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MAY 6, 2015

TO: BOARD OF DIRECTORS
FROM: STEPHANIE WIGGINS *SW*
INTERIM DEPUTY CHIEF EXECUTIVE OFFICER
SUBJECT: PEPRA /SECTION 13(c) IMPACT TO METRO'S CASH FLOW

ISSUE

The purpose of this Board Box is to notify the Board of Directors of the current impact of the delayed resolution of Public Employee Pension Reform Act (PEPRA)/Section 13(c) on Metro's cash flow issues as shown in Attachment A. At this time, the U.S. Department of Labor (DOL) and the State of California have been unable to favorably resolve their impasse. **The withholding of federal grant funds could result in an inability for the Executive Director, Finance and Budget to certify that the Agency can cover the next six months of cash payment requirements as of the quarter ending June 30, 2015.** Metro staff is reviewing the options available to mitigate the negative impacts on our cash flow. These options, include, but are not limited to;

- Seeking another State legislative exemption;
- Issuing short-term debt;
- Delaying work on existing construction projects and service contracts;
- Suspending the issuance of future construction and service contracts;
- Suspending Call for Projects
- Bus and rail service reductions; and
- Staff reductions.

These decisions would have to be made in the event that we are not able to meet our six-month liquidity requirements certification by the end of June 30, 2015 per the Board adopted Investment Policy. Subsequent to the previous liquidity certification, and in accordance with Board Policy, we have had to access certain reserve funds in order to meet current cash flow needs.

None of our debt service is paid from federal sources directly. The local sales tax revenues pledged to pay principal and interest on our debt are paid direct from the State to the trustee bank before funds are sent to Metro for operating and capital programs. However, until the PEPRA/Section 13(c) issue is resolved we may have difficulty accessing the market for future borrowings and there is the potential our credit ratings may be negatively impacted.

BACKGROUND

In 2012, the State Legislature adopted and Governor Brown signed into law the Public Employees' Pension Reform Act of 2013 ("PEPRA"), which established limits on California public employee defined benefit pension plans. Several unions representing public transit employees (including employees of Metro) have asserted to the DOL that PEPRA is inconsistent with collective bargaining rights protected by Section 13(c) of the Federal Transit Act. DOL must certify that transit agencies are in compliance with Section 13(c) before federal transit funds can be released to a mass transit provider.

In response to Union objections to PEPRA that DOL relied upon to withhold its certification of federal grants to California transit agencies, the State of California and the Sacramento Regional Transit District ("SacRTD") pursued litigation against DOL challenging their determination that PEPRA violates Section 13(c). To free up the federal funds for California transit agencies that were blocked by the DOL, the State Legislature enacted AB1222 and AB 1783 which exempted transit employees from PEPRA pending the outcome of the PEPRA/13(c) litigation in federal court.

On December 30, 2014, the United States District Court in Sacramento ruled that DOL's determination that PEPRA discontinued collective bargaining rights was arbitrary and capricious. With the court's decision in favor of the State and SacRTD, the exemption from PEPRA for transit employees ended on December 30, 2014.

On February 25, 2015, CalPERS notified all public agency employers that, effective December 30, 2014, all new transit employees hired on or after January 1, 2013 will be subject to PEPRA.

DISCUSSION

As suggested by section 53646 (b) (3) of the California Government Code and in accordance with Metro's Investment Policy, we certify to the Board on a quarterly basis that there is sufficient liquidity to meet Metro's expenditure requirements for the next six months. The most recent certification was for the quarter ending March 31, 2015. At that time, we had \$1.033 billion in our cash portfolios, including \$760 million dedicated to meet the six month liquidity certification taking us to September 2015. This includes receipts from sales tax revenues, State and Federal grants, bond proceed drawdowns and fare revenue.

We have seen increased demands on our cash flow as construction projects ramp up, specifically, the Regional Connector and Westside Purple Line Extension. We anticipated receiving FTA grant funds to reimburse the agency for a portion of project and preventative maintenance expenditures, however grant applications submitted since January 1, 2015 have not been certified by the DOL due to objections by several of our unions that PEPRA violates Section 13(c). At this time \$99.3 million in federal grant funds have been withheld by DOL, with an additional \$440.9 million in grant applications scheduled to be submitted to FTA and DOL by June 30, 2015 for a total of \$540.2 million in federal grants. Please see Attachment B.

Historically, we would certify as of June 30, 2015 that we have sufficient cash flow to cover the next six month period, July through December 2015. In order to meet the June certification to the Board we are anticipating a draw of \$337 million on the Crenshaw /LAX project TIFIA loan.

It is possible that this impasse may also impact the TIFIA loan disbursement. In this case, absent receipt of the \$337 million draw, we will not be able to certify as of June 30, 2015 that we have sufficient cash flow to cover the six month period through December 31, 2015.

Further, if we receive the TIFIA draw, but we do not receive the \$540.2 million in federal grants referenced above, we will not be able to certify as of September 30, 2015 that we have six months of cash flow to take us to March 30, 2016. Please see Attachment B for the list of pending FTA grants.

NEXT STEPS

We are assessing steps to help mitigate the liquidity crunch such as issuing the \$120 million remaining balances of the Proposition A and Proposition C short-term borrowing programs and evaluating spending patterns to identify mission critical payment requirements. We are also seeking Board approval in May for a short-term borrowing program secured by Measure R sales tax receipts to help meet gaps in our cash flow.

Advocacy Update

With respect to the Metro's advocacy efforts with the Federal Government, our staff will continue to urge the Executive Branch and Congress to work cooperatively with the State of California to end the impasse over PEPR/13(c) and resume the free flow of federal transportation dollars to our agency by providing an interim certification from DOL. This effort will include continuing to work closely with members of the Los Angeles County Congressional Delegation and senior officials at the U.S. Department of Transportation, DOL, and the White House. With respect to the State of California, we have already briefed Legislative Leadership in both houses and senior staff of the Administration of Governor Brown regarding the potentially significant impacts of not resolving this issue. In addition, we are organizing a Board trip to Sacramento to lobby for the implementation of an interim solution to this issue in a few weeks. We continue to coordinate with all of the impacted transit agencies in California to ensure that all agencies are responding to this issue in a coordinated and strategic manner.

In addition, we urge the Board of Directors to consider engaging in advocacy efforts on behalf of the agency. Metro Government Relations will work with the Board of Directors immediately to reach out to specific State and Federal partners to address this issue in a careful, considerate and effective manner.

ATTACHMENTS

Attachment A: Eight Month Projected Cash Flow May '15- December '15 with expected TIFIA Funding

Attachment B: Pending FTA Grant List

Eight Month Projected Cash Flow May '15- Dec '15 w/expected TIFIA funding

Month	Cash & Investment Maturities	In - Flows	Out - Flows	Cumulative Cash	Cumulative Cash w/ \$337 TIFIA	
May-15	100,001,347	399,000,000	(386,674,500)	112,326,847	112,326,847	*
Jun-15	0	549,000,000	(386,674,500)	274,652,347	274,652,347	**
Jul-15	0	299,000,000	(386,674,500)	186,977,847	523,977,847	***
Aug-15	0	299,000,000	(386,674,500)	99,303,347	436,303,347	
Sep-15	0	299,000,000	(386,674,500)	11,628,847	348,628,847	
Oct-15	0	299,000,000	(386,674,500)	(76,045,653)	260,954,347	
Nov-15	0	299,000,000	(386,674,500)	(163,720,153)	173,279,847	
Dec-15	0	299,000,000	(386,674,500)	(251,394,653)	85,605,347	
Total	100,001,347					

Note = Cash & Investment Maturities includes \$30 million in cash, \$20 million in Short Term Investments, and \$50 million in LAIF. Maintains target balance of \$760 million in Intermediate Term Investment portfolio

Inflows = Previous 10 months average of: General and fare revenue receipts + Prop A & C +Measure R sales taxes, State grants, TDA/STA, Prop1B draws & Prop A, C, & Meas R bond draws.
 * Planned drawdown of funds from External Managers of \$100 million
 **Release of TDA Reseves for FY15 Operating Expenses
 *** TIFIA loan drawdown of \$337 million (included in TIFIA column only)

Outflows = Previous 10 months' average monthly payments for: Payroll; Mandatory payments to Pension & OPEB plans, H&W Trusts, Local Return, and Workers Compensation and Property Liability/Property Damage payments; Large Capital Projects; and other AP wires, ACHs and checks.

Attachment B

Grant	Federal Amount	Est. Metro Application Submission Date	Type of Federal Funds	Project Description	Received Objection Letter(s)	Received DOL Certification	Grant Executed
Submitted							
CA-95-X256	\$24,000,000		CMAQ	Crenshaw/LAX Transit Corridor	ATU; TCU; SMART		
CA-54-0032	\$68,167,132		FY14 Section 5337 State of Good Repair	Rail Preventive Maintenance	ATU; TCU; SMART		
CA-54-0037	\$7,116,068		FY13 & FY14 Section 5337 State of Good Repair	Rail Preventive Maintenance	ATU; TCU; SMART		
Subtotal	\$99,283,200						
To Be Submitted							
	\$100,000,000	Apr-Jun 2015	FY15 Section 5309 New Starts	Westside Subway Ext Section 1			
	\$150,451,565	Apr-Jun 2015	FY15 Section 5307 (est. amount)	FY2015 bus preventive maintenance			
CA-95-X246	\$75,431,000	Apr-Jun 2015	FY15 STIP (RIP)	LRV P-3010			
	\$100,000,000	Apr-Jun 2015	FY15 Section 5309 New Starts	Regional Connector			
CA-65-X010	\$6,751,327	Apr-Jun 2015	FY13 & FY14 Section 5310 - Enhanced Mobility of	Access Services Vehicle Procurement			
CA-16-0063	\$693,120	Apr-Jun 2015	FY13 & FY14 Section 5310 - Enhanced Mobility of	Administration for 5310 Subrecipients and Access Services			
	\$6,417,967	Apr-Jun 2015	FY13 & FY14 Section 5310 - Enhanced Mobility of	Capital and Operating for multiple subrecipients			
	\$1,132,000	Apr-Jun 2015	CMAQ	Bus acquisition (350 option of 550 Base)			
	\$2,591,488	Jul-Sep 2015	CMAQ	City of Glendale - acquisition of CNG buses			
	\$2,143,938	Jul-Sep 2015	CMAQ	City of Burbank - acquisition of clean fuel vehicles			
CA-95-X264	\$12,171,000	Jul-Sep 2015	CMAQ	Westside Subway Ext Section 1			
	\$1,155,302	Jul-Sep 2015	FY14 & FY15 Section 5307 (Associated Transit Improvement)	Construction of underground pedestrian passage between MOL and North Hollywood MRL			
	\$10,250,000	Jul-Sep 2015	FY14 TIGER	Willowbrook/Rosa Parks Transit Station Improvements			
	\$11,800,000	Jul-Sep 2015	FY14 TIGER	Streetscape, Pedestrian & Bicycle Access Improvements in			
	\$1,668,557	Jul-Sep 2015	FY14 Section 5309 Bus & Bus Fac (from SAFETEA-LU)	Improvements at 4 sites along Cesar Chavez Avenue, the perimeter of the LA Union Station, at Alameda & Vignes			
	\$3,520,190	Jul-Sep 2015	CMAQ	City of Azusa - multi modal transit facility and parking structure			
	\$3,650,000	Jul-Sep 2015	CMAQ	City of Glendale - maintenance and fueling facility			
	\$1,722,400	Jul-Sep 2015	FY15 Section 5312 Research, Dev., Demonstration, and Deployment Program	Innovative Platform Track Intrusion Detection System Technology: A Demonstration on L.A. Metro Rail System			
	\$336,600	Oct-Dec 2015	FY13 Section 5307 Passenger Ferry Grant Program	LA County Dept. of Beaches and Harbors			
	\$22,751,717	Oct-Dec 2015	FY13 Section 5339 Bus & Bus Facilities	Bus acquisition (350 option of 550 Base)			
	\$23,540,637	Oct-Dec 2015	FY14 Section 5339 Bus & Bus Facilities	Bus acquisition (350 option of 550 Base)			
	\$22,408,637	Oct-Dec 2015	FY15 Section 5339 Bus & Bus Facilities (est. amount)	Bus acquisition (350 option of 550 Base)			
	\$1,132,000	Oct-Dec 2015	FY15 Section 5339 Bus & Bus Facilities (est. amount)	City of Glendale - fareboxes			
	\$28,200,000	Oct-Dec 2015	CMAQ	Crenshaw/LAX 96th Street/Aviation Blvd Station Accommodations			
	\$5,000,000	Oct-Dec 2015	CMAQ	Airport Metro Connector			
	\$219,708	Oct-Dec 2015	CMAQ	City of Calabasas - acquisition of vehicles			
Subtotal	\$595,139,153						
Total Grants for DOL Review	\$694,422,353						