



SEPTEMBER 20, 1999

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2932

TO: BOARD OF DIRECTORS

FROM: RICHARD BRUMBAUGH
CHIEF FINANCIAL OFFICER

SUBJECT: VALLEY TRUST FUND

(213) 922-2000

ISSUE

This report is in response to Director Antonovich's July 29, 1999 motion requesting answers to specific questions regarding the "San Fernando Valley Trust Fund."

DISCUSSION

1. When was the trust fund actually created?

The "Valley Metro Rail" bank account was opened October 13, 1988.

2. When were funds first deposited?

The first deposit of \$4,910,000 was made October 13, 1988.

3. How much money was actually deposited?

\$89,797,188 was deposited into the account.

4. How much money was withdrawn and for what purposes?

\$104,584,485 was withdrawn from the account to pay for Valley Metro Rail construction costs. The amount withdrawn includes \$14,787,297 accumulated interest earned on the account.

5. When was the trust fund closed?

The account was closed as of June 30, 1996.

6. If there is discrepancy between anticipated funds and actual funds, what is the explanation for the difference?

Our accounting analysis shows that as of December 1993, \$103,823,364 should have been deposited into the account and \$89,797,188 was actually deposited into the fund. The final deposit into the account on July 1, 1993 was net of \$18,285,000 inception to date expenditures. Also, deposits were not always made timely during the time of the LACTC and SCRTD merger.

As of June 30, 1999, our accounting analysis shows that over \$711 million has been expended on the San Fernando Valley Segment of the Red Line compared with \$286 million required by SB 1995.

The California Transportation Commission requested that the MTA present its position on this matter to its Public Transit Committee on August 18, 1999. After MTA's presentation, CTC staff reported that they found that the MTA had complied with the requirement of the law. The CTC received and filed the reports.

The City of Los Angeles City Administrative Officer issued a report to the Council on September 21, 1999, reviewing the MTA Inspector General Audit of Expenditure of Transit Funds in the San Fernando Valley (see attached). The City Administrative Offices concluded, in concurrence with the City Attorney and the General Manager of the Department of Transportation, "the legislation was intended to ensure that the subway was built to North Hollywood, and that has occurred and the subway will be operational in Summer 2000."

Attachment

REPORT FROM

CITY ADMINISTRATIVE OFFICER

The Council	DATE 9-21-99	CAO FILE No. 0310-00290-0000
REFERENCE Council Action on July 28, 1999		COUNCIL FILE No. 99-1361
SUBJECT Review of Metropolitan Transportation Authority Inspector General Audit of Expenditure of Transit Funds in the San Fernando Valley		COUNCIL DISTRICT

SUMMARY

On July 28, 1999, the Council adopted a motion (Chick - Svorinich - Bernson) that directed the CAO, with the assistance of the City Attorney and the Department of Transportation, to conduct a thorough review of the Metropolitan Transportation Authority (MTA) Inspector General's audit of the expenditure of transit funds in the San Fernando Valley. The Inspector General's audit dated July 7, 1999 discussed a Valley Trust Fund that was required by State legislation and was intended to hold funds for the construction of the subway (Metro Rail) to the San Fernando Valley. The State legislation in question only deals with non-federal funds allocated to the construction of Metro Rail to the San Fernando Valley. It does not concern any other transit funds. The intent of the legislation was that Metro Rail be completed to the North Hollywood station. The legislation defines the Valley segment of Metro Rail as the portion north of Mulholland Drive. The subway and North Hollywood station construction is nearly finished, and Metro Rail will be operational to North Hollywood in Summer 2000.

Valley Trust Fund

Legislation enacted in 1984 required the MTA to allocate and spend at least 15% of the total of non-federal funds expended on Metro Rail construction on the Valley segment of the Metro Rail. This legislation was amended in 1988 to be more specific, by requiring that the earmarked 15% be either expended on the Valley segment or placed in a Trust Fund, and by defining the geographic boundaries of tunneling and construction of the Valley segment of Metro Rail and of the construction of the North Hollywood station. The County Counsel has determined that the requirement to set aside funds in the Trust Fund ended once construction began on the Valley segment. The City Attorney

(Summary continued)


CITY ADMINISTRATIVE OFFICER



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and the MTA Inspector General do not disagree with this finding. As such, the requirement to begin setting aside funds in the Trust Fund began in 1988, and ended in April 1993. In order to comply with this legislation, the Los Angeles County Transportation Commission (LACTC) and its successor agency, the MTA, would have had to do the following:

1. Separately account for the amount of non-federal funds allocated and spent on the Metro Rail project;
2. Identify the funding in each year spent on the construction of the North Hollywood station, and on the tunneling and subway construction within the Valley segment;
3. Calculate 15% of the non-federal funds expended in the previous year; and,
4. Beginning in 1988 and ending in 1993, deposit the difference between the 15% calculation and that amount expended on the North Hollywood station and Valley segment, and set aside that amount in the Trust Fund.

Note that while funds did not have to be set aside after 1993, the identification of funding and calculation of 15% of non-federal funds should have continued.

Inspector General Audit

The Inspector General Audit was concerned with cost accounting of expenditures on the Metro Rail Red Line construction. The Inspector General concluded that the Los Angeles County Transportation Commission (LACTC) and its successor agency, the MTA, did not meet the statutory requirements of the legislation. The Inspector General did not review nor comment on the claim by MTA management that the intent of the legislation had been met. In general, the Inspector General found that the MTA did not create the proper Trust Fund in a timely manner, did not properly document expenditures and did not have a proper cost accounting system. The Inspector General recommended a number of management and accounting changes, and MTA management has agreed to and is implementing those changes. The Inspector General will revisit this issue in six months, to monitor the implementation of the recommended changes.

Inspector General Audit Findings

More specific findings of the inspector General include the following:

1. A Trust Fund or viable alternative was not set up in a timely manner to account for Valley deposits and expenditures. The LACTC did not establish a Trust Fund. The MTA did set up a Trust Fund in 1993. This fund was later combined with the MOS3 Capital Project Fund.

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2. Not all of the proper financial records are available. The staff that calculated the total and Valley segment expenditures are no longer with the agency. The information in the Inspector General's report was recreated by current staff, with what documentation exists.
3. A proper cost accounting system was not available, so the data that exists is largely based on estimates of costs included on worksheets and schedules, not on source accounting data. The Inspector General concludes that the MTA cost accounting system should have been changed to recognize exact expenditures on Metro Rail and on its Valley segment. Because the cost accounting data does not exist, there cannot be a proper audit of the expenditures.
4. Once the County Counsel determined that the Trust Fund was no longer required, the MTA ceased the calculation of the 15% of non-federal funds. This required calculation should have continued.

Funding for the Valley Segment

As discussed above, the records to account for the total and Valley expenditures do not exist, and most likely cannot be recreated. In the Audit, the Inspector General estimates that \$150 million should have been deposited into the Trust Fund. However, MTA management estimates that \$69 million should have been deposited into the Trust Fund, and further estimates that more than \$130 million of local funds were expended on the Valley segment. The Inspector General concludes that the claim that \$130 million was expended cannot be audited and evaluated.

It should be noted that City staff cannot estimate what the amount should have been, even though we have information on the total budget for the subway and the sources of funds. As discussed in the report, the 15% set aside is based on the amount of non-federal funds expended in the prior year, not the total amount of federal funds. Further, the set aside was to be the difference between the amount expended on the Valley segment in the prior year and the 15% calculation. We do not have information on the timing of expenditure of funds by source, nor per segment of the subway.

City Staff Review

The Council action requesting this report discusses concerns about the Valley receiving its fair share of transit funds. As discussed above, the State legislation does not concern a fair share of funds being spent in the Valley, but was intended to ensure that the Metro Rail was completed to North Hollywood. This intent of the legislation has been met. The subway and North Hollywood station construction is nearly finished, and Metro Rail will be operational to North Hollywood in Summer 2000.

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It is clear that the MTA did not comply with the statutory requirements of the law, in that the MTA did not calculate the 15% set aside and did not place the funds in a Trust Fund. Because the MTA did not comply with the statutory requirements of the law, we cannot determine whether or not the MTA expended 15% of non-federal funds on the Valley segment. Even if it could be determined that the 15% of non-federal funds threshold was not met, it is unclear what that would mean to the City. The legislation was intended to ensure that the subway was built to North Hollywood, and that has occurred and the subway will be operational in Summer 2000. MTA management has agreed to implement the management and accounting changes recommended by the Inspector General, so it is unlikely that this situation will occur in the future.

The City Attorney and the General Manager of the Department of Transportation concur with this report.

RECOMMENDATION

Receive and file.

FISCAL IMPACT STATEMENT

No fiscal impact to the City.

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