actual revenues received is dependent upon actual consumption of diesel fuel combined with changes in fuel price. The information presented for the second quarter reflects actuals, which translates into \$28.3 million more STA revenue than expected.

- Passenger Fare Revenue

Passenger fare revenue of \$150.5 million is lower than the adopted budget by \$11.2 million, primarily due to lower than expected boardings. The second quarter boardings were 8 million below the adopted budgeted boardings of 207.2 million. The boarding decline is in line with the Southern California Region. Metro Operations staffs are aware of the situation and are working to turn around the trend in future periods by improving route efficiencies and increasing security presence on the system to enhance our customer's experience and attract/retain riders.

- Toll Revenue

Metro ExpressLanes toll revenue of \$37.2 million exceeded the budget by \$5.7 million. The variance is the result of better than anticipated patronage of the Metro ExpressLanes. Account enrollment continues to increase with 112,328 new accounts from Q2 FY 17 to Q2 FY 18. During this time frame, ExpressLanes trip volumes increased by 4% which increased congestion on the ExpressLanes and resulted in the average toll charged increasing by 3%. State law requires the net toll revenues generated from the Metro ExpressLanes be reinvested in the corridors from which they were derived, pursuant to a board approved expenditure plan.

- Metro's bus and rail operating advertising revenue is close to forecast.
- Union Station operating revenue is higher than budget due to better parking revenue, rent holdover and tenant penalty.
- Bike share program and bike locker/hub revenue came in lower than expected due to lower than expected usage.
- The net revenue for pilot parking management program was less than expected by \$0.8 million due to three factors: 1) implementation of Green Line locations will be postponed to May 2018 due to construction of tie ins connecting the Crenshaw/LAX transit project infrastructure with the Green Line; 2) The pilot parking program is currently at only selected locations, giving patrons more opportunities to drive to other nearby locations where free parking is available. It is hoped once the parking program is implemented in all locations, the revenue will be back on track; and 3) the pilot program revenue is offset by the initial

investment on equipment.

- Low Carbon Fuel Standard (LCFS) Credit Revenue

The sale of LCFS credit is based on market conditions. In the first six months of FY18, Metro executed five direct sales of LCFS credit bringing in \$9.5 million of revenue (which were unplanned/unbudgeted). These unplanned sales were timed to take advantage of market conditions favorable to Metro's interests. Starting in FY18, Metro also began to realize user fee revenues of \$0.3 million generated by electric vehicle chargers installed at various parking lots/transit hubs.

- Investment Income

Investment income of \$4.8 million exceeded the budget by \$3.8 million. The higher than anticipated invested cash balances generated this investment income. This higher than expected investment balance condition is the result of slower than expected draw-downs of invested cash to pay for capital projects, call for projects, and subsidies during the period. Metro continues to invest unused funds according to the Board approved investment policy.

- Other Income

Other income of \$20.0 million came in lower than the budgeted by \$0.8 million, primarily due to the timing of the lease revenue.

- Resources Based On Reimbursement

The actual reimbursements of capital expenditures from grants, debt financing and prior year balances ended the quarter-to-date below budget by \$457.8 million, or 51.4% of budget. These resources are recognized on a reimbursement basis driven by actual capital expenditures. Details of the related expenses can be found in the "*Summary of Expenditures*" section of this report.

### C. Summary of Expenditures

Overall, the second quarter year-to-date FY18 expenditures totaled \$2,602.7 million or 87% of the \$2,990.3 million budget, representing an underrun of \$387.6 million or 13% below budget.



		YTD December 31, 2017			
Program Type (\$s in millions)		Budget	Actual	Under/(Over) Budget	Actuals as % of Budget
1	Transportation Infrastructure Development	\$ 882.6	\$ 659.4	\$ 223.2	74.7%
2	Metro Transit-Operations and Maintenance	815.1	732.5	84.2	89.9%
3	Metro Transit-SGR & Other Asset Improvements	215.7	165.3	48.8	76.6%
4	Subsidy Funding Programs	623.8	518.5	105.4	83.1%
5	Regional Rail	92.9	82.5	10.4	88.8%
6	Congestion Management	44.8	29.1	15.8	64.8%
7	General Planning & Programs	54.9	34.9	20.1	63.5%
8	Debt Service	195.4	324.9	(129.5)	166.3%
9	Oversight & Admin	64.9	55.7	9.2	85.8%
10	<b>Total</b>	<b>\$ 2,990.3</b>	<b>\$ 2,602.7</b>	<b>\$ 387.6</b>	<b>87.0%</b>

- Transportation Infrastructure Development

The Transportation Infrastructure Development program totaled \$659.4 million or 74.7% of the \$882.6 million budget. The main cause of the variance is a timing difference with the projects experiencing delays in billing and construction. Of the resulting \$223.2 million variance, \$200.7 stems from Measure R/M transit major construction projects with Westside Purple Line Extension Section 1 having delays in the initial tunnel mining operations in addition to specific station structural concrete and excavation activities; Westside Purple Line Extension Section 3 real estate costs experienced lower than anticipated acquisition costs and deferred procurement of the Advanced Utility Relocation (AUR) contract; Airport Metro Connector Construction recently completed the appraisal and valuation process and Division 20 Portal Widening project experienced invoice timing and a hold on the acquisition pay-out.

- Metro Transit - Operations and Maintenance

The Metro Transit - Operations and Maintenance Program delivered actual Revenue Service Hours (RSH) of 4.0 million hours which is only 2% below the RSH budget while spending came to 89.9% of the budget. Bus was underspent by \$44.4 million or 89% of the budget spent while rail was underspent by \$8.0 million or 95.9% of the budget spent. The majority of the variance is due to \$33.7 million in invoice timing for contracted services. Lower than anticipated fuel and propulsion power costs resulted in \$6.7 million of the variance. The remaining variance is allocated between various small accounts including parts, taxes and professional services.

- Metro Transit - State of Good Repair (SGR)



The Metro Transit - State of Good Repair Program ended the second quarter at \$48.8 million under budget or 76.6% of budget spent. The variance is due to aggressive cash flow projections in Q2 for the Red Line Operating Facilities Project and construction delay for the Metro Blue Line Pedestrian Gates Project.

- Subsidy Funding Programs

Subsidy programs came in at 83.1% of the budget with an underrun of \$105.4 million due to invoice delays on federal grants and delays in drawdowns of regional subsidies.

- Regional Rail

The Regional Rail program consists of subsidies to Metrolink and Metro directed capital projects and studies. Overall, Regional Rail spent \$82.5 million of the \$92.9 million budget of which \$61.4 million is for Metrolink and the remaining \$31.5 million is for Metro directed capital projects and studies. Total Metrolink expenditures exceeded their budget by \$7.2 million due to a catch up of invoices during this quarter and minor MOU requirements. Metro directed regional rail expenditures came \$17.6 million under budget due to the following: timing of invoices for Southern California Regional Interconnector Project (SCRIP) and Bob Hope Airport Metrolink Station, delay in property acquisition for the Rosecrans and Marquardt Grade Project, and a current hold on the Brighton to Roxford Double Track project. However, it is anticipated that the Metro directed regional rail expenditures will be balanced by year end.

- Congestion Management

The Congestion Management Program spent \$29.1 million which is 64.8% of the \$44.8 million budget. The shortfall of the \$15.8 million includes \$10.9 million attributed to invoice timing of the management (O&M) contract and from CHP in addition to a delay in the transponder shipments for ExpressLanes which may cause the expenditure to be incurred in FY19. Various congestion pricing studies and public outreach have commenced and will continue in the next quarter. \$2.1 million is due to late invoicing from CHP and FSP tow service and the delay of new contract

procurements for the FSP Operation Systems for Freeway Service Patrol Program. The Kenneth Hahn Call Box Program has a \$1.2 million variance due to delays in procurement, invoicing from the contractor and use of advertising. The remaining \$1.5 million in Rideshare Services are due to contract award delay and invoice timing. Efforts are currently underway to procure these contracts and expenses are expected in the following quarters.

- General Planning and Programs

The General Planning and Programs ended the second quarter at \$34.9 million spent which is 63.5% of the \$54.9 million budget. The primary cause is due to Public-Private Partnership (P3) projects undergoing delays in the issuance of invoices for financial and legal advisory services. These are expected to be issued in third quarter and expenditures are expected to be caught up by the end of the fiscal year. Invoice timing for transit planning studies and delays in bike share program expansion also contributed to the variance.

- Debt Service

The debt principal and interest expenses were \$324.9 million of the \$195.4 million budget which is 166.3% spent. The overrun of \$129.5 million is primarily due to debt service payment for new debt that was issued in October 2017 per Board approval. The recognition of these payments as expenses in FY18 is solely due to Governmental Accounting requirements.

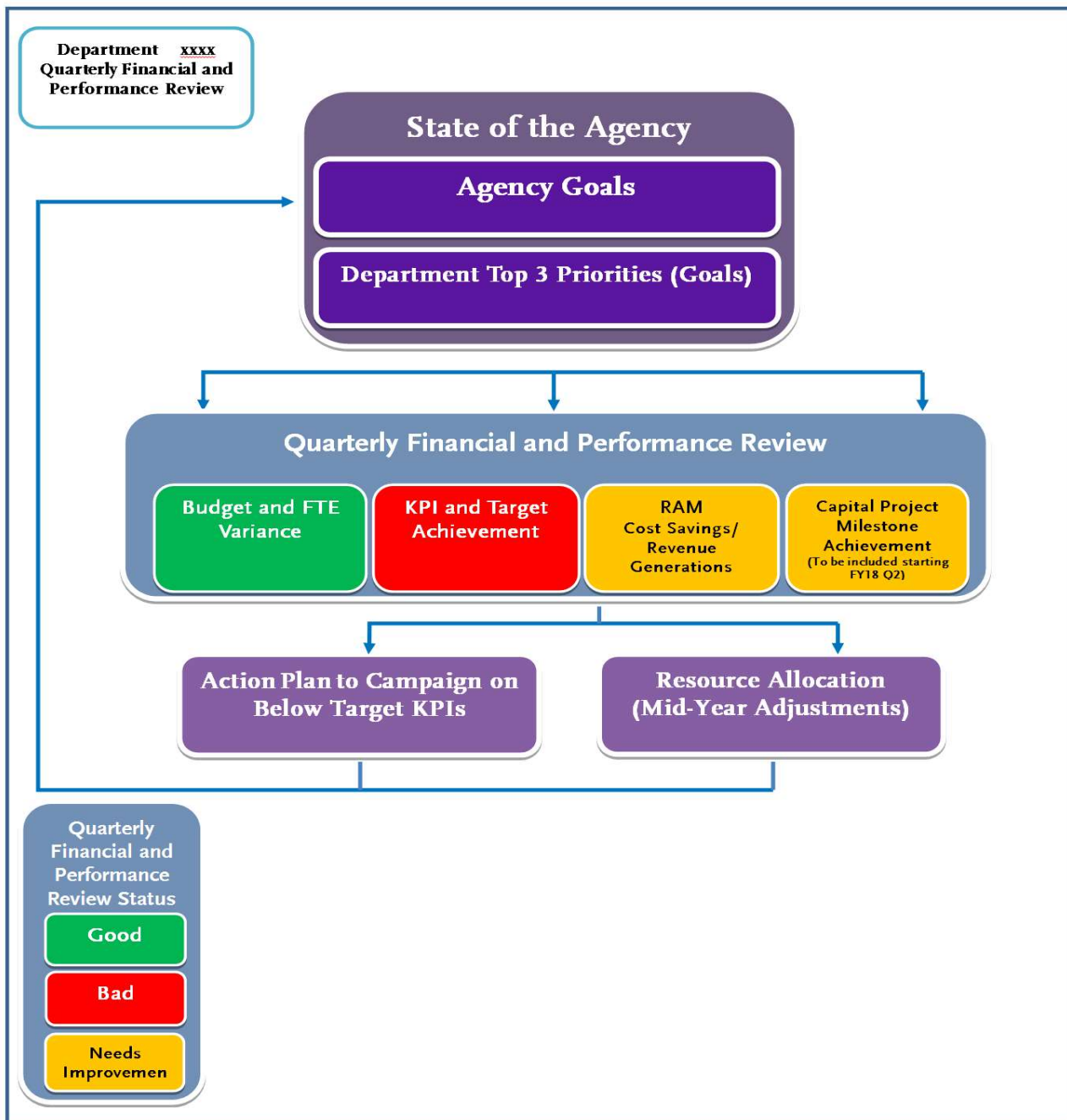
- Oversight and Administration

Oversight and Administration spent \$55.6 million of the \$64.9 million budget. This program consists of activities that provide legally required oversight and support for the agency such as the Office of the Inspector General (OIG), County Counsel, Audit and Government Relations as well as efforts to administer Measure R, Measure M, and other agencywide support functions.

#### D. Performance Monitoring

The performance management system is utilized as a tool to measure the delivery of department priorities which are linked to our agency goals. The agency uses key performance indicators which are associated with each of the agency goals across all departments to monitor performance as well as ensure fiscal accountability. These key performance indicators, financial data, and RAM initiatives/ideas are collected and analyzed on a quarterly basis. Budget variance procedures and processes are also enforced on a quarterly basis to ensure efficient allocation of resources to support our agency goals. The figure below illustrates how the performance management system is used to measure the delivery of the agency goals. (Figure 1).

**Figure 1.** Quarterly Performance Management Process.



The performance management system is in its introduction period and staff will continue to enhance the system to launch in FY19. As of Q2, the agency has spent \$2,602.7 million

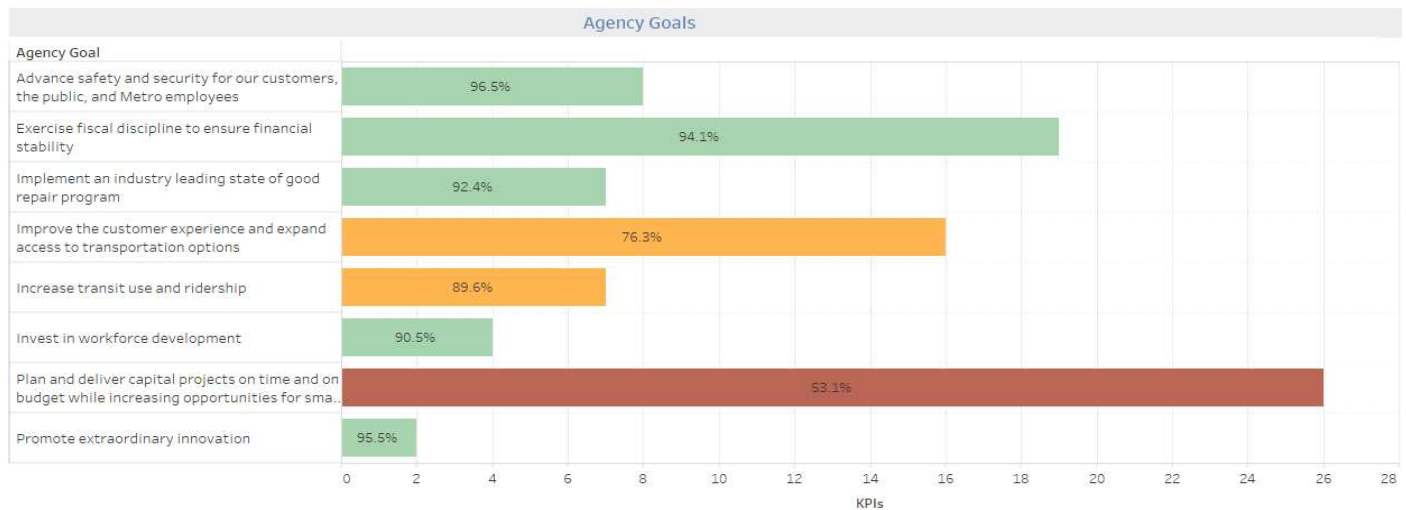
dollars or 87.0% of the \$2,990.3 million budget, resulting in an underrun of \$387.6 million. The agency achieved 78.4% attainment of the agency goals with more than half of the department KPIs meeting their target in the second quarter. Further, the agency has a current headcount of 1,433 Non-Contract FTEs resulting in a vacancy percentage of 10%. (Figure 2).

**Figure 2.** Summary of KPI Attainment, Expense Budget Spend, and FTE Vacancy (Non-Contract).



Figure 3 illustrates five out of the eight agency goals have at least reached a 90% attainment; of which, the goal to “advance safety and security for our customers, the public, and Metro employees” is the highest at 96.5%. Two agency goals have reached at least a 70% attainment. The agency goal to “plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation” is at 53.1% due to major capital projects such as Airport Metro Connector Construction and Westside Purple Line Extension Section 3 whose low KPI attainment are from underspent budget primarily due to timing of real estate acquisitions previously explained in Section C under Transportation Infrastructure Development. As one of the enhancements to the system, staff will continue to refine and align KPIs to budgetary variances as we proceed in FY19.

**Figure 3.** Summary of Agency Goals.



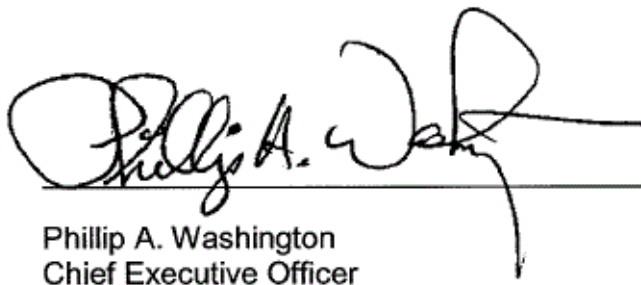
**NEXT STEPS**

Staff will continue to monitor the financial performance of the agency throughout FY18 and will provide quarterly updates to the Board.

The performance monitoring system is in its inception and staff will look to enhance the system. In the fourth quarter, staff will be collecting department priorities for FY19 which will further refine and better align KPIs with the agency goals.

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Phillip A. Washington  
 Chief Executive Officer

# Fiscal Year 2018 (FY18) - Second Quarter Year to Date (Q2 YTD) Financial and Performance Report

Finance, Budget and Audit Committee  
April 11, 2018



# Summary of Revenues and Expenses

		YTD December 31, 2017			
Revenues / Expenses (\$ in millions)		Budget	Actual	Variance	% of Budget
1	Sales Tax and Operating Revenues	\$ 2,048.7	\$ 2,116.8	\$ 68.1	103.3%
2	Reimbursement Revenues <sup>1</sup>	941.6	483.8	(457.8)	51.4%
3	Total Expenses/Expenditures <sup>2</sup>	2,990.3	2,602.7	387.6	87.0%
4	Revenues Over/(Under) Expenses	\$ -	\$ (2.1)	\$ (2.1)	

<sup>1</sup> Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

<sup>2</sup> \$2.1 million underfunded condition represents a timing difference for capital projects billings that should balance by year-end.



# Summary of Revenues

		YTD December 31, 2017			
Source (\$ in millions)		Budget	Actual	Over / (Under) Budget	% of Budget
1	<u>Sales Tax, TDA &amp; STA Revenues</u>				
2	Proposition A	\$ 401.0	\$ 408.0	\$ 7.0	101.7%
3	Proposition C	401.0	408.0	7.0	101.7%
4	Measure R	401.0	408.0	7.0	101.7%
5	Measure M	381.0	389.6	8.6	102.3%
6	Transportation Development Act	200.5	204.0	3.5	101.7%
7	Subtotal Sales Tax & TDA Revenues	1,784.5	1,817.6	33.1	101.9%
8	State Transit Assistance Fund	30.0	58.3	28.3	194.3%
9	<b>Subtotal Sales Tax, TDA &amp; STA Revenues <sup>1</sup></b>	<b>\$ 1,814.5</b>	<b>\$ 1,875.9</b>	<b>\$ 61.4</b>	<b>103.4%</b>
10	<u>Operating &amp; Other Revenues</u>				
11	Passenger fares	\$ 161.7	\$ 150.5	\$ (11.2)	93.1%
12	Toll Revenue	31.5	37.2	5.7	118.1%
13	Advertising	12.5	12.2	(0.3)	97.6%
14	Union Station	4.8	5.6	0.8	116.7%
15	Bike Revenue	0.7	0.4	(0.3)	57.1%
16	Parking Unit	1.2	0.4	(0.8)	33.3%
17	Low Carbon Fuel Standard Sales	-	9.8	9.8	N/A
18	Investment Income	1.0	4.8	3.8	480.0%
19	Other Income <sup>2</sup>	20.8	20.0	(0.8)	96.2%
20	<b>Subtotal Operating &amp; Other Revenues</b>	<b>\$ 234.2</b>	<b>\$ 240.9</b>	<b>\$ 6.7</b>	<b>102.9%</b>
21	<b>Total Sales Tax &amp; Operating Revenues</b>	<b>\$ 2,048.7</b>	<b>\$ 2,116.8</b>	<b>\$ 68.1</b>	<b>103.3%</b>
22	<b>Reimbursement Revenues <sup>3</sup></b>	<b>\$ 941.6</b>	<b>\$ 483.8</b>	<b>\$ (457.8)</b>	<b>51.4%</b>
23	<b>Total Revenues</b>	<b>\$ 2,990.3</b>	<b>\$ 2,600.6</b>	<b>\$ (389.7)</b>	<b>87.0%</b>

<sup>1</sup> Actual Proposition A, Proposition C, Measure R, Measure M and TDA Revenues represent advanced amounts released by the State Board of Equalization for the first six months and estimated second quarter clean up amount which publishes on March 15, 2018. The actual for STA represents amounts released by State Controller's Office for the second quarter.

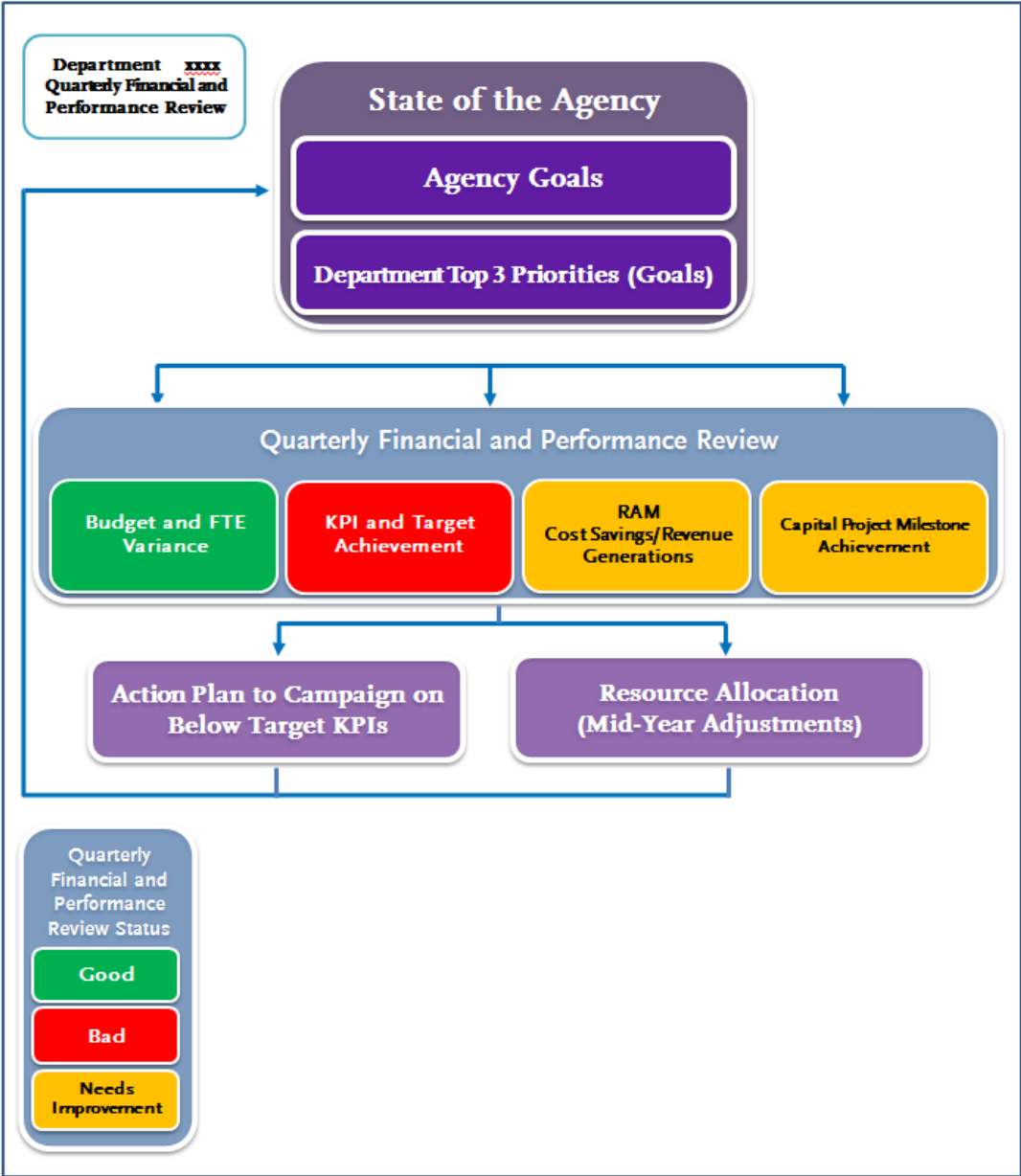
<sup>2</sup> Includes CNG tax credits, lease revenues, vending, and other miscellaneous revenues.

<sup>3</sup> Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

# Summary of Expenses

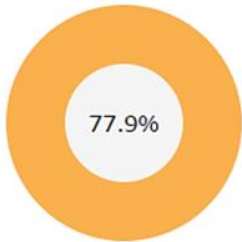
		YTD December 31, 2017			
Program Type (\$s in millions)		Budget	Actual	Under/(Over) Budget	Actuals as % of Budget
1	Transportation Infrastructure Development	\$ 882.6	\$ 659.4	\$ 223.2	74.7%
2	Metro Transit-Operations and Maintenance	815.1	732.5	84.2	89.9%
3	Metro Transit-SGR & Other Asset Improvements	215.7	165.3	48.8	76.6%
4	Subsidy Funding Programs	623.8	518.5	105.4	83.1%
5	Regional Rail	92.9	82.5	10.4	88.8%
6	Congestion Management	44.8	29.1	15.8	64.8%
7	General Planning & Programs	54.9	34.9	20.1	63.5%
8	Debt Service	195.4	324.9	(129.5)	166.3%
9	Oversight & Admin	64.9	55.7	9.2	85.8%
10	<b>Total</b>	<b>\$ 2,990.3</b>	<b>\$ 2,602.7</b>	<b>\$ 387.6</b>	<b>87.0%</b>

# Quarterly Performance Management Process

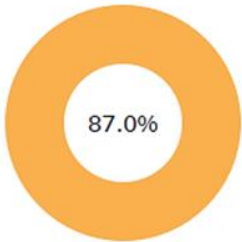


# FY18 Q2 YTD Financial and Performance Review

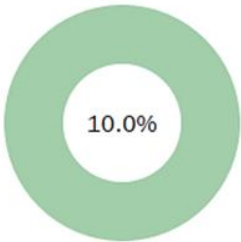
## KPI Attainment



## Budget Spend (Cumulative)



## FTE Vacancy (Non-Contract)

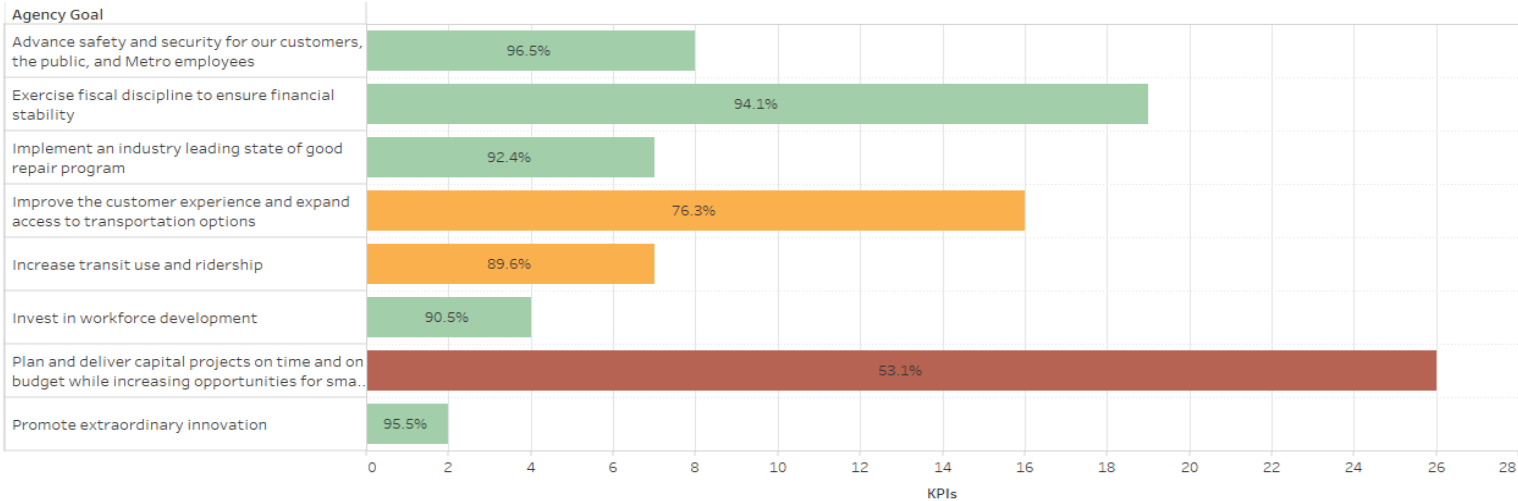


Attainment %	77.9%
Good	54
Needs Improvement	15
Bad	18
No Data	2
Total	89

Budget Exhausted %	87.0%
Budget	\$2,990,273K
Actuals	\$2,602,670K
Budget Remaining	\$387,603K

Est. Vacancy Percentage	10.0%
Budgeted Positions	1,592
Actual Headcount	1,433
Est. Vacancies/(Double-Fills)	159

## Agency Goals



**Board Report**

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**File #:** 2018-0080, **File Type:** Informational Report

**Agenda Number:** 14.

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
APRIL 11, 2018**

**SUBJECT: FISCAL YEAR 2019 (FY19) BUDGET DEVELOPMENT STATUS**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE report on FY 2019 Budget Development Status.

**ISSUE**

Metro is continuing the development of the FY19 Budget. This report is third in a series of monthly budget development updates that will lead to a proposed budget for adoption in May 2018.

In the past status reports, the FY19 Budget progress discussed the factors that impact sales tax forecast and cost inflation, as well as the process that guides the budget development to achieve the Board and CEO goals in a fiscally sound manner. The second report itemized the proposed Transit Project Construction/Planning, Highway, Regional Rail programs, and Metro's implementation plans to meet Measure M/Measure R (MM/MR) priorities for the coming fiscal year. Both reports presented a status of the continued efforts to expand public outreach program in order to maximize stakeholder input.

The primary focus of this report will be on Metro Transit and Subsidy Funding programs. Metro Transit consists of Bus and Rail Operations, Maintenance, and State of Good Repair (SGR) to Metro's transit assets. Metro Bus and Rail Transit service generates Fare Revenue to help offset some of the operating costs; therefore, projected Fare Revenues forecast will be presented as well. Subsidy Funding represents a direct funding to regional partners to carry out local transportation and transit needs. This includes subsidies paid to local jurisdictions, Municipal Operators, Access Services, and funding for other programs such as Fare Assistance.

Staff will also provide a status of continued public outreach efforts to obtain public and stakeholder input.

**DISCUSSION**

**FY19 Budget Program Summary**

Metro performs four major core business functions, planner, builder, operator, and funding partner of transportation programs and projects that shape LA County. The FY19 Budget to perform these functions is projected to be balanced at approximately \$6.6 billion. This is 5% greater than the FY18

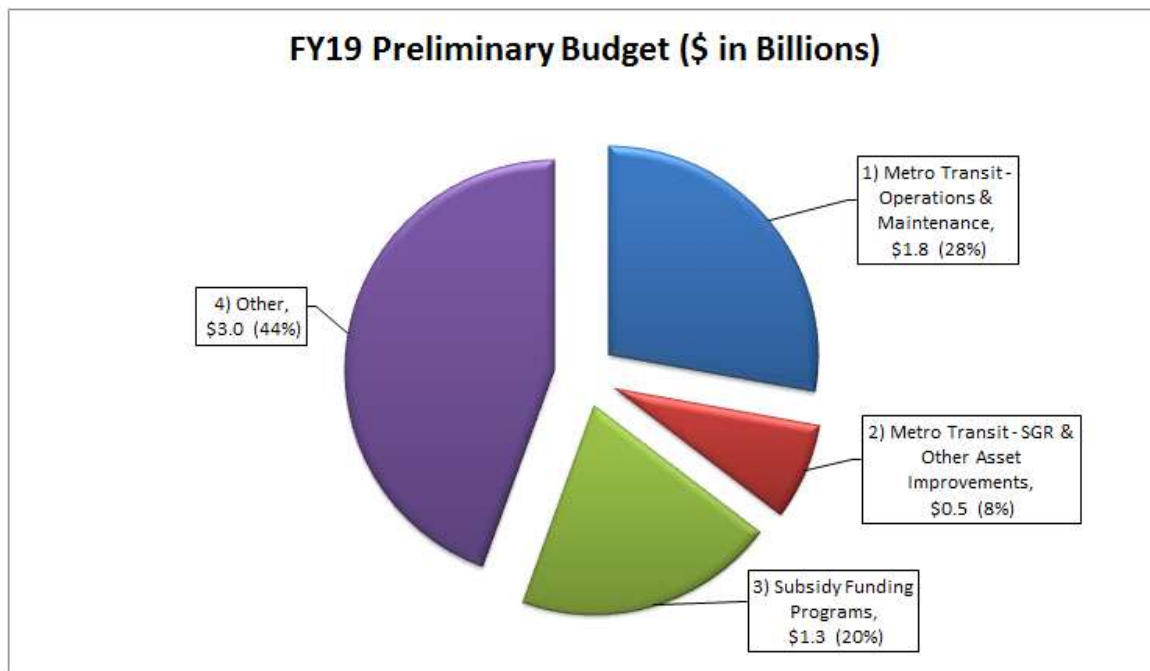
Budget.

As shown in Figure 1, the total budget is divided into 4 different categories: 1) Metro Transit-Operations and Maintenance, 2) Metro Transit-State of Good Repair and Other Asset Improvements, 3) Subsidy Funding Programs and 4) Other as described in the paragraph below. Each of these categories represents a total dollar amount and percentage of the total budget.

Metro Transit Bus and Rail Operations is \$1.8 billion, representing 28% of the budget. State of Good Repair and Other Asset Improvements are \$0.5 billion, or 8%. Subsidy funding programs for LA County are \$1.3 billion, approximately 20% of the total budget. Combining these three programs accumulate to a total of \$3.6 billion, approximately 56% of the total budget. Other programs, including Transportation Infrastructure Development, Regional Rail, Congestion Management, General Planning & Programs, Oversight & Administration, and Debt Service, make up the remaining balance of the \$6.6 billion.

This report will focus on the following three programs: 1) Metro Transit-Operations and Maintenance, 2) Metro Transit-State of Good Repair and Other Asset Improvements, and 3) Subsidy Funding Programs.

Figure 1



**Program 1: Bus and Rail Operations and Maintenance**

Service Levels

Bus and Rail Operations and Maintenance reflect the resources required to run daily bus and rail services. Bus and rail service levels are the main cost driver used to develop this budget. Figure 2 shows the change in Revenue Service Hours (RSH) from FY18 to FY19.

Figure 2

<b>Bus and Rail Service Levels by Mode</b>				
	<b>Bus</b>	<b>Rail</b>	<b>Total</b>	
1	<b>FY18 Budget</b>	<b>7,006,000</b>	<b>1,245,000</b>	<b>8,251,000</b>
2	<b>Changes in Service Levels</b>			
3	Minor Service Adjustments to Relieve Overcrowding	15,000	32,000	47,000
4	Bus Bridges	84,000	-	84,000
5	"New Blue" Rehabilitation Service Interruptions	-	(30,000)	(30,000)
6	<b>FY19 Preliminary Budget</b>	<b>7,105,000</b>	<b>1,247,000</b>	<b>8,352,000</b>
7	<b>Changes From FY18 Budget</b>			
8	<b>% Change</b>	<b>1.4%</b>	<b>0.2%</b>	<b>1.2%</b>

The FY18 budgeted RSH are 8,251,000, consisting of 7,006,000 for Bus and 1,245,000 for Rail. There is a total RSH increase from FY18 to FY19 of 101,000 hours. Bus is scheduled to operate an additional 99,000 RSH. This increase consists of 15,000 in minor service adjustments to relieve overcrowding. The major rehabilitation of Metro’s Blue Line, known as “The New Blue” will require segments of the line to be closed and will result in 84,000 RSH of bus bridges.

There is a net increase of 2,000 Rail Revenue Vehicle Service Hour (RVSH). This includes an increase of 32,000 RVSH service improvements, such as three cars consist on the Gold Line and adjust headways to six minutes on the Green Line to accommodate the increased demand in the AM peak. There is also a reduction of 30,000 service hours due to Blue Line service closure as Metro initiates major rehabilitation efforts continues on the oldest rail line, “The New Blue” project.

Metro Transit Expenditures

Bus and Rail operations is an estimated total of \$1.8 billion in FY19 with \$1.25 billion for Bus and \$0.58 billion for Rail. Overall, there is a 5.1% increase to the FY18 Budget to operate and maintain Metro’s Bus and Rail services.

In Metro Bus and Rail Transit programs, changes in union labor and fringe benefit rates reflect current Collective Bargaining Agreements with the five unions. Whenever possible, staff identified

cost control measures and applied them to consumables, contracted services and other controllable expenses line items to offset a portion of cost increase.

Bus Operations and Maintenance

As shown in Figure 3 the overall Bus Operations budget is broken down into 2 sub-categories: 1) Labor and Fringe, and 2) Consumables, Contracted Services and Other Controllable Expenses. The combined total of both sub-categories for the FY19 Preliminary Budget is \$1,248.0 million. Labor and Fringe makes up \$745.3 million and the remaining \$502.7 million is the budget for Consumables, Contracted Services and Other Controllable Expenses.

Figure 3

Bus Operations (\$ in millions)	FY18 Budget	FY19 Preliminary	\$ Change	% Change	% Total Budget
Labor and Fringe	\$ 699.6	\$ 745.3	\$ 45.7	6.5%	60%
Consumables, Contracted Services, Other	\$ 503.0	\$ 502.7	\$ (0.3)	-0.1%	40%
<b>Total Bus Operations</b>	<b>\$ 1,202.6</b>	<b>\$ 1,248.0</b>	<b>\$ 45.4</b>	<b>3.8%</b>	<b>100.0%</b>

Bus Labor and Fringe Benefits make up 60% of the Bus Operations and Maintenance budget. This component is projected to increase by approximately \$45.7 million, 6.5% greater than the FY18 Budget. This is attributed to negotiated wage increases, and additional hours needed to support bus bridges, special events

Consumables, Contracted Service, and Other Controllable Expenses reflect the remaining 40% of the budget, and are nearly the same as FY18 with a decrease of \$300,000 absorbing cost inflations for the new fiscal year.

Rail Operations and Maintenance

As shown in Figure 4 the overall Rail Operations budget is broken down into 2 sub-categories: 1) Labor and Fringe, and 2) Consumables, Contracted Services and Other Controllable Expenses. The combined total of both sub-categories for the FY19 Preliminary Budget is \$575.2 million. Labor and Fringe makes up \$252.8 million and the remaining \$322.4 million is the budget for Consumables, Contracted Services and Other Controllable Expenses.

Figure 4



Rail Operations (\$ in millions)	FY18 Budget	FY19 Preliminary	\$ Change	% Change	% Total Budget
Labor and Fringe	\$ 234.2	\$ 252.8	\$ 18.6	7.9%	44%
Consumables, Contracted Services, Other	\$ 298.3	\$ 322.4	\$ 24.1	8.1%	56%
<b>Total Rail Operations</b>	<b>\$ 532.5</b>	<b>\$ 575.2</b>	<b>\$ 42.7</b>	<b>8.0%</b>	<b>100.0%</b>

Rail Labor and Fringe Benefits reflect 44% of the Rail Operations and Maintenance budget. This budget component is projected to increase by approximately \$18.6 million, 7.9% greater than the FY18 Budget. This is also attributed to negotiated wage increases, increased resources to enhance vehicle and facilities maintenance, as well as additional on-street and station supervision required to support bus bridges and special events.

Consumables, Contracted Service, and Other Controllable Expense reflect the remaining 56% of the budget, and there is a current projection of an increase of approximately \$24.1 million, 8.1% greater than FY18. About \$33.0 million in expenditure increases are projected, primarily to provide additional maintenance contract services for rail vehicle, stations, and other rail facilities maintenance. Offsetting the increase is the reduction in consumable parts and projected propulsion power rates. These reductions are approximately \$5.0 million. The net result reflects \$42.7 million increase to the overall Rail Operating expense.

### Fare Revenues

Metro Bus and Rail services generate fare revenues to offset a portion of the operating expenses. Annual Fare Revenue in the budget is estimated by multiplying projected Fare per Boarding by an estimated annual number of boardings.

### Fare per Boarding

FY18 year-to-date Fare per Boarding experiences a narrow range of \$0.76 to \$0.78 per boarding. FY19 Budget is proposed to use the midpoint of the actual experience to date at \$0.77 per boarding.

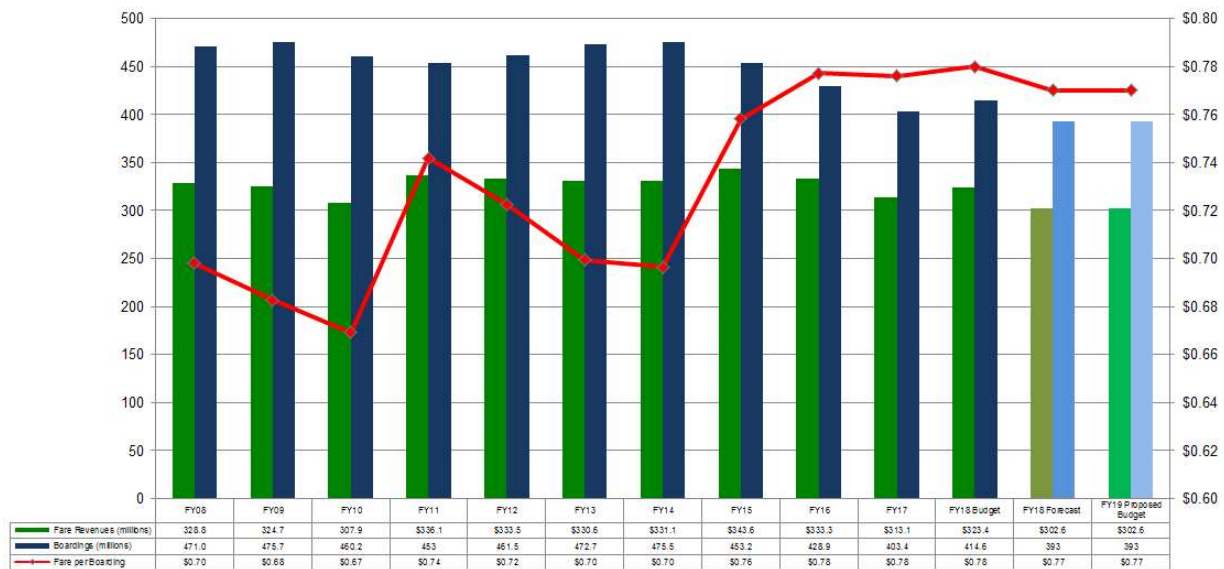
### Annual Boardings

FY19 system wide boarding projections are 393 million based on the projected actual boarding count for FY18. Planned FY19 service adjustment efforts to reduce overcrowding on the Gold Line and Green Line and other service right sizing are designed to maintain FY19 boarding at FY18 estimated level of 393 million.

Based on these fare per boarding and annual boarding projections, fare revenues are estimated to be \$303 million. Figure 5 reflects actual Fare per Boarding, annual Boardings and Fare Revenues from FY08 through FY17, as well as the FY18 forecast and FY19 Proposed Budget.

Figure 5

### Fare Revenues, Boardings and Fare/Boardings



### Ridership Initiatives

Attracting additional ridership is one of Metro’s top priorities. Although ridership decline is a nationwide issue, it is imperative to develop long term strategies and immediate actions to improve ridership. Metro is constructing some comprehensive strategic directions beyond transit service planning to address the ridership loss, and will bring them to the Board at a future meeting for consideration.

### Program 2: State of Good Repair

Metro continues to devote major resources to maintain the transit system in a State of Good Repair. Over \$493 million is allocated to maintain Metro’s Bus, Rail, and Technology Infrastructure. Major projects include Bus Acquisition and the related Technology Upgrade, On-going Bus Maintenance Midlife and Engine Replacement, Rail Vehicle Procurement, and Rail Vehicle Overhaul. Right of Way refurbishment is also a high priority project, with primary focus on the Blue Line, “The New Blue”.

Technology upgrade projects will improve our customer experience, such as Connected Bus to provide on-board Wi-Fi service. The purchase and integration of a new Enterprise Asset Management system will enhance the tracking and condition assessment of Metro’s assets. Figure 6 shows each State of Good Repair program by maintenance category.

Figure 6

(\$ in Millions)

SGR Category	FY18 Budget	FY19 Preliminary	% of Total SGR Budget	Year Over Year Change
1 Bus Acquisition	\$ 44.0	\$ 96.6	20%	119%
2 Bus Facilities Improvements	\$ 19.6	\$ 17.9	4%	-9%
3 Bus Maintenance	\$ 44.4	\$ 45.7	9%	3%
<b>4 Bus Subtotal</b>	<b>\$ 108.0</b>	<b>\$ 160.1</b>	<b>32%</b>	<b>48%</b>
5 Rail Facilities Improvements	\$ 9.4	\$ 11.9	2%	28%
6 Wayside Systems	\$ 40.8	\$ 85.9	17%	110%
7 Rail Fleet Procurement	\$ 115.0	\$ 127.6	26%	11%
8 Rail Vehicle Maintenance	\$ 70.9	\$ 50.4	10%	-29%
<b>9 Rail Subtotal</b>	<b>\$ 236.1</b>	<b>\$ 275.8</b>	<b>56%</b>	<b>17%</b>
10 Non-Revenue Vehicles	\$ 11.3	\$ 3.9	1%	-65%
11 Construction - Regional and Hubs	\$ 63.1	\$ 35.6	7%	-44%
12 Technology	\$ 13.4	\$ 17.6	4%	31%
<b>13 Other Subtotal</b>	<b>\$ 87.8</b>	<b>\$ 57.1</b>	<b>12%</b>	<b>-35%</b>
<b>14 Total Proposed SGR Budget</b>	<b>\$ 431.9</b>	<b>\$ 493.1</b>		<b>14%</b>

Bus State of Good Repair

About \$160 million is planned to fund Bus Infrastructure Rehabilitation. This represents 32% of the total State of Good Repair program. Over \$96 million of the \$160 million is dedicated to initiating the conversion of the bus fleet to Electric/Zero Emission Buses (ZEB) and purchase of 38 new electric buses for the pilot program. Metro will also be adding 48 Near Zero Emission CNG buses to replace buses scheduled for retirement. The Electric/Zero Emission Buses (ZEB) will be run as a pilot program on the Orange Line and Silver Line. Bus testing will be conducted to validate current operating technology and determine infrastructure needs to migrate to a full electric bus fleet. Staff will periodically bring the test results to the Board for evaluation and to determine future implementation plans.

The remaining \$64 million will provide On-going Bus Facilities Improvement and Bus Midlife Maintenance Activities. These projects include continued development of master plans for facility

upgrades, refurbishment, and site reconfigurations to upgrade critical facilities. Upgrades also include regulatory compliance projects; such as replacement of underground fuel storage tanks. Bus midlife refurbishment activities include structural integrity checks, engine replacements, component change-out of critical systems. Beginning this year, bus engines will be upgraded to a near Zero Emission CNG configuration which runs cleaner than those CNG engines that are currently installed.

### Rail State of Good Repair

Over \$275 million will be dedicated to Rail Infrastructure Rehabilitation. About \$128 million of the \$275 million is projected for rail vehicle procurements that will continue to keep up with scheduled rail expansion projects and replace older vehicles that are approaching the end of their useful life. The replacement vehicles will meet new demand and replace the existing Blue Line fleet. About \$98 million will be programmed for on-going facility improvements and rehabilitation of the Blue Line. This initiative deemed “New Blue” will include replacement of Overhead Catenary Systems, communications systems, and fare gate infrastructure installation. The remaining \$51 million will allow continued Rail vehicle midlife and component overhaul programs.

### Other Asset Improvements

Over \$57 million will be programmed for Technology upgrades, Regional Construction, and purchase of vehicles and equipment to support transportation and maintenance activities.

Technology upgrades include initiating the purchase and integration of an enterprise asset management system that will replace the 15 year old system currently used. This will allow the agency to shift the tracking of asset maintenance from age based tracking to condition based tracking to have a more realistic method to schedule and replace assets and related bus, rail, and centralized infrastructure. Funds are also allocated for programs such as Connected Bus and Wi-Fi installations at more rail lines and in new buses for an improved customer experience and security.

## **Program 3: Subsidy Funding Programs**

Subsidy Funding represents a direct funding to regional partners to carry out local transportation needs which have increased by \$89.6 million, or 7.2%. This increase is primarily due to increased subsidies paid to local jurisdictions, Municipal Operators, and Access Services. This is a direct result of increased funding from growth in sales tax revenues. Due to uncertainty regarding Federal Grant funding sources, Regional Federal Grants are budgeted at a 16.6% decrease from the prior year. Fare Assistance program is increasing slightly due to due to sales tax growth in Measure M funding for LIFE (Low Income Fares is Easy) program.

Figure 7 shows a detailed listing of the Subsidy Funding Program’s preliminary budget.

### Figure 7

Subsidy Funding Programs (\$ in millions)	FY18	FY19	\$ change	% change
	Budget	Preliminary		
Local Agencies	\$ 729.2	\$ 769.4	\$ 40.2	5.5%
Regional Transit	469.4	523.3	53.9	11.5%
Regional Federal Grants	30.6	25.5	(5.1)	-16.7%
Fare Assistance	14.1	14.7	0.6	4.3%
<b>Total Subsidy Funding Programs</b>	<b>\$ 1,243.3</b>	<b>\$ 1,332.9</b>	<b>\$ 89.6</b>	<b>7.2%</b>

In June, separate reports will be brought forward for specific Board approval detailing subsidy funding amounts for each Municipal and Local Operators, including Access Services, and local jurisdictions. This includes adoption of FY19 Transit Funds Allocation and FY19 Access Services budget.

**Public Outreach Update**

This month, Metro’s budget development outreach plan is in full swing. On March 19, the interactive Online Budgeting Tool was launched alongside increased marketing efforts including a social media campaign. The Online Budgeting Tool, first launched during the FY17 outreach process, engages the public in the budgeting process by soliciting input on transportation priorities, providing information on the types of programs in the budget, and offering background on Metro’s role within LA County.

Throughout April, staff is also conducting outreach for various stakeholder meetings, such as the Citizens Advisory Council, Policy Advisory Committee, Technical Advisory Committee, and Bus Operators Subcommittee. At these meetings, the FY19 Preliminary Budget is presented with direct exchange of questions and comments about Metro’s plan for the upcoming fiscal year. These presentations are also being held at the April meetings of all Metro Service Councils, offering many opportunities for the public to weigh in on the budget.

Because the Telephone Town Hall held during the FY18 Budget outreach process yielded valuable input with over 3,000 participants, efforts this year are expanded to offer two sessions on the evenings of April 4<sup>th</sup> and April 5<sup>th</sup>. This new format of engagement provides a convenient opportunity for members of the public to offer input on the budget process without physical presence at the public hearing or other in-person forums.

A summary of all comments received during the public outreach process will be included in the May 2018 Board report.

**FINANCIAL IMPACT**

This report is a status update of an overall agency-wide proposed budget that will be presented to the Board for adoption consideration in May 2018. Submission of this Receive and File report will not have an immediate financial impact on the FY19 Budget.

**ALTERNATIVES CONSIDERED**

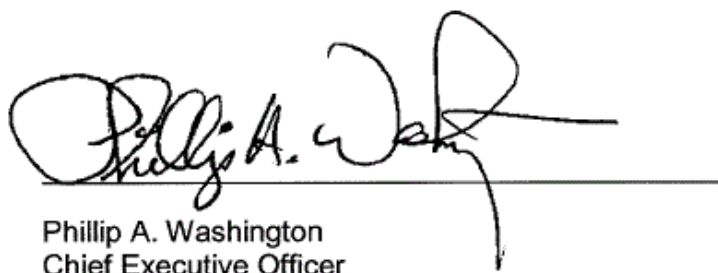
Per PUC Code 130051.12, Metro shall establish overall goals and objectives to achieve optimal transportation services and adopt an aggregate budget for all organizational business units. Not adopting the budget would severely impact Metro’s goal of improving transportation services in Los Angeles County.

**NEXT STEPS**

Staff will continue to develop and finalize the FY19 Proposed Budget. Regular updates to the Board will take place with more budget details. Metro will continue its outreach efforts to stakeholder groups for in-depth and technical discussion of transit services and transportation program priorities that are included in the FY19 Proposed Budget. The programs identified and funded in the budget, including any updates since the first review with the Board will be consolidated and shown in the FY19 Proposed Budget Book 14 days before the Budget Public Hearing on May 16, 2018.

Prepared by: Christopher Gallanes, Executive Officer, Finance, (213) 922-4828  
Office of Management and Budget (OMB) Team

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



Phillip A. Washington  
Chief Executive Officer

# FISCAL YEAR 2019 BUDGET DEVELOPMENT UPDATE

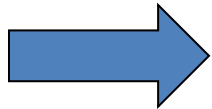
**Finance, Budget and Audit Committee**  
**April 11<sup>th</sup>, 2018**

# Meeting Agenda

- FY19 Budget Development Process
- Budget Summary by Program
- Expenditures by Program
  - Bus and Rail Operations
  - State of Good Repair
  - Subsidies
- Outreach Update
- Next Steps



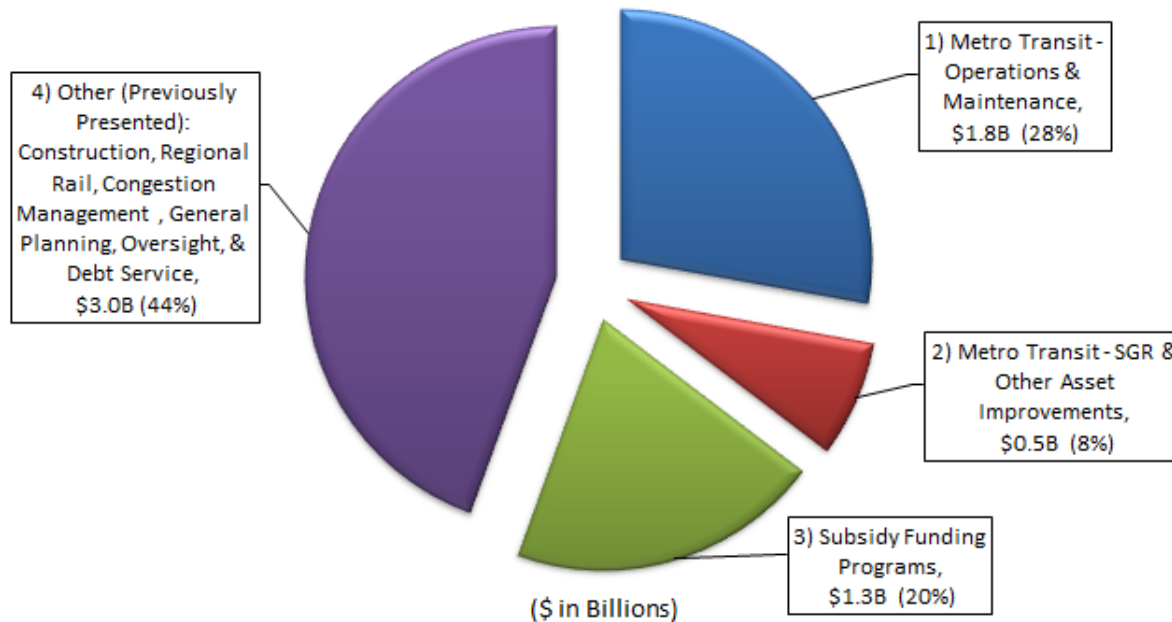
# FY19 Budget Process and Schedule



Month	Topic
February	Process and Budget Outlook <ul style="list-style-type: none"> <li>• Budget Development Process and Schedule</li> <li>• Stakeholder Outreach Plan</li> <li>• Sales Tax Forecast, Resources Assumptions</li> <li>• Cost Inflation Estimate</li> </ul>
March	New Infrastructure Planning and Construction <ul style="list-style-type: none"> <li>• New Transit System: Rail, Bus Rapid Transit and Alternative Modes</li> <li>• Highway</li> <li>• Regional Rail</li> </ul>
April	Operating Budget and Regional Subsidy <ul style="list-style-type: none"> <li>• Metro Transit, including Bus and Rail Service Levels</li> <li>• State of Good Repair (SGR)</li> <li>• Subsidy to Regional Partners</li> </ul>
May	FY19 Budget Adoption (Planned) <ul style="list-style-type: none"> <li>• Consolidated Agency-wide Expenses and FTEs Budget Proposal</li> <li>• Public Hearing on May 16, 2018</li> <li>• Summary of Public Comment and Stakeholder Review</li> <li>• Final Board Adoption on May 24, 2018</li> </ul>
June	<ul style="list-style-type: none"> <li>• Prep Funds Availability for Metro Programs &amp; Regional Allocations</li> </ul>

# FY19 Budget Program Summary

## FY19 Preliminary Budget (\$6.6 Billion)



- Approximately \$3.0 Billion, 44% of the total Program Budget, has been previously presented
- Focus is now on:
  - Metro Transit Operations & Maintenance: \$1.8 Billion
  - Metro Transit State of Good Repair: \$0.5 Billion
  - Subsidy Funding Programs: \$1.3 Billion
- These Programs total \$3.6 Billion, the remaining 56% of the total Program Budget



# Bus and Rail Operations and Maintenance (Service Levels)

Bus and Rail Revenue Service Hours (RSH) by Mode		Bus	Rail	Total
1	<b>FY18 Budget</b>	7,006,000	1,245,000	8,251,000
2	<b>Changes in Service Levels</b>			
3	Minor Service Adjustments to Relieve Overcrowding	15,000	32,000	47,000
4	Bus Bridges/"New Blue" Rehabilitation Service Interruptions	84,000	(30,000)	54,000
5	<b>FY19 Preliminary Budget</b>	7,105,000	1,247,000	8,352,000
6	<b>Changes From FY18 Budget</b>	99,000	2,000	101,000
7	<b>% Change</b>	1.4%	0.2%	1.2%

- Service levels are the main cost drivers used to derive the Operating Budget
- Revenue Service Hours projected at 8,352,000; Additional 101,000 hours over prior year
- **Bus** scheduled to operate 7,105,000 hours (Additional 99,000 hours)
  - Minor Service adjustments; Bus Bridge deployment during scheduled Blue Line segment closures for "New Blue" rehabilitation project
- **Rail** scheduled to operate 1,247,000 hours (additional 2,000 hours)
  - Minor Service Adjustments; Offset for "New Blue" segment closures

Trade off of service adjustments for "New Blue" rehabilitation



# Bus and Rail Operations and Maintenance (Operating Budget)

	Bus Operations (\$ in millions)	FY18 Budget	Prelim FY19 Budget	\$ Change	% Change	% Total Budget
1	Labor and Fringe	\$ 699.6	\$ 745.3	\$ 45.7	6.5%	60%
2	Consumables, Contracted Services, Other	\$ 503.0	\$ 502.7	\$ (0.3)	-0.1%	40%
3	<b>Total Bus Operations</b>	<b>\$ 1,202.6</b>	<b>\$ 1,248.0</b>	<b>\$ 45.4</b>	<b>3.8%</b>	<b>100.0%</b>

	Rail Operations (\$ in millions)	FY18 Budget	Prelim FY19 Budget	\$ Change	% Change	% Total Budget
4	Labor and Fringe	\$ 234.2	\$ 252.8	\$ 18.6	7.9%	44%
5	Consumables, Contracted Services, Other	\$ 298.3	\$ 322.4	\$ 24.1	8.1%	56%
6	<b>Total Rail Operations</b>	<b>\$ 532.5</b>	<b>\$ 575.2</b>	<b>\$ 42.7</b>	<b>8.0%</b>	<b>100.0%</b>

7	<b>Grand Total</b>	<b>\$ 1,735.1</b>	<b>\$ 1,823.2</b>	<b>\$ 88.1</b>	<b>5.1%</b>	
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- Bus and Rail Operations budget is \$1.8 Billion, an additional \$88 Million over last year
- **Bus Operations: \$1.2 Billion**
  - Labor and Fringe Benefits increasing \$46 Million; Consumables/Other Controllable Expenses decreasing \$0.3 Million
    - Labor/Fringe Benefits increase per negotiated wage provisions and hours needed for bus bridges/special events
    - Consumables decrease the result of expenditure projections below CPI cost inflation budget parameters
- **Rail Operations: \$0.6 Billion**
  - Labor and Fringe Benefits increasing \$19 Million; Consumables/Other Controllable Expenses increasing \$24 Million
    - Labor/Fringe Benefits increase per negotiated wage increases and hours needed for on-street/station supervision for bus bridges/special events
    - Consumables increase for facilities maintenance programs

# State of Good Repair

(\$ in Millions)

SGR Category	FY18 Budget	FY19 Preliminary	% of Total SGR Budget	Year Over Year Change
1 Bus Acquisition	\$ 44.0	\$ 96.6	20%	119%
2 Bus Facilities Improvements	\$ 19.6	\$ 17.9	4%	-9%
3 Bus Maintenance	\$ 44.4	\$ 45.7	9%	3%
<b>4 Bus Subtotal</b>	<b>\$ 108.0</b>	<b>\$ 160.1</b>	<b>32%</b>	<b>48%</b>
5 Rail Facilities Improvements	\$ 9.4	\$ 11.9	2%	28%
6 Wayside Systems	\$ 40.8	\$ 85.9	17%	110%
7 Rail Fleet Procurement	\$ 115.0	\$ 127.6	26%	11%
8 Rail Vehicle Maintenance	\$ 70.9	\$ 50.4	10%	-29%
<b>9 Rail Subtotal</b>	<b>\$ 236.1</b>	<b>\$ 275.8</b>	<b>56%</b>	<b>17%</b>
10 Non-Revenue Vehicles	\$ 11.3	\$ 3.9	1%	-65%
11 Construction - Regional and Hubs	\$ 63.1	\$ 35.6	7%	-44%
12 Technology	\$ 13.4	\$ 17.6	4%	31%
<b>13 Other Subtotal</b>	<b>\$ 87.8</b>	<b>\$ 57.1</b>	<b>12%</b>	<b>-35%</b>
<b>14 Total Proposed SGR Budget</b>	<b>\$ 431.9</b>	<b>\$ 493.1</b>		<b>14%</b>

- **Budget is approximately \$493 Million, a 14% increase over last year**
- **Bus Infrastructure Rehabilitation: \$160 Million**
  - \$96 Million for bus fleet conversion to Electric/Zero Emission Buses (ZEB)
  - \$64 Million to provide on-going facilities improvements and Bus midlife activities
- **Rail Infrastructure Rehabilitation: \$276 Million**
  - \$128M dedicated for rail vehicle procurement (new vehicle demand and replacement of existing Blue Line fleet)
  - \$98M allocated for on-going facility improvements and “New Blue” rehabilitation
  - \$50M for on-going rail vehicle mid-life and component overhaul programs
- **Other Asset Improvements: \$57 Million**
  - Purchase/integration of new asset management system, Connected Bus/Wi-Fi installations, and utility vehicle/equipment purchases to support Bus/Rail Operations maintenance

# Subsidy Funding Programs

Subsidy Funding Programs (\$ in millions)	FY18	FY19	\$ change	% change
	Budget	Preliminary		
1 Local Agencies	\$ 729.2	\$ 769.4	\$ 40.2	5.5%
2 Regional Transit	469.4	523.3	53.9	11.5%
3 Regional Federal Grants	30.6	25.5	(5.1)	-16.7%
4 Fare Assistance	14.1	14.7	0.6	4.3%
5 <b>Total Subsidy Funding Programs</b>	<b>\$ 1,243.3</b>	<b>\$ 1,332.9</b>	<b>\$ 89.6</b>	<b>7.2%</b>

- Subsidies are all funding that goes directly to Muni/Local/Access Operators and Cities per Federal guidelines, State Law, and adopted Board policies
  - Includes Bus Operating Funds and Local Return funds from each sales tax measure and Federal Formula Grants
- Local Agency and Regional Transit programs are increasing from FY18 to FY19 is a direct result of the growth in sales tax revenues; and Includes \$10 Million increase in net Toll Grants
- Regional Federal Grants declining due to uncertainty of Federal Grant funding (e.g. JARC, New Freedom, and Federal 5310)
- Fare Assistance increasing due to Measure M sales tax growth



# Next Steps

- Staff will continue to develop and finalize the Consolidated FY19 Proposed Budget
- Ongoing outreach efforts to engage stakeholder groups utilizing social media and creative venues
- Public hearing of the proposed budget will take place on May 16<sup>th</sup>
- Final board adoption expected on May 24<sup>th</sup>
  - Board adoption legally required before fiscal year start







## Board Report

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**File #:** 2018-0102, **File Type:** Informational Report

**Agenda Number:** 15.

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
APRIL 11, 2018**

**SUBJECT: ACCESS SERVICES - QUARTERLY UPDATE**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE status report on Access Services - ADA Paratransit.

**ISSUE**

This is a quarterly update on Access Services (Access), as requested by the Finance, Budget and Audit Committee.

**DISCUSSION**

Agency Overview

Access is the Los Angeles County transit agency that provides paratransit services on behalf of Metro and 44 other Los Angeles County fixed route operators, as mandated by the Americans with Disabilities Act (ADA). Eligibility for Access is based on a person's ability to use accessible buses and trains in Los Angeles County. Access provided more than 4.3 million passenger trips in FY 17 and provides an average of 11,000 trips daily. Access' paratransit service is a next-day shared-ride service, which means a ride must be reserved the day before and may be shared with other Access customers. Access provides curb-to-curb service with additional assistance available to qualified individuals. The service is operated by six contractors who are responsible for the following regions of Los Angeles County: Eastern, Southern, West Central, Northern, Santa Clarita Valley and Antelope Valley. Customers call Access' providers directly to make reservations and schedule trips. Access serves any area within  $\frac{3}{4}$  of a mile on either side of a rail line or local bus route. This coordinated system allows Access customers to travel without having to transfer nearly anywhere in the Los Angeles County basin served by fixed-route transportation.

Background

This quarterly update and presentation provides information on Access' operational performance and other Agency initiatives.

Agency Operational Performance

One of the main ways that Access oversees its contractors' compliance with federal law and regulations and their service to Los Angeles County paratransit customers is through regular audits and the monitoring of a number of Key Performance Indicators (KPIs). In the last year, Access has expanded and modified its KPIs, which were formally adopted by its Board of Directors in October 2017. Access has also introduced liquidated damages (LDs) in its operating contracts that are tied to these KPIs. For example, to provide better customer service, Access recently introduced a KPI limiting the time a customer is on hold when they call to ask for the estimated time of arrival for a vehicle.

Key Performance Indicators

Overall, the major KPIs for Access' ADA paratransit service are being met. Since the last update, the performance of the customer service call center contractor has improved significantly in response to management actions, which included both a cure notice and financial penalties. Access staff will continue to monitor this contract to ensure KPIs continue to be met.

Access' preventable collision ratio has remained relatively flat over the last two years and is considerably lower than peer transit operators. Access counts any collision, regardless of dollar value, in this statistic to emphasize the importance of safety. Access has launched a number of initiatives to reduce these events, including the implementation of liquidated damages for preventable collisions; a minimum of two annual strategic safety campaigns; a collaborative safety steering committee that includes all its operating contractors, the same on-vehicle video camera system that Metro uses on its vehicles, as well as a team of Road Safety Inspectors.

Key Performance Indicators	Target	FY16	FY17	*FY18
On Time Performance	≥ 91%	91%	92%	92%
Reservations - Average Hold Time	≤ 120 sec	89	83	80
Reservations - Calls On Hold > 5 Minutes	≤ 5%	4.6%	4.5%	4.0%
Preventable Collisions Per 100,000 Miles	≤ 0.50	0.55	0.64	0.67
Service Complaints Per 1,000 Trips	≤ 4.0	3.4	3.8	3.6
Customer Service - Average Hold Time	≤ 180 sec	105	131	172
Operations Monitoring Center (OMC) Average Hold Time	≤ 180 sec	104	126	132
*As of 3/11/18				

*On-time Performance (OTP)* - Access has an OTP standard of 91% within a 20-minute arrival window and measures on-time performance by using GPS validation to confirm and verify driver-reported arrival time at a pick-up location. On-time windows of 20 or 30 minutes are standard for ADA paratransit.

*Reservations - Average Hold Time / Calls on Hold over 5 Minutes* - Access measures the average amount of time, in seconds, that calls for reservations are on hold before being answered. In addition, Access measures the percentage of reservation calls that were on hold for five minutes or longer before being answered.

*Preventable Collisions* - Access tracks preventable collisions system-wide, at the contractor level, and down to the driver level. As a primary measurement of how safe the paratransit system is, the preventable collision rate is calculated monthly and measures the number of preventable collisions per 100,000 service miles, an industry standard.

*Service Complaints per 1,000 Trips* - Access tracks the number of complaints it receives to monitor the overall quality of the service. All complaints received, regardless of validity, are included in this measure, which as shown improvement since the last report.

*Customer Service Center and OMC - Average Hold Time* - Access measures the average amount of time, in seconds, that calls for its customer service center and OMC are on hold before being answered.

#### Roll out of Where's My Ride Application

More than 1,000 customers have downloaded the Where's My Ride (WMR) application, which was launched in the Los Angeles basin in December 2017. As discussed at January's meeting, this app allows customers to obtain an estimated time of arrival (ETA) for their trips and to provide feedback after the trip is completed, similar to customer feedback options found on the Uber and Lyft apps. In order to help customers use WMR, Access implemented a help line and posted instructional videos to help educate riders on the Access website at <https://accessla.org/wmr>.

Feedback from customers has been very positive. Access is planning to extend the WMR app to the Santa Clarita region in spring and the Antelope Valley region in the summer. Access is also working with large trip generators, such as Rancho Los Amigos National Rehabilitation Center in Downey, to implement WMR on tablets so they can track their customer's trips.

#### Online Reservations

Access is also working with service providers to launch an online reservation function, which will allow riders to make reservations and cancel reservations directly via computers, tablets and mobile phones. It will eventually integrate with the WMR mobile app as well. As it did with WMR, Access intends to have customer's test this new feature before rolling it out more widely. The schedule is as follows:

- Eastern and West Central regions in April;

- Northern region in July;
- Southern region in August;
- Antelope Valley and Santa Clarita regions in September.

#### Customer Outreach -- Abilities Expo

Numerous Access staff volunteered to participate in this year's Abilities Expo which was held from February 23<sup>rd</sup> to 25<sup>th</sup> at the Los Angeles Convention Center. Access had its own table and staff addressed questions such as how to apply for Access, renew an expiring eligibility, apply for subscription service and submit commendations or concerns. Access provided 317 trips to this three-day event which customers could track using the WMR app.

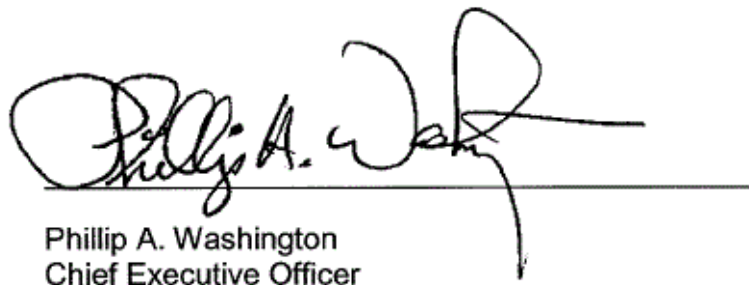
#### **NEXT STEPS**

Access is in the process of completing the following:

- Bringing contract award recommendations to the Access Services Board of Directors for the Northern (San Fernando Valley) Region as well for the city of Santa Clarita's paratransit service.
- Working with Metro staff on Access' FY 2018-19 budget request. While ridership growth appears to be slowing, the cost of contracted transit and paratransit services is increasing due to legislated increases in the minimum wage and overall competition for employees. Access is mitigating budget increases through an improved eligibility process; technology improvements; and a joint effort with the County of Los Angeles to seek payment for qualified paratransit trips through the Medi-Cal program, among other initiatives.

Prepared by: Giovanna M. Gogreve, Manager, Transportation Planning, 213-922-2835

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



Phillip A. Washington  
Chief Executive Officer



# Access Services Quarterly Update

Metro Finance, Budget and  
Audit Committee  
April 11 , 2018  
1:00 P.M.

access



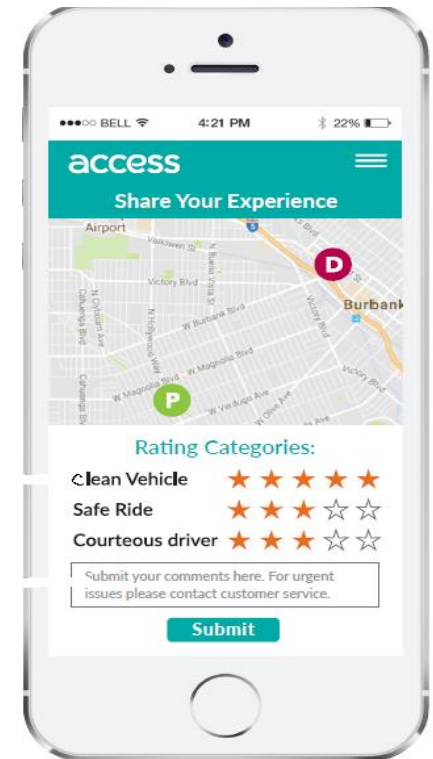
# Agency Performance Goals

Key Performance Indicators	Target	FY16	FY17	*FY18
On Time Performance	≥ 91%	91%	92%	92%
Reservations - Average Hold Time	≤ 120 sec	89	83	80
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Service Complaints Per 1,000 Trips	≤ 4.0	3.4	3.8	3.6
Customer Service - Average Hold Time	≤ 180 sec	105	131	172
Operations Monitoring Center - Average Hold Time	≤ 180 sec	104	126	132

\* Through 3/11/18

# “Where’s My Ride” application (WMR) UPDATE

- > Ride information and notifications
  - Estimated Time of Arrival (ETA)
  - Map view of vehicle location
  - “Rate My Ride” function
- > Launched in December/January
- > Downloaded by over 1,000 customers
- > In use by large facilities like Rancho Los Amigos



access

The header features a light blue background with various icons and dashed lines. The icons include a green leaf, a yellow wind turbine, a blue target, a blue building, and a red industrial structure. Dashed lines in yellow, orange, and purple connect these icons across the top of the slide.

# Agency Update

- > Online Reservations
- > Customer Outreach
  - Abilities Expo
- > Contract Awards
  - San Fernando Valley
  - Santa Clarita
- > FY 18/19 Budget Process
  - June 2018



**Board Report**

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**File #:** 2018-0014, **File Type:** Program**Agenda Number:** 16.

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
APRIL 11, 2018****SUBJECT: PROPERTY INSURANCE PROGRAM****ACTION: PURCHASE ALL RISK PROPERTY AND BOILER AND MACHINERY INSURANCE****RECOMMENDATION**

AUTHORIZE the Chief Executive Officer to negotiate and award All Risk Property and Boiler and Machinery insurance policies for all property at the current policy limits at a not to exceed price of \$2.5 million for the 12-month period May 10, 2018 through May 10, 2019.

**ISSUE**

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2018.

**DISCUSSION**

Property insurance protects against losses to our structures and improvements, which are valued at approximately \$12.1 billion up from last year's \$11.9 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. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating assets.

Natural disasters last year will take a toll on property insurance carriers. Catastrophic events included Hurricane Harvey (estimated \$40 billion in insured losses), Hurricane Irma (estimated \$35 billion in insured losses), Hurricane Maria (estimated \$30 billion in insured losses), California wildfires (estimated \$12 billion in insured losses) and earthquakes in Mexico (estimated \$1.5 billion in insured losses). Commercial property prices, which had been decreasing for much of the recent past, now indicate increases in the single digits according to a March 2018 Willis Towers Watson commercial lines insurance pricing survey. Pierre Laurin, Willis Towers Watson's Americas property/casualty sales and practice leader for insurance consulting and technology, said, "Last year's weather disasters were some of the most financially disruptive in history, and the survey results indicate we're likely now seeing the initial response to the catastrophes on the pricing side of the property market."

Our insurance broker, USI Insurance Services ("USI") acquired Metro's prior broker Wells Fargo Insurance Services in December 2017. USI marketed the property program to qualified insurance carriers to obtain property insurance pricing with coverage limits of \$400 million. Quotations for our

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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 serve as a not to exceed cost excluding contingency for unanticipated adjustments before policy binding.

The soft market for all lines of insurance coverage Metro has enjoyed for the past 25 quarters will be temporarily placed on hold according to USI. Any long term upward pressure on rates will be tempered and mitigated by available abundant capacity from alternative capital providers. However, the near-term rate impacts will result in higher premiums because of current losses (size and frequency) being paid by property markets after many quarters of soft and declining pricing. The catastrophic events of 2017 and early 2018 will place renewed pressure on returning to property specific pricing that produces an adequate risk adjusted return to the carriers for property coverage.

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. If a loss exceeds the deductible, All Risk coverage is provided up to \$400 million per occurrence for losses except for flood related damages that are covered up to \$150 million. The recommended program is the same as the prior year program. Attachment A is a premium history. Attachment B 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 \$4.5 million for \$50 million in limits with a 5% deductible. LACMTA 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 government agencies including most Los Angeles County and City locations, Department of Water and Power and Metropolitan Water District.

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 nearly \$823,000. The Terrorism Risk Insurance Act (TRIA) which provides government support by providing mechanisms for spreading losses across policyholders was reauthorized by Congress in January 2015 after the program expired. 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.

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 February and March, USI contacted multiple domestic and foreign insurance providers to present our property risks and supplemental data. USI provided an overview of the Metro transit system

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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 eighteen years with one fixed property insurable event and under \$1.2 million insurable losses of rolling stock and non-revenue vehicles.

The LACMTA property program continues to be well received by insurers due to our favorable loss history, the growth of the account from \$6.7 billion in values in 2007 to \$12.1 billion for this renewal without the requirement of providing earthquake coverage. As such, USI presented the submission to incumbent and competing insurers to create competition in the insurance program. The marketing effort resulted in maintaining all but one of our incumbent carriers for the recommended program. Our collaborative marketing effort through USI resulted in a not to exceed 2.77% premium increase for the recommended program. Our rate per million dollars of insurable value continues to reflect historic lows (\$207 for the recommended program versus \$246 for the 2012 - 2013 program). However, we did experience a nominal rate increase per million dollars of insured value over the prior year.

The Willis Towers Watson report concludes, "Underwriters will be pushing for rate increases as they reconcile what is expected to be a significant earnings hit for many, and a potentially material capital hit for some. For underwriters needing to dip into capital to fund their losses, the pressure to raise rates to replenish that capital could be unyielding. For buyers, this may mean the long soft market for commercial property insurance could be over, at least temporarily."

This year's renewal reflects our continuing favorable insurability and ability to take full advantage of market trends irrespective of our 1.6% increase in total insured value in a very different and demanding market environment from previous years.

### **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 \$416,667 for this action is included in the FY18 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). The remaining ten months of premiums will be included in the FY19 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). In FY18, an estimated \$2.4 million will be expensed for property insurance.

Impact to Budget

There is no impact on the FY18 budget. 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 negligible change to operating costs from the prior fiscal year.

**ALTERNATIVES CONSIDERED**

The current program, the recommended program and an option with earthquake coverage are summarized in Attachment C. Based upon our favorable renewal and loss histories, we recommend continuing the current program of insurance as the most cost effective and prudent program. The option adding earthquake coverage is not recommended because the high cost of the earthquake premium does not justify the benefit of the coverage.

**NEXT STEPS**

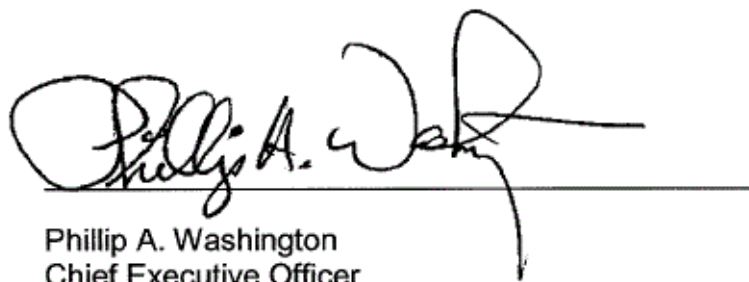
Upon Board approval of this action, we will advise USI to proceed with placement of the property insurance program outlined herein effective May 10, 2018.

**ATTACHMENTS**

- Attachment A - Premium History
- Attachment B - Recommended Pricing and Carriers
- Attachment C - Alternatives Considered

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

Reviewed by: Greg Kildare, Chief, Risk, Safety and Asset Management Officer, (213) 922-4971



Phillip A. Washington  
Chief Executive Officer

**ATTACHMENT A**

**PREMIUM HISTORY**

**Premium History for Property and Boiler and Machinery Policies  
For Property Insurance Policies in the Following Years**

	<b>2011-2012</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>2014-2015</b>	<b>2015-2016</b>	<b>2016-2017</b>	<b>2017-2018</b>	<b>2018-2019</b>
All Risk	\$2.0 Mil	\$2.2 Mil	\$2.2 Mil	\$2.2 Mil	\$2.3 Mil	\$2.3 Mil	\$2.3 Mil	\$2.4 Mil
Boiler & Machinery	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Premium	\$2.1 Mil*	\$2.3 Mil*	\$2.3 Mil*	\$2.3 Mil*	\$2.4 Mil*	\$2.4 Mil*	\$2.4 Mil*	\$2.5 Mil*
TIV = Total Ins. Val.	\$8.6 Bil	\$9.3 Bil	\$9.4 Bil	\$9.6 Bil	\$10.0 Bil	\$11.2 Bil	\$11.9 Bil	\$12.1 Bil
Rate per Mil Ins. Val.	\$245	\$246	\$245	\$240	\$239	\$214	\$202	\$207

\* Excludes Earthquake and Terrorism Insurance



**ATTACHMENT B**

**RECOMMENDED PROGRAM PRICING AND CARRIERS**



**USI Insurance Services**  
**Proposed Property Insurance Summary 2018 - 2019**  
**Los Angeles County Metropolitan Transportation Authority**

Limit	Excess of	Coverage	Carrier	Participation	Total
<b>\$50M</b>	<b>\$150MM</b>	<b>All Risk Excluding Flood &amp; Earthquake</b>	Scottsdale Indemnity Company - A+ XV	\$50,000,000	\$41,280
				<b>\$50,000,000</b>	<b>\$41,280</b>
<b>\$200M</b>	<b>\$150MM</b>	<b>All Risk Excluding Flood &amp; Earthquake</b>	Scottsdale Indemnity Company - A+ XV	\$50,000,000	\$86,430
			Lloyd's of London - A XV	\$100,000,000	\$165,120
			Starr Specialty Insurance Agency**	\$50,000,000	\$106,038
					<b>\$200,000,000</b>
<b>\$150M</b>	<b>Underlying Deductibles</b>	<b>All Risk Excluding Earthquake</b>	Lexington Insurance Co - A XV	\$100,000,000	\$1,307,544
			Liberty Mutual Fire Insurance Co- A XV	\$15,000,000	\$209,500
			Starr Specialty Insurance Agency**	\$25,000,000	\$343,999
			Ironshore Specialty Ins Co - A XIV	\$10,000,000	\$148,608
					<b>\$150,000,000</b>

**Estimated Program Premiums \* \$2,408,519**  
**Contingency for carrier premium, tax and fee adjustments \$91,481**  
**Estimated Program Not-To-Exceed Total \$2,500,000**

" Subject to finalization of on-going negotiations with carriers

\*\*Starr Specialty Insurance Agency Consists of:  
 33.34% Starr Suplus Lines Insurance Company - A XV  
 33.33% Chubb Custom Insurance Company - A++ XV  
 33.33% General Security Indemnity Company of Arizona - A XV

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

**ATTACHMENT C**

**ALTERNATIVES CONSIDERED**

	<b>Current Program</b>	<b>Recommended Program (Quota Share Primary)*</b>	<b>Recommended Program With Earthquake*</b>
<b>Deductibles</b>	<b>\$250,00 All Risk / 5% of location value for Flood</b>	<b>\$250,00 All Risk / 5% of location value for Flood</b>	<b>\$250,000 All Risk/5% of structure value for Earthquake and Flood</b>
<b>All Risk Limits</b>	<b>\$400 Million</b>	<b>\$400 Million</b>	<b>\$400 Million</b>
<b>Flood Limits</b>	<b>\$150 Million</b>	<b>\$150 Million</b>	<b>\$150 Million</b>
<b>Earthquake Limits</b>	<b>None</b>	<b>None</b>	<b>\$50 Million after first 5% per location deductible</b>
<b>Terrorism</b>	<b>None</b>	<b>None</b>	<b>None</b>
<b>Total not to Exceed or Actual Premium</b>	<b>\$2,343,655</b>	<b>\$2,500,000</b>	<b>\$7,000,000</b>

\* recommended programs are not to exceed amounts.





**Board Report**

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**File #:** 2018-0128, **File Type:** Program

**Agenda Number:**

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**AD HOC CONGESTION, HIGHWAY AND ROADS COMMITTEE  
FINANCE, BUDGET AND AUDIT COMMITTEE  
APRIL 11, 2018**

**SUBJECT: EXPRESSLANES TOLL BOND POOL**

**ACTION: ESTABLISH AND APPOINT TOLL BOND POOL OF UNDERWRITERS**

**RECOMMENDATION**

ESTABLISH a Toll Bond Pool of underwriters, listed in Attachment A, from which underwriters will be selected for future negotiated debt issues for toll revenue bonds and other toll revenue backed debt issued under the ExpressLanes program through June 30, 2021, with two further 1-year options to extend.

**ISSUE**

To expand ExpressLanes in Los Angeles County and to construct the Tier 1 and Tier 2 projects identified in the 2017 ExpressLanes Strategic Plan (ELSP), Metro needs to determine how these projects will be funded and whether it is feasible to accelerate them. The ELSP assumes that virtually all the ExpressLanes projects will need to be funded by financing mechanisms.

At the September 2017 meeting, the Board approved the staff recommendation to develop solutions and programs based on a system financing approach and to present these to the Board for approval as they are finalized, as appropriate.

Staff has determined that establishing an underwriting pool for toll revenue bonds and any other toll revenue backed debt is an appropriate step in developing a process for the use of inter-fund borrowing of net toll revenues to support creation of the ExpressLanes network.

**DISCUSSION**

**Establishment of a Toll Bond Pool**

To date, no debt has been issued for the ExpressLanes projects now in operation. Almost all of Metro's existing debt has been secured by, and repaid from, three of its four sales tax revenue measures. No debt secured by Measure M sales taxes has been issued yet.

In 2016, an unsolicited proposal was submitted to the Office of Extraordinary Innovation that identified financing strategies that would enable acceleration of ExpressLanes projects consistent with a system financing approach.

Staff recommends the establishment of a Toll Bond Pool of underwriters with expertise in issuing debt for ExpressLanes, supplementary to Metro's current pool of underwriters (which expires in June 2019), because of the unique nature of toll backed debt. Since Metro has never issued toll revenue backed debt and it is relatively uncommon for toll revenue bonds to be issued via competitive sales, it is likely that Metro will utilize negotiated sales for debt issuance as discussed in the Board-approved Debt Policy.

The Toll Bond Pool will be used in future negotiated debt issues for toll revenue bonds and any other toll revenue backed debt issued under the ExpressLanes program. For negotiated sales, staff will select underwriters using a mini-RFP process. Consistent with Metro's Debt Policy, the selection of the underwriting team will assure the participation of Small Business Enterprise (SBE), Disabled Veterans Business Enterprise (DVBE), and Disadvantaged Business Enterprise (DBE) firms, subject to board approval of the financing. The senior manager(s) will be selected from the Toll Bond Pool. The other members of the underwriting team for toll revenue transactions may include members of both the Toll Bond Pool and members of Metro's existing underwriting pool, as appropriate. A complete list of our existing underwriting pool is included in Attachment A. Participation in any transaction will depend on the size of the debt issue, timing and the type of debt issued.

#### Advantages of a Toll Bond Pool

While Metro is developing potential financing structures for the delivery of Tier 1 and Tier 2 Projects, the Toll Bond Pool will be able to provide market information and insight. The pool will also enable Metro to move quickly in forming financing teams if a negotiated sale is the recommended approach for a bond issue. The ability to select underwriters early in the underwriting process will enable us to benefit from their participation in structuring the debt, bond document development, and preparation for credit presentations.

All proposed debt transactions for the ExpressLanes will be presented to the Board for consideration with relevant financing documents, a proposed underwriting syndicate, and any other required documents consistent with Metro's current financing approval process.

#### Toll Bond Pool Selection Process

Consistent with our Debt Policy, the Toll Bond Pool is recommended based on a competitive Request for Proposal (RFP) process conducted by Sperry Capital Inc., the ExpressLanes financial advisor. RFPs were distributed on December 11, 2017, to 43 firms and 19 proposals were received. Members of the Congestion Reduction Department, Treasury and the ExpressLanes financial advisor reviewed the proposals, evaluating them based on the criteria listed in the RFP.

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The four firms that were ranked the highest by the review team are recommended for inclusion in the Pool. All firms have relevant experience and expertise, specific to the structuring and sale of toll backed debt, including the use of TIFIA loans. Additionally, each firm has a local presence with an investment banking office in Los Angeles County. The Toll Bond Pool will be retained through June 30, 2021 with two further 1-year options. See Attachment A, Summary of Underwriter Selection.

### **DETERMINATION OF SAFETY IMPACT**

Approval of this item will have no impact on safety.

### **FINANCIAL IMPACT**

There is no cost related to the establishment of a Toll Bond Pool of underwriters. The Toll Bond Pool is not guaranteed any compensation.

### **ALTERNATIVES CONSIDERED**

The selection of an underwriting pool may be deferred or the Board may elect not to establish a pool. These options are not recommended. The Debt Policy identifies that 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. With a pool, it will be faster and easier to move forward with negotiated transactions because a full solicitation process will not have to be completed each time, which could save several months. The time saved would likely translate into construction cost savings by avoiding escalating costs as well as a lower rate in a volatile interest rate environment.

### **NEXT STEPS**

- Notify underwriters of their appointment to the Toll Bond Pool.
- Continue developing solutions and programs to support implementing a system financing.
- Present solutions and programs to the Board for approval.

### **ATTACHMENTS**

Attachment A - Summary of Underwriter Selection

Prepared by:

Shahrazad Amiri, Executive Officer - Congestion Reduction Programs (213) 922-3061

LuAnne Edwards Schurtz, Deputy Executive Officer - Finance (213) 922-2554

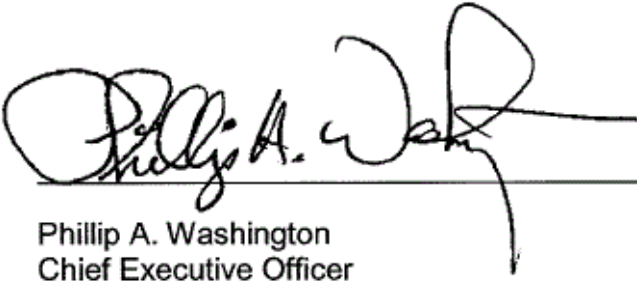
Danny Ray Jasper, Jr. - Debt Manager (213) 922-4026

Reviewed by:

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Stephanie Wiggins - Deputy Chief Executive Officer (213) 922-1023

Nalini Ahuja - Chief Financial Officer (213) 922-3088



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Phillip A. Washington  
Chief Executive Officer

**Summary of Underwriter Selection  
for the  
ExpressLanes Toll Bond Pool**

**Recommended Firms for Toll Bond Pool (in alphabetical order):**

Bank of America Merrill Lynch Barclays Citigroup Goldman Sachs
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**Members of Metro's Existing Underwriting Pool (eligible for participation as Co-Managers)**

Bank of America Merrill Lynch  
Barclays Capital Inc.  
Citigroup Global Markets Inc.  
Drexel Hamilton LLC (Disabled veteran owned firm)  
J.P. Morgan Securities LLC  
Loop Capital Markets LLC (Minority owned firm)  
Morgan Stanley  
Ramirez & Co., Inc. (Minority owned firm)  
RBC Capital Markets, LLC  
Siebert Cisneros Shank & Co., L.L.C (formerly Siebert Brandford Shank) (Minority owned firm)  
Stifel, Nicolaus & Company, Incorporated  
Wells Fargo Bank, N.A.

**Evaluation of Proposals:**

The Request for Proposals ("RFP") for ExpressLanes Toll Revenue Bond Underwriting Services was sent on December 11, 2017, to 43 firms who had previously expressed interest in serving as an underwriter on Metro's debt issuances or were known as active in the California municipal bond market. All members of Metro's existing bond underwriting pool were sent the RFP. Proposals were due on January 26, 2018. Metro received proposals from the 19 firms listed alphabetically below:

<b><u>List of Proposers</u></b>
Bank of America Merrill Lynch Barclays Cabrera Capital Markets Citigroup Fidelity Capital Markets Goldman Sachs Hutchinson Shockey Erley

Janney Montgomery Scott Jefferies J.P. Morgan Loop Capital Markets Morgan Stanley Piper Jaffray Ramirez RBC Capital Markets Siebert Cisneros Shank Stifel Nicolaus UBS Wells Fargo Securities
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Proposals were evaluated in accordance with the guidelines and the following criteria established in the RFP:

- Relevant experience of the firm (15%);
- Relevant experience of the personnel assigned to Metro's ExpressLanes (15%);
- Quality of the proposal (20%);
- Firm's understanding of Metro's ExpressLanes (20%);
- Indicative cost (10%); and
- Capabilities of the firm of underwriting and distributing toll revenue debt (especially for express lanes) (20%).

The RFP requested proposers to describe the relevant experience of their firm and personnel including experience as senior managing underwriter for express lanes and toll revenue backed debt, as well as advisory experience with project sponsors of tolled facilities utilizing the U.S. Department of Transportation TIFIA credit program. The RFP requested case studies which highlighted the firm's experience with express lanes and toll revenue backed debt. The RFP also requested references.

Additionally, the RFP included questions to determine the firm's understanding of Metro's ExpressLanes program. Responders were asked to provide specific suggestions related to:

- System financings using interfund borrowing
- The use of Measure M sales tax revenues to accelerate Metro's ExpressLanes network
- Rating agency considerations for express lanes projects
- Relevant debt structuring considerations for express lanes debt financings.

Firms were also asked to provide a detailed debt capacity analysis for Metro's existing ExpressLanes facilities.

The selection committee, made up of Metro Staff and our ExpressLanes financial advisor, Sperry Capital Inc., reviewed all proposals and scored the firms based on the evaluation criteria. Following the proposed evaluation process, the top ranked firms were shortlisted to participate in oral interviews with the selection committee. The seven shortlisted firms are listed alphabetically below:

<b>Shortlist of Proposers</b>
Bank of America Merrill Lynch
Barclays
Citigroup
Goldman Sachs
J.P. Morgan
Morgan Stanley
RBC Capital Markets

The oral interviews overseen by the selection committee consisted of a 15-minute presentation from the proposer followed by a 30-minute question and answer period. The four firms that ranked the highest after the oral interviews are being recommended for inclusion in the Toll Bond Pool.