Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

Metro

Board Report

File #: 2015-1776, **File Type:** Plan **Agenda Number:** 47

REVISED
EXECUTIVE MANAGEMENT COMMITTEE
JANUARY 21, 2016

SUBJECT: RISK ALLOCATION MATRIX (RAM) AND INTERNAL SAVINGS ACCOUNT

ACTION: APPROVE ADOPTION OF RISK ALLOCATION MATRIX (RAM) AND INTERNAL SAVINGS ACCOUNT

RECOMMENDATION

A. ESTABLISHING **Internal Savings Account to capture cost savings and revenues generated from RAM**, including deposits from FY15 budget-to-actual savings and FY16 mid-year budget assessments;

B. DIRECTING the CEO to **implement all RAM new initiatives and deposit all cost savings and new revenues generated into the Internal Savings Account**, as identified in Attachment B;

C. DIRECTING the CEO to **return to the Board on those initiatives requiring policy changes or Board action before implementing each initiative**, as identified in Attachment B; and

D. APPROVING **Internal Savings Account eligible priority uses and withdrawal criteria guidelines**, as identified in Attachment C. Quarterly updates and monitoring of the activities of the account will be provided to the Board.

AMENDMENT: CEO will have authority to withdraw funds for eligible uses in the priority order specified. Withdrawal of funds by the CEO will be allowed if within current Board-approved budget authority and in accordance with agency policies. Use of funds not specified as eligible will require ~~unanimous~~ ¾ majority Board approval.

ISSUE

Based on the most recent 10-year financial forecast (Attachment A), Metro is projecting a financial deficit of $272.6M in FY19. In order to mitigate this projected budget shortfall, we must take small steps now in order to avoid the need for drastic measures in the future. By establishing an internal savings account, implementing new initiatives for cost savings and revenue generation, and depositing the resulting funds into the internal savings account, Metro can achieve financial stability.

DISCUSSION

In June 2015, the CEO introduced the Risk Allocation Matrix (RAM), a concept for fostering a culture of financial discipline throughout the agency. The RAM concept offers a strategic mix of cost saving and revenue generating opportunities to implement in order to mitigate the projected financial deficit. All savings and revenues generated will be deposited into an internal savings account with specified guidelines to ensure long-term financial stability.

Risk Allocation Matrix (RAM)

Ensuring financial stability is an agency wide responsibility. Accordingly, in an effort to mitigate the projected deficit, each department throughout the agency identified new and innovative ways to increase revenues or decrease expenses. The result of these efforts is the Risk Allocation Matrix (RAM), a list of new initiatives for cost savings and revenue generation (Attachment B). Each item in the RAM listing has been assigned a risk level, an estimated dollar impact, and an estimated timeline for implementation. In addition, the list of initiatives has been sorted by authority for implementation: some of the items listed can be implemented immediately under CEO authority, while others require separate Board action. Each initiative requiring additional approvals will be brought to the Board separately prior to implementation.

If all items in the list of RAM New Initiatives (Attachment B) are implemented, staff estimates a $171 million total deposit to the internal savings account expected to be realized in FY17, with an additional $89 million estimated deposit to be realized in FY18.

Risk Level

Each RAM new initiative has been assigned a risk level of low, medium, or high. Since the initiatives submitted vary greatly in nature and cover nearly all Metro functions, risk was assessed on a case-by -case basis using many factors:

- Does implementation of the idea fall under Metro’s jurisdiction, oversight, or control?
- How would the initiative impact the safety of passengers and employees?
- What is the overall impact to transit riders?
- Are other ongoing Metro projects or daily operations likely to be affected?
- Would implementation conflict with Metro’s current objectives and goals?
- Are there political, financial, or legal risks?
- What is the likelihood of success in implementation, adoption, and realization of savings or revenues?
- What is the estimated timeline for implementation?

Based on assessment of these areas, each idea submitted was assigned a risk level. Low risk items have minimal upfront costs and minimal impact to current operations. Medium risk initiatives have some risks, with mitigation efforts available, and uncertain financial impacts. Staff recommends implementation of all low and medium risk initiatives in Attachment B.

High risk items are more complex and risky changes for which financial and legal risks are high. In addition, for many of the high risk submissions, there is a significant impact to riders and the public. Due to these factors, high risk items are not being recommended at this time.

RAM Initiatives under CEO Authority

Staff recommends immediate implementation of all low and medium risk new initiatives with authority for implementation falling under the CEO. These items have been grouped by category and estimated fiscal year in which the projected savings or revenues are expected to be realized.

An overall description of the items in each category is summarized in the table below. Details on the specific initiatives included in each category can be found in Attachment B.

RAM Initiatives Under CEO Authority			
Category	**Description**	**Estimated Impact FY17**	**Estimated Impact FY18**
Administrative Efficiency	Measures to reduce expenses related to administrative functions such as payroll and revenue collections	$80,000	$400,000
Advertisement	Initiatives for new and expanded advertising efforts for which implementation has already begun	$321,100	$583,100
Inventory Reduction	Reduction of obsolete inventory as well as reduction of annual inventory costs based on historical consumption and return rates		$16,500,000
Reallocation of Funds	Methods for reallocating funds or identifying new funding sources in order to free up funding eligible for transit operations	$35,700,000	$28,000,000
Repurposing Metro Property	Innovative ideas for using Metro owned property to generate revenues Planning & Development is currently assessing potential impacts; projections for additional revenues are TBD	TBD	TBD
Staffing	Investigate potential cost savings related to achieving the optimum ratio of employees to consultants, and pursue the revenue opportunity of outsourcing Metro functions Due to the detailed assessment required, potential revenue impacts are TBD	TBD	TBD
Transit Operations	Various operational efficiency measures and service rationalizations resulting in minimal customer impacts, such as load factor revisions already approved and efficiency improvements for vehicle fueling	$23,618,590	$1,228,000
Transit Security Improvements	Increase fare inspections	$8,000,000	$8,000,000
	Total New Initiatives Under CEO Authority	**$67,719,690**	**$54,711,100**

RAM Initiatives Requiring Board Action

Staff recommends pursuing implementation for those items requiring Board action. These initiatives will be separately presented to the Board for the necessary approvals prior to implementation. These items have been grouped by category with the estimated fiscal year in which the projected savings or revenues are expected to be realized.

An overall description of each category is summarized in the table below. Details on the specific initiatives included in each category, as well as the policy changes and approvals required for implementation can be found in Attachment B.

RAM Initiatives Requiring Board Action			
Category	**Description**	**Estimated Impact FY17**	**Estimated Impact FY18**
Advertisement	Initiatives for new and expanded advertising efforts, including increased ads at transit stations, onboard audio advertising, and a Metro sponsorship policy	$700,000	$2,260,000
Enforcement of Contract Terms	Establish a special retention account to hold contractors liable for meeting SBE commitments		$1,000,000
Parking	Strategies for increasing parking revenues, including a pilot paid parking program at high occupancy Metro parking facilities and increased parking enforcement		$3,500,000
Reallocation of Funds	Potential bond savings as a result of sale of current Metro property		$1,083,333
Repurposing Metro Property	Innovative ideas for using Metro owned property to generate revenues Planning & Development is currently assessing potential impacts; additional projections for revenues are TBD		$250,000
Reserves	Evaluate reserve amounts while maintaining acceptable, appropriate, and legally mandated reserves	$100,000,000	
Station Amenities	Installation of new revenue generating amenities at transit stations, such as ATMs and vending machines Planning & Development is assessing potential impacts; additional projections are TBD		$1,000,000
Toll Revenues & Fares	Consideration of adjustments to ExpressLanes policies and tolls, as well as reassessment of pricing on all programs offering a reduced or group rate pricing for transit passes Additional impacts are TBD		$5,000,000
Transit Operations	Operational efficiency measures and service rationalizations resulting in moderate customer impacts	$3,422,800	$2,580,000
Transit Security Improvements	Modify terms of insurance requirements in new law enforcement contract		$18,000,000
	Total New Initiatives Requiring Board Action	**$104,122,800**	**$34,673,333**

Internal Savings Account

Staff recommends establishing an internal savings account. The goal is to establish an account with guidelines that ensure prudent use of the new revenues and savings achieved through implementation of RAM initiatives. The first priority for the internal savings account will be to mitigate the projected financial deficit. As with all Metro funding, the internal savings account will be segregated by eligible use.

The Internal Savings Account will be established with the following three deposits:

1. FY15 Budget-to-Actual variances ($25.7M)
   This represents the difference between FY15 budget to actual revenues and expenditures.

2. FY16 Mid-year budget assessment ($4.5M)
   The agency reviewed and evaluated their FY16 budgets. Savings were generated through improved and realistic cashflow projections.

3. RAM New Initiatives (Est. $67M - $171M)
   This represents all the initiatives presented in this report, contingent upon required Board action and actual implementation/realization of initiatives.

Projections show that $201 million could be deposited into the Internal Savings Account in FY17.

Eligible Uses and Withdrawal Criteria

Most of Metro's funding has specific guidelines for how the monies can be used. Accordingly, the funds in the internal savings account must be identified and separated by eligible use. The eligible priority uses are as follows.

1. Transit operations deficit
2. State of good repair
3. Transit capital projects

Staff recommends adopting guidelines for withdrawal of funds from the internal savings account. The guidelines will ensure that savings and revenues generated will be applied to the eligible priority uses established. Attachment C provides the recommended guidelines for the Internal Savings Account.

Additionally, the Chief Executive Officer will have authority to withdraw funds from this account for eligible uses as defined in the Internal Savings Account guidelines and in accordance with color of money, annual budget limit authority, and agency policies.

Withdrawing funds outside the uses specified in the guidelines will require Board authorization and unanimous approval by the Board.

DETERMINATION OF SAFETY IMPACT

This will have no impact on safety standards for Metro.

FINANCIAL IMPACT

Based on current projections, successful implementation of all low and medium risk initiatives could result in an estimated $171 million in deposits by FY17. An additional deposit of $30.2 million will be made from FY15 budget-to-actual variances and mid-year budget assessments, resulting in a total of $201 million deposited to the internal savings account by FY17. Assuming all funds in the internal savings account are used to mitigate the projected operating deficit, the resulting revised 10-year financial forecast (Attachment A) estimates that the deficit would be delayed from FY18 to FY20. In addition, the projected FY20 deficit of $360.5 million would be reduced by 54% to a total of $165.8 million.

Impact to Budget

Staff will include the approved options falling under CEO authority in the FY17 budget. Budget impacts of items in the listing of RAM new initiatives requiring Board action will be separately presented to the Board for approval prior to implementation.

ALTERNATIVES CONSIDERED

If implementation of the RAM new initiatives is not approved by the Board, forecasts show an estimated $51 million deficit in FY18, which will increase drastically to $272 million by FY19. To avoid the consequences of this projected budget shortfall, other cost savings or revenue generation strategies must be explored immediately.

NEXT STEPS

If approved, staff will immediately begin implementation of the adopted low and medium risk options under CEO authority. In addition, staff will continue to pursue implementation of items requiring separate Board approval.

Staff will provide the Board with a quarterly statement of activities for the internal savings account to include detailed information on all deposits and withdrawals.

RAM will be an ongoing process; staff will establish procedures for continued collection of new initiatives and monitor the progress and achievement of savings and revenues generated.

ATTACHMENTS

Attachment A - Ten-Year Financial Forecast and RAM impact
Attachment B - RAM New Initiatives
Attachment C - Internal Savings Account Guidelines

Prepared by:

Michelle Navarro, Director, Countywide Planning & Development, (213) 922-3056
Koreyne Clarke, Budget Management Analyst IV, (213) 922-2801

Reviewed by:

Nalini Ahuja, Executive Director, Finance & Budget, (213) 922-3088

Phillip A. Washington
Chief Executive Officer