



**FINANCE AND BUDGET COMMITTEE
JANUARY 15, 2004**

SUBJECT: MTA FINANCIAL STANDARDS

ACTION: APPROVE FY05 FINANCIAL STANDARDS

RECOMMENDATION

Approve the MTA FY05 Financial Standards, Attachment A.

ISSUE

The Board shall review and approve a set of financial standards each year as part of the annual budget and financial planning process.

POLICY IMPLICATIONS

The Financial Standards are divided into three sections:

1. General - The purpose of the general standards is to ensure that MTA prudently manages its financial affairs and establishes appropriate cash reserves to be able to meet its future financial commitments.
2. Debt - The purpose of the Debt Standards is to limit the level of debt that may be incurred and to ensure that debt assumptions used in financial planning are based on financial parameters similar to or more conservative than those that would be placed on MTA by the financial marketplace. These standards will be consistent with the Board-approved Debt Policy.
3. Business Planning Parameters - The purpose of the Business Planning Parameters is to provide management with a framework for developing the following year's budget and other MTA financial plans and establishes future business targets for management to achieve.

FINANCIAL IMPACT

Approval of the FY05 standards sets parameters by which the Board and the public can be assured that MTA financial plans are conservative, prudent and provide for MTA's continued financial viability.

DISCUSSION

These actions provide a clear statement of the Board's policy to establish parameters at the beginning of financial planning processes by which management recommendations can be measured.

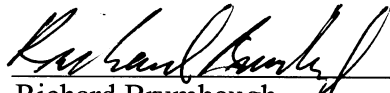
NEXT STEPS

The financial standards set the parameters for development of the MTA's FY05 budget, including its capital plan.

ATTACHMENT

- A. MTA FY2004-05 Financial Standards

Prepared by: Michelle Caldwell, Deputy Executive Officer
Office of Management and Budget



Richard Brumbaugh
Chief Financial Officer



Roger Snoble
Chief Executive Officer

MTA FY 2004-05 Financial Standards

The Financial Standards are divided into three sections: General, Debt, and Business Planning Parameters. The purpose of the General standards is to ensure that MTA prudently manages its financial affairs and establishes appropriate cash reserves. The purpose of the Debt standards is to limit the level of debt that may be incurred and to ensure that debt assumptions are based on financial parameters similar to or more conservative than those that would be placed on MTA by the financial marketplace. Actual debt covenants may differ from these standards. In accordance with the MTA's Debt Policy, where this occurs, the actual covenants will be disclosed in the Board report supporting the debt issuance. The Business Planning Parameters provide management with a framework for developing the following year's budget and other longer range financial plans and establishing future business targets for management to achieve.

Financial Standards – General

- G1. Complete and accurate accounting records shall be maintained in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board. MTA's fiscal year-end for financial reporting purposes shall be June 30.
- G2. An independent accounting firm shall perform an examination of MTA's consolidated financial statements (including Single Audit requirements) and MTA's retirement plan financial statements on an annual basis. The MTA's goal is to receive an unqualified opinion on the financial statements and an opinion that MTA is in compliance with Federal Single Audit requirements in all material respects and to receive the Government Finance Officers Association (GFOA) award for excellence in financial reporting.
- G3. Funds of the MTA shall be invested within the guidelines of the Board's approved Investment Policy and in compliance with applicable State law, California Government Code Section 53600 et seq.

In accordance with the Investment Policy, the Board shall approve the Financial Institutions Resolution that designates the MTA Officials empowered to open, close, or authorize changes to accounts and authorizes MTA Officials to designate individuals as Official Signatories for the MTA's financial accounts.

- G4. An annual actuarial analysis shall be performed on all MTA self-administered retirement plans. The MTA shall make annual contributions that, when combined with employee contributions, fund actuarially computed costs as they accrue.

- G5. Appropriate insurance coverage shall be maintained to mitigate the risk of material loss. For self-insured retentions, the MTA shall record the liabilities, including losses incurred but not reported, at 100% of the net present value.

It is the MTA's goal that restricted cash balances are maintained in amounts equal to the estimated liabilities but in no event less than the next year's projected cash outflows. An actuarial review of self-insured liabilities will be made annually.

- G6. Since sales taxes are received on a monthly basis, the allocations among the various ordinance categories shall also be recorded monthly.

Expenditures against appropriations are limited to cash actually on hand during the fiscal year.

- G7. Sales tax collections received during a fiscal year that are in excess of the sales tax budget for that year shall be reported as unreserved, designated fund balances in the Special Revenue Fund. Excess Local Return monies are disbursed when received. Any other excess balances may only be expended pursuant to Board authorization. Such funds are generally available for appropriation in the subsequent budget cycle in accordance with their ordinance designations.

- G8. The fiscal year of MTA shall end on June 30 of each year. By January of each fiscal year, the Board should review and approve a set of Financial Standards that can be used by management as a framework for developing the following year's Budget. The Board shall approve the Budget by June 30 of each fiscal year.

- G9. The annual budget establishes the legal level of appropriation for a year. The budget shall include operating, capital, regional funding and other components necessary to implement the policy directions contained previously Board adopted longer-term plans, i.e., LRTP, SRTP. The budget shall be prepared in a fashion to clearly describe the projects and programs contained therein and to receive the GFOA award for excellence in budgetary presentation.

- G10. The MTA shall adopt a long-range (covering at least 20 years) transportation plan for Los Angeles County at least once every five years. For interim years, staff will report on changes affecting the major financial assumptions of the plan and progress toward the implementation of new projects and programs. The plan update report shall also highlight Board approved actions taken during the interim period that affect the plan outcomes or schedules.

- G11. Annually, the MTA shall adopt a five-year (short-range) transportation plan (SRTP) for Los Angeles County. The plan will include service levels and ridership by mode for each of the years. The five-year plan will also identify the capital investment needs to support the existing regional system and regional service expansion.

The plan will also identify key performance indicators by which to measure the MTA's accomplishment of the plan's goals.

- G12. The MTA shall maintain a cost effective system of internal control to adequately safeguard the MTA's assets. In assessing the internal control system, management must weigh the cost of control against the expected benefit to be derived from its implementation.

Recommendations for improvements to the MTA's system of internal controls are requirements of the various regularly scheduled and specifically directed audits that are performed in accordance with generally accepted governmental auditing standards. These recommendations, management's action plans and progress toward implementation will be reported to the Board's Executive Management and Audit Committee on a regular basis.

Financial Standards - Business Planning Parameters

- B1. Sales tax revenue forecasts shall be based on a sales tax model developed specifically for the Los Angeles County by an independent economist, except for the initial two years, which may be based on management's best estimate. ~~The real growth projections in the model shall be reduced by 20% for the balance of the forecast period.~~ The sales tax forecast for development of the FY05 budget will be ~~\$565.8~~ **\$595.0** million for Prop A and ~~\$565.7~~ **\$594.9** million for Prop C, consistent with the 10 Year Forecast dated ~~August 2002~~ **July 2003**.

- B2. Passenger revenue forecasts shall be derived from ridership and average fare forecasts based on the MTA's approved fare policy and fare structure.

The Board will review and update the fare policy on a regular cycle, at least each 5th year since prior review and approval. From time to time, management may propose fare modifications to achieve transit ridership improvements and subsidy per passenger targets (see B4) and to maintain MTA's financial viability.

- B3. The Board desires to steadily improve service efficiency over time. It is the MTA's long-term, strategy to achieve this by reducing the subsidy per passenger ratio (operating expenses, excluding depreciation, minus operating revenues divided by passenger boardings). Subsidy per passenger for the MTA's bus and rail system may not be higher in ~~FY 2004~~ **FY 2005** than ~~\$1.38~~ **\$1.37** plus the additional subsidy required for load factor mitigation.
- B4. For MTA operated bus and rail service, cost per revenue vehicle service hour (measured separately for bus and rail) may not increase by more than the projected rate of inflation for the Los Angeles area, ~~less efficiencies of 1.5%~~, plus the incremental costs associated with the addition of new services, programs, and/or facilities as approved by the Board.

The projected incremental cost impact on cost per revenue vehicle service hour of new services, programs, and/or facilities shall be presented to the Board for approval as part of the annual update of the SRTP each year.

B5. Service planning assumptions for bus operations will be based on 2.1% annual ridership growth and 2.5% annual growth in rail passenger demand.

B6.B5. For FY 2005 MTA's staffing, measured in FTE's, will be held to the FY 2004 level adjusted for service expansion or other new scope that has been approved by the Board.

B7.B6. Regional programs such as local return, formula allocation procedure and Call for Projects shall be funded according to the terms of the laws, regulations and/or discretionary procedures approved by the MTA Board.

B8.B7. The capital plan covers MTA's assets including major transportation infrastructure projects, i.e., BRT, LRT, bus maintenance facilities and is included in each annual budget. The capital plan shall include funding for asset replacement and expansion projects. Capital projects in excess of \$1 million shall be listed separately for approval by the Board.

Timely replacement of assets shall be the highest priority to ensure a safe system. Accordingly, the capital plan shall include replacement reserves by major asset category to ensure adequate future funding. The reserve levels shall be based on management's assessment of the asset category's condition.

Expansion projects not previously approved in the short-range plan shall be prioritized based on the project's cost, impact on ridership, return on investment, available funds, and other relevant factors. An inflation rate of 4% shall be used for expansion capital projects.

B9.B8. MTA applies for and receives discretionary Federal and State funding. Discretionary funding shall be requested for major system expansion projects or extraordinary transit capital needs. (e.g., BRT, LRT or new bus maintenance facilities). Discretionary funding levels shall be estimated by project based on appropriate State and Federal criteria and the likelihood of obtaining approvals.

The Board shall approve all discretionary State and Federal funding requests by project or program each year.

B10.B9. Prop A and C administrative funds (Admin) are appropriated through the MTA's annual budget from the Special Revenue Fund to the General Fund to pay for activities not required to be accounted for in other funds. The following statements provide guidance for appropriation and use of Prop A and C administrative funds.

Appropriation

Based on past practice, up to 5% of Prop A may be appropriated for administrative purposes.

The Prop C ordinance allows up to 1.5% to be appropriated for administrative purposes.

Admin funds are transferred from the Special Revenue Fund to the General Fund as received, limited to the lesser of appropriations or actual sales taxes received.

Admin funds must be expended or encumbered within one year after the end of the year of appropriation. Lapsing is accounted for on the first-in, first-out basis. Lapsed Admin funds, if any, are returned to the Special Revenue Fund at the end of each year for re-appropriation through the next budget process.

Eligible Uses

Administrative activities include the planning, management, execution, use and conduct of the projects and programs funded by Prop A and C funds.

Admin funds may not be used for operating or building the transit system or regional programs that are operations related.

Examples, not an all-inclusive listing, of eligible uses of administrative funds:

- Indirect costs that are not allowable under federal guidelines, OMB Circular A-87, i.e., lobbying, interested expense, bad debt expense, cost of general governance.
- Indirect costs that MTA elects not to allocate through its annual FTA approved cost allocation plan (CAP) because to do so might burden projects or programs in an inequitable manner.
- Development of planning and programming documents required by federal and state regulations and MTA Board policy.
- Activities that benefit MTA projects and programs indirectly such as internships, career development, training programs, etc.
- Transportation planning activities including bus, rail, highway and other surface transportation modes.
- Consent decree oversight.

The proposed expenditure programs for these activities will be shown in detail in the annual budget. Actual expenditures will be shown in the annual comprehensive annual financial report.

Financial Standards - Debt

- D1. MTA may not enter into a debt or financing arrangement unless the transaction is in full compliance with all applicable provisions of applicable state and federal laws and the MTA's Debt Policy.
- D2. Long-term debt may be included in the budget or longer range plans; however, no such debt shall be incurred without the specific approval of the MTA Board.
- D3. Reserved.
- D4. The average life of debt instruments shall not exceed the average useful lives of the assets financed.
- D5. Reserve funds that may be required by the financial markets for each debt issuance shall be maintained. Cash and securities, insurance or surety bonds may fund these reserves. For financial planning purposes, reserve requirements shall be included in the par amount of debt issued.
- D6. MTA shall maintain a legal security structure of liens, agreements, pledged revenues, and other covenants which will be sufficient to secure rating of "A" or better on sales tax backed securities and secure A1 or P1 rating on other short-term debt, and, if necessary, to secure credit enhancement from financial institution with a rating of "AA" or better.
- D7. Debt service coverage ratio minimums by sales tax ordinance categories are shown in the MTA's Debt Policy. For financial planning purposes, those ratios shall not be exceeded in the development of longer-term financial plans.