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**REVISED  
FINANCE AND BUDGET COMMITTEE  
JANUARY 14, 2009**

**SUBJECT: FY09 BUDGET**

**ACTION: AMEND THE FY09 BUDGET**

**RECOMMENDATION**

Amend the FY09 budget as follows:

- A. Decrease the State Transit Assistance (STA) revenue budget by \$136.3 million.
- B. Add ~~\$89.7~~ \$59.8 million of Prop C40% to the Enterprise Fund and \$18.5 million of Prop C40% for Municipal Operators' subsidies to replace STA funds that were eliminated in the State budget adopted in September 2008.
- C. Transfer in \$29.9 million of prior year STA Population share monies from the Special Revenue Fund to the Enterprise Fund for rail operations.
- D. Approve the reprogramming of \$6.2 million of FY08 capital funds from completed capital projects.
- E. Add \$1 million of expense and revenue to the Financial Services budget to pay legal and other expenses for ongoing sales-leaseback contract negotiations.
- F. Transfer \$23 million of Prop A, Prop C and General Fund balances to pay interest on outstanding debt as a result of the continuing volatility in the financial markets.

**ISSUE**

Our FY09 budget included \$227.2 million of STA revenue, Revenue and Population shares, based on the forecast by the State Controller in January 2008. The budget finally adopted by the State in September 2008 contained only \$90.9 million for the Los Angeles region, resulting in a shortfall of \$136.3 million.

The downgrade of AIG has triggered a clause in the sales-leaseback contracts that would require us to replace the sureties and payment undertaking agreements that they provide. Working with the equity investors and finding reasonable replacements, including legislative efforts in Washington DC for a "Federal bailout," requires specialized legal assistance. Once agreements are reached, each of the sales-leaseback contracts will require contract modifications to implement the new agreements.

Bond interest expense is projected to exceed the initial budget by \$23 million as a result of higher interest rates being incurred on our variable rate bonds and as a result of delays in completing the refundings by the end of December as initially anticipated. Rates remain higher for our auction

rate securities and other variable rate bonds as a result of the continuing impacts of the liquidity crisis. The financing schedules of four refunding transactions have been delayed due to the sudden lack of liquidity banks participating in the market subsequent to the Lehman Brothers bankruptcy in mid-September.

## **DISCUSSION**

A combination of mitigation measures has been proposed to ameliorate the STA shortfall in the FY09 budget. In addition to the proposed transfer of Prop C40% fund balances and prior year STA fund balances, we will make nearly \$22 million of expense reductions. The budget reductions that have already been implemented include a non-contract hiring freeze of all positions that are not operation, maintenance, or safety of the transit system, or related to Prop 1B, Congestion Reduction Demonstration, and Measure R projects and programs.

Other expense reductions include budgeted professional services, agency-wide travel, mileage, and training, and elimination of the FY09 initiative to increase new ridership. Approximately \$16 million of capital projects cash flow will be deferred or "slowed down" until FY10. These projects include work on the rail operations center (ROC) reconfiguration, the Division 3 master plan and renovations to Divisions 1, 3, 8, 9, and 15. A summary of the mitigation actions is included as Attachment A.

The Financial Stability policy requires Board approval to reprogram surplus capital funds in excess of \$200,000. This request to reprogram \$6.2 million of FY08 capital program savings would normally take place as part of the capital program approval of the FY10 budget process. The FY09 STA funding shortfall has necessitated reprogramming these funds earlier.

## **FINANCIAL IMPACT**

The Prop C 40% funds will be added to the FY09 budget for bus and rail operations in multiple cost centers and projects and for Municipal Operators in cost center #0411, Project # 410062 Prop C Discretionary MOU's.

The \$29.9 million of prior year STA revenues are from the population share of the STA formula funds and were programmed in future years for rail rehabilitation projects. This amendment will reduce the STA fund balance to \$0.

The \$6.2 million is savings from FY08 capital projects that were completed under the life-of-project budget. The money is a combination of TDA4 and STA funds.

The \$1 million will be added to cost center 5010, project #610308, Sales-Leaseback activities. These funds will be transferred from the General Fund balance – Sales-leaseback revenues - leaving a fund balance of approximately \$23 million.

The \$23 million for interest expense and related debt costs will come from Prop A, C and General fund balances.

## **ALTERNATIVES CONSIDERED**

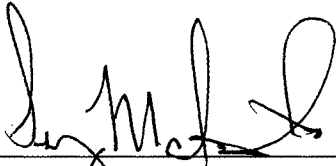
The Board could choose not to add the additional revenues to the FY09 budget at this time and could wait until the end of the year to determine the need for additional revenues. This is not recommended because it could result in bus and rail operations facing shortfalls without adequate time to request Board approval to increase the budget.

## **NEXT STEPS**

The Finance department will proceed to implement the cost reductions and funds transfers in the financial information system. The Countywide Planning and Development Department will work with the Municipal Operators to prepare new MOU's for the Prop C40% and to amend their FY09 STA claims.


Attachment: STA Funding Shortfall Proposed Mitigations

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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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Roger Snoble  
Chief Executive Officer

**Attachment:**

**STA Funding Shortfall Proposed Mitigations**

	(Amounts in Millions)	Total	Metro	Muni
1	Total STA Shortfall	\$136.3	\$117.8	\$18.5
2	Proposed Mitigation			
3	Part 1: Apply Fund Balances	108.2	89.7	18.5
4	Part 2: Reduce Expenses	21.9	21.9	-
5	Part 3: Reprogram Prior Year Capital Savings	6.2	6.2	-
6	Total Proposed Mitigations	136.3	117.8	18.5
7	Remaining STA Shortfall	\$0.0	\$0.0	\$0.0

