



**Metro**

JUNE 18, 2007

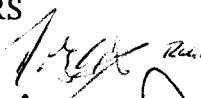

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE  
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO  
CHIEF FINANCIAL SERVICES OFFICER AND TREASURER

SUBJECT: RESPONSE TO FY08 BUDGET QUESTIONS

*Received by the Board*  
*for the Board*  
*June 14, 2007*

ISSUE

At the June 13, 2007, FY08 budget workshop the Board asked for further detail or analysis on a number of issues. The questions with Metro staff responses are attached to this Board report.

DISCUSSION

The Board requested responses back from staff on 9 questions or topics of discussion. Each question is identified including the Board member who requested the additional information. Several of the responses required detailed attachments which are also included with this response and labeled with the appropriate question number.

NEXT STEPS

The Board will consider the FY08 Proposed Budget at the Finance and Budget Committee meeting on June 20, 2007.

Attachment

## RESPONSES TO QUESTIONS ASKED AT FY08 PROPOSED BUDGET

### BOARD WORKSHOP – 06/13/07

1. Motion to add 22 bus mechanics and 11 electronic communications technicians and instruct the CEO to do the following: a) come up with \$4.5 million to fund additional operations support staff, b) return to the Board by June 20<sup>th</sup> with recommendations, and c) demonstrate where within the proposed MTA budget (excluding the Operations portion) the funds are being derived. (Burke and Lowenthal)

The recommended option to fund the additional expense is to reduce the General Fund forecasted balance by \$4.5 million. Other, not recommended options include 1)deferring bus capital (such as reducing the non-revenue vehicle capital project), 2)delaying implementation of TAP operations by one year, 3)programming rail advertising revenues to bus operations and replace the rail advertising funding with Proposition C40% revenues, 4)eliminate ridership growth programs from the Marketing and Communications Department advertising expense, and 5)reduce FTE's in support departments to offset the increases in Bus Operations, further compromising the agency's ability to provide critical oversight and regulatory functions.

2. Amend the above motion to detail how the support departments budget their FTE's. (Najarian)

See Attachment 1 detailing the FY08 Proposed FTE project charges by department by Core Business Function projects; Attachment 2 detailing the FY08 Proposed FTE's project charges by department by General and Administrative Projects; and, Attachment 3 FY08 Proposed FTE Project detail by department and project.

3. Provide some options for using the STA spillover funds if they are appropriated by the State. (Villaraigosa)

The recommended option for programming any additional revenues received by Metro during the fiscal year, is to program those revenues into the next year's operating budget to reduce future year deficits. Other options include budgeting the spillover revenues into a reserve in accordance with the Financial Stability policy, or programming the funds to a major capital project such as construction of the Union Division, replacement of Division 6 or the FY09 bus buy.

4. How many non-revenue support vehicles does Metro own that are alternative fuel? (Villaraigosa)

**Non-Revenue Equipment Summary**

Series	Unit Type	QTY	Hybrid
12-0000	Sedans	409	8
14-0000	Hi Rail	19	-
15-0000	Mini - Van/Trucks	138	-
16-0000	SUV	44	6
18-0000	1 Ton Pick-up Trucks	68	-
20-0000	Utility Trucks	131	-
21-0000	Large Trucks	68	-
22-0000	Full Size Vans	187	-

**Sub Total 1,064 14**

Series	Unit Type	Total	Electric
17-0000	Lifts	194	122
19-0000	Railbound Equipment	7	-
23-0000	Scrubber, Sprayer	111	83
24-0000	Shop Mules	26	-
25-0000	Generators	116	-
26-0000	Trailers	69	-
27-0000	Air Compressors	65	-
28-0000	Carts	103	103
29-0000	Non-Rev Bus	3	-
30-0000	Non-Rev Misc. Equip.	131	-

**Sub Total 825 308**

**Total Hybrid 14**  
**Total Electric 308**  
**Total Standard 1,567**  
**Total Fleet 1,889**

5. How is Metro using debt financing in the annual budgets? Are we using the appropriate mix of cash and debt financing? (Villaraigosa)

See Attachments 4 and 5 for an analysis of Metro's use of debt financing.

6. What is our debt capacity? (Fleming) And, how do we plan to use debt financing in the future? (Parks)

See Attachment 5 for the current debt position and forecast of future uses.  
See Attachment 6 for the Board adopted debt policy which identifies capacity limits for each sales tax designation.

7. What are the new capital projects and can any of the new projects be deferred? (Parks)

The new capital projects are identified on pages 24-27 of the proposed budget book. A discussion of the impact of deferring each of the 31 new projects will be transmitted to the Board under separate cover.

8. How much do we budget for consultants? (Parks)

Consultants are budgeted primarily in the account titled Professional and Technical services. Other outside services are budgeted in the account titled Contract Services (examples are County Counsel, elevator and escalator maintenance, graffiti removal and right-of-way maintenance costs). The amounts budgeted in each department for both accounts are included in Attachment 7.

9. What are the risks of fuel hedging? (Parks)

The primary purpose of fuel hedging is “budget certainty”. The hedge provides a guaranteed cap on the price of fuel. However, should prices drop, Metro would pay more for the fuel than it would have without hedging but the fuel line item would still come in “on budget.”

More detail is provided in Attachments 8 and 9. The March 14, 2007, Board report provides detail of the risks inherent in fuel hedging. The March 19, 2007, Board box provides answers to questions asked by the Finance and Budget Committee in approving the hedging program.

FY08 Proposed FTE Project Charges by Department  
(Core Business Function Projects)

	Department	Core Business Function Projects					Total	General and Admin Projects	Total
		Bus & Rail Operation and Capital	Major Construction	Regional Planning, Subsidy and General	Gov't Oversight	Debt & Agency Fund			
1	Service Department								
2	Board & Board Secretary Offices	-	-	-	11.00	-	11.00	-	11.00
3	Chief Executive Office	-	-	-	11.00	-	11.00	-	11.00
4	County Counsel	-	-	-	4.00	-	4.00	-	4.00
5	Inspector General	-	-	-	23.00	-	23.00	-	23.00
6	Ethics	-	-	-	7.00	-	7.00	-	7.00
7	Economic Development	1.78	1.20	25.02	-	-	28.00	-	28.00
8	MASD	-	-	0.16	17.41	-	17.57	10.43	28.00
9	Finance & Treasury	-	-	-	2.06	7.44	9.50	12.50	22.00
10	Revenue Compliance and Collection	43.00	-	-	-	-	43.00	-	43.00
11	Accounting	-	-	-	-	-	-	78.00	78.00
12	Office Of Management & Budget	-	-	-	-	-	-	19.00	19.00
13	Risk Management	57.91	0.48	0.08	-	-	58.47	2.54	61.00
14	Material Management	136.50	-	-	-	-	136.50	3.50	140.00
15	Procurement	33.19	16.05	8.35	1.52	-	59.11	50.89	110.00
16	Human Services	0.10	-	0.58	1.20	-	1.88	150.18	152.06
17	Information & Technology Services	54.69	0.10	-	-	-	54.79	75.21	130.00
18	Communications	18.79	4.51	18.96	21.38	-	63.64	28.37	92.00
19	Customer Information/Relations	101.00	-	-	2.00	-	103.00	-	103.00
20	Pass & Token Sales	28.00	-	-	-	-	28.00	-	28.00
21	Service Department subtotal	474.96	22.34	53.15	101.56	7.44	659.45	430.61	1,090.06
22	Core Business Unit								
23	Countywide Planning & Development	-	0.75	105.48	-	1.72	107.95	6.05	114.00
24	Construction Project Management	15.72	38.17	9.09	-	-	62.97	23.03	86.00
25	Transit Operations-Bus Sectors And Contract Services	5,714.10	-	0.91	-	-	5,715.00	-	5,715.00
26	Central Maintenance	359.00	-	4.00	-	-	363.00	9.00	372.00
27	Facilities	133.05	-	0.95	-	-	134.00	19.00	153.00
28	Transit Operations-Non Sectors	252.72	-	7.20	-	-	259.92	54.08	314.00
29	Transit Operations-Rail	1,160.12	21.68	1.04	-	-	1,182.84	2.21	1,185.04
30	Motorist Services	0.75	-	7.25	-	-	8.00	-	8.00
31	Core Business Unit subtotal	7,635.45	60.60	135.91	-	1.72	7,833.68	113.37	7,947.04
32	Agency Total	8,110.41	82.93	189.06	101.56	9.16	8,493.12	543.98	9,037.10

FY08 Proposed FTE Project Charges by Department  
(General and Admin Projects)

Department	General and Admin Projects									Core Business Function Projects	Total
	100001- General Overhead	100003- Ptsc Overhead	100030- Administration- Bus Ops	100040- Administration- Rail Ops	100050- Admin- Special Revenue Planning	100060- Admin- General Planning	100070- Admin- Capital Program	100080- Admin-Major Construction	Total		
1 Service Department											
2 Board & Board Secretary Offices	-	-	-	-	-	-	-	-	-	11.00	11.00
3 Chief Executive Office	-	-	-	-	-	-	-	-	-	11.00	11.00
4 County Counsel	-	-	-	-	-	-	-	-	-	4.00	4.00
5 Inspector General	-	-	-	-	-	-	-	-	-	23.00	23.00
6 Ethics	-	-	-	-	-	-	-	-	-	7.00	7.00
7 Economic Development	-	-	-	-	-	-	-	-	-	28.00	28.00
8 MASD	-	-	1.20	1.06	3.41	1.49	1.50	1.77	10.43	17.57	28.00
9 Finance & Treasury	-	2.88	7.18	1.44	0.30	0.10	0.50	0.10	12.50	9.50	22.00
10 Revenue Compliance and Collection	-	-	-	-	-	-	-	-	-	43.00	43.00
11 Accounting	-	-	40.32	10.31	8.00	6.46	7.00	5.92	78.00	0.00	78.00
12 Office Of Management & Budget	-	-	5.00	3.75	2.00	3.25	3.75	1.25	19.00	0.00	19.00
13 Risk Management	-	-	1.76	0.48	-	0.15	0.15	-	2.54	58.47	61.00
14 Material Management	-	-	-	3.50	-	-	-	-	3.50	136.50	140.00
15 Procurement	-	-	20.03	11.43	4.31	4.71	6.45	3.96	50.89	59.11	110.00
16 Human Services	61.90	-	50.06	11.66	0.87	10.01	7.37	8.32	150.18	1.88	152.06
17 Information & Technology Services	-	-	52.07	11.27	3.21	3.95	1.48	3.25	75.21	54.79	130.00
18 Communications	-	-	13.35	4.69	0.49	5.71	2.17	1.97	28.37	63.64	92.00
19 Customer Information/Relations	-	-	-	-	-	-	-	-	-	103.00	103.00
20 Pass & Token Sales	-	-	-	-	-	-	-	-	-	28.00	28.00
21 Service Department subtotal	61.90	2.88	190.95	59.58	22.58	35.82	30.36	26.54	430.61	659.45	1,090.06
22 Core Business Unit											
23 Countywide Planning & Development	-	-	-	-	-	6.05	-	-	6.05	107.95	114.00
24 Construction Project Management	-	-	0.13	-	-	0.35	4.06	18.49	23.03	62.97	86.00
25 Transit Operations-Bus Sectors And Contract Services	-	-	-	-	-	-	-	-	-	5,715.00	5,715.00
26 Central Maintenance	-	-	7.25	1.75	-	-	-	-	9.00	363.00	372.00
27 Facilities	-	-	13.90	1.30	-	-	3.80	-	19.00	134.00	153.00
28 Transit Operations-Non Sectors	-	-	39.15	14.63	-	-	0.30	-	54.08	259.92	314.00
29 Transit Operations-Rail	-	-	0.80	0.13	-	0.02	1.25	0.01	2.21	1,182.84	1,185.04
30 Motorist Services	-	-	-	-	-	-	-	-	-	8.00	8.00
31 Core Business Unit subtotal	-	-	61.23	17.81	-	6.42	9.41	18.50	113.37	7,833.68	7,947.04
32 Agency Total	61.90	2.88	252.18	77.39	22.58	42.24	39.77	45.04	543.98	8,493.12	9,037.10

	Department	Project	FTE
1	Service Department		
2	Board & Board Secretary Offices		
3		Gov't Oversight	
4		100002-Gvrnmtl & Oversight Activities	11.00
5		Gov't Oversight Total	11.00
6	Board & Board Secretary Offices Total		11.00
7			

	Department	Project	FTE
8	Service Department	Chief Executive Office	
9		Gov't Oversight	
10		100002-Gvrnmtl & Oversight Activities	11.00
11		Gov't Oversight Total	11.00
12		Chief Executive Office Total	11.00
13			



	Department	Project	FTE
14	Service Department	County Counsel	
15		Gov't Oversight	
16		100002-Gvrnmtl & Oversight Activities	4.00
17		Gov't Oversight Total	4.00
18	County Counsel Total		4.00
19			

	Department	Project	FTE
20	Service Department	Inspector General	
21		Gov't Oversight	
22		100002-Gvrnmtl & Oversight Activities	23.00
23		Gov't Oversight Total	23.00
24	Inspector General Total		23.00
25			

	Department	Project	FTE
26	Service Department	Ethics	
27		Gov't Oversight	
28		100002-Gvrnmtl & Oversight Activities	7.00
29		Gov't Oversight Total	7.00
30	Ethics Total		7.00
31			

	Department	Project	FTE
32	Service Department	Economic Development	
33		Bus & Rail Operation and Capital	
34		200351-Regnl Svcs Ctr & Clearing house	1.00
35		204006-Mrl Station Canopies	0.02
36		207010-Its Telecom Trans Replacement	0.05
37		300011-Bus Operations	0.70
38		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>1.78</u>
39		Major Construction	
40		800113-Mid City Exposition Blvd Let	1.20
41		<u>Major Construction Total</u>	<u>1.20</u>
42		Regional Planning, Subsidy and Gov't Oversight	
43		400020-Major Investment Studies	0.03
44		400228-Regional Downtown Connection	0.05
45		400229-Harbor Subdivision Mis	0.05
46		400232-Eastside Extension	0.05
47		405512-Crenshaw Corridor	0.05
48		405513-San Fernando North-South Mrt	0.25
49		405518-Red Line Westside Extension	0.05
50		405519-Exposition Let Extension	0.35
51		405522-Highway Planning	0.02
52		610011-Economic Development	7.66
53		610041-Property Management	11.32
54		610051-Pasadena Blue Line Prop Mgmt	0.19
55		610061-Owned Property	4.95
56		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>25.02</u>
57	<u>Economic Development Total</u>		<u>28.00</u>
58			

	Department	Project	FTE
59	Service Department	MASD	
60		Regional Planning, Subsidy and Gov't Oversight	
61		300070-Freeway Service Patrol	0.16
62		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>0.16</u>
63		Gov't Oversight	
64		100002-Gvrnmtl & Oversight Activities	17.41
65		<u>Gov't Oversight Total</u>	<u>17.41</u>
66		General and Admin Projects	
67		100030-Administration-Bus Ops	1.20
68		100040-Administration-Rail Ops	1.06
69		100050-Admin-Special Revenue Planning	3.41
70		100060-Admin.-General Planning	1.49
71		100070-Admin-Capital Program	1.50
72		100080-Admin-Major Construction	1.77
73		<u>General and Admin Projects Total</u>	<u>10.43</u>
74	<u>MASD Total</u>		<u>28.00</u>
75			

	Department	Project	FTE
76	Service Department	Finance & Treasury	
77		Debt & Agency Fund	
78		300076-Debt Service- Enterprise	2.68
79		610340-Investment & Debt Mgmt	4.76
80		<u>Debt &amp; Agency Fund Total</u>	<u>7.44</u>
81		Gov't Oversight	
82		100002-Gvrnmtl & Oversight Activities	2.06
83		<u>Gov't Oversight Total</u>	<u>2.06</u>
84		General and Admin Projects	
85		100003-Ptsc Overhead	2.88
86		100030-Administration-Bus Ops	7.18
87		100040-Administration-Rail Ops	1.44
88		100050-Admin-Special Revenue Planning	0.30
89		100060-Admin.-General Planning	0.10
90		100070-Admin-Capital Program	0.50
91		100080-Admin-Major Construction	0.10
92		<u>General and Admin Projects Total</u>	<u>12.50</u>
93	<u>Finance &amp; Treasury Total</u>		<u>22.00</u>
94			

	Department	Project	FTE
95	Service Department	Revenue Compliance and Collection	
96		Bus & Rail Operation and Capital	
97		300022-Rail Operations - Blue Line	2.40
98		300033-Rail Operations - Green Line	2.40
99		300044-Rail Operations - Red Line	2.40
100		300055-Gold Line	3.90
101		301001-Oper Mgmt & Admin-Sfv	5.60
102		301012-Metro Orange Line	3.90
103		302001-Oper Mgmt & Admin-Sgv	5.60
104		303001-Oper Mgmt & Admin - Gateway	5.60
105		304001-Oper Mgmt & Admin - South Bay	5.60
106		305001-Oper Mgmt & Admin-West/Central	5.60
107		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>43.00</u>
108		<u>Revenue Compliance and Collection Total</u>	<u>43.00</u>
109			

	Department	Project	FTE
110	Service Department	Accounting	
111		General and Admin Projects	
112		100030-Administration-Bus Ops	40.32
113		100040-Administration-Rail Ops	10.31
114		100050-Admin-Special Revenue Planning	8.00
115		100060-Admin.-General Planning	6.46
116		100070-Admin-Capital Program	7.00
117		100080-Admin-Major Construction	5.92
118		General and Admin Projects Total	78.00
119	Accounting Total		78.00
120			



	Department	Project	FTE
121	Service Department	Office Of Management & Budget	
122		General and Admin Projects	
123		100030-Administration-Bus Ops	5.00
124		100040-Administration-Rail Ops	3.75
125		100050-Admin-Special Revenue Planning	2.00
126		100060-Admin.-General Planning	3.25
127		100070-Admin-Capital Program	3.75
128		100080-Admin-Major Construction	1.25
129		General and Admin Projects Total	19.00
130		Office Of Management & Budget Total	19.00
131			

	Department	Project	FTE
132	Service Department	Risk Management	
133		Bus & Rail Operation and Capital	
134		300003-PI/Pd Expenses	4.36
135		300004-Rm - Workers' Compensation	53.56
136		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>57.91</u>
137		Major Construction	
138		800088-Eastside Light Rail Transit	0.20
139		800112-Sfv East-West Brt	0.10
140		800113-Mid City Exposition Blvd Let	0.18
141		<u>Major Construction Total</u>	<u>0.48</u>
142		Regional Planning, Subsidy and Gov't Oversight	
143		400228-Regional Downtown Connection	0.01
144		400229-Harbor Subdivision Mis	0.01
145		400231-Dmu Tech Feasibility Study	0.01
146		400232-Eastside Extension	0.01
147		401024-Canoga Park & Ride Jd	0.01
148		405512-Crenshaw Corridor	0.01
149		405518-Red Line Westside Extension	0.01
150		410001-Freeway	0.01
151		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>0.08</u>
152		General and Admin Projects	
153		100030-Administration-Bus Ops	1.76
154		100040-Administration-Rail Ops	0.48
155		100060-Admin.-General Planning	0.15
156		100070-Admin-Capital Program	0.15
157		<u>General and Admin Projects Total</u>	<u>2.54</u>
158		<u>Risk Management Total</u>	<u>61.00</u>
159			

	Department	Project	FTE
160	Service Department	Material Management	
161		Bus & Rail Operation and Capital	
162		203005-Fy08 Bus Midlife Program	1.00
163		203015-Fy08 Rrc Engine Replacement	2.00
164		300011-Bus Operations	72.85
165		300022-Rail Operations - Blue Line	13.70
166		300033-Rail Operations - Green Line	11.81
167		300044-Rail Operations - Red Line	12.70
168		300050-Rrc Heavy Maintenance	7.25
169		300055-Gold Line	8.71
170		301008-Bus Maintenance - Sfv	0.40
171		302008-Bus Maintenance - Sgv	1.40
172		303008-Bus Maint - Gateway Cities	1.60
173		304008-Bus Maint. - South Bay	1.50
174		305008-Bus Maint - West/Central	1.60
175		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>136.50</u>
176		General and Admin Projects	
177		100040-Administration-Rail Ops	3.50
178		<u>General and Admin Projects Total</u>	<u>3.50</u>
179		<u>Material Management Total</u>	<u>140.00</u>
180			

	Department	Project	FTE
181	Service Department	Procurement	
182		Bus & Rail Operation and Capital	
183		200044-Advanced Transit Vehicles	0.21
184		200225-Universal Fare System	0.60
185		200351-Regnl Svcs Ctr & Clearing house	0.35
186		201033-Hcng Demo Prjt	0.15
187		201044-Cng Articulated Buses	0.20
188		202006-Rrc Building Modifctns	0.05
189		202007-In-Ground Bus Hoist	0.28
190		202014-(Bos) - New Div 9 Trans Bldg	0.48
191		202017-(Bos) - Div 7 Facility Improve	0.24
192		202027-Fy08 Ust Replacement	0.81
193		202042-Fy08 Bus Division Maint	0.83
194		202047-Fy08 Replace Bus Div Generator	0.57
195		202062-Fy08 Hvac Replacement Program	0.43
196		202065-Artic Bus Fac Modification	0.16
197		202066-(Bos) - Div 1 Expansion	0.30
198		202181-Div 5, 10,& 18 Renovations	0.39
199		202203-In-Ground Bus Host Replacement	0.65
200		202204-Articulated Bus Facility Modi	0.47
201		202232-Atms Upgrade	0.70
202		202237-Div. 18 Solar Project	0.64
203		202239-Div 1, 3, 8, 9 And 15 Renov	2.39
204		202246-Bauchet Street Storage	0.60
205		203005-Fy08 Bus Midlife Program	0.35
206		203011-Fy08 Rrc Center Shop Equip	0.09
207		203015-Fy08 Rrc Engine Replacement	0.01
208		204006-Mrl Station Canopies	0.27
209		204016-Vermont/Santa Monica Stat	0.45
210		204035-Mrl Seg 2 & 3 Plc & Emp	0.14
211		204037-Div 22 Improvements Phase Ii	0.78
212		204047-Div 20 Carwash 7 Cng Platform	0.26
213		204054-Div 20 Addl Veh Hoists	0.32
214		204059-Div 22 Spry Pnt Booth	0.23
215		205001-Fiber Optic Rail Comm System	0.02
216		205005-Rail Comm System Upgrade	0.08
217		205006-Mbl Grade Crossing Improve	0.37
218		205012-Mbl Four Quadrant Gate Prg	0.32
219		205014-Light Rail Train Tracking	0.38
220		205017-Seg 1 Remote Terminal Upgrade	0.05
221		205021-Fy08 Wayside Systems	0.06
222		205034-Four Pgl Traction Power	0.39
223		206005-P2000 Veh Signaling Pkg Upg	0.06
224		206029-Fy08 Rfs Tools & Equipment	0.05
225		207010-Its Telecom Trans Replacement	0.29
226		207024-Fy08 Computer Equipment	0.26
227		207061-Transit Op Act Schdlg Track	0.19
228		207078-Red Line Seg 1- Pbx T-1 Trunk	0.07
229		208007-Fy08 Bus System Support	0.40
230		208017-Fy08 Rail Support Replacement	0.53
231		208022-Fy08 Rail Support Expansion	0.08
232		209027-Div 3 Wrhse Replmt	0.31
233		209028-Div 7 Warehousing Support	0.30
234		210008-Usg Improvements	0.21
235		210014-Replace Two Color Print Press	0.14
236		300004-Rm - Workers' Compensation	0.59
237		300011-Bus Operations	9.86
238		300012-Soil Remediation	0.10

	Department	Project	FTE	
239	Service Department	Procurement	Bus & 300022-Rail Operations - Blue Line	1.39
240			300033-Rail Operations - Green Line	0.44
241			300044-Rail Operations - Red Line	0.64
242			300055-Gold Line	0.69
243			301001-Oper Mgmt & Admin-Sfv	0.02
244			301008-Bus Maintenance - Sfv	0.37
245			301012-Metro Orange Line	0.05
246			302001-Oper Mgmt & Admin-Sgv	0.02
247			303001-Oper Mgmt & Admin - Gateway	0.02
248			304001-Oper Mgmt & Admin - South Bay	0.02
249			305001-Oper Mgmt & Admin-West/Central	0.02
250			<b>Bus &amp; Rail Operation and Capital Total</b>	<b>33.19</b>
251			Major Construction	
252			206034-Subway Railcar Midlife	1.50
253			206035-Expo/Blue Line Light Rail	1.50
254			800088-Eastside Light Rail Transit	7.27
255			800112-Sfv East-West Brt	1.78
256			800113-Mid City Exposition Blvd Let	0.20
257			800114-Sfv East-West Bikeway Project	0.00
258			800117-Canoga Station/Park & Ride	0.58
259			800118-Lankershim Trst Cntr	0.38
260			800151-Lrv Fleet Enhancement	1.85
261			800288-Metro Gold Line East. Ext.	0.37
262			809005-Pasadena Gold Line Closeout	0.07
263			809081-Red Line Seg 2 Closeout	0.27
264			809082-Red Line Seg3 N. H. Closeout	0.27
265			<b>Major Construction Total</b>	<b>16.05</b>
266			Regional Planning, Subsidy and Gov't Oversight	
267			100011-Employee Activities	0.01
268			100012-Audit Prop A & C	0.14
269			100017-Employee Activity	0.23
270			300070-Freeway Service Patrol	1.00
271			300209-Kenneth Hahn Call Box Program	0.10
272			330500-Industry Assistance	0.01
273			400020-Major Investment Studies	1.26
274			400225-System/Pedestrians/Bikeway Int	0.15
275			400228-Regional Downtown Connection	0.02
276			400229-Harbor Subdivision Mis	0.02
277			400232-Eastside Extension	0.02
278			401013-W. Hlywd Div 7	0.16
279			401014-Sepulveda Jd	0.13
280			401030-Wilshire Vermont Jdiii	0.16
281			401031-Green Line Aviation Station Jd	0.13
282			405510-Other P&P Planning	1.34
283			405511-Transit Planning	0.55
284			405512-Crenshaw Corridor	0.07
285			405513-San Fernando North-South Mrt	0.08
286			405514-Wilshire Bus Lane Prjt	0.10
287			405516-Sr-134 Soundwalls	0.49
288			405518-Red Line Westside Extension	0.02
289			405520-I-710 Eir/Eis	0.02
290			405522-Highway Planning	0.35
291			405544-Mobility & Air Quality Program	0.08
292			405547-Rideshare Services	0.63
293			405598-Metro Rapid Bus.	0.25
294			420002-Mta Sponsored Cfp Proj/Pc25	0.68
295			420004-Mta Sponsored Cfp	0.18
296			<b>Regional Planning, Subsidy and Gov't Oversight Total</b>	<b>8.35</b>

	Department	Project	FTE
297	Service Department	Procurement	
		Gov't Oversight	
298		100002-Gvrnmtl & Oversight Activities	1.52
299		<u>Gov't Oversight Total</u>	<u>1.52</u>
300		General and Admin Projects	
301		100003-Ptsc Overhead	0.00
302		100030-Administration-Bus Ops	20.03
303		100040-Administration-Rail Ops	11.43
304		100050-Admin-Special Revenue Planning	4.31
305		100060-Admin.-General Planning	4.71
306		100070-Admin-Capital Program	6.45
307		100080-Admin-Major Construction	3.96
308		<u>General and Admin Projects Total</u>	<u>50.89</u>
309	<u>Procurement Total</u>		<u>110.00</u>
310			

	Department	Project	FTE
311	Service Department	Human Services	
312		Bus & Rail Operation and Capital	
313		210014-Replace Two Color Print Press	0.10
314		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>0.10</u>
315		Regional Planning, Subsidy and Gov't Oversight	
316		405517-Coord Human Svcs Trsnp Pln	0.05
317		420002-Mta Sponsored Cfp Proj/Pc25	0.53
318		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>0.58</u>
319		Gov't Oversight	
320		100002-Gvrnmtl & Oversight Activities	1.20
321		<u>Gov't Oversight Total</u>	<u>1.20</u>
322		General and Admin Projects	
323		100001-General Overhead	61.90
324		100030-Administration-Bus Ops	50.06
325		100040-Administration-Rail Ops	11.66
326		100050-Admin-Special Revenue Planning	0.87
327		100060-Admin.-General Planning	10.01
328		100070-Admin-Capital Program	7.37
329		100080-Admin-Major Construction	8.32
330		<u>General and Admin Projects Total</u>	<u>150.18</u>
331		<u>Human Services Total</u>	<u>152.06</u>
332			

	Department	Project	FTE
333	Service Department	Information & Technology Services	
334		Bus & Rail Operation and Capital	
335		200351-Regnl Svcs Ctr & Clearing house	0.25
336		202014-(Bos) - New Div 9 Trans Bldg	0.25
337		202047-Fy08 Replace Bus Div Generator	0.15
338		202237-Div. 18 Solar Project	0.20
339		202239-Div 1, 3, 8, 9 And 15 Renov	1.10
340		202246-Bauchet Street Storage	0.22
341		204047-Div 20 Carwash 7 Cing Platform	0.05
342		205005-Rail Comm System Upgrade	0.07
343		207010-Its Telecom Trans Replacement	3.50
344		207024-Fy08 Computer Equipment	3.42
345		207040-Fy08 Financial/Hr System	0.40
346		207061-Transit Op Act Schdlg Track	2.50
347		207078-Red Line Seg 1- Pbx T-1 Trunk	0.58
348		209028-Div 7 Warehousing Support	0.17
349		300011-Bus Operations	30.50
350		300014-Regional Activities	4.86
351		300022-Rail Operations - Blue Line	1.41
352		300033-Rail Operations - Green Line	1.33
353		300044-Rail Operations - Red Line	1.50
354		300055-Gold Line	1.29
355		301001-Oper Mgmt & Admin-Sfv	0.15
356		302001-Oper Mgmt & Admin-Sgv	0.38
357		303001-Oper Mgmt & Admin - Gateway	0.18
358		304001-Oper Mgmt & Admin - South Bay	0.10
359		305001-Oper Mgmt & Admin-West/Central	0.12
360		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>54.69</b>
361		Major Construction	
362		800088-Eastside Light Rail Transit	0.05
363		800288-Metro Gold Line East. Ext.	0.05
364		<b>Major Construction Total</b>	<b>0.10</b>
365		General and Admin Projects	
366		100030-Administration-Bus Ops	52.07
367		100040-Administration-Rail Ops	11.27
368		100050-Admin-Special Revenue Planning	3.21
369		100060-Admin.-General Planning	3.95
370		100070-Admin-Capital Program	1.48
371		100080-Admin-Major Construction	3.25
372		<b>General and Admin Projects Total</b>	<b>75.21</b>
373		<b>Information &amp; Technology Services Total</b>	<b>130.00</b>
374			



	Department	Project	FTE
375	Service Department	Communications	
376		Bus & Rail Operation and Capital	
377		202017-(Bos) - Div 7 Facility Improve	0.10
378		204006-Mrl Station Canopies	0.20
379		204016-Vermont/Santa Monica Stat	0.10
380		205012-Mbl Four Quadrant Gate Prg	0.25
381		205034-Four Pgl Traction Power	0.20
382		210014-Replace Two Color Print Press	0.05
383		300011-Bus Operations	9.54
384		300022-Rail Operations - Blue Line	2.73
385		300033-Rail Operations - Green Line	1.23
386		300044-Rail Operations - Red Line	1.58
387		300055-Gold Line	1.82
388		301011-Non-Vehicle Maintenance - Sfv	0.20
389		302011-Non-Vehicle Maintenance - Sgv	0.20
390		303011-Non-Vehicle Maint - Gateway	0.20
391		304011-Non-Vehicle Maintenance-So Bay	0.20
392		305011-Non-Vehicle Main -West/Central	0.20
393		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>18.79</b>
394		Major Construction	
395		206034-Subway Railcar Midlife	0.01
396		800088-Eastside Light Rail Transit	4.00
397		800112-Sfv East-West Brt	0.10
398		800113-Mid City Exposition Blvd Let	0.40
399		<b>Major Construction Total</b>	<b>4.51</b>
400		Regional Planning, Subsidy and Gov't Oversight	
401		100011-Employee Activities	0.65
402		100017-Employee Activity	0.20
403		330500-Industry Assistance	1.00
404		400020-Major Investment Studies	0.13
405		400228-Regional Downtown Connection	0.13
406		400229-Harbor Subdivision Mis	0.13
407		400232-Eastside Extension	0.13
408		405510-Other P&P Planning	1.65
409		405511-Transit Planning	0.34
410		405512-Crenshaw Corridor	0.13
411		405513-San Fernando North-South Mrt	0.13
412		405514-Wilshire Bus Lane Prjt	0.10
413		405516-Sr-134 Soundwalls	0.10
414		405518-Red Line Westside Extension	0.13
415		405522-Highway Planning	1.20
416		405547-Rideshare Services	12.85
417		<b>Regional Planning, Subsidy and Gov't Oversight Total</b>	<b>18.96</b>
418		Gov't Oversight	
419		100002-Gvrnmtl & Oversight Activities	21.38
420		<b>Gov't Oversight Total</b>	<b>21.38</b>
421		General and Admin Projects	
422		100030-Administration-Bus Ops	13.35
423		100040-Administration-Rail Ops	4.69
424		100050-Admin-Special Revenue Planning	0.49
425		100060-Admin.-General Planning	5.71
426		100070-Admin-Capital Program	2.17
427		100080-Admin-Major Construction	1.97
428		<b>General and Admin Projects Total</b>	<b>28.37</b>
429		<b>Communications Total</b>	<b>92.00</b>
430			

	Department	Project	FTE
431	Service Department	Customer Information/Relations	
432		Bus & Rail Operation and Capital	
433		300011-Bus Operations	10.10
434		300014-Regional Activities	90.90
435		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>101.00</u>
436		Gov't Oversight	
437		100002-Gvrnmtl & Oversight Activities	2.00
438		<u>Gov't Oversight Total</u>	<u>2.00</u>
439		<u>Customer Information/Relations Total</u>	<u>103.00</u>
440			

	Department	Project	FTE
441	Service Department	Pass & Token Sales	
442		Bus & Rail Operation and Capital	
443		200351-Regnl Svcs Ctr & Clearing house	0.60
444		300011-Bus Operations	17.04
445		300014-Regional Activities	10.36
446		Bus & Rail Operation and Capital Total	28.00
447		Pass & Token Sales Total	28.00
448			
449	Service Department Total		1,090.06

	Department	Project	FTE
450	Core Business Unit		
451	Countywide Planning & Development		
452		Major Construction	
453		800088-Eastside Light Rail Transit	0.75
454		<u>Major Construction Total</u>	<u>0.75</u>
455		Regional Planning, Subsidy and Gov't Oversight	
456		400020-Major Investment Studies	0.50
457		400225-System/Pedestrians/Bikeway Int	0.40
458		400227-Comm Strat & Partner Initiat	0.20
459		400228-Regional Downtown Connection	1.95
460		400229-Harbor Subdivision Mis	1.40
461		400231-Dmu Tech Feasibility Study	0.15
462		400232-Eastside Extension	1.65
463		405510-Other P&P Planning	35.05
464		405511-Transit Planning	16.23
465		405512-Crenshaw Corridor	1.40
466		405513-San Fernando North-South Mrt	1.35
467		405514-Wilshire Bus Lane Prjt	1.70
468		405516-Sr-134 Soundwalls	0.30
469		405517-Coord Human Svcs Trsnp Pln	0.80
470		405518-Red Line Westside Extension	3.00
471		405520-I-710 Eir/Eis	0.10
472		405522-Highway Planning	14.15
473		405533-Commuter Rail	0.40
474		405544-Mobility & Air Quality Program	6.30
475		405598-Metro Rapid Bus.	2.30
476		407008-Gateway Cog	0.10
477		420002-Mta Sponsored Cfp Proj/Pc25	13.20
478		420004-Mta Sponsored Cfp	1.85
479		500002-Regional Grantee-Fta	1.00
480		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>105.48</u>
481		Debt & Agency Fund	
482		300015-Regional Ez Pass	0.62
483		430001-Ba District No.1	0.95
484		430002-Ba District No.2	0.15
485		<u>Debt &amp; Agency Fund Total</u>	<u>1.72</u>
486		General and Admin Projects	
487		100060-Admin.-General Planning	6.05
488		<u>General and Admin Projects Total</u>	<u>6.05</u>
489	<u>Countywide Planning &amp; Development Total</u>		<u>114.00</u>
490			

	Department	Project	FTE
491	Core Business Unit	Construction Project Management	
492		Bus & Rail Operation and Capital	
493		200225-Universal Fare System	0.10
494		200351-Regnl Svcs Ctr & Clearing house	0.50
495		202007-In-Ground Bus Hoist	0.43
496		202014-(Bos) - New Div 9 Trans Bldg	0.28
497		202027-Fy08 Ust Replacement	1.75
498		202062-Fy08 Hvac Replacement Program	0.18
499		202203-In-Ground Bus Host Replacement	0.25
500		202246-Bauchet Street Storage	0.13
501		204006-Mrl Station Canopies	1.10
502		204016-Vermont/Santa Monica Stat	0.68
503		204035-Mrl Seg 2 & 3 Plc & Emp	0.42
504		204037-Div 22 Improvements Phase li	1.40
505		204047-Div 20 Carwash 7 Cing Platform	2.58
506		204054-Div 20 Addl Veh Hoists	0.72
507		204059-Div 22 Spry Pnt Booth	0.18
508		205001-Fiber Optic Rail Comm System	0.15
509		205004-Rail Security Improvements	0.55
510		205005-Rail Comm System Upgrade	0.05
511		205006-Mbl Grade Crossing Improve	0.14
512		205012-Mbl Four Quadrant Gate Prg	0.34
513		205014-Light Rail Train Tracking	0.10
514		205017-Seg 1 Remote Terminal Upgrade	0.05
515		205021-Fy08 Wayside Systems	0.05
516		205034-Four Pgl Traction Power	1.15
517		206004-Breda Rail Car Retrofit	0.10
518		206005-P2000 Veh Signaling Pkg Upg	0.10
519		209027-Div 3 Wrhse Replmt	0.20
520		209028-Div 7 Warehousing Support	0.48
521		300012-Soil Remediation	0.70
522		300022-Rail Operations - Blue Line	0.06
523		300033-Rail Operations - Green Line	0.03
524		300044-Rail Operations - Red Line	0.49
525		300055-Gold Line	0.32
526		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>15.72</b>
527		Major Construction	
528		206034-Subway Railcar Midlife	0.23
529		206035-Expo/Blue Line Light Rail	0.18
530		800088-Eastside Light Rail Transit	26.65
531		800112-Sfv East-West Brt	2.95
532		800113-Mid City Exposition Blvd Let	4.35
533		800114-Sfv East-West Bikeway Project	0.20
534		800117-Canoga Station/Park & Ride	1.00
535		800118-Lankershim Trst Cntr	0.65
536		800288-Metro Gold Line East. Ext.	1.67
537		809081-Red Line Seg 2 Closeout	0.15
538		809082-Red Line Seg3 N. H. Closeout	0.15
539		<b>Major Construction Total</b>	<b>38.17</b>
540		Regional Planning, Subsidy and Gov't Oversight	
541		400228-Regional Downtown Connection	0.65
542		400229-Harbor Subdivision Mis	0.40
543		400232-Eastside Extension	0.50
544		401008-Wilshire/Western Jd	0.28
545		401009-Hollywood/Vine Joint Dev	0.28
546		405510-Other P&P Planning	0.73
547		405512-Crenshaw Corridor	0.95
548		405513-San Fernando North-South Mrt	2.00

	Department	Project	FTE
549	Core Business Unit	Construction Project Management	
		Regio 405514-Wilshire Bus Lane Prjt	0.05
550		405516-Sr-134 Soundwalls	1.85
551		405518-Red Line Westside Extension	0.97
552		405523-I405 Car Pool Lane	0.10
553		500002-Regional Grantee-Fta	0.35
554		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>9.09</u>
555		General and Admin Projects	
556		100030-Administration-Bus Ops	0.13
557		100060-Admin.-General Planning	0.35
558		100070-Admin-Capital Program	4.06
559		100080-Admin-Major Construction	18.49
560		<u>General and Admin Projects Total</u>	<u>23.03</u>
561		<u>Construction Project Management Total</u>	<u>86.00</u>
562			

	Department	Project	FTE
563	Core Business Unit	Transit Operations-Bus Sectors And Contract Services	
564		Bus & Rail Operation and Capital	
565		201044-Cng Articulated Buses	0.05
566		300011-Bus Operations	3.70
567		300014-Regional Activities	7.50
568		301001-Oper Mgmt & Admin-Sfv	20.67
569		301002-Bus Trans - Sfv	761.00
570		301008-Bus Maintenance - Sfv	237.40
571		301009-Serv Pln/Sched - Sfv	5.76
572		301011-Non-Vehicle Maintenance - Sfv	19.00
573		301012-Metro Orange Line	74.13
574		302001-Oper Mgmt & Admin-Sgv	19.00
575		302002-Bus Trans-Sgv	785.50
576		302008-Bus Maintenance - Sgv	233.00
577		302009-Serv Pln/Sched - Sgv	7.00
578		302011-Non-Vehicle Maintenance - Sgv	20.50
579		303001-Oper Mgmt & Admin - Gateway	8.00
580		303002-Bus Trans - Gateway Cities	775.00
581		303008-Bus Maint - Gateway Cities	234.00
582		303009-Serv Pln & Sched - Gateway	8.00
583		303011-Non-Vehicle Maint - Gateway	13.00
584		304001-Oper Mgmt & Admin - South Bay	8.00
585		304002-Bus Trans - South Bay	872.00
586		304008-Bus Maint. - South Bay	270.00
587		304009-Serv Pln & Sched - South Bay	8.00
588		304011-Non-Vehicle Maintenance-So Bay	15.00
589		305001-Oper Mgmt & Admin-West/Central	10.40
590		305002-Bus Trans - West/Central	969.50
591		305008-Bus Maint - West/Central	296.00
592		305009-Serv Plan & Sched-West/Central	8.00
593		305011-Non-Vehicle Main -West/Central	25.00
594		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>5,714.10</b>
595		Regional Planning, Subsidy and Gov't Oversight	
596		300209-Kenneth Hahn Call Box Program	0.91
597		<b>Regional Planning, Subsidy and Gov't Oversight Total</b>	<b>0.91</b>
598		<b>Transit Operations-Bus Sectors And Contract Services Total</b>	<b>5,715.00</b>
599			

	Department	Project	FTE
600	Core Business Unit	Central Maintenance	
601		Bus & Rail Operation and Capital	
602		203005-Fy08 Bus Midlife Program	86.31
603		203015-Fy08 Rrc Engine Replacement	18.00
604		300011-Bus Operations	179.19
605		300022-Rail Operations - Blue Line	2.31
606		300033-Rail Operations - Green Line	2.31
607		300044-Rail Operations - Red Line	2.31
608		300050-Rrc Heavy Maintenance	66.25
609		300055-Gold Line	2.31
610		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>359.00</u>
611		Regional Planning, Subsidy and Gov't Oversight	
612		300070-Freeway Service Patrol	4.00
613		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>4.00</u>
614		General and Admin Projects	
615		100030-Administration-Bus Ops	7.25
616		100040-Administration-Rail Ops	1.75
617		<u>General and Admin Projects Total</u>	<u>9.00</u>
618		<u>Central Maintenance Total</u>	<u>372.00</u>
619			



	Department	Project	FTE
620	Core Business Unit	Facilities	
621		Bus & Rail Operation and Capital	
622		202006-Rrc Building Modifctns	0.22
623		202007-In-Ground Bus Hoist	0.41
624		202014-(Bos) - New Div 9 Trans Bldg	0.31
625		202016-(Bos) - Temple & Beaudry	0.32
626		202017-(Bos) - Div 7 Facility Improve	0.26
627		202021-(Bos) - El Monte Tran Station	0.04
628		202042-Fy08 Bus Division Maint	0.89
629		202047-Fy08 Replace Bus Div Generator	0.47
630		202062-Fy08 Hvac Replacement Program	0.55
631		202065-Artic Bus Fac Modification	0.67
632		202066-(Bos) - Div 1 Expansion	0.20
633		202181-Div 5, 10,& 18 Renovations	0.76
634		202203-In-Ground Bus Host Replacement	0.63
635		202204-Articulated Bus Facility Modi	0.63
636		202237-Div. 18 Solar Project	0.67
637		202239-Div 1, 3, 8, 9 And 15 Renov	2.56
638		202246-Bauchet Street Storage	0.76
639		207010-lts Telecom Trans Replacement	0.65
640		300011-Bus Operations	70.77
641		300022-Rail Operations - Blue Line	2.05
642		300033-Rail Operations - Green Line	1.30
643		300044-Rail Operations - Red Line	2.70
644		300055-Gold Line	1.55
645		301011-Non-Vehicle Maintenance - Sfv	8.40
646		301012-Metro Orange Line	0.40
647		302002-Bus Trans-Sgv	0.30
648		302008-Bus Maintenance - Sgv	0.60
649		302011-Non-Vehicle Maintenance - Sgv	8.10
650		303011-Non-Vehicle Maint - Gateway	8.30
651		304011-Non-Vehicle Maintenance-So Bay	9.25
652		305011-Non-Vehicle Main -West/Central	8.30
653		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>133.05</b>
654		Regional Planning, Subsidy and Gov't Oversight	
655		610041-Property Management	0.95
656		<b>Regional Planning, Subsidy and Gov't Oversight Total</b>	<b>0.95</b>
657		General and Admin Projects	
658		100030-Administration-Bus Ops	13.90
659		100040-Administration-Rail Ops	1.30
660		100070-Admin-Capital Program	3.80
661		<b>General and Admin Projects Total</b>	<b>19.00</b>
662	<b>Facilities Total</b>		<b>153.00</b>
663			

	Department	Project	FTE
664	Core Business Unit	Transit Operations-Non Sectors	
665		Bus & Rail Operation and Capital	
666		200044-Advanced Transit Vehicles	0.46
667		201033-Hcng Demo Prjt	0.56
668		201044-Cng Articulated Buses	4.69
669		207061-Transit Op Act Schdlg Track	1.25
670		300011-Bus Operations	134.14
671		300022-Rail Operations - Blue Line	15.06
672		300033-Rail Operations - Green Line	13.22
673		300044-Rail Operations - Red Line	25.28
674		300055-Gold Line	9.32
675		301001-Oper Mgmt & Admin-Sfv	4.75
676		301002-Bus Trans - Sfv	0.30
677		301009-Serv Pln/Sched - Sfv	2.00
678		301012-Metro Orange Line	8.47
679		302001-Oper Mgmt & Admin-Sgv	4.81
680		302002-Bus Trans-Sgv	0.30
681		302009-Serv Pln/Sched - Sgv	2.00
682		303001-Oper Mgmt & Admin - Gateway	4.81
683		303002-Bus Trans - Gateway Cities	0.30
684		303009-Serv Pln & Sched - Gateway	2.00
685		304001-Oper Mgmt & Admin - South Bay	5.28
686		304002-Bus Trans - South Bay	0.30
687		304009-Serv Pln & Sched - South Bay	2.00
688		305001-Oper Mgmt & Admin-West/Central	9.12
689		305002-Bus Trans - West/Central	0.30
690		305009-Serv Plan & Sched-West/Central	2.00
691		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>252.72</b>
692		Regional Planning, Subsidy and Gov't Oversight	
693		405510-Other P&P Planning	2.00
694		405511-Transit Planning	5.20
695		<b>Regional Planning, Subsidy and Gov't Oversight Total</b>	<b>7.20</b>
696		General and Admin Projects	
697		100030-Administration-Bus Ops	39.15
698		100040-Administration-Rail Ops	14.63
699		100070-Admin-Capital Program	0.30
700		<b>General and Admin Projects Total</b>	<b>54.08</b>
701		<b>Transit Operations-Non Sectors Total</b>	<b>314.00</b>
702			

	Department	Project	FTE
703	Core Business Unit	Transit Operations-Rail	
704		Bus & Rail Operation and Capital	
705		202232-Atms Upgrade	3.10
706		204006-Mrl Station Canopies	0.58
707		204016-Vermont/Santa Monica Stat	0.78
708		204035-Mrl Seg 2 & 3 Plc & Emp	1.78
709		204037-Div 22 Improvements Phase li	0.92
710		204047-Div 20 Carwash 7 Cing Platform	1.07
711		204054-Div 20 Addl Veh Hoists	0.30
712		204059-Div 22 Spry Pnt Booth	0.08
713		205001-Fiber Optic Rail Comm System	2.05
714		205004-Rail Security Improvements	0.18
715		205005-Rail Comm System Upgrade	0.45
716		205006-Mbl Grade Crossing Improve	5.32
717		205012-Mbl Four Quadrant Gate Prg	0.10
718		205014-Light Rail Train Tracking	0.68
719		205017-Seg 1 Remote Terminal Upgrade	0.20
720		205021-Fy08 Wayside Systems	0.15
721		205034-Four Pgl Traction Power	1.17
722		206004-Breda Rail Car Retrofit	0.27
723		206005-P2000 Veh Signaling Pkg Upg	4.00
724		206029-Fy08 Rfs Tools & Equipment	0.18
725		207010-Its Telecom Trans Replacement	0.76
726		207078-Red Line Seg 1- Pbx T-1 Trunk	0.50
727		300011-Bus Operations	74.80
728		300022-Rail Operations - Blue Line	285.11
729		300033-Rail Operations - Green Line	190.75
730		300044-Rail Operations - Red Line	379.30
731		300055-Gold Line	190.58
732		301012-Metro Orange Line	15.00
733		<b>Bus &amp; Rail Operation and Capital Total</b>	<b>1,160.12</b>
734		Major Construction	
735		206034-Subway Railcar Midlife	1.10
736		206035-Expo/Blue Line Light Rail	4.10
737		800088-Eastside Light Rail Transit	0.75
738		800151-Lrv Fleet Enhancement	15.60
739		800288-Metro Gold Line East. Ext.	0.08
740		809005-Pasadena Gold Line Closeout	0.05
741		<b>Major Construction Total</b>	<b>21.68</b>
742		Regional Planning, Subsidy and Gov't Oversight	
743		300070-Freeway Service Patrol	0.15
744		401007-Wilshire/Vermont Jd	0.89
745		<b>Regional Planning, Subsidy and Gov't Oversight Total</b>	<b>1.04</b>
746		General and Admin Projects	
747		100030-Administration-Bus Ops	0.80
748		100040-Administration-Rail Ops	0.13
749		100060-Admin.-General Planning	0.02
750		100070-Admin-Capital Program	1.25
751		100080-Admin-Major Construction	0.01
752		<b>General and Admin Projects Total</b>	<b>2.21</b>
753		<b>Transit Operations-Rail Total</b>	<b>1,185.04</b>
754			

	Department	Project	FTE
755	Core Business Unit	Motorist Services	
756		Bus & Rail Operation and Capital	
757		300011-Bus Operations	0.75
758		<u>Bus &amp; Rail Operation and Capital Total</u>	<u>0.75</u>
759		Regional Planning, Subsidy and Gov't Oversight	
760		300209-Kenneth Hahn Call Box Program	7.25
761		<u>Regional Planning, Subsidy and Gov't Oversight Total</u>	<u>7.25</u>
762		<u>Motorist Services Total</u>	<u>8.00</u>
763			
764	Core Business Unit Total		7,947.04
765	Grand Total		9,037.10

Debt Position (000's)									
Category	Maximum Permitted Utilization (1)	Debt Position FY 2008		Debt Service to Maturity		Projected New Debt FY 2007 Ten-Year Forecast (2)		Projected Debt Position FY 2016 (3)	
		Outstanding	Capacity	Principal	Interest	Description	Amount	Outstanding	Capacity
Prop A 35% Rail	87% of 35% of Prop A  Annual Debt Service: \$203,254  Maximum Par: \$2,658,642	66% of 35% of Prop A  Annual Debt Service: \$154,153  Par: \$1,843,280	21% of 35% of Prop A  Annual Debt Service: \$49,101  Par: \$642,261	\$1,843,280	\$838,580	Expo- Phase II	\$ 85,000	73% of 35% of Prop A  Annual Debt Service: \$219,243  Par: \$2,867,776	14% of 35% of Prop A  Annual Debt Service: \$40,978  Par: \$536,012
						Rail Vehicles	\$ 12,335		
						Rail Rehab	\$ 1,010,319		
Prop A 40% Discretionary	No further issuance permitted	Annual Debt Service \$2,416  Par: \$34,036	No further issuance permitted	\$34,036	\$26,555	No further issuance permitted	No further issuance permitted	Annual Debt Service \$2,292  Par: \$27,411	No further issuance permitted
Prop C 10% Commuter Rail	40% of 10% of Prop C  Annual Debt Service: \$26,703  Maximum Par: \$349,291	17% of 10% of Prop C  Annual Debt Service: \$11,155  Par: \$132,341	23% of 10% of Prop C  Annual Debt Service: \$15,548  Par: \$203,376	\$132,341	\$63,260	Eastside	\$ 4,986	45% of 10% of Prop C  Annual Debt Service: \$40,280  Par: \$526,881	None
						Canoga Station	\$ 10,219		
						Lankershim Depot Restoration	\$ 2,045		
						Regional	\$ 453,400		
Prop C 25% Highway	60% of 25% of Prop C  Annual Debt Service: \$100,138  Maximum Par: \$1,309,842	21% of 25% of Prop C  Annual Debt Service: \$34,282  Par: \$475,297	39% of 25% of Prop C  Annual Debt Service: \$65,856  Par: \$861,426	\$475,297	\$274,889	Expo	\$ 6,200	35% of 25% of Prop C  Annual Debt Service: \$78,424  Par: \$1,025,821	25% of 25% of Prop C  Annual Debt Service: \$54,503  Par: \$712,917
						Regional/CFP	\$ 508,715		
Prop C 40% Discretionary	40% of 40% of Prop C  Annual Debt Service: \$106,814  Maximum Par: \$1,397,165	23% of 40% of Prop C  Annual Debt Service: \$61,305  Par: \$794,956	17% of 40% of Prop C  Annual Debt Service: \$45,508  Par: \$595,267	\$794,956	\$451,327	SFV North-South BRT	\$ 10,700	29% of 40% of Prop C  Annual Debt Service: \$103,952  Par: \$1,359,725	11% of 40% of Prop C  Annual Debt Service: \$37,838  Par: \$494,929
						Crenshaw LRT	\$ 487,300		
						Expo- Phase II	\$ 35,000		
						Mid-City/Wilshire Transit Corridor	\$ 115,600		

(1) - Per Debt Policy adopted June 2006 and FY 2007 Adopted Budget Sales Tax Revenues. Maximum and Capacity Par are based on an assumed interest rate of 5.5% and 30-year term.

(2) - Debt projected for FY 2008 - FY 2016.

(3) - Debt service and Par for projected debt issues based on an assumed interest rate of 5.5% and 30-year term. Capacity based on FY 2015 Projected Sales Tax Revenues.

## UTILIZATION OF DEBT

## Current Situation

The FY08 budget for debt service is \$308.5 million, 9.9% of the total budget. As of June 2007, outstanding debt is about \$3.8 billion, exclusive of lease/leaseback liabilities and benefit assessment districts. Proceeds of the debt were used to build the Blue, Red, Green, Gold and Orange Lines, build Metro headquarters, and to purchase railroad rights of way for Metrolink service and future fixed guideway projects. Debt is also financing the construction of the Gold Line Eastside Extension and Exposition Phase 1.

## Current Policy

Annually, the Board adopts the Metro Debt Policy that establishes the boundaries within which staff may propose borrowing as a financing tool. The most recent Debt Policy update was approved by the Board in June 2006. A copy of the current Debt Policy is attached.

The policy includes debt affordability limits for each of Metro's major, distinct revenues sources. The limits indicate the maximum amount of each source that can be used for debt service. The limits are set to ensure that negative impacts of the economy on our sales taxes will not impair our ability to make our required payments to bondholders and to provide clear direction to staff as to how much of each source can be used for operating versus capital purposes. The next Debt Policy update is scheduled to be considered by the Board in August 2007.

The table attached shows the current policy limits, the amount of capacity used, i.e., outstanding debt, capacity available and future debt service requirements for each revenue source. The table also shows our projected positions in FY16 by revenue source based on the August 2006 10-year forecast.

## Additional Debt Strategies

The current Debt Policy prohibits debt financing for several significant revenue sources that are traditionally used to subsidize bus operations regionally and Metro operations specifically. They are Prop A 40%, Transportation Development Act (TDA), State Transportation Assistance, (STA) and fare revenues. In the past, the Board has waived certain of these restrictions on a case by case basis for Metro facility investments, i.e., new buildings. To date, no sales tax secured debt has been issued for assets with shorter useful lives than rail cars, 25 years. Pre-merger, the LACTC facilitated the SCRTD's purchase of methanol buses by issuing certificates of participation (COPs) secured by SCRTD "operating revenues," defined as fares and formula subsidies. The COPs were paid off over 12 years, the planned useful life of the buses.

Leveraging these revenue sources could be considered when restrictions imposed on our sales taxes do not allow their use as security. Since the sales tax flow is reasonably assured and where they can be swapped, this strategy would be effective. Use of this leveraging should be considered on a case by case basis rather than as policy since the Board should evaluate the specifics of the project in light of all other demands at that time.

Staff recently considered issuing debt to replace approximately \$50 million in the FY08 articulated bus buy that is eligible for use in bus operations. In the current market, debt service would be approximately \$5.8 million per year for 12 years, the estimated life of the buses. This strategy was not recommended because debt service totaling \$58 million would be paid from operating eligible funds within the current 10-year forecast period versus the \$50 million in the recommended funding plan. Therefore, the 10-year deficit would increase by \$8 million. Similarly, debt financing shorter lived assets such as equipment would have the impact of increasing deficits within the 10-year forecast. However, more operating eligible monies would be available in the early years of the 10-year forecast period. Use of this strategy will be considered when the immediate need to support operations outweighs the additional cost, interest, and additional future operating revenues are assured to repay the debt and interest.

#### Other Policy Considerations

Unlike a municipality or state government where the primary revenues go to a general fund, Metro has discrete revenue sources whose uses are restricted for specific purposes, i.e., not interchangeable. Therefore, in establishing debt policy limits, it is more appropriate to set limits for each discrete source rather than at the Metro entity level since sales tax ordinance restrictions prevent tradeoffs between sources in many cases.

## **DEBT POLICY**

### **I. Introduction**

The purpose of the Debt Policy of the Los Angeles County Metropolitan Transportation Authority (LACMTA) is to establish guidelines for the issuance and management of its debt. This Debt Policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, achieving the lowest possible cost of capital within prudent risk parameters and encouraging the use of local and California-based advisors and underwriters when appropriate and feasible. Priorities of the Debt Policy are as follows:

1. Achieve the lowest cost of capital
2. Maintain a prudent level of financial risk
3. Preserve future financial flexibility
4. Maintain strong credit ratings and good investor relations
5. Ensure that local, emerging and disadvantaged business enterprise investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles when appropriate

### **II. Scope and Authority**

This Debt Policy shall govern, except as otherwise covered by the Investment Policy, Defeased Lease Policy or Interest Rate Swap Policy, the issuance and management of all debt and lease financings funded from the capital markets, including the selection and management of related financial services and products, and investment of bond and lease proceeds.

While adherence to this Policy is required in applicable circumstances, it is recognized that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained.

The Debt Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Chief Executive Officer, Chief Financial Officer and Executive Officer – Finance and Treasurer are the designated administrators of the Debt Policy. The Treasurer shall have the day-to-day responsibility and authority for structuring, implementing and managing the debt and finance program, including the issuance of commercial paper in accordance with the Board authorized programs. The Debt Policy requires that the Board specifically authorize each debt and lease financing.



### III. Capital Budgeting and Debt Issuance Process

#### A. Capital Budgeting

1. The Capital Plan. A Capital Plan (the “CP”) shall be developed for consideration and adoption by the Board. The CP should have a planning horizon of at least a 5-year period and shall be updated at least annually. In addition to capital project costs, the CP will include the following elements:
  - a) Description and availability of all sources of funds
  - b) Timing of capital projects
  - c) Effect of capital projects on the debt burden
  - d) Debt service requirements

It is the LACMTA’s current practice to include the CP in the Annual Budget for consideration and adoption.

2. Authorization for Issuance. The Board’s adoption of the Annual Budget does not, in and of itself, constitute authorization for debt issuance for any capital projects. Each financing shall be presented to the Board in the context of the Annual Budget.

#### B. Debt Financing

##### 1. Appropriate Use of Long-Term Debt

- a) Purpose for Long-Term Debt. Long-term debt should be used to finance essential capital facilities, projects and certain equipment where it is cost effective and fiscally prudent. The scope, requirements, and demands of the Annual Budget or CP, and the ability or need to expedite or maintain the programmed schedule of approved capital projects will also be factors in the decision to issue long-term debt. Inherent in its long-term debt policies, the policy recognizes that future taxpayers will benefit from the capital investment and that it is appropriate that they pay a share of the asset cost. Long-term debt will not be used to fund operations.
- b) Lease Financing. Lease obligations are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where lease financing will be more beneficial, either economically or from a policy perspective. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Efforts will be made to

fund capital equipment on a pay-as-you-go basis where feasible. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with a pay-as-you-go strategy in lieu of lease financing. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding \$10 million.

## 2. Use of Short-Term and Variable Rate Debt

- a) Commercial Paper. The commercial paper programs are cash management tools that are primarily used to provide interim funding for capital expenditures that will ultimately be funded from another source such as a grant or long-term bond. The Board has previously approved the use of both the tax-exempt and taxable commercial paper programs for \$350 million and \$150 million, respectively. Commercial paper may be issued from time to time, but its use will generally be restricted to providing interim financing for capital projects programmed for long-term debt or grant funding. Periodic issuances or retirements of commercial paper notes within the Board approved programs do not require further Board action.
- b) Tax and Revenue Anticipation Notes. Borrowing for cash flow purposes through the use of tax and revenue anticipation notes may be used to bridge temporary cash flow deficits within a fiscal year.
- c) Grant Anticipation Notes. Short-term notes may be issued and secured with the receipts of State or Federal grants if appropriate for the project and in the best interests of the LACMTA. Generally, grant anticipation notes will only be issued if there is no other viable source of up-front cash for the project.
- d) Variable Rate Debt: It is often appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt, and the total of hedged and unhedged variable rate debt will not exceed 50% of all outstanding debt. Under no circumstances will variable rate debt be issued solely for the purpose of earning interest through arbitrage. If unhedged variable rate debt is outstanding, at least annually, it

shall be determine whether it is appropriate to convert the debt to fixed interest rates.

#### IV. Debt Affordability Targets and Policy Limits

Target and policy maximum amounts of revenues to be used to pay debt service are listed as percentages of the respective revenue sources. These limits in combination with the CP and multi-year planning documents ensure that the LACMTA will be able to continue providing its essential operational services while planning for replacement, rehabilitation and expansion of its capital investments.

<b>Proposition A Sales Tax Revenue Debt Affordability Targets</b>		
<i>Category</i>	<i>Allowable Uses &amp; Status</i>	<i>Debt Policy Maximum</i>
Prop A Rail 35%	<i>Rail Operations &amp; Capital.</i> Is currently committed to debt service in an amount close to the Policy Maximum.	87% of Prop A 35% Rail revenues.
Discretionary 40%	<i>Any transit purpose.</i> Current state law directs these funds to bus subsidies and incentives.	No further issuance.
Local Return 25%	<i>Any transit purpose.</i> Distributed to localities based on population.	N/A

<b>Proposition C Sales Tax Revenue Debt Affordability Targets</b>		
<i>Category</i>	<i>Allowable Uses &amp; Status</i>	<i>Debt Policy Maximum</i>
Discretionary 40%	<i>Bus &amp; Rail, Capital &amp; Operating.</i>	40% of Prop C 40% Discretionary revenues.
Highway 25%	<i>Streets, Highways and Fixed Guideway Projects on Railroad Right-of-Way.</i>	60% of Prop C 25% Highway.
Commuter Rail 10%	<i>Commuter Rail and Park and Ride.</i> Operations or capital.	40% of Prop C 10% Commuter Rail.

Security 5%	<i>Transit Security. Operations or capital.</i>	No debt issuance.
Local Return 20%	<i>Any transit purpose and certain roadways heavily used by transit. Distributed to localities based on population.</i>	N/A

<b>Other Revenue Debt Affordability Targets</b>		
<i>Category</i>	<i>Allowable Uses &amp; Status</i>	<i>Debt Policy Maximum</i>
Fare Box Revenue	<i>Any transit purpose.</i>	No further issuance.
Federal Grant Revenue	<i>In accordance with grant.</i>	No further issuance.
State Grant Revenues	<i>In accordance with grant.</i>	No debt issuance.
TDA	<i>Various transit purposes.</i>	No further issuance.
Benefit Assessment Levies	<i>Historically to support rail construction.</i>	100% of levies.
Lease Revenues	<i>Any transit purpose.</i>	Limited issuance for special projects.
Other System Revenue	<i>Any transit purpose.</i>	Limited issuance for special projects.

## V. Purpose of Financing

### A. New Money Financing

New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money bond proceeds may not be used to fund operational activities. The funding requirement by sales tax ordinance category is determined in the context of the CP and Annual Budget. For competitive issuances, the financial advisor will recommend the financing structure based on the type of financial

products to be used and in consideration of market conditions at the time of the sale.

The commercial paper programs are used primarily to provide interim new money funding. Proceeds from the sale of commercial paper are used to provide interim funding for capital expenditures identified in the CP and approved Annual Budget pending receipt of grant funds or long-term bond proceeds to permanently fund those expenditures. The commercial paper notes are retired upon receipt of the grant funds or bond proceeds. The retirement of commercial paper is most commonly a result of the issuance of long-term bonds.

#### B. Refunding Bonds

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to the Board. The target savings amounts listed below are not applicable for refunding transactions that are not solely undertaken to achieve cost savings.

The target savings amount shall be measured using either a call option pricing model or the savings as percentage of par method. When using the call option model to evaluate a refunding whose sole purpose will be to achieve cost savings, the target savings from any particular refunding candidate shall be approximately 80% or more of the expected value of the call option, net of all transaction expenses. The Treasurer shall have discretion in making the final determination to include individual refunding candidates that are above or below the target in order to optimize the policy and/or financial objectives.

Alternatively, the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount may be used with a minimum average savings of approximately 3% for each refunding candidate.

In the event that an interest rate swap or other derivative product is to be used as part of a refunding, the target savings shall be increased to account for any additional ongoing administrative costs, financial risk beyond that of a traditional fixed rate refunding, and loss of future financial flexibility. When a proposed refunding interest rate swap has a variable interest rate swap payment to the LACMTA that is indexed to BMA, then the target savings shall be 85% using the call option method or 3.5% using the percentage of par method.

When a proposed refunding interest rate swap involves a variable interest rate swap payment to the LACMTA that is indexed to LIBOR the target savings shall be 90% using the call option method or 5.0% using the percentage of par method.

## VI. Types of Products

### A. Current Coupon Bonds

Current coupon bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Current coupon bonds may be structured to meet the demands of the investor and, thereby, reduce the cost of borrowing. Bond features may be adjusted to accommodate the market conditions at the time of sale, including changing the dollar amounts for annual principal maturities, offering discount and premium bond pricing, modifying the terms of the call provisions, and utilizing bond insurance.

### B. Zero Coupon and Capital Appreciation Bonds

Zero coupon bonds and capital appreciation bonds have principal amortization that is much slower than level debt service resulting in increased interest expenditure over the life of the bond and, therefore, shall only be recommended in limited situations.

### C. Lease Purchase Financing

Lease purchase financing represents a long-term financing lease that is suitable for financing capital expenditures, including the acquisition and/or construction of land, facilities, equipment and rolling stock

1. Equipment. The LACMTA shall have the ability to consider lease purchase transactions, including certificates of participation, long-term vendor leases, and the use of master lease programs. Financing of equipment will be limited to contracts of at least \$20,000 and a useful life that is greater than 3 years. The final maturity of equipment lease financings will be limited to the remaining useful life of the equipment.
2. Real Property. The final maturity of the financing shall not exceed the remaining useful life of the facility. A lease financing generally should not have a final maturity exceeding 30 years. Principal payments related to real property acquisition or construction are to be amortized so that there will be level debt service payments; although a more rapid amortization may be used to accelerate the repayment.

D. Derivative Products

Derivative products will be considered appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where it will reduce total project cost. The Board approved Interest Rate Swap Policy sets forth the guidelines for interest rate swaps. For derivatives other than interest rate swaps, an analysis of early termination costs and other conditional terms given certain financing and marketing assumptions will be completed. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Derivative products will only be utilized with prior Board approval.

**VII. Structural Features**

A. Maturity of Debt

The final maturity of the debt shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed.

B. Debt Service Structure

Combined principal and interest payments for any particular bond issue will be structured to have approximately level annual debt service payments over the life of the bond. Exceptions will occur for refunding bonds that will have varying principal repayments structured to fill in the gaps created by refunding specific principal maturities. The objective is to have level debt service in aggregate for each lien, with the debt service declining as bonds mature.

C. Lien Levels

Senior and Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint -- typically either cost or capacity -- thus allowing for the most beneficial use of the revenue source securing the bond.

D. Capitalized Interest

Unless otherwise required, capitalized interest will not be employed. This avoids unnecessarily increasing the bond size. Certain types of financings such as certificates of participation, lease-secured financings, and certain revenue bond projects may require that interest on the bonds be paid from capitalized interest until the LACMTA has constructive use of the project and project related revenues are expected to be available to pay debt service.

#### E. Discount and Premium Bonds

While discount and deep discount bonds may slightly reduce the interest cost of the bonds below that of non-discount bonds, the amount of discount will be structured to minimize the negative impact of the resulting lower bond coupon on the ability to subsequently refund bonds for interest savings.

The impact from use of certain premium bonds that are priced to their call date instead of their maturity date will be analyzed to quantify the possible increased cost of the bonds relative to pricing for par bonds, in comparison to benefit from the higher refunding potential from premium bonds. We will generally attempt to limit the amount of premium bonds issued, as well as the amount of the premium.

#### F. Debt Service Reserve Fund

The debt service reserve fund (the “DSRF”) is generally cash funded with bond proceeds. The trustee maintains the DSRF throughout the life of the bonds. A cash funded DSRF is invested pursuant to investment of proceeds guidelines within the respective indenture and interest earnings are generally used to offset debt service payments. In the final year of the bond issue, the cash available in the DSRF is usually used to make the final debt service payment. Since a cash funded DSRF generates interest income, the DSRF has the potential to be cost neutral if the interest earnings equal or exceed the interest rate of the bonds.

An alternative to having a cash funded DSRF is to use a DSRF surety policy obtained from a highly rated bond insurer. The surety policy requires an up-front fee payment to the insurer and results in a loss of future income to the DSRF. The Treasurer will evaluate and document the DSRF funding decision. Factors to be considered in this evaluation include: arbitrage yield restrictions, current interest rates, availability and cost of a surety policy, foregone interest and capital gains from a cash funded DSRF, the relative size of the reserve requirement compared to the prior reserve requirement (refunding issues only), and opportunities for the use of the funds withdrawn from the DSRF including additional capital projects or investment opportunities.

#### G. Amortization

Debt will be amortized within each lien to achieve overall level debt service or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The use of heavily back-loaded principal repayment, bullet and balloon maturities should be avoided, except to achieve wrapped debt service so as to level aggregate outstanding debt service.



## H. Financial and Risk Analysis of Issuance

Net present value cost analysis, assessment of structural risks and complexities, and consideration of restrictions to future financing flexibility will be assessed and documented to determine the most efficient bond type and structuring features. The LACMTA's long-term pooled investment rate will be used as the discount rate when comparing alternatives.

## I. Call Provisions

In general, bonds issued should not include a non-call feature which is longer than 10 years. However, if determined to be financially advantageous, bonds may be issued that are non-callable for periods longer than 10 years. Prior to the use of any non-call provision, the option-adjusted yields on the bonds with and without a non-call provision will be analyzed to determine which is most financially beneficial.

## J. Credit Enhancement

1. Bond insurance. Bond insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue. Bond insurance provides improved credit quality for the bonds as a result of the insurance provider's guarantee of the payment of principal and interest on the bonds. Because of the decreased risk of non-payment, investors are willing to purchase bonds with lower yields than uninsured bonds, thus providing the issuer with interest cost savings.
  - a) Benefit analysis. The decision to use bond insurance is an economic decision. The analysis compares the present value of the interest savings to the cost of the insurance premium. Insurance will be purchased when the premium cost is less than the present value of the projected interest savings.
  - b) Provider selection. The financial advisor will undertake a competitive selection process when soliciting pricing for bond insurance, or in the case of a competitive bond sale, facilitate the pre-qualification of bonds by insurance providers. It is recognized that all providers may not be interested in providing bids or pre-qualifying the issue. Generally, the winning underwriter in a competitive bond sale will determine whether it will purchase insurance for the issue. For a negotiated sale, the Treasurer shall have the authority to purchase bond insurance when deemed advantageous and the terms and conditions governing the guarantee are satisfactory.
2. Letters of Credit. When used for credit enhancement, letters of credit ("LOC") represent a bank's promise to pay principal and interest when due

for a defined period of time, and subject to certain conditions. In the case of a direct pay LOC, the trustee can draw upon the letter of credit to make debt service payments. A stand-by LOC can be used to ensure the availability of funds to pay principal and interest of an obligation.

- a) Liquidity Facility. The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of a liquidity facility.
- b) Provider selection. The financial advisor will conduct a competitive process to recommend a letter of credit provider. The Treasurer will obtain contract approval in accordance with established dollar award policies. Only those banks with long-term ratings greater than or equal to that of the LACMTA, and short-term ratings of P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, may be solicited.
- c) Selection criteria will include, but not be limited to the following:
  - (1) the bank(s) has long-term ratings at least equal to or better than the LACMTA's;
  - (2) the bank(s) has short-term ratings of P-1/A-1;
  - (3) the bank's acceptance of terms and conditions acceptable to the LACMTA. A term sheet will be provided along with the request for qualifications to which the banks will highlight modifications;
  - (4) review of representative list of clients for whom the bank has provided liquidity facilities;
  - (5) evaluation of fees; specifically, cost of LOC, draws, bank counsel and other administrative charges and estimate of trading differential cost.

### VIII. Documentation of Transactions

The decision processes used in each financing process will be fully documented. The documentation will capture information regarding the selection of the financing team, decisions on product selection and structuring features, selection of vendors providing ancillary services and selection of investment securities or products. This information will be compiled into a post-pricing book "transaction file" which will be retained for each financing.

### IX. Credit Objectives

The LACMTA will actively seek to:

1. Maintain and improve the credit ratings of its outstanding bonds.
2. Adhere to benchmarks, overall debt ratios and affordability targets.

3. Have frequent communications with the credit rating agencies.

## X. Method of Bond Sale

- A. The competitive bond sale process will be utilized when it will provide the lowest interest cost for the bond. However, there are three methods of sale: competitive, negotiated and private placement. Each type of bond sale has the potential to provide the lowest cost given the right conditions. The conditions under which each type of bond sale is best used are provided below.

### 1. *Competitive Sale*

- a) Bond prices are stable and/or demand is strong.
- b) Market timing and interest rate sensitivity are not critical to the pricing.
- c) Participation from DBE / SBE firms is best efforts only and not required for winning bid.
- d) Issuer has a strong credit rating.
- e) Issuer is well known to investors.
- f) There are no complex explanations required during marketing regarding the issuer's projects, media coverage, political structure, political support, funding, or credit quality.
- g) The bond type and structural features are conventional.
- h) Bond insurance is included or pre-qualified (available).
- i) Manageable transaction size.

### 2. *Negotiated Sale*

- a) Bond prices are volatile.
- b) Demand is weak or supply of competing bonds is high.
- c) Market timing is important, such as for refundings.
- d) Coordination of multiple components of the financing is required.
- e) Participation from DBE / SBE firms is enhanced.
- f) Issuer has lower or weakening credit rating.
- g) Issuer is not well known to investors.
- h) Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality.
- i) The bond type and/or structural features are non-standard, such as for a forward delivery bond sale, issuance of variable rate bonds or where there is use of derivative products.
- j) Bond insurance is not available or not offered.
- k) Early structuring and market participation by underwriters are desired.
- l) The par amount for the transaction is significantly larger than normal.
- m) Demand for the bonds by retail investors is expected to be high.

3. *Private Placement* is a sale that is structured specifically for one purchaser such as a bank. While this method has not previously been used, the policy reserves to the ability to place its securities privately if the need arises.

## **XI. Investment of Bond Proceeds**

- A. Purchase and Sale of Investments. The LACMTA shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest bond proceeds. Compliance shall be maintained with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested. The Treasurer may direct the investment of bond and lease proceeds in accordance with the permitted investments for any particular bond issue or lease. Providers of structured investment products and professional services required to implement the product or agreement will be recommended based on a competitive process conducted by the financial advisor or investment advisor.
- B. Diversification. Invested proceeds shall be diversified in order to reduce risk exposure to investment providers, types of investment products and types of securities held.
- C. Disclosure. It shall be required that all fees resulting from investment services or sale of products to the LACMTA be fully disclosed to ensure that there are no conflicts of interest and investments are being purchased at a fair market price. Underwriters of the bonds, but not the financial or investment advisor, may bid on the sale of investment products for the proceeds. The financial or investment advisor shall document the bidding process and results and shall certify in writing that a competitive and fair market price was received.

## **XII. Market Relationships**

- A. Rating Agencies and Investors. The Chief Executive Officer and the Chief Financial Officer shall be primarily responsible, along with the Executive Officer – Finance and Treasurer, for maintaining the LACMTA's relationships with Moody's Investors Service, Standard & Poor's and Fitch IBCA Ratings. In addition to general communications, the Chief Executive Officer and the Chief Financial Officer, or their appropriate designees, shall communicate with the analysts of each agency providing an underlying rating at least annually, and prior to each competitive or negotiated sale.

- B. Board Communication. As a means of providing feedback from rating agencies and/or investors regarding the LACMTA's financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board by Board Box Report as material information develops.

### XIII. Continuing Disclosure

It is the policy of the LACMTA to remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 195 days of the close of the fiscal year.

### XIV. Consultants

The financial advisor(s) and its bond counsel will be selected by competitive process through a Request for Proposals (RFP). The LACMTA's contracting policies that are in effect at the time will apply to the contracts with finance professionals. Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria.

- A. Financial Advisor. Financial advisor(s) will be selected to assist in the debt issuance and debt administration processes. Additionally, the financial advisor will conduct competitive processes to recommend providers of financial services and products, including but not limited to: bond underwriters, remarketing agents, trustees, bond insurance providers, letter of credit providers, investment advisors and managers, investment measurement services, and custody services. Selection of the financial advisor(s) should be based on the following:

1. Experience in providing consulting services to complex issuers.
2. Knowledge and experience in structuring and analyzing complex issues.
3. Ability to conduct competitive selection processes to obtain investment products and financial services.
4. Experience and reputation of assigned personnel.
5. Fees and expenses.

Financial advisory services provided to the LACMTA shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance.
2. Monitoring of the debt portfolio and bond proceeds investments to alert LACMTA to opportunities to refund or restructure bond issues or modify investments.
3. Evaluation and recommendation regarding proposals submitted by investment banking firms.
4. Structuring and pricing bond issues, financial instruments and investments.

5. Preparation of requests for proposals and selection of providers for bond counsel, underwriters, remarketing agents, letter of credit banks, investment products, financial products and financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, investment management services, custody services etc.).
  6. Provide advice, assistance and preparation for presentations with rating agencies and investors.
- B. Bond Counsel. Transaction documentation for debt issues shall include a written opinion by legal counsel affirming is authorized to issue the proposed debt, that the LACMTA has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The counsel will be selected from the pool of bond counsel firms.
- C. Disclosure Counsel. When undertaking a competitive bond sale, disclosure counsel may be retained to prepare the official statement if additional independence or expertise is needed. Disclosure counsel will be responsible for ensuring that the official statement complies with all applicable rules regulations and guidelines. Disclosure counsel will be a nationally recognized firm with extensive experience in public finance. The counsel will typically be selected from the pool of bond counsel firms. Most frequently, the disclosure counsel function will administered by either bond counsel or underwriter's counsel.
- D. Disclosure by Financing Team Members. The LACMTA expects that all of its financial advisory team will at all times provide it with objective advice and analysis, maintain the confidentiality of its financial plans, and be free from any conflicts of interest. All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in the best interests of the LACMTA or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

####

	Department	50316 - Professional and Technical Services	Maintenance and Service Contracts	Total
1	Board & Board Secretary Offices	\$280,000	\$69,564	\$349,564
2	Chief Executive Office	605,000	-	605,000
3	County Counsel	359,100	21,375,500	21,734,600
4	Inspector General	97,020	71,200	168,220
5	Ethics	-	-	-
6	Economic Development	1,989,577	9,212,013	11,201,590
7	MASD	769,222	52,916	822,138
8	Finance & Treasury	6,641,955	5,350,495	11,992,450
9	Accounting	1,207,191	1,878,809	3,086,000
10	Office Of Management & Budget	117,381	-	117,381
11	Risk Management	5,478,600	-	5,478,600
12	Procurement & Material Management	597,770	71,875	669,645
13	Human Services	1,516,786	870,571	2,387,356
14	Information & Technology Services	1,196,484	4,671,804	5,868,288
15	Communications	9,655,807	3,169,801	12,825,608
16	Countywide Planning & Development	19,921,909	496,800	20,418,709
17	Construction Project Management	9,894,139	257,300	10,151,439
18	Transit Operations-Bus Sectors And Contract Services	1,011,571	214,085	1,225,656
19	Central Maintenance	34,236	606,887	641,123
20	Facilities	425,992	19,952,567	20,378,559
21	Transit Operations-Non Sectors	7,047,931	68,932,298	75,980,229
22	Transit Operations-Rail	8,388,944	3,349,104	11,738,048
23	Motorist Services	745,636	39,332,500	40,078,136
24	<b>Grand Total</b>	<b>\$77,982,252</b>	<b>\$179,936,088</b>	<b>\$257,918,340</b>

**Metro**

Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2952213.922.2000 Tel  
metro.net**FINANCE AND BUDGET COMMITTEE  
MARCH 14, 2007****SUBJECT: COMPRESSED NATURAL GAS (CNG) HEDGING****ACTION: ADOPT A CNG HEDGING PROGRAM****RECOMMENDATION**

Adopt the Compressed Natural Gas (CNG) hedging program described in Attachment A.

**RATIONALE**

Metro now spends about \$40 million per year on CNG to power our buses. Over the last six years Metro has experienced large positive and negative variances in the cost of CNG. Implementation of the hedging program will minimize large budget variances resulting from the volatility of natural gas prices. Hedging increases budget certainty and facilitates more effective utilization of budgetary resources.

**FINANCIAL IMPACT**

Use of a hedging program to stabilize the CNG natural gas budget will provide budget certainty. However, if the price of CNG remains constant or declines, higher gas prices will be incurred when compared to a declining market environment. When the CNG price increases, our budget is protected by the fixed rate in the swap transaction. For February, the Gas Company's delivered cost of gas will be about \$7.65 per decatherm. Forward pricing consistent with our hedging strategy is currently \$8.72 per decatherm.

**ALTERNATIVES CONSIDERED**

Metro is currently exposed to the variable rate monthly pricing of the Southern California Gas Company (the "Gas Company"). Continuing this status quo approach subjects our budget to the high price volatility experienced over the past several years.

Physical delivery hedging was evaluated and could be employed but it does not provide any advantages over use of financial hedges, while it has a higher anticipated cost as a result of transaction cost, higher forward pricing and presents a greater administrative burden in managing the commodity deliveries.

Several more advanced financial hedging alternatives were also evaluated including commodity futures, etc. However, they are not recommended at this time. After we gain experience in basic CNG hedging, we might consider more sophisticated hedging techniques.



**BACKGROUND**

Metro retained a hedging consultant, McDonald Partners, LLC, to evaluate various hedging alternatives. The consultant recommended that Metro establish a hedging program using “commodity swaps” to lock in a hedged cost of CNG in advance of each fiscal year, Attachment C. In a commodity swap, Metro pays a counterparty a fixed price per therm. The counterparty pays Metro a variable price based on an index that tracks closely with actual price charged by our gas provider. Use of the commodity swap alternative was recommended because it provides the best combination of low risk, hedge effectiveness, and low administrative burden.

To implement the hedges needed for the remainder of FY 2007, all of FY 2008 and the first half of the FY 2009, commodity swaps will be locked in following approval of the hedge program. Subsequent trades will follow the process outlined in Attachment D.

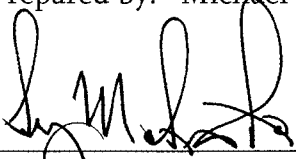
**NEXT STEPS**

1. Pre-negotiate master agreements with potential swap providers
2. Solicit for pricing and make award (will occur 2 to 6 times per year)
3. Finalize documentation with provider
4. Monitor program and provide reporting

**ATTACHMENTS:**

- A. The Compressed Natural Gas Hedging Program
- B. Risks
- C. Executive Summary from Consultant’s Report
- D. Hedge Program Additional Background
- E. Gas Pricing History

Prepared by: Michael J. Smith, Assistant Treasurer



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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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Roger Snoble  
Chief Executive Officer

## Attachment A

## Compressed Natural Gas Hedging Program

Expiration Date: June 30, 2010

Persons Authorized to Execute and Terminate Hedges and related documents and agreements:

- Roger Snoble, Chief Executive Officer
- Lonnie Mitchell, Chief Administrative Services Officer
- Terry Matsumoto, Chief Financial Services Officer
- Michael Smith, Assistant Treasurer

Maximum Trade Maturity:

- 30 months forward or last business day of the fiscal year being hedged.
- 12-month strips covering only the period within the fiscal year being hedged

Hedge Ratio:

- 90% to 100% of planned therms

Maximum Trade Amount:

- Number of therms in budget forecast times the Hedge Ratio divided by value for Frequency of Trades. Total therms hedged for the year may not exceed the Hedge Ratio

Frequency of Trades:

- From 2 to 6 per year as determined prior to budget process for any particular fiscal year.

Timing of Trades:

- Trades will be executed in advance of the budget year. Trade dates shall have at least 30 days separation between trades. (Note: initial trades to hedge FY2007, FY2008 and FY2009 will be exceptions to this provision in order to get the amount of hedges onto the typical timing schedule for the year)

Counterparty Credit Criteria

- |                     |  |
|---------------------|--|
| • Aa3/AA- or better | No collateral required                 |
| • A3/A- or better   | \$25 million limit without collateral  |
| • Baa1/BBB+         | \$15 million limit without collateral  |
| • Baa2/BBB          | \$10 million limit without collateral  |
| • Baa3/BBB-         | \$2.5 million limit without collateral |

### Monitoring

- Quarterly monitoring of counterparty credit ratings and collateral requirements.
- Quarterly reassessment of therms hedged to ensure the planned amount of therms for the fiscal year has not changed materially.
- CPUC actions that may affect WACOG.
- Gas Company's hedging practices.

### Reporting

- Quarterly performance reports to be provided to the Board.

### Mid-Term Corrections and Exceptions

- Changes in the planned amount of therms more than 10% above or below the hedged amount may result in additional hedges or partial termination of the hedges to match the current plan.
- Swaps will not be terminated for the purpose of generating a profit.
- If needed as result of CPUC actions or change in Gas Company's hedging practices, terminate part or all of the hedges.

## Attachment B

## Risks

Any strategy to lock-in future prices carries certain risks. The important risks and mitigation steps are identified below.

1. **Counterparty Risk** – The risk that the counterparty fails to make required payments or otherwise comply with the terms of the swap agreement.

This non-performance would usually result from financial difficulty, but could also occur for physical, legal or business reasons. This risk is mitigated by establishing minimum credit quality criteria, establishing maximum credit limits, requiring collateral on counterparty downgrade and when credit limits are exceeded, limiting the term of the agreement and employing credit rating surveillance.

2. **Forward Pricing Risk** – The risk that the forward price agreed to ultimately does not match the spot rate at the point the purchase would have otherwise been made on a current basis.
3. **Political Risk** – The risk that the hedge program maybe unjustly criticized.

Political risk is mitigated by ensuring that the Board and public are fully informed about the purpose, nature and expectations for the hedge program.

4. **Basis Risk** – The risk that there is a mismatch between the variable rate payment received from the swap provider and the variable cost paid to the Gas Company.

Basis risk is mitigated by selecting products or indices that have a strong correlation with the price changes of the cost to be hedged.

5. **Timing Risk** – The risk that a hedge is priced unfavorably relative to the average cost in the market over the relevant term.

This risk is mitigated by entering into a number of transaction over the term to improve the likelihood that the average price paid for the hedges will more closely approximate the average price in the market over the term.

6. **Termination Risk** – The risk that there will be a mandatory early termination of the commodity swap. An early termination would result in Metro either paying or receiving a termination payment.

Mandatory terminations generally result when one of the counterparties suffers degraded credit quality, illiquidity, bankruptcy or failure to perform. This risk is mitigated by establishing appropriate minimum credit requirements such as minimum credit rating and by establishing safeguards such as requiring collateral posting if credit limits are exceeded or credit ratings decline.



*Natural Gas Hedging Strategy*

*Submitted to:*

*The Los Angeles County  
Metropolitan Transportation Authority*

**McDonald Partners, Inc.**

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February 7, 2007

## Executive Summary

The Los Angeles County Metropolitan Transportation Authority (“Metro”) retained McDonald Partners to assist Metro with the evaluation of hedging policies to address the variability in Metro’s budget due to fluctuations in the price of natural gas. This variability is due to the fact that Metro pays the Southern California Gas Company (“SoCal Gas”) weighted average cost of gas (“WACOG”), which varies from month to month. Since natural gas prices are largely driven by weather and tend to be very volatile, variances between budgeted and actual gas expense can be in the range of \$15-20 million during any given year.

To address this exposure, it is recommended that Metro develop and execute a commodity price hedging strategy designed to *mitigate budget uncertainty*. Such a strategy would not ensure the lowest cost of natural gas, nor would it involve speculation or require Metro policy makers and staff to take a position on the direction of market prices. Rather, the program would be designed so that total natural gas costs, inclusive of the hedge, would be within a narrow band of the natural gas component of Metro’s annual budget.

Our report examines a range of strategies for achieving this objective, including both physical and financial hedges as well as options such as caps and collars. We conclude that the ease of execution and certainty of outcome makes a commodity swap the most appropriate hedging product for Metro. With a swap in place Metro would pay a fixed price to a swap counterparty and receive a variable price based on the Southern California Border First of Month Index which correlates very closely to WACOG. This efficient and low cost hedging tool, if executed with appropriate credit protection, would provide Metro with budget assurance and no significant risk. The attached report provides numerous sensitivity analyses to support this conclusion.

The report also includes a discussion of two important variables that could influence the success of the hedge; changes in expected gas consumption (volume risk) and variability in the relationship between WACOG, and the indexed price used for the hedge (basis risk). Our analysis showed that variances in these two factors, which cannot be hedged, would not be material under most circumstances. An exception may occur in the event of a substantial change in volume due to some unforeseen event such as a labor strike, or a modification in the manner in which SoCal Gas purchases gas.

We recommend executing the commodity swap prior to adoption of the budget in at least two separate transactions with a total volume covering not less than 95% of the expected consumption of gas for the coming fiscal year. Using at least two swaps will provide Metro with a blended fixed price for the year which should reduce the risk that market shocks around the time of execution will result in Metro budgeting, and paying, significantly more for gas than other SoCal Gas customers. Covering at least 95% of the expected gas purchases will minimize budget variance.

Metro should also establish program objectives for eventual inclusion in a formal policy that will direct the program’s implementation. The hedging policy should address:

*LA Metro, Hedging Strategy*

- Authorization to Transact
- Delegation to Staff
- Counterparty Credit Criteria
- Transaction Limits
- Frequency of Trades
- Monitoring and Reporting Responsibility
- Procedures for Mid-Term Corrections or Exceptions

We conclude our report with a brief and informal survey of how other transit agencies as well as public sector gas and electric utilities manage their gas price risk. We found that nearly all of the transit agencies surveyed employ some form of price risk management to ensure budgetary certainty. Strategies ranged from fixed price physical contracts to commodity swaps such as recommended for Metro. Due to the fact that the gas and electric utilities have other price risk concerns and are solving additional problems, their hedging techniques tend to be more elaborate.

**Summary of Recommendations:**

- **Develop and execute a commodity price hedging strategy designed to mitigate budget uncertainty.**
- **Implement the hedging strategy through the use of floating to fixed commodity swaps based on the SoCal Border First of Month Index.**
- **Execute the swaps in at least two separate transactions covering at least 95% of the expected volume of gas.**
- **Establish program objectives and adopt a formal policy that will direct the program's implementation.**

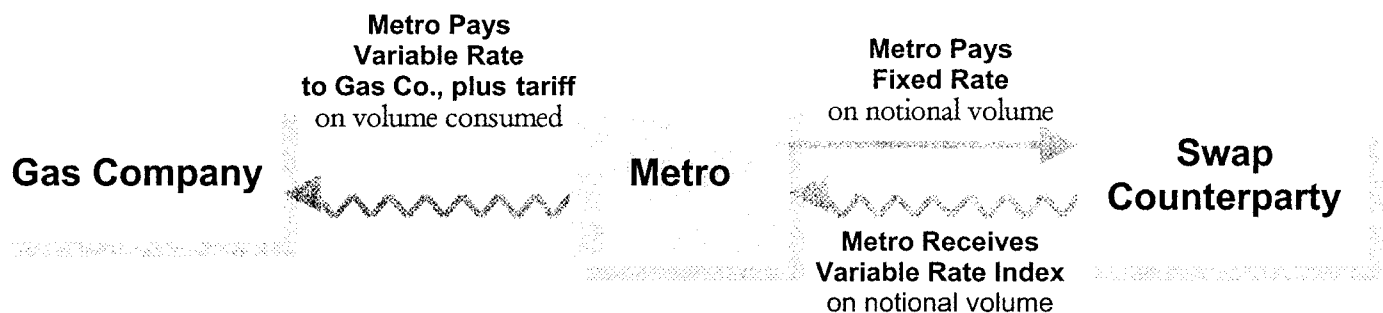


## Attachment D

## Hedge Program Additional Background

Commodity Swaps

The recommended hedging program uses commodity swaps. A commodity swap is not an agreement to purchase natural gas. The swap is an agreement to exchange fixed rate and variable rate payments between the counterparties. In this “variable to fixed” swap transaction, Metro will pay a fixed rate payment to the counterparty and will receive a variable rate payment based on an index. The variable rate swap payments received by Metro will be based on the Natural Gas Intelligence (NGI) Southern California Border Average (First of Month) Index because the Gas Company’s pricing closely resembles that index. The index is used as a proxy because it is not practical to directly hedge the Gas Company’s proprietary cost that Metro is currently exposed to. The fixed rate payment will be determined by a competitive bid process. The commodity swap is a hedge because the amount of the variable rate payments Metro will receive from the swap provider are expected to offset the amount of the actual cost of gas paid to the Gas Company, leaving the fixed rate payment to the swap provider as Metro’s cost of gas. See chart below.

Layering and Averaging

The CNG hedging program will utilize natural gas commodity swaps to provide budget certainty for gas purchased from the Gas Company. The hedge transactions may be executed as much as 30 months ahead of the month they will hedge. This lead-time is necessary to complete the hedging process before the budget development process begins. The hedge transactions will lock in fixed cost that will be the average of the 2 to 6 swaps entered into prior to the fiscal year. Each swap will have a term comprised of 12 monthly periods spanning July through June and will hedge a volume in each month that is spread proportionately among the layered hedges. So, if 4 swaps were layered, each swap would hedge 25% of the volume in each month, see chart below. Execution of the swaps will be spread over the year in order to achieve an averaging of prices in the market. With the hedges in place prior to start of the budget process, a mostly fixed cost may be incorporated in the budget, precluding any large variances.

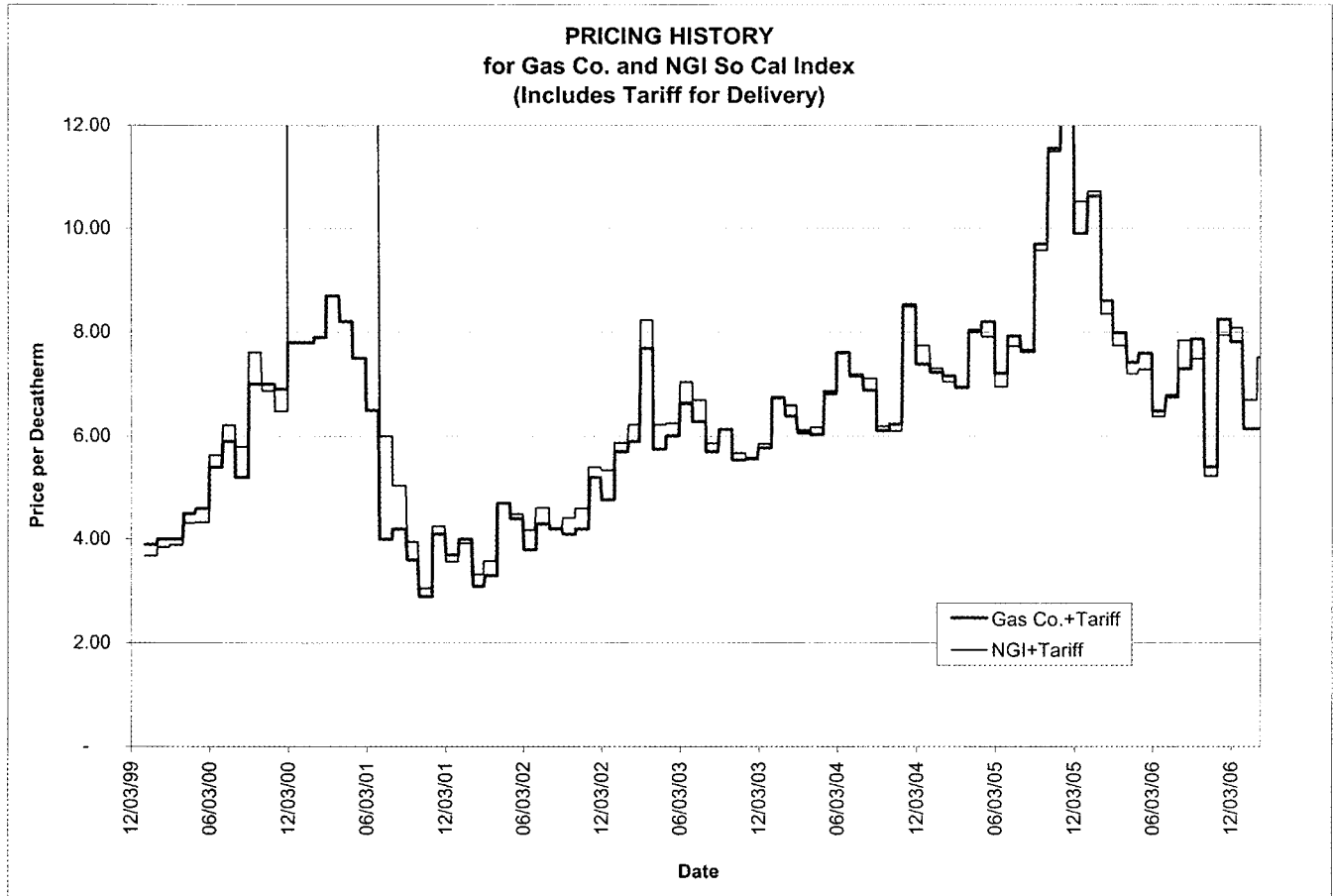
Layer	Transaction Date	Annual Volume	FY09 Fixed Price
1	15-Feb-07	25%	\$8.50
2	15-May-07	25%	\$7.35
3	15-Aug-07	25%	\$8.25
4	15-Nov-07	25%	\$8.00
		100%	\$8.03

### Reporting

While the hedges are outstanding quarterly reports will be distributed to the Board. The reports will address:

- performance of the hedge program
- performance of the hedge trades
- the credit ratings of the counterparties including their respective collateral requirements
- changes in the planned usage for the fiscal year to ensure the amount of outstanding hedges continues to match the planned usage.

### Gas Price History




**Metro**

Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2952213.922.2000 Tel  
metro.net
**MARCH 19, 2007**

**TO: BOARD OF DIRECTORS**

**THROUGH: ROGER SNOBLE  
CHIEF EXECUTIVE OFFICER**

**FROM: TERRY MATSUMOTO  
CHIEF FINANCIAL SERVICES OFFICER AND TREASURER**

**SUBJECT: COMPRESSED NATURAL GAS (CNG) HEDGING PROGRAM**

**ISSUE**

The Finance and Budget Committee requested additional information about the hedging program, Item 8, at the March 15, 2007 meeting.

**DISCUSSION**
**1. *What would the result have been if Metro had hedged for its CNG cost for FY2007?***

We used historic pricing information to replicate hedge pricing for three fiscal years, FY04 through FY06, and for the first nine months of FY07. The hedged prices were compared to the Gas Company's historic monthly rates. The results from hedging, compared to not hedging, are indicated as "Difference Favorable/(Un-favorable)" in the chart below. A positive difference indicates a lower cost by hedging. Overall, through March 2007, hedging would have produced a favorable variance of \$11 million.

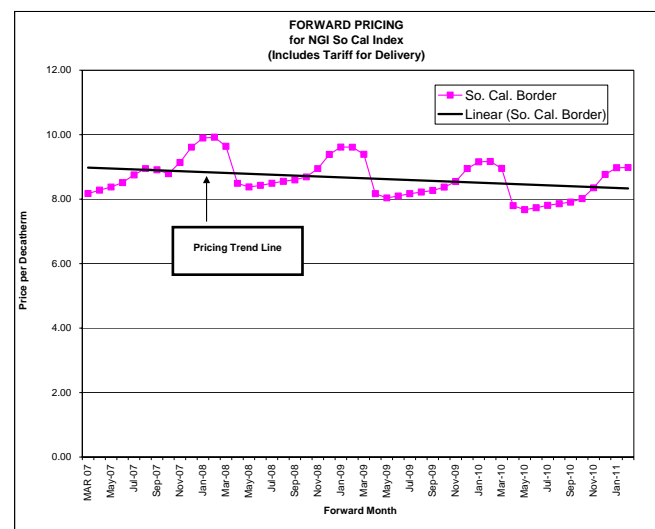
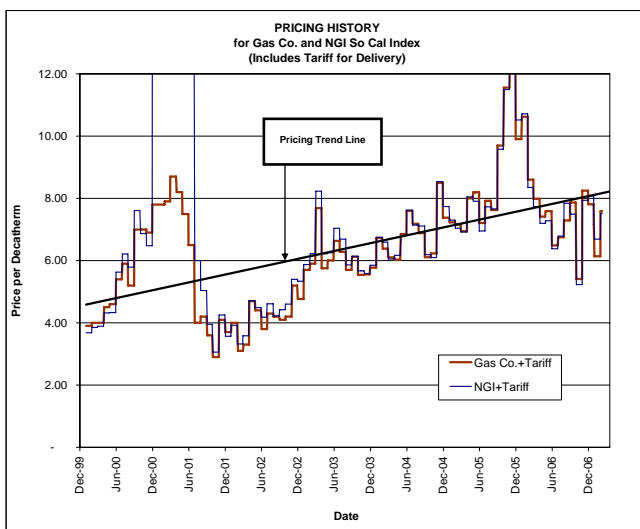
**Los Angeles County Metropolitan Transportation Authority  
Multi-year Summary of Hedge Program Results**

	Hedged Price	Actual Gas Price	Price Difference	Number of Units (Decatherms)	Difference Favorable/ (Un-favorable)
FY04	\$3.83	\$4.92	\$1.10	4,054,785	\$4,441,522
FY05	\$4.79	\$5.95	\$1.16	4,631,130	\$5,368,302
FY06	\$6.19	\$7.67	\$1.48	4,955,443	\$7,320,676
FY07 through March	\$7.74	\$6.15	(\$1.59)	3,825,000	(\$6,087,849)
					\$11,042,651

Although there would have been a negative variance in FY07 between the hedged and actual costs, the hedged price compared to the FY07 budgeted price of \$10.029 would have produced savings of \$8,700,000, through March. Because only the cost of the gas commodity is relevant to the hedge, other costs including the transportation tariff, taxes and other charges are excluded from the analysis. Historically these other costs have added approximately \$1.00 per decatherm, \$0.10 per therm.

**2. What information is available regarding pricing trends in the natural gas markets?**

A trend of generally increasing gas prices began in about 2000, as shown in the chart “Pricing History” below. The Department of Energy’s (DOE) forecast currently indicates an expectation of slightly increasing prices, up one percent in the next year. However, pricing in the forward markets is currently indicating a slight downward trend, as seen in the chart below “Forward Pricing”.



There are any number of sources such as the DOE, including economists, analysts, banks and brokers who attempt to forecast future gas prices. From a financial perspective, forward prices are the best indication of future pricing because they reflect all the information known to the market participants at the time.

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