Attachment B:

Financial Stability Policy

(Modified August 2022)

Policy Statement

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

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

Financial Goals

G1. Maintain public safety on our bus and rail system as the top priority.

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

G3. Continuously improve productivity.

G4. Establish and maintain General Fund balances equal to 5% of the operating budget to ensure that we can adjust to economic downturns, extraordinary cost increases and other financial emergencies.

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

FY2008-2009 Financial Strategies

S1. We give top priority to funding of public safety on our bus and rail system. Present the details of the safety and security budget to the Board of Directors for separate approval at the time of annual budget adoption.

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

S3. Endeavor to keep growth in regional bus and rail operating expenses (as measured by growth in bus and rail operating cost per vehicle service hour) at or below the rate of inflation. The proposed budget presented to the Board for adoption will include a summary of actions taken or proposed to reduce expenditures.

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

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

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

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

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

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

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

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

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

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

S14. Increase revenue from other sources such as advertising, parking, concessions, and joint development while meeting customer needs and providing safe, reliable service.

S15. Prioritize all available Congestion Mitigation and Air Quality (CMAQ) Program federal grants to the greatest extent possible for any eligible operations costs.

General Fiscal Policies

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

F2. An independent certified public accounting firm shall perform an examination of our consolidated financial statements (including Single Audit requirements) and retirement plan financial statements on an annual basis. The goal is to receive an unqualified opinion on the financial statements and an opinion that we are in compliance with Federal Single Audit requirements in all material respects and to receive the government Finance Officers Association (GFOA) award for excellence in financial reporting.

F3. Funds shall be invested within the guidelines of the Board's approved Investment Policy and in compliance with applicable state law, California Government Code Section 53600 etseq.

In accordance with the Investment Policy, the Board shall approve the Financial Institutions Resolution that designates the officials empowered to open, close, or authorize changes to accounts and authorizes the officials to designate individuals as Official Signatories for financial accounts.

F4. The policies and procedures described herein shall be known as the Financial Stability Policy and shall supersede all other financial policies previously adopted by the Board.

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

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

The goal is to maintain restricted cash balances in amounts equal to the present value of estimated liabilities but in no event less than the next year's projected cash outflows. An actuarial review of self-insured liabilities will be made annually.