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FINANCE AND BUDGET COMMITTEE
EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JANUARY 17 AND 18, 2007

SUBJECT: IMPROVED FISCAL POLICIES

ACTION: APPROVE FINANCIAL STABILITY POLICY

RECOMMENDATION

A. Receive and file the attached analysis of the June 2006 Board motion to improve Metro's fiscal policies (Attachment A).
B. Approve the attached Financial Stability policy (Attachment B).

ISSUE

At its June 2006 meeting, the Board noted that serious challenges remain for Metro to both address the bus operating and capital structural deficit and to develop a fiscally responsible FY07-08 budget. To better meet these challenges, the Board passed a motion directing the CEO to report back with an analysis of and recommendations for a number of proposed changes in fiscal policy. The Board members provided feedback at the October meeting and the proposed policy has been revised to include those requests and recommendations.

POLICY IMPLICATION

The Financial Stability Policy will provide guidance for development of the Ten-Year Forecast, Long Range Transportation Plan and fiscal year budget.

OPTIONS

Any portion of the proposed policy could be amended should it not meet the intentions of the Board.

DISCUSSION

The Board reviews and approves a set of financial standards each year as part of the annual budget and financial planning process. The proposed Financial Stability Policy incorporates revisions and additions to the existing Financial Standards Policy adopted in February 2002, including various changes consistent with the Board motion and subsequent discussions with Board members.

The Financial Stability Policy is divided into three sections: Goals, Strategies, and General Fiscal Policies. The purpose of the policy is to ensure that Metro prudently manages its financial affairs, establishes appropriate cash reserves, limits the level of debt that may be incurred, ensures that the debt assumptions are based on financial parameters, similar to or more conservative than those that would be placed on Metro by the financial marketplace; is provided with framework for developing the upcoming year's budget and other longer-range financial plans; and, establishes future business targets for management to achieve.

At its October 18, 2006 meeting, the Finance and Budget committee passed a motion that stated the following: "Any project savings above $200,000 must return to the Board for approval prior to the reprogramming or transfer of funds to other projects or programs." This has been added to the policy as S6 with the clarification of the word "capital" added before the word project.

This process is the current Board policy with the following clarification: Current policy allows the CEO to reprogram savings to capital projects that have a life-of-project budget less than $1 million after the reprogramming. This policy was adopted by the Board as part of the Financial Standards and is administered by staff through the Cost Management Procedures.

Further discussions indicated that the Board might like an opportunity to reprogram "project savings" outside of the regular budget process. Accordingly, each quarter's capital project status report will indicate projects that have been closed out with savings to inform the Board of potential programming opportunities.

The analysis of the June Board motion is included as Attachment A and has been updated to incorporate Board member comments received since the October meeting. The Financial Stability Policy (Attachment B) has also been revised.

FINANCIAL IMPACT

Adopting the Financial Stability Policy will provide additional safeguards and more transparency in Metro's budgetary process. When the Board adopts specific actions that require additional funding, such as setting up emergency reserves, separate items will be brought to the Board with a discussion of the full financial impacts at the time of implementation.

NEXT STEPS

Incorporate the concepts of the Financial Stability Policy into the budget and financial planning documents as they are developed.

Attachments

A. Analysis of Board Motion on Fiscal Policy Improvements
B. Financial Stability Policy
C. Origin of Concepts in Financial Stability Policy
D. June 22, 2006 Motion by Directors Parks and Lowenthal

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ANALYSIS OF JUNE 22, 2006 BOARD MOTION TO IMPROVE FISCAL POLICIES

1. **Develop a reserve fund policy by fund type that includes contingency and emergency categories with percentage goals and a reasonable time frame to meet the goals.**

Analysis: "Fund type" is defined to mean the different sources of funding received by Metro. Certain fund types, such as Federal and State funds, cannot be set aside for later use but must be used within the prescribed time frame of the grant award or for specific projects and programs. All current grants are reimbursement grants; this means that the grant funds cannot be received until after the expenditure has been paid. Therefore, these fund types are not eligible or available to set aside as a "reserve."

Proposition A and C sales tax funds, Metro fares, and system generated revenues are the only funds that Metro can control regarding the establishment of reserves. The sales tax funds are further divided into specific categories as established in the voter approved ordinances. The "local return" portion of the sales taxes are passed through Metro to the cities and county. Staff does not recommend that Metro set aside a reserve for these funds because the municipalities are responsible for managing their own resources and setting up their own reserve funds, if desired.

Staff recently conducted a survey of transit properties to compare the different reserve policies. Smaller agencies seem somewhat more likely to adopt and attempt to follow a reserve policy. The Government Finance Officer's Association (GFOA) recommends operating budget reserve policies of 5%-15% for its members and many smaller California cities adopt policies even greater than the GFOA's recommendation.

Many of the properties surveyed have adopted 5% of the operating budget as the annual reserved amount (Chicago Regional Transit Authority, San Francisco County Transit Authority, San Francisco Muni Railway, BART, and San Diego MTDB). A 5% operating reserve for Metro would equate to $56 million for the current FY07 budget ($59 million for the forecasted FY08 budget). A couple of the properties surveyed set aside one or two months of operating costs as their reserve. Metro spends approximately $95 to $100 million per month for bus and rail operating.

Due to the currently acknowledged "structural deficit", a plan that identifies the timing of actions leading to the funding of such reserves cannot be specified until other policy decisions regarding the action plan to resolve the structural deficit, including its timeframe, and complementary fare and service level policies have been approved by the Board.

The recommendation included in the Proposed Financial Stability policy (FSP) states the following:

(FSP-G6)Establish and maintain reserves equal to 5% of the operating budget to ensure that Metro can adjust to economic downturns, extraordinary cost increases and other financial emergencies.

(FSP-S21) Maintain a 5% operating reserve to be used in times of significant revenue decline to preserve the region's ongoing ability to deliver safe and reliable service to the customer and to reinvest in capital.

2. **Require an annual investment ~~of general fund monies~~ to maintain and expand, as necessary, the agency's infrastructure.**

Analysis: Metro currently invests approximately $200 million per year for bus replacements, bus mid-life rebuilds, and bus and rail facilities infrastructure maintenance. The funds are allocated according to plans completed by Transit Operations (Bus and Rail Fleet Plans, Bus Facilities Plan, Rail Rehabilitation Plan, Short Range Transit Plan and Long Range Transportation Plan). All plans indicate more funding is required to keep up with agency needs but are not available due to trade-offs required to fund bus and rail operations.

Historically, $200 - $400 million has been budgeted annually for major construction infrastructure expansion (in addition to the $200 million discussed in the previous paragraph). These major construction projects are first identified in the Long Range Transportation Plan and are funded with debt and external grant sources which are not typically eligible for use in operating bus and rail service.

The recommendation included in the Proposed Financial Stability Policy states the following:

(FSP-S11) Adopt an annual budget that includes an allocation to capital programs adequate to meet annual baseline reinvestment needs for projects and programs which are essential to ensure system performance.

(FSP-S12) Pursue grant funding for Metro capital projects pursuant to the priorities as addressed in the Long Range Transportation Plan, Short Range Transit Plan, and Five-Year Capital Improvement Program.

(FSP-S13) Use debt financing prudently to leverage local, regional, state and federal funding for major cyclical capital investments such as transit vehicles, facilities, escalator and elevators, fare collection equipment, and train control renovation and replacement.

3. **Establish an on-going process to analyze cost recovery for all Metro services in measurable terms.**

Analysis: Metro provides many services to the public and the region. Many of the services are considered subsidies and are not intended to generate revenues for the agency or save Metro costs. For example, Freeway Service Patrol is a free service to the users provided to improve regional traffic mobility. Effectiveness is measured by cost per assist and an analysis of traffic recovery, but not by cost recovery. Other services that may lend themselves to cost recovery analysis include the employee store, filming fees charged to entities using our facilities and regional operating services such as customer information or the TAP Regional Clearinghouse.

Delivery of bus and rail service lends itself well to cost recovery measurements through key performance indicators such as "farebox recovery ratio". Fares collected divided by cost of service provides the percent of the service that is paid for by the customer. This measurement is reported to the Board as part of the annual budget adoption and is included in the adopted budget book. The farebox recovery ratios are also provided to the federal government in the National Transit Database reporting required of all transit properties.

Currently the farebox recovery ratio for Metro bus and rail service is 25%. This means that the passenger pays for 25% of the cost of the ride. Nationally, this is the low end of farebox recovery ratio for transit properties who are peers of Metro. The staff recommendation for the financial stability policy will be for the Board to adopt a farebox recovery ratio each fiscal year as part of the budget adoption.

The recommendation included in the Proposed Financial Stability Policy states the following:

(FSP-S4) New programs proposed for Board adoption will include a cost recovery analysis to determine the cost of implementing the program to the agency in measurable terms.

(FSP-S5) Departments who provide services to the public or outside entities will perform a cost recovery analysis during the fiscal year budget process and make the information available as part of budget adoption.

(FSP-S10) Regularly review productivity improvement programs and results as part of the annual budget process.

(FSP-S14) As part of the annual budget process, adopt a farebox recovery ratio that provides for an improved level of cost recovery.

4. **Include guidelines for the allocation of one-time revenue funds.**

Analysis: One-time revenues should be allocated to non-recurring costs. However, with the structural deficit in Metro bus operations, one-time revenues have had to be allocated to ongoing bus operating costs. Such allocations have only been recommended after considering the alternatives of reducing the level of service, reducing the cost per unit of service, deferring capital projects and/or raising fares.

The recommendation included in the Proposed Financial Stability policy states the following:

(FSP-F10) ...Any allocations of one-time revenues to any Metro program or project will be identified for the Board at the time of budget adoption or budget change and will only be recommended after considering the alternatives of reducing the level of service, reducing the cost per unit of service, reducing the scope of capital projects, deferring capital projects and/or raising fares...

5. **Require that all short and long-term fiscal impacts be considered when Metro disposes of surplus equipment and property.**

Analysis: Prior to declaring any real property surplus, a list of potentially surplus properties is circulated to relevant departments within the Metro organization (Planning, Bus and Rail operations, Executive Management, etc.) and to the Southern California Regional Rail Authority (SCRRA) for review and comment regarding the requirement to retain the property for future public use. If there is a short-term or long-term requirement for the property, the property will be removed from the potential surplus list. A property is declared surplus ONLY if there is a consensus from all relevant departments that the property is not needed for current or future transit or public requirements, including joint development.

Therefore, it is recommended the Disposition of Surplus Real Property Policy continue to be the financial guidelines for all real estate transactions.

6. **Require staff to perform a fiscal impact statement that contains an identifiable funding source before Board motions are implemented.**

Analysis: There are several options for Board members to ascertain the financial impact of proposed Board motions. One option is for the Board member to provide the proposed motion to Metro staff who will provide financial impact information prior to introducing the motion at a Metro meeting. A second option is for Board members to request a "report back" at the time the motion is adopted of the feasibility of implementing the motion. Any report back should include the financial impact of implementing the motion.

Since this item is administrative in nature and will be implemented by staff as part of the monthly business of the Board meetings, it is not necessary to include this in the Financial Stability Policy.

7. **After the annual budget adoption, require all requests for project or program funding be referred to the appropriate committee for review and recommendation.**

Analysis: This is the current process.

The recommendation included in the Proposed Financial Stability Policy states the following:

(FSP-10) The annual budget establishes the legal level of appropriation. Total expenditures cannot exceed the final appropriation adopted by the Board with the exception of unspent capital funds from the preceding year. Spending authority may be increased or decreased throughout the year through Board approved budget amendments. Any requests for project or program funding after annual budget adoption will be referred to the appropriate Board committee for Board review and recommendation...

8. **Require staff to establish a protocol for negotiation, appraisal and sale of real property and to identify the amount and dispersal of funds that result from the sale and/or disposal of real property.**

Analysis: The protocol for the disposition of surplus real property is established by the Disposition of Surplus Real Property Policy which was adopted by the Board in August 2001. The policy provides guidelines for identifying, approving, advertising, and selling surplus property. The sales price of any surplus property is based on the appraised fair market value, except that less than fair market value may be accepted if it is determined to be in the best interest of Metro to sell for a negotiated amount that is subsequently approved by the CEO or the Metro Board. The Board has approved $200,000 as the threshold for CEO approval. The money received from the sale of surplus property is credited back to the project/fund that paid the initial acquisition of the property or is allocated to the General Fund when the original project/fund is closed.

Therefore, it is recommended the Disposition of Surplus Real Property Policy continue to be the financial guidelines for all real estate transactions.

9. **Identify a specific funding plan for Metro's Capital program that includes a clear delineation of money that is allocated to the different types of public transportation.**

Analysis: Metro's capital plan includes only those assets which Metro owns. The capital plan does not include assets that are owned by other entities such as highway projects, local transportation improvements, commuter rail improvements, bus station and bus stop amenities, signal improvements, etc. These non-owned capital improvements are included in the Special Revenue Fund budget section of the budget only for the portions that are funded by Metro's sales taxes or grants that flow through Metro to sub-recipients. Full project costs/funding are detailed in the STIP.

Metro's capital plan allocates money to bus and rail transit infrastructure maintenance and improvement projects. The funding plan is included in Metro's ten-year forecast which is then included in the Short and Long Range Transportation Plans.

The ten-year forecast currently assumes that Metro will allocate $84 million per year for bus replacements, $96 million per year for bus facilities, bus rebuilds, systems development and other non-rail related capital needs, and $20 million per year for rail facilities, rail vehicle maintenance, and wayside systems projects. Additional rail capital funds are set aside for rail vehicle procurements and rail infrastructure rehabilitation. These assumptions are based on historical trends for delivery capacity. More resources would be required if capital investments were increased.

The recommendation included in the Proposed Financial Stability Policy states the following:

(FSP-S11) Adopt an annual budget that includes an allocation to capital programs adequate to meet annual baseline reinvestment needs for projects and programs which are essential to ensure system performance.

10. Create a litigation account that includes the following three separate accounts: litigation, General Counsel and outside counsel.

Analysis: County Counsel has been appointed as general counsel to Metro. Litigation matters are handled both by County Counsel and outside counsel as determined by County Counsel. County Counsel records their time by Project and Task as required by the current Metro Financial Information System (FIS) but does not currently keep track of their time on each project/task by litigation vs. non-litigation. Changing this practice to identify litigation vs. non-litigation would require additional record-keeping by the County Counsel attorneys.

It is currently County Counsel's practice to handle all legal matters in-house unless the size or complexity of the matter requires a specialized practice and/or multiple attorneys and support staff to properly handle the massive amount of documents involved in such litigation. In addition to litigation, outside counsel will also handle complex transactional matters that require special expertise, such as federal law, trademarks, and joint development.

Of the total FY07 budget, approximately $8.6 million is budgeted for outside counsel litigation matters and $4.6 million is budgeted for outside counsel transactional matters. Approximately $4.6 million is budgeted for the 14 County Counsel attorneys, 7 support staff and all administration costs such as, office supplies, court reporters, depositions and filings.

During discussions with the Board, County Counsel agreed to provide ongoing information to the Board regarding the status of those cases currently being litigated. As part of the annual budget process, County Counsel will provide a forecast of cases and other legal work activities, including the planned use of outside counsel that supports the legal budget for the upcoming year. Since this item is administrative in nature and will be implemented by staff as part of the monthly business of the Board meetings, it is not necessary to include this in the Financial Stability Policy.

11. Develop a policy for how to balance the investment of both capital and operating funds ~~for all public transportation modes~~ so that Metro ensures that service is provided that is cost effective, reliable, safe, environmentally sound, attracts discretionary riders and services the transit dependent.

Analysis: The Board approves several planning documents that set the policy for balancing both Metro's capital and operating investments and the other capital investments for the Los Angeles region. These documents include annual approvals in the fiscal year budget, the ten-year forecast, and the Transportation Improvement Program, as well as longer term approvals such as the Short Range Transit Plan, and the Long Range Transportation plan. The Board also approves other policy documents such as Service Sector guidelines and Transit Service policies which lay out the framework for staff to ensure that service provided is cost-effective, reliable, safe, environmentally sound, attracts discretionary riders and services the transit dependent.

The recommendation included in the Proposed Financial Stability Policy states the following:

(FSP-G2) Maintain an operating and capital financial base that is sufficient to deliver safe, quality transportation improvements and transit service efficiently and cost-effectively to meet the levels of demand.

(FSP-G3) Continuously improve productivity.

(FSP-F12) Metro shall adopt a regional 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 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.

(FSP-F13) Annually, Metro shall adopt a five-year short-range transit 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 accomplishments of the plan's goals.

12. Give top priority to funding of public safety on Metro's bus and rail system.

Analysis: The American Public Transportation Authority (APTA) hosted a peer review of Metro's security during April of 2006. One of the conclusions of the APTA peer review is that Metro spends a high percentage of its budget on security services when compared with other transit properties equal to the size and complexity of Metro. The safety and security budget in the FY07 budget exceeds the current Board policy of dedicating 5% toward these activities. To provide the Board with more visibility into Metro's safety and security programs, Staff is recommending that the detail of the programs be presented to the Board at the time of budget adoption.

The recommendation included in the Proposed Financial Stability policy states the following:

(FSP-G1) Maintain public safety on Metro's bus and rail system as the top priority.

(FSP-S1) Metro gives top priority to funding of public safety on Metro's bus and rail system. Present the details of the safety and security budget to the Metro Board for separate approval at the time of annual budget adoption.

13. Include a preferred incremental strategy, such as budget expenditure moratoriums, hiring freeze, or a cost allocation plan (CAP) rate, for mitigating expenditures during a fiscal year.

Analysis: For the last 3 years it has been standard operating procedure that CEO approval is required for certain expenditures such as personnel appointments and travel arrangements. Additionally, the powerful Financial Information System prohibits expenditures that are not explicitly included in the fiscal year budget. The staff recommendation will provide a recommendation for specific steps that the agency can take during a fiscal year to reduce costs.

The recommendation included in the Proposed Financial Stability policy states the following:

(FSP-S3) ...A proposed strategy for mitigating expenditures will be presented to the Board at the time of annual budget adoption...

14. Include a hierarchy of strategies that are to be implemented when Metro's financial stability is threatened, including a prioritized list of types of budget cuts that would be necessary in various circumstances and a requirement that staff address any potential or existing structural deficit with a comprehensive plan with specific actions and a timetable for the elimination of such a deficit.

Analysis: The ten-year forecast will provide multiple scenarios to address the required actions and timetable for elimination of the structural deficit.

The recommendation included in the Proposed Financial Stability policy states the following:

(FSP-F13) Annually, Metro shall adopt a five-year (short-range) transportation plan 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 SRTP will incorporate the first five years of Metro's ten-year forecast which will include a hierarchy of strategies that are to be implemented when Metro's financial stability is threatened and strategies required to eliminate any potential deficit.

FINANCIAL STABILITY POLICY

FY20007-08 Financial Stability Policy

Policy Statement

Metro has an important responsibility to the taxpayers of Los Angeles County to prudently manage its long and short-term finances. In time of economic change and uncertainty, it is especially important for Metro to ensure its ability to deliver safe, quality and reliable transportation services that are based upon a strong and stable financial foundation.

The Financial Stability Policy is divided into three sections: Goals, Strategies, and General Fiscal Policies. The purpose of the policy is to ensure that Metro prudently manages its financial affairs, establishes appropriate cash reserves, limit the level of debt that may be incurred, ensure that the debt assumptions are based on financial parameters similar to or more conservative than those that would be placed on Metro by the financial marketplace and to provide management with a framework for developing the upcoming year's budget and other longer range financial plans and establishing future business targets for management to achieve.

Financial Goals

G1. Maintain public safety on Metro's bus and rail system as the top priority.

G2. Maintain an operating and capital financial base that is sufficient to deliver safe, quality transportation improvements and transit service efficiently and cost-effectively to meet the levels of demand.

G3. Continuously improve productivity.

G4. Preserve and maximize the regional fare revenue base, through a predictable pattern of adjustments, while retaining existing ridership and increasing the number of new riders.

G5. Provide a regional fare and fee structure that is tied to the cost of providing transit service, optimizes use of the regional system, and provides transit riders with convenience, ease of use, and a good value for the money.

G6. Establish and maintain reserves equal to 5% of the operating budget to ensure that Metro can adjust to economic downturns, extraordinary cost increases and other financial emergencies.

G7. Maintain the highest possible credit rating and reputation for prudent financial management.

FY2007-2008 Financial Strategies

S1. Metro gives top priority to funding of public safety on Metro's bus and rail system. Present the details of the safety and security budget to the Metro Board for separate approval at the time of annual budget adoption.

S2. Adjust transit operating expenses as needed to reflect changes in service demand, technology, productivity and revenue availability.

S3. Endeavor to keep growth in regional bus and operating expenses (as measured by a rolling average of growth in bus and rail operating cost per vehicle service hour) at or below the rate of inflation. A proposed strategy for mitigating expenditures will be presented to the Board at the time of annual budget adoption.

S4. New programs proposed for Board adoption will include a cost recovery analysis to determine the cost of implementing the program in measurable terms.

S5. Departments who provide services to the public or outside entities will perform a cost recovery analysis during the fiscal year budget process and make the information available as part of budget adoption.

S6. Any capital project savings above $200,000 must return to the Board for approval prior to the reprogramming or transfer of funds to other projects or programs.

S7. Implement technology and productivity advancements designed to reduce or avoid increasing operational costs.

S8. Explore greater efficiency, effectiveness and ways to increase ridership.

S9. Work to increase and optimize ridership on the Metro system through partnerships that foster transit-oriented development and improve access to the Metro system.

S10. Regularly review productivity improvement programs and results as part of the annual budget process.

S11. Adopt an annual budget that includes an allocation to capital programs adequate to meet annual baseline reinvestment needs for projects and programs which are essential to ensure system performance.

S12. Pursue grant funding for Metro capital projects pursuant to the priorities as addressed in the Long Range Transportation Plan, Short Range Transit Plan, and Five-Year Capital Improvement Program.

S13. Use debt financing prudently to leverage local, regional, state and federal funding for major cyclical capital investments, such as, transit vehicles, facilities, fare collection equipment, and train control renovation and replacement.

S14. As part of the annual budget process, adopt a farebox recovery ratio that provides for an improved level of cost recovery.

S15. Align fares with CPI-based cost growth.

S16. Consider small, regular fare increases tied to CPI-based cost increases or other major cost factors and to factors such as significant change in other revenues and productivity.

S17. Consider small surcharges tied to capital needs, such as rehabilitation or seismic retrofit.

S18. Consider a peak premium and/or distance-based fares at some point in the future when ridership is growing, tied to the need to optimize off-peak system use and to fund core system capacity improvements.

S19. Increase customer satisfaction, when economically and technologically feasible, by developing new inter-operator and inter-agency partnerships to increase transit access, developing innovative partnership programs with major employers, educational institutions and other rider generators, and using time-limited passes to market Metro special events, weekend, and families, evaluating the impact on ridership of each pass program.

S20. Increase revenue from other sources such as advertising, parking, concessions, and joint development while meeting customer needs and providing safe, reliable service.

S21. Maintain a 5% operating reserve to be used in times of significant revenue decline to preserve the region's ongoing ability to deliver safe and reliable service to the customer and to reinvest in capital.

General Fiscal Policies

F1. Complete and accurate accounting records shall be maintained in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board. The fiscal year-end for financial reporting purposes shall be June 30.

F2. An independent certified public accounting firm shall perform an examination of Metro's consolidated financial statements (including Single Audit requirements) and retirement plan financial statements on an annual basis. The goal is to receive an unqualified opinion on the financial statements and an opinion that Metro 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.

F3. Funds 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 LACMTA officials empowered to open, close, or authorize changes to accounts and authorizes LACMTA officials to designate individuals as Official Signatories for financial accounts.

F4. Reserved.

F5. An annual actuarial analysis shall be performed on all LACMTA self-administered retirement plans. The LACMTA shall make annual contributions that, when combined with employee contributions, fund actuarially computed costs as they accrue.

F6. Appropriate insurance coverage shall be maintained to mitigate the risk of material loss. For self-insured retentions, the LACMTA shall record the liabilities, including losses incurred but not reported, at 100% of the net present value.

The goal is to maintain restricted cash balances in amounts equal to the present value of 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.

F7. 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.

F8. 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.

F9. The fiscal year shall end on June 30 of each year. By December of each fiscal year, the Board shall review and approve the Financial Stability Policy that will be used by management as a framework for developing the following year's budget. By February, the Board will establish Business Planning Parameters including farebox recovery ratio, sales tax growth assumptions, and other key performance measurement goals to provide detailed guidance for development of the upcoming annual budget. The Board shall approve the budget by June 30 of each fiscal year.

F10. The annual budget establishes the legal level of appropriation. The budget shall include operating, capital, regional funding and other components necessary to implement the policy directions contained in the Financial Strategies Section of the Financial Stability Policy, previously Board adopted longer-term plans such as the Long Range Transportation Plan and the Short Range Transit Plan. Appropriations for the operating budget lapse at the end of one year. Appropriations for the capital and regional funding budgets are approved on a life-of-project basis. Any allocations of one-time revenues to any Metro program or project will be identified for the Board at the time of budget adoption or budget change and will only be recommended after considering the alternatives of reducing the level of service, reducing the cost per unit of service, reducing the scope of capital projects, deferring capital projects and/or raising fares. Any requests for project or program funding after annual budget adoption will be referred to the appropriate Board committee for Board review and recommendation. 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.

F11. Reserved.

F12. Metro shall adopt a regional 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.

F13. Annually, Metro shall adopt a five-year (short-range) transit plan 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 SRTP will incorporate the first five years of Metro's