



**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT (METRO) FINANCE, BUDGET
AND AUDIT STANDING COMMITTEE AGENDA REGULAR MEETING
AUGUST 13, 2021 – 8:00AM**

**DUE TO COVID-19, THE AUGUST 13, 2021 SANTA CRUZ METRO FINANCE, BUDGET AND
AUDIT STANDING COMMITTEE MEETING WILL BE CONDUCTED AS A
TELECONFERENCE PURSUANT TO THE PROVISIONS OF THE GOVERNOR’S
EXECUTIVE ORDERS N-25-20 AND N-29-20, WHICH SUSPEND CERTAIN REQUIREMENTS
OF THE RALPH M. BROWN ACT**

MEMBERS OF THE PUBLIC MAY NOT ATTEND THIS MEETING IN PERSON

Directors, staff and the public may participate remotely via the Zoom website [at this link](#) and entering the passcode (727673) or by calling 1-669-900-9128 Meeting ID 847 3584 5848

Public comment may be submitted via email to boardinquiries@scmttd.com. Please indicate in your email the agenda item to which your comment applies. Comments submitted before the meeting will be provided to the Directors before or during the meeting. Comments submitted after the meeting is called to order will be included in the Board’s weekly correspondence that is posted online at board meeting packet link.

The Finance, Budget and Audit Standing Committee Meeting Agenda Packet can be found online at www.SCMTD.com.

The Committee may take action on each item on the agenda. The action may consist of the recommended action, a related action or no action. Staff recommendations are subject to action and/or change by the Board of Directors.

COMMITTEE ROSTER

Director Shebreh Kalantari Johnson	City of Santa Cruz
Director Manu Koenig	County of Santa Cruz
Director Donna Lind	City of Scotts Valley
Director Mike Rotkin	County of Santa Cruz
Alex Clifford	METRO CEO/General Manager
Julie Sherman	METRO District Counsel
Chuck Farmer	METRO CFO

MEETING TIME: 8:00AM

NOTE: THE COMMITTEE CHAIR MAY TAKE ITEMS OUT OF ORDER

- 1 CALL TO ORDER**
- 2 ROLL CALL**

3 ORAL AND WRITTEN COMMUNICATIONS TO THE FINANCE, BUDGET & AUDIT STANDING COMMITTEE

This time is set aside for Directors and members of the public to address any item not on the Agenda, but which is within the matter jurisdiction of the Committee. If you wish to address the Committee, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Committee and included for the official record, please include it in your email. Comments that require a response may be deferred for staff reply.

4 ADDITIONS OR DELETIONS FROM AGENDA/ADDITIONAL DOCUMENTATION TO SUPPORT EXISTING AGENDA ITEMS

5 MONTHLY FINANCIAL UPDATE

Chuck Farmer, CFO

6 KEY PERFORMANCE INDICATORS (KPI) REPORT FOR 4TH QUARTER THROUGH JUNE 30, 2021

Chuck Farmer, CFO

7 PENSION AND OPEB DISCUSSION

Chuck Farmer, CFO

8 CEO ORAL REPORT / COVID-19 UPDATE

Alex Clifford, CEO

9 ADJOURNMENT

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Public Comment

If you wish to address the Board, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Board and included in the official report, please include it in your email. Comments that require a response may be deferred for staff reply.



Year to Date Monthly Financial Report as of July 31, 2021

Finance, Budget & Audit Standing Committee

August 13, 2021

Chuck Farmer, Chief Financial Officer

FY21 Pre-Audit Financials

FY21 Operating Revenue and Expenses

	<u>YTD June 30, 2021</u>		
	Actual	Budget	Fav / (Unfav)
Operating Revenue			
Passenger Fares	\$ 4,780	\$ 10,255	\$ (5,475)
Sales Tax/including Measure D	27,618	25,889	1,729
Federal/State Grants	26,333	19,952	6,381
All Other	729	1,168	(439)
Total Revenue	\$ 59,460	\$ 57,264	\$ 2,196
Operating Expense			
Labor - Regular	\$ 15,928	\$ 18,752	\$ 2,824
Labor - OT	946	1,558	612
Fringe	23,171	25,056	1,885
Non-Personnel	8,931	9,633	702
Total OpEx	\$ 48,976	\$ 54,999	\$ 6,023
Bus Replacement Fund*	\$ (2,314)	\$ (2,265)	\$ 49
Transfers **	(8,170)	-	8,170
Operating Surplus/(Deficit)	\$ -	\$ -	\$ -

* Bus Replacement Fund - \$3M annual commitment from Measure D sales tax (\$2.3M) and STA-SGR (\$0.7M)

** Transfers TBD – UAL/OPEB, Operating Reserves, COVID Recovery Fund

- Preliminary, pre-close/pre-audit year end financials

- Revenues favorable due to higher Sales Tax revenues and unbudgeted COVID related grants

- Actuals include \$8.9M drawdown of CARES/CRRSAA funds

- Expenses favorable due to lower labor/fringe costs as a result of vacant positions and extended unpaid leaves of absence

- Transfers to Bus Replacement Fund favorable due to higher than expected Measure D sales tax

FY21 Capital Budget Spend

\$000's

Project Category:	Full Year Spending*	Full Year Budget	% Spend
Construction Related Projects	\$ 171	\$ 4,434	3.9%
IT Projects	-	800	0.0%
Facilities Repair & Improvements	869	2,487	35.0%
Revenue Vehicle Replacement	594	8,954	6.6%
Revenue Vehicle Electrification Projects	4,391	10,170	43.2%
Non-Revenue Vehicle Replacement	1	254	0.6%
Fleet & Maintenance Equipment	8	133	5.8%
Misc.	303	558	54.3%
Total	\$ 6,337	\$ 27,789	22.8%

Completed projects in FY21

- 4 Proterra electric buses accepted, will be put into service Fall 2021
- 3 ParaCruz vans put into service in June 2021
- Maintenance Facility roof replacement and access control
- Golf Club Dr. fire egress
- Fuel management system
- Vapor compressor system

5.4

FY22 Pre-Close Financials

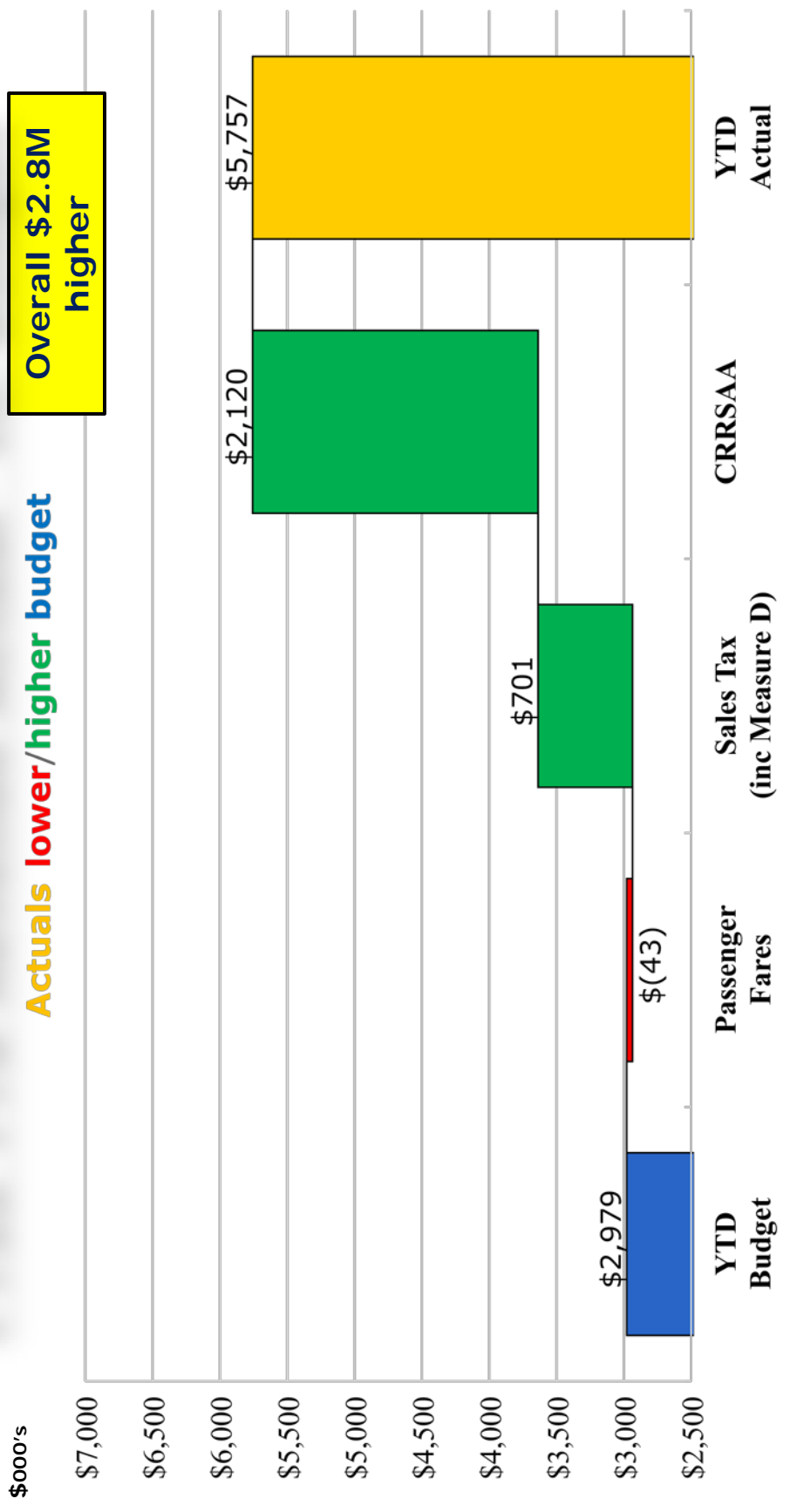
FY22 Operating Revenue and Expenses

	<u>July 31, 2021</u>		
\$ 000's	Actual*	Budget	Fav / (Unfav)
Operating Revenue			
Passenger Fares	\$ 514	\$ 557	\$ (43)
Sales Tax/including Measure D	3,082	2,381	701
Federal/State Grants	2,120	-	2,120
All Other	41	41	-
Total Revenue	\$ 5,757	\$ 2,979	\$ 2,778
Operating Expense			
Labor - Regular	\$ 1,302	\$ 1,577	\$ 275
Labor - OT	160	60	(100)
Fringe	1,955	2,140	185
Non-Personnel	447	815	368
Total OpEx	\$ 3,864	\$ 4,592	\$ 728
Bus Replacement Fund*	\$ (307)	\$ (195)	\$ (112)
Operating Surplus/(Deficit)	\$ 1,586	\$ (1,808)	\$ 3,394

- Revenues favorable due to higher Sales Tax revenues and unbudgeted COVID related grants
- Expenses favorable due to lower labor/fringe costs as a result of vacant positions (32) and extended unpaid leaves of absence
- Transfers to Bus Replacement Fund favorable due to higher than anticipated Measure D sales tax

* Bus Replacement Fund - \$3M annual commitment from Measure D sales tax (\$2.2M) and STA-SGR (\$0.8M)

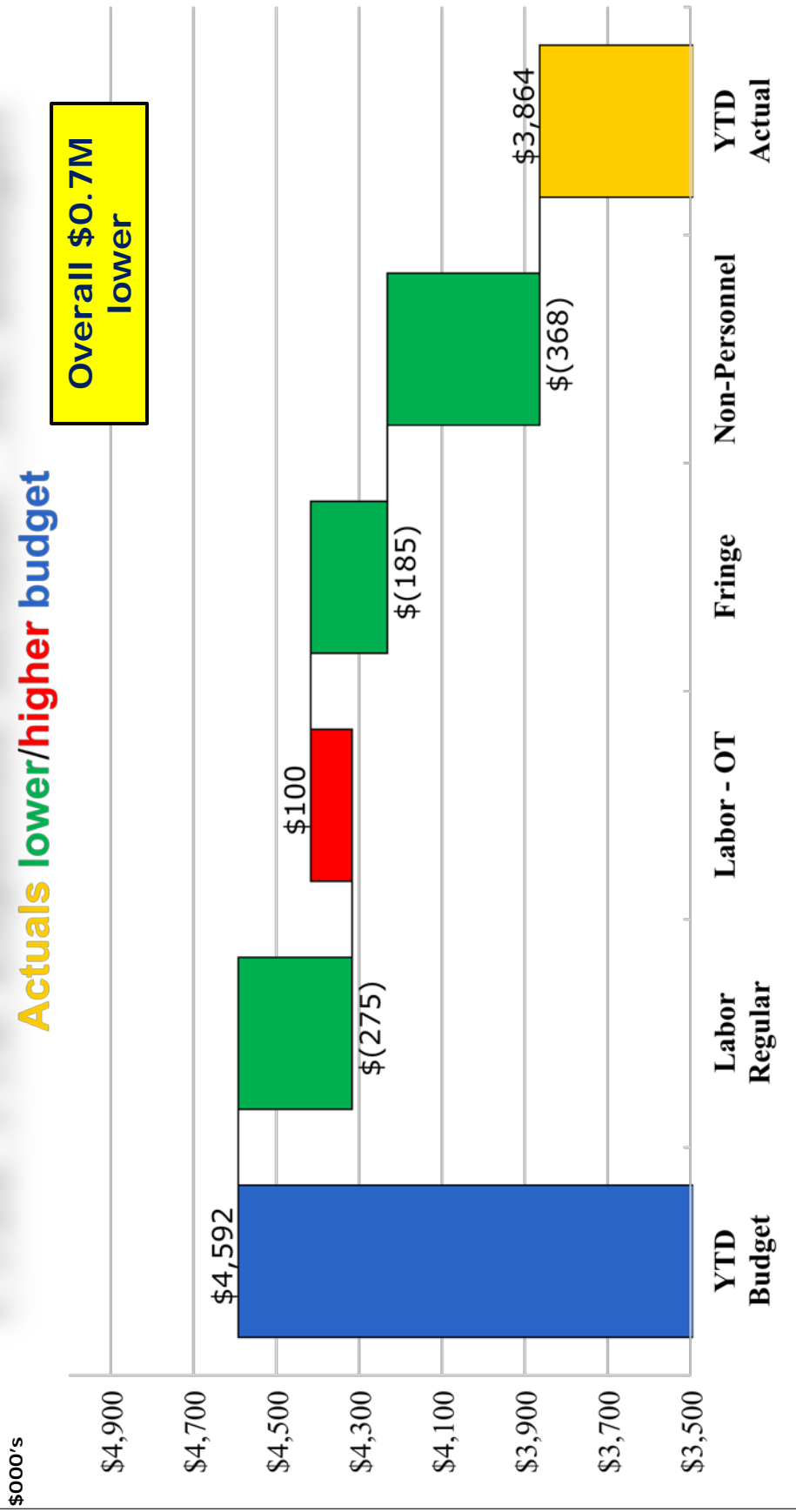
FY22 YTD Revenue Actual* vs. Budget



- Ridership is still below pre-pandemic levels
- Sales tax higher than anticipated
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) anticipated drawdown

* Excludes Transfers

FY22 YTD Expense Actual* vs. Budget



- Personnel lower due to funded/vacant positions; fringe savings is retirement and medical insurance costs
- Non-Personnel lower due to reduced spending in Mobile Materials and Services, related to professional/tech fees, equipment repairs, and fuel/lube/parts/repairs for revenue vehicles

* Pre-close financials, subject to adjustments post close

Capital Budget

FY22 Capital Budget Spend

\$000's	YTD Spending*	Full Year Budget	% Spend
Project Category:			
Construction Related Projects	\$ -	\$ 672	0.0%
IT Projects	-	549	0.0%
Facilities Repair & Improvements	6	1,709	0.4%
Revenue Vehicle Replacement	22	7,351	0.3%
Revenue Vehicle Electrification Projects	-	2,690	0.0%
Non-Revenue Vehicle Replacement	-	250	0.0%
Fleet & Maintenance Equipment	23	125	18.2%
Misc.	37	319	11.6%
Total \$	88	\$ 13,665	0.6%

5.10

- Full year, monthly budget break out is still in process
- Spending of \$88K, or 0.3%, of Capital Portfolio of \$27.2M

Questions?

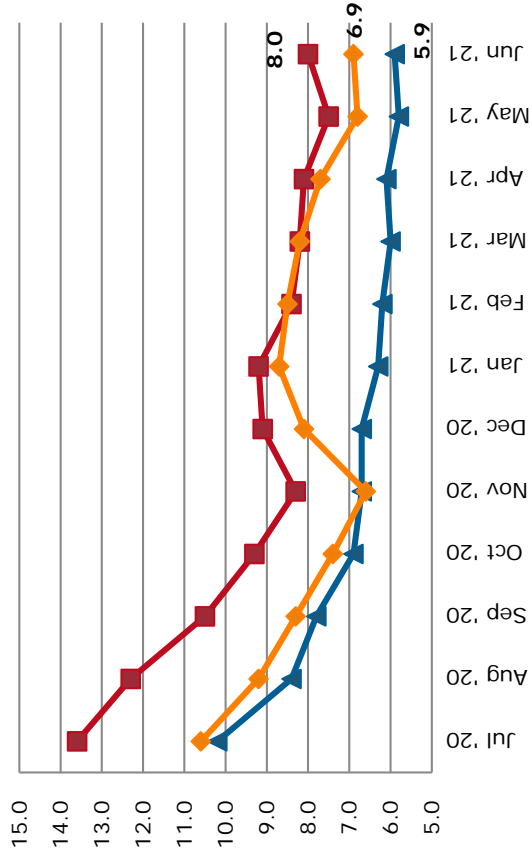
Additional Information

5.12

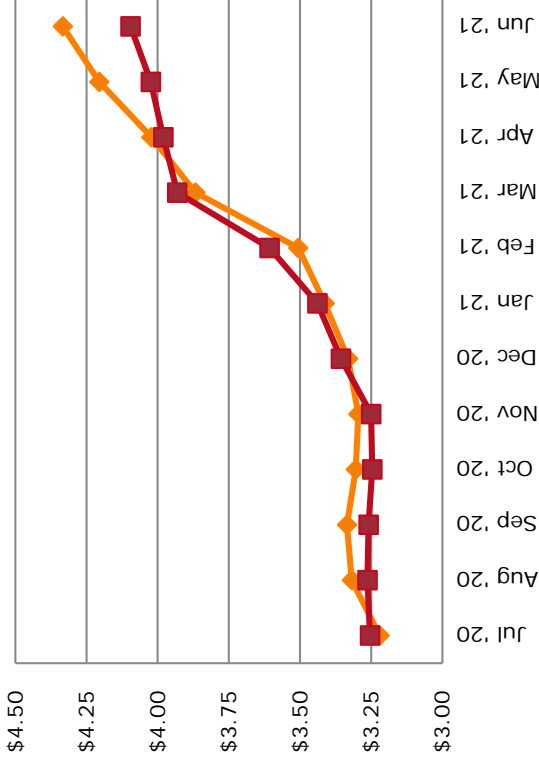
Economic Indicators & Ridership as of June 2021

Unemployment Rate %

■ National
 ■ State of CA
 ■ SC County

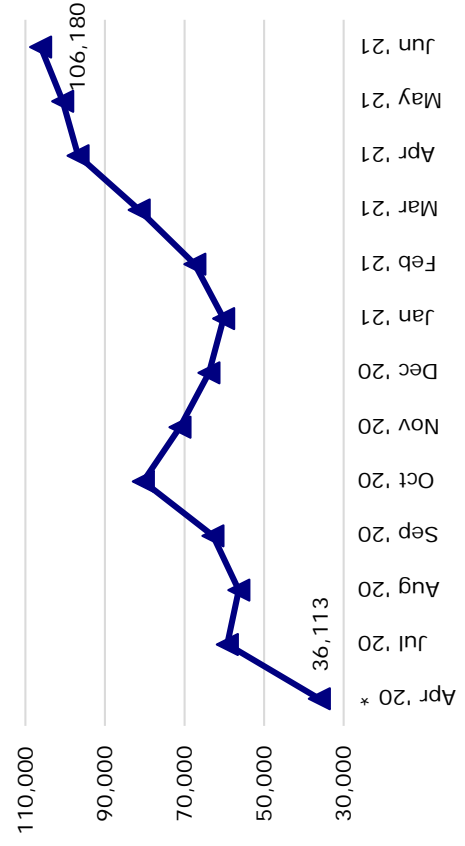


\$ Diesel/Gasoline per Gallon
 San Francisco – Oakland – San Jose
■ \$ Gasoline per Gallon
 ■ \$ Diesel per Gallon



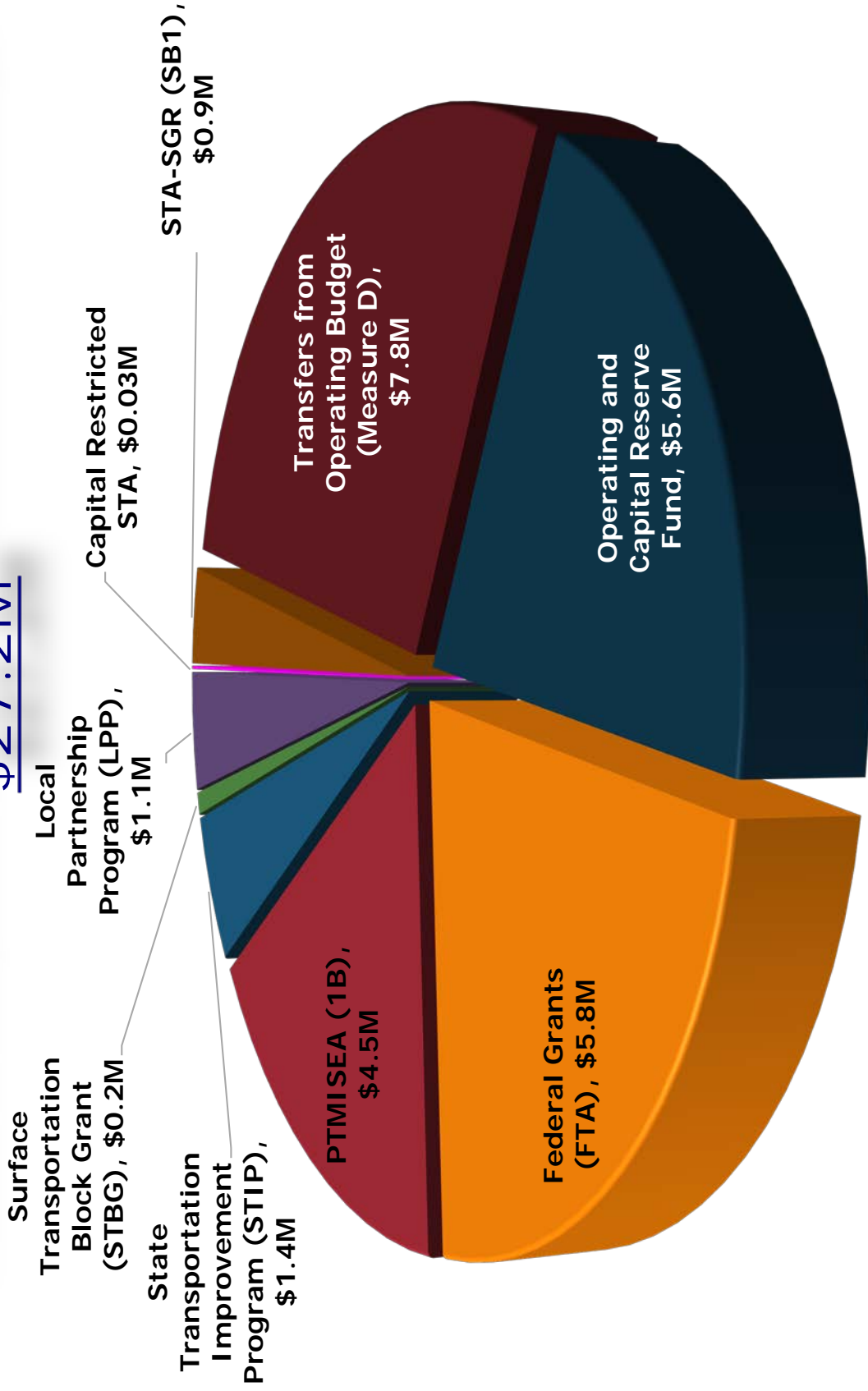
FY20-FY21 Ridership: June YTD			
Ridership	FY20	FY21	% Change
Total	3,493,572	800,634	-77.1%
Hwy 17	200,240	46,024	-77.0%
Local	3,344,240	860,790	-74.3%
UCSC	1,732,537	119,138	-93.1%
Cabrillo	220,054	5,773	-97.4%
Non-Student	1,591,889	781,903	-50.9%

Post Pandemic Ridership Recovery



FY22 & Beyond Capital Portfolio Funding*

\$27.2M



*Full portfolio amounts, will be updated until next budget cycle or if funding sources change



KEY PERFORMANCE INDICATORS (KPI) REPORT FOR 4th QUARTER THROUGH June 30, 2021

Finance, Budget & Audit Standing Committee

August 13, 2021

Chuck Farmer, Chief Financial Officer

Overview of Today's Presentation:

KPI Category	Criteria / Metric
Financial Performance	<ul style="list-style-type: none"> ✓ System Farebox Recovery Ratio ✓ Fixed Route & Commuter Cost / RSH ✓ ParaCruz Cost/Trip
Productivity	<ul style="list-style-type: none"> ✓ Total Ridership and Total Ridership / Hour ✓ Highway 17, USCS, Cabrillo, & Local Ridership ✓ Passengers / RSH by Route
Risk Management & Safety	<ul style="list-style-type: none"> ✓ Traffic Accidents ✓ Passenger Incidents
Reliability	<ul style="list-style-type: none"> ✓ Miles Between Chargeable Road Calls for Fixed Route, Highway 17, & ParaCruz
Dependability	<ul style="list-style-type: none"> ✓ Cancelled Trips by Cause ✓ Cancelled Trips by Region ✓ Pass-Ups

Financial Performance:

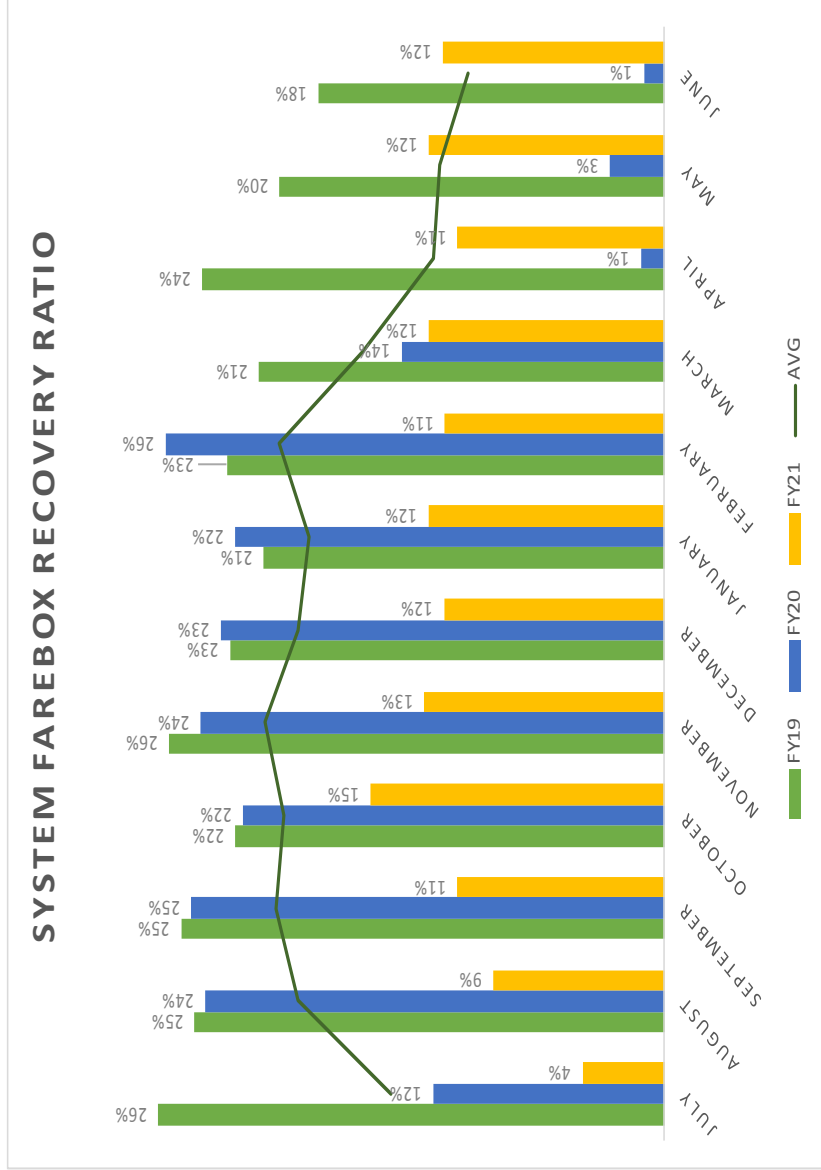
Metric:

System Farebox Recovery Ratio

Description & Importance:

The Farebox Recovery Ratio is an indication of how much of a transit agency's costs are covered by passenger fares and provides insight to the amount of non-passenger revenue (subsidy) needed to cover costs. Additionally, it allows the agency to compare cost-effectiveness within its own service.

SYSTEM FAREBOX RECOVERY RATIO



*Note: June Financial data is pre-audit and pre-close

Current Status:

- As Fare collection resumed in June of FY20 and gained traction, METRO's Farebox recovery ratio peaked in Q2 of FY21, declined in Q3, and stayed level in Q4, with a System Farebox Recovery Ratio between 11% and 12%
- Major factors affecting lower year-over-year performance is the loss of in-person classes at UCSC and Cabrillo. Year-to-date lost revenue from these institutions is approximately \$850K year over year and \$2,219K unfavorable to FY21 budget

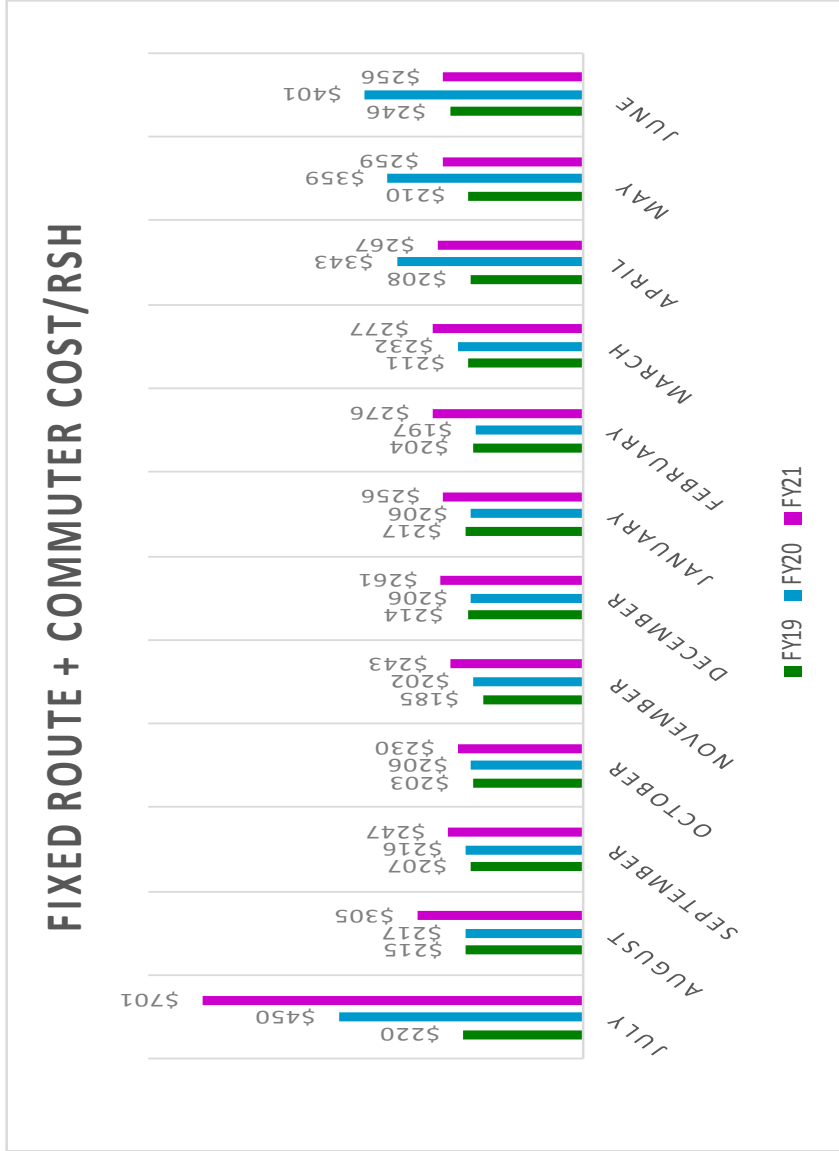
Financial Performance:

Metrics: • Fixed Route & Commuter Cost per Revenue Service Hour (RSH)

Description & Importance: The metrics depict the cost per hour of service and are measured to ensure that transit services are delivered efficiently through effectively tracking and minimizing costs.

Current Status:

- Cost per Revenue Service Hour (RSH) increased in July FY21 because of the PERS pre-payment for the Unfunded Accrued Liability (UAL) for \$4.4M
- Cost per RSH increased in FY21 due to reduced service hours during the pandemic, while costs remained relatively fixed. Throughout Q4 costs have remained steady



Fiscal Year	12 Month Average
FY19	\$211
FY20	\$255
FY21	\$290

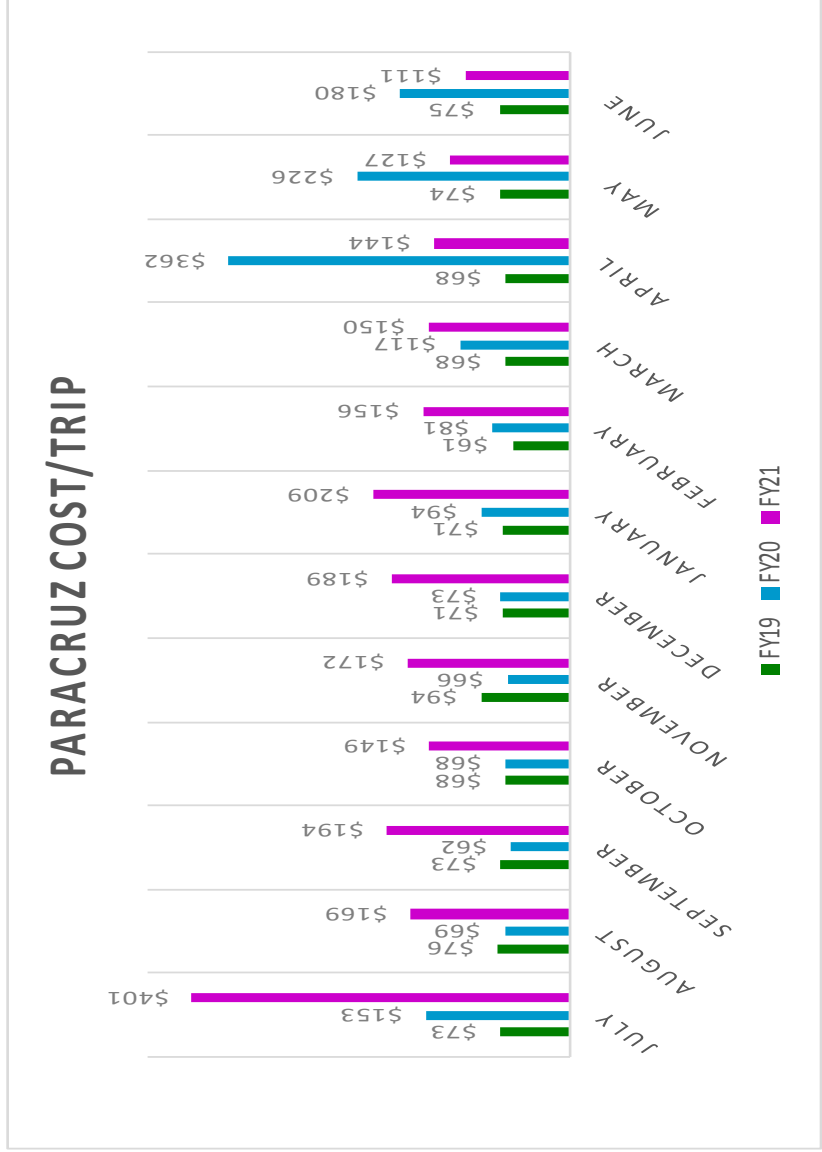
*Note: June Financial data is pre-audit and pre-close

Financial Performance:

Metrics:	<ul style="list-style-type: none"> • ParaCruz Cost per Trip
Description & Importance:	<p>The metrics depict the cost per trip and are measured to ensure that transit services are delivered efficiently through effectively tracking and minimizing costs.</p>

Current Status:

- ParaCruz cost per trip increased in July FY21 because of the PERS pre-payment for the Unfunded Accrued Liability (UAL) for \$4.4M
- ParaCruz cost per trip increased during the pandemic due to reduced trips while costs remained relatively fixed. As of Q4, cost per trip is decreasing due to an increase in ParaCruz trips while costs remained relatively fixed



Fiscal Year	12 Month Average
FY19	\$72
FY20	\$107
FY21	\$174

*Note: June Financial data is pre-audit and pre-close

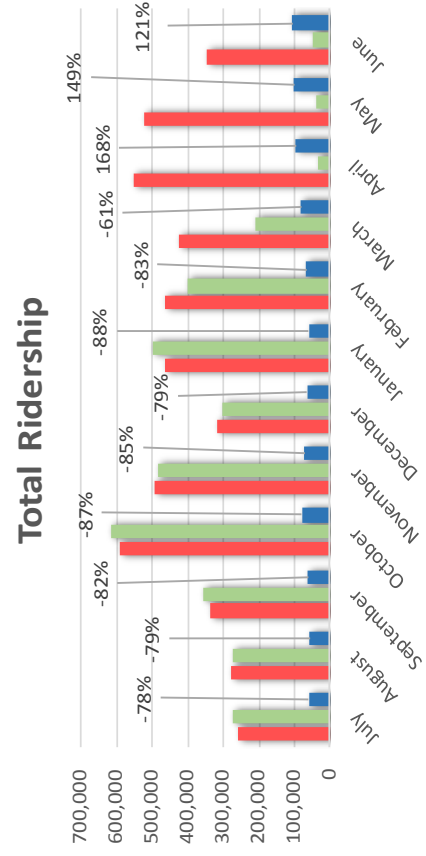
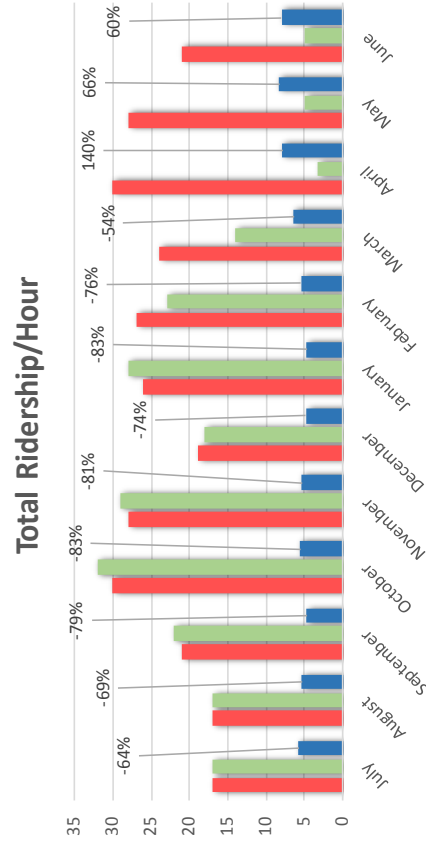
Productivity:

Metrics:

- Total Ridership
- Total Ridership per Hour

Description & Importance:

Total Ridership and Ridership per hour are measures of productivity. The metrics depict seasonal fluctuations in ridership related to holidays, school terms and other.



Current Status:

Total Ridership/Hour has gradually increased throughout Q4 of FY21; in part due to METRO's temporary reduced fare program which will operate from March 22, 2021 through September 15, 2021. This program was implemented to assist METRO's current riders during this difficult time and encourage more people to ride with METRO.

Productivity:

Metrics:

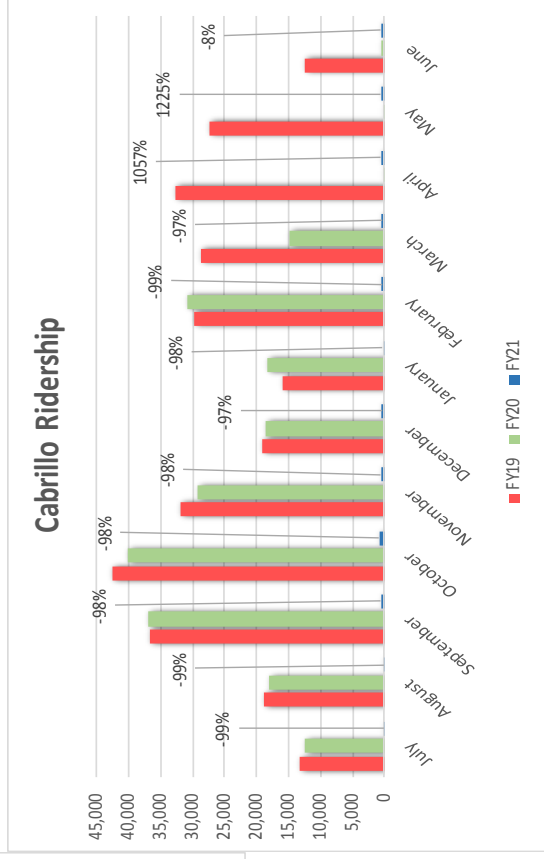
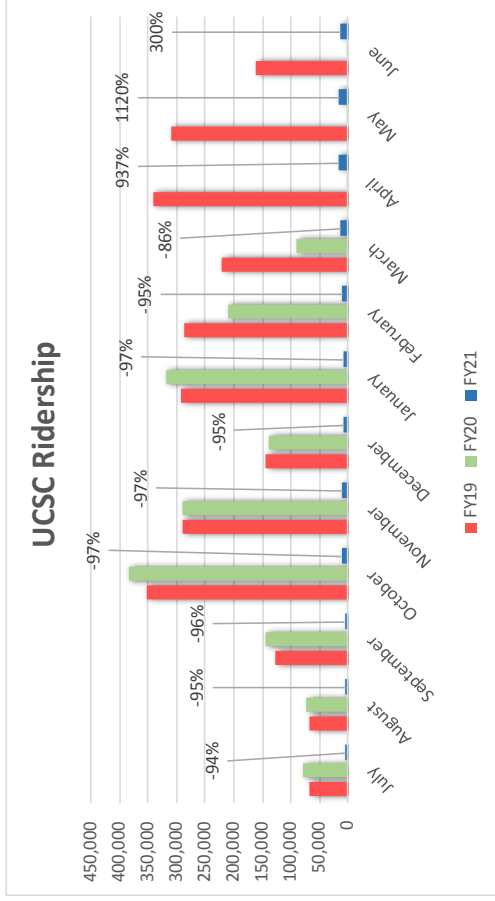
- UCSC Ridership
- Cabrillo Ridership

Description & Importance:

Historically, student ridership has been a large portion of METRO's total ridership. Increases in student enrollment and seasonal trends can be seen year over year in the graphs below.

Current Status:

Ridership decreased when UCSC started online classes. Through FY21 Q4 ridership has been slightly increasing. For example, in Q4 of FY20 UCSC ridership averaged around 2,000/month and in Q4 of FY21 it has jumped to an average of 14,000/month



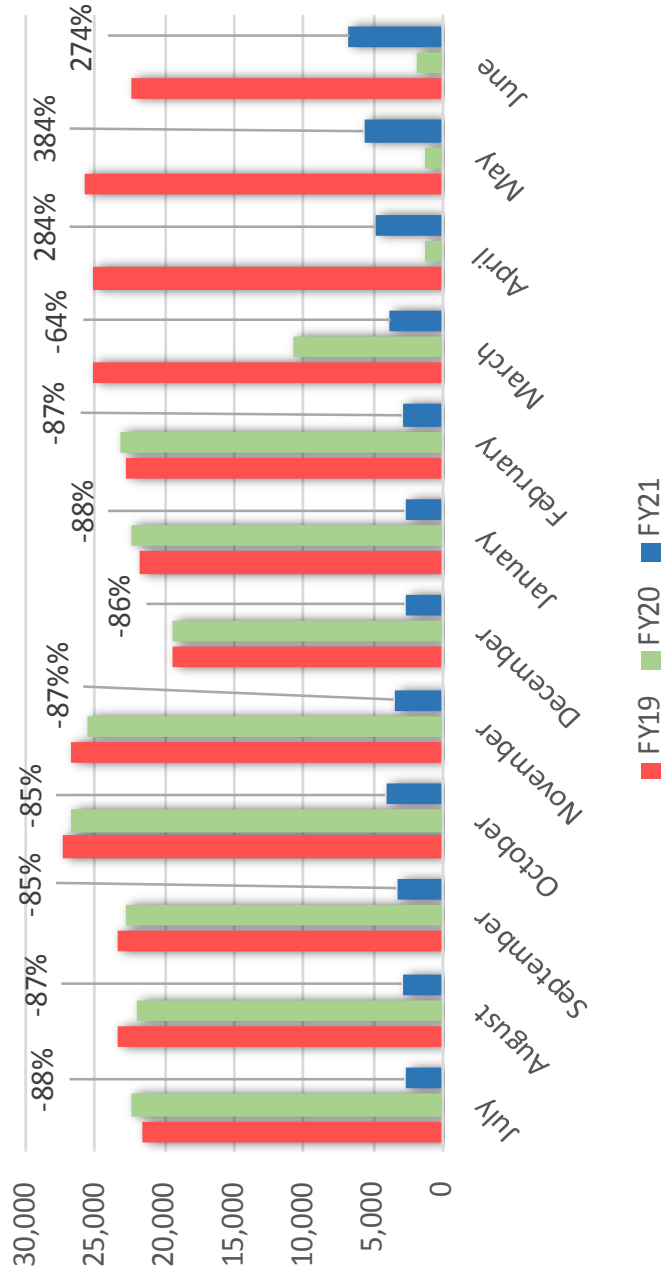
Current Status:

Cabrillo ridership has dramatically decreased since the community college started online classes in March of FY20 and has stayed low throughout FY21 Q4. In Q4 of FY20 Cabrillo ridership averaged around 250/month and in Q4 of FY21 it has jumped to an average of 600/month

Productivity:

Metrics: <ul style="list-style-type: none"> Highway 17 Ridership 	Highway 17 demonstrates METRO's commuter ridership, connecting Santa Cruz to San Jose. Ridership, excluding student and commuter routes, reflects all other local routes within the county.
Description & Importance:	Highway 17 demonstrates METRO's commuter ridership, connecting Santa Cruz to San Jose. Ridership, excluding student and commuter routes, reflects all other local routes within the county.

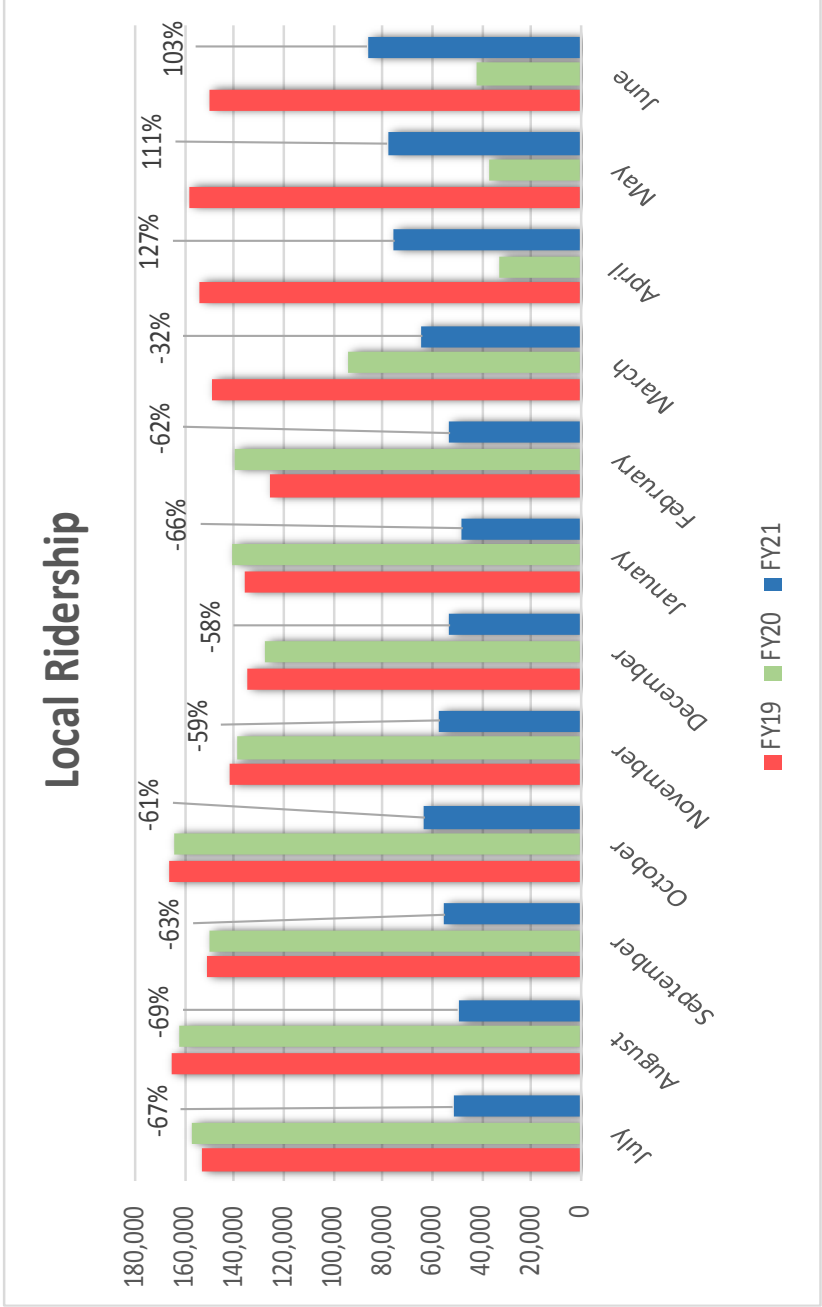
Highway 17 Ridership



Current Status:
 Total Hwy 17 ridership increased throughout Q4 of FY21 since implementing the reduced fare program in late March. The reduced fare program likely encouraged more recreational trips over Highway 17, particularly on the weekend as most students and many former regular Hwy 17 riders are still remote learning and telecommuting.

Productivity:

Metrics:	<ul style="list-style-type: none"> Local Ridership
Description & Importance:	Local Ridership, excluding student and commuter routes, reflects all other local routes within the county.



Current Status:
 Local ridership has been increasing through Q4, reaching the peak for FY21 in June. This is partially due to implementing reduced fares for METRO's riders, which coincided with the county loosening COVID restrictions. Santa Cruz County was in the Orange Recovery Stage for 1.5 months in Q4, and entered the Yellow Recovery Stage on May 18, 2021.

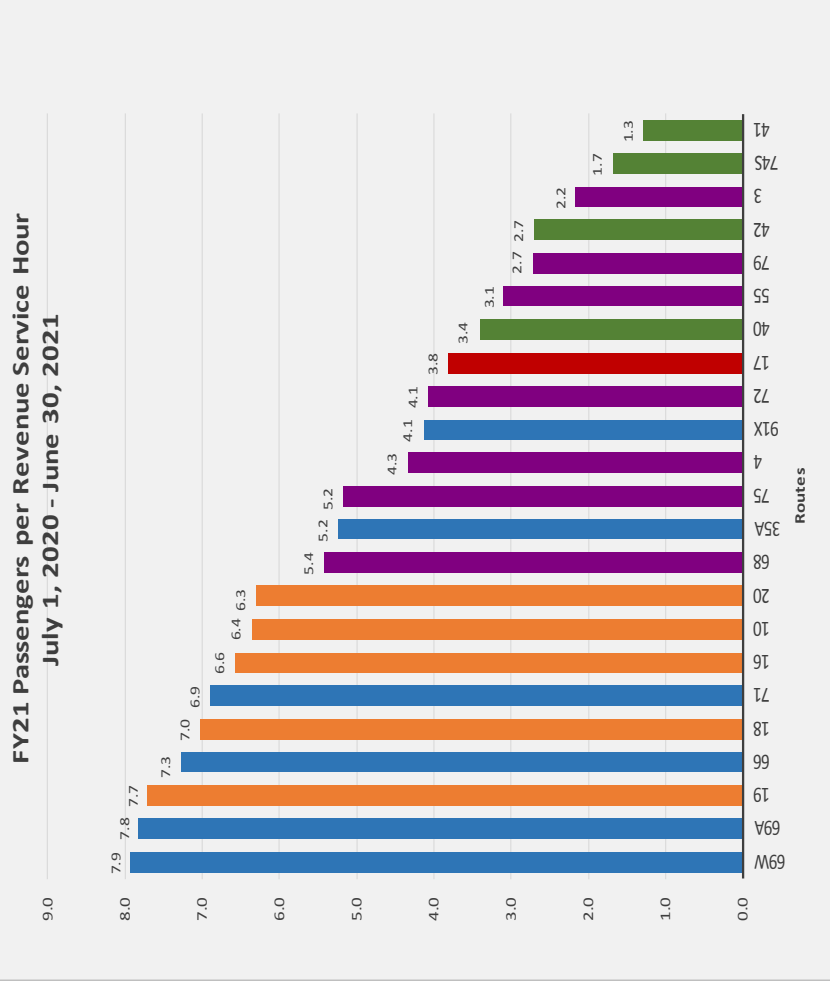
Productivity:

Metrics:

- **FY21 Passengers per Revenue Service Hour by Route**

Description & Importance:

Passengers per Revenue Service Hour (RSH) depicts the overall productivity of each route measured by passengers per hour of service. This ratio of productivity helps the agency focus on poor productivity routes and can stimulate discussions about frequency of service in urban and semi-urban areas of the county versus geographic coverage.



Current Status:

Traditionally UCSC routes have had higher passengers per RSH; however, since COVID-19 and online classes, Intercity routes are showing a higher number of passengers per RSH

Risk Management & Safety:

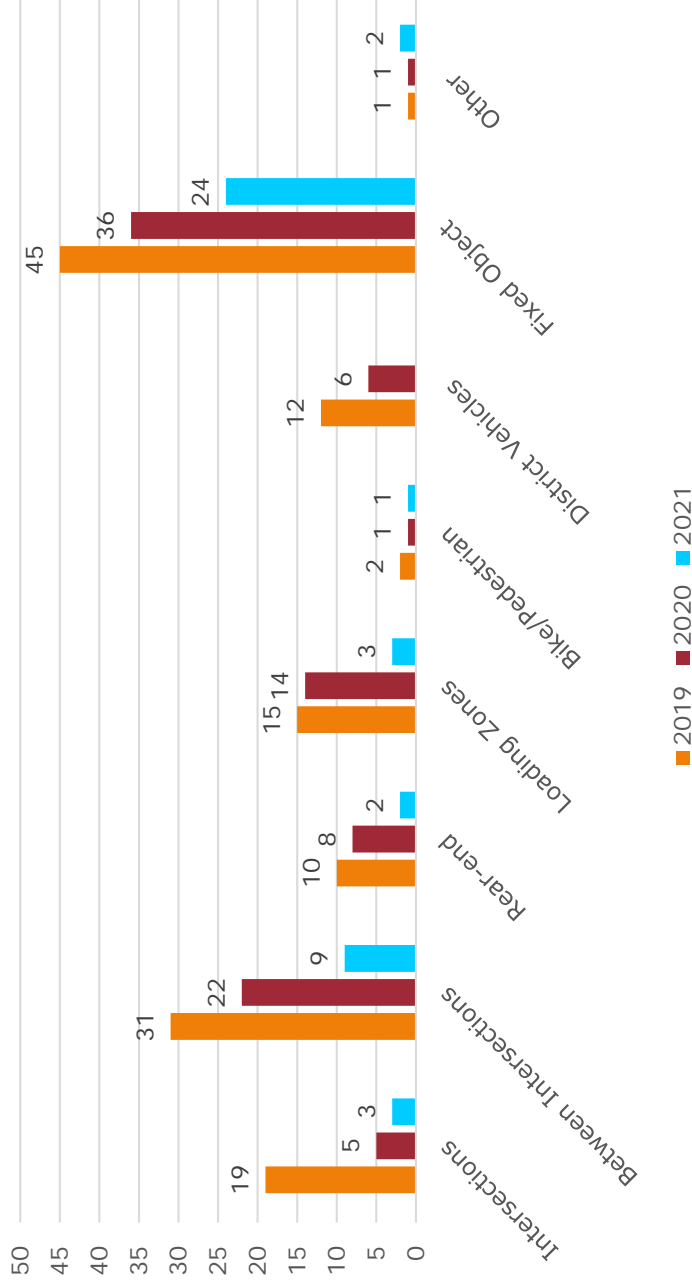
Metrics:

• Traffic Accidents

Description & Importance:

Traffic Collisions are broken down into different categories: in loading zones, in intersections, between intersections, with bicycles, with pedestrians, with other district vehicles, with the rear of the vehicle, and other types of collisions, including with stationary objects. This chart is representative of chargeable accidents only. This metric reflects Accidents that occurred through the entirety of each fiscal year.

Traffic Accidents Year Over Year



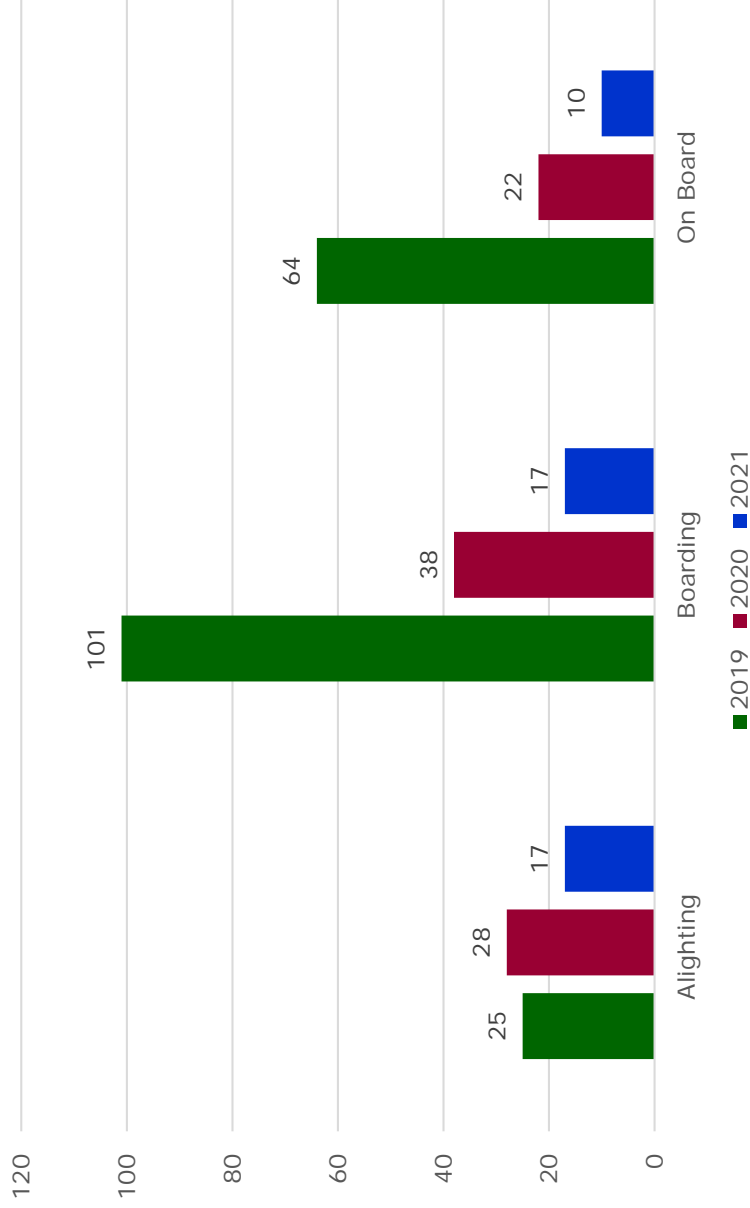
Current Status:

- In FY21 there have been less accidents, compared to prior years. This is likely, in part, due to the lower volume of trips
- There are some traffic accidents with chargeability still pending which are not represented in the metric
- All ParaCruz chargeability has been updated for FY19. FY20 and FY21 are still unknown since their review board has been on hold during the pandemic

Risk Management & Safety:

Metrics:	<ul style="list-style-type: none"> • Passenger Incidents
Description & Importance:	Passenger Incidents are accidents with METRO passengers either while boarding a bus, on board a bus, or alighting (descending) a bus. This chart is representative of chargeable accidents only. This metric reflects Accidents that occurred through the entirety of each fiscal year.

Passenger Incidents Year Over Year



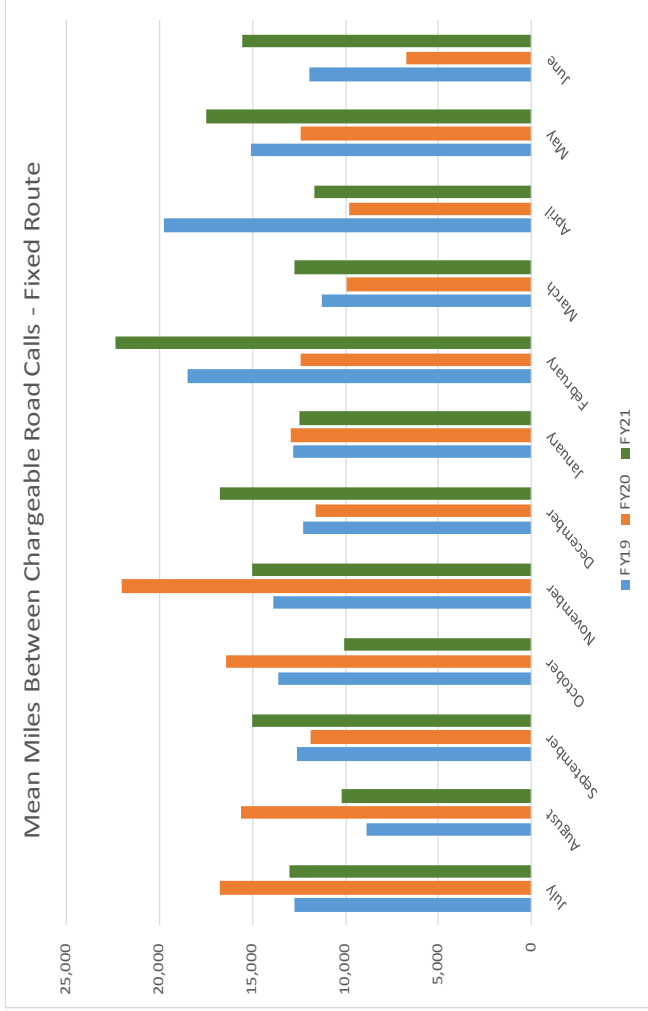
Current Status:

- Similar to Traffic Accidents, there are few passenger incidents to report in FY21 compared to prior fiscal years. This is, in part, due to METRO's decreased service during the pandemic
- All ParaCruz chargeability has been updated for FY19. FY20 and FY21 is still unknown since their review board has been on hold during the pandemic
- ADA status is not currently on operator reports and will be implemented soon

Reliability:

Metrics: Mean Miles Between Chargeable Road calls – Fixed Route (Local)

Description & Importance: A chargeable road call results from a mechanical failure that impedes the vehicle from completing or starting a scheduled revenue trip because actual movement is limited, or there are safety concerns. The mileage depicted is how many miles were run for the month divided by the number of chargeable road calls. The graph below is for METRO's Fixed Route.



Fiscal Year	12 Month Average
FY19	13,610
FY20	13,216
FY21	14,368

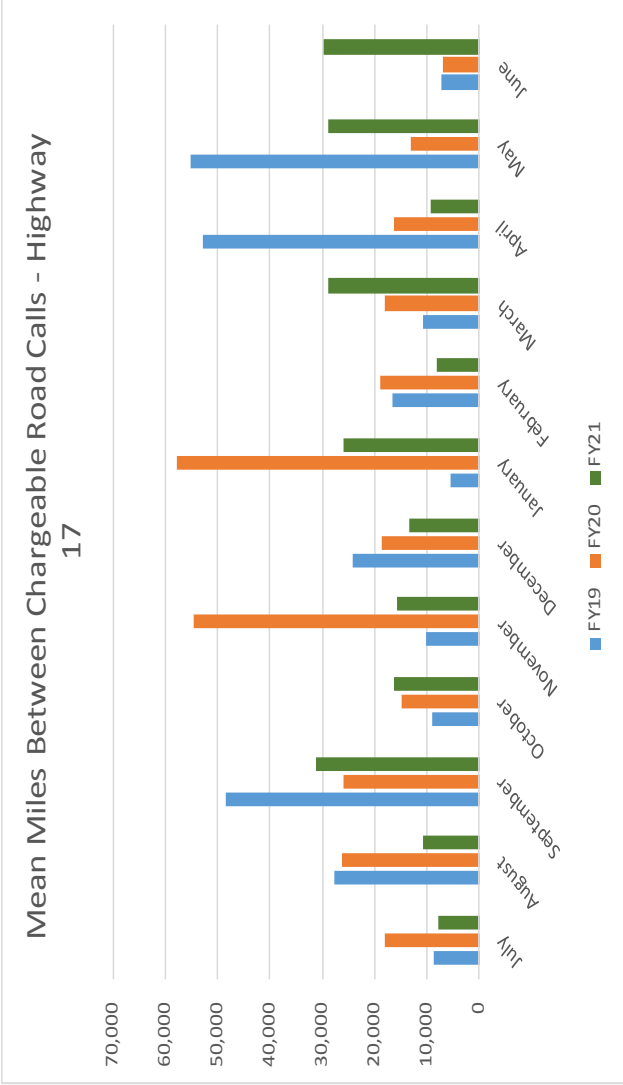
Fiscal Year	Average age of Fleet	Avg. Road Miles
FY19	13.8 yrs	2,792,066
FY20	12.55 yrs	2,359,097
FY 21	12.90 yrs	1,463,225

Current Status: Mileage is increasing while road calls vary by 1 or 2. Chargeable road calls in FY21 Q4 are 15, 10, and 12 for April, May, and June, respectively.

Reliability:

Metrics: • Mean Miles Between Chargeable Road Calls – Highway 17

Description & Importance: A chargeable road call results from a mechanical failure that impedes the vehicle from completing or starting a scheduled revenue trip because actual movement is limited, or there are safety concerns. The mileage depicted is how many miles were run for the month divided by the number of chargeable road calls. The graph below is for METRO's Commuter Route.



Fiscal Year	12 Month Average
FY19	23,043
FY20	24,126
FY21	18,821

Fiscal Year	Average age of Fleet	* Avg. Road Miles
FY19	13.8 yrs	447,895
FY20	12.55 yrs	588,010
FY 21	12.90 yrs	237,484

6.14 Current Status:

- Commuter buses tend to perform better due to more highway miles, fewer stops, and the newer fleet with less wear and tear
- There were 3 chargeable road calls in April, and no other chargeable road calls for Highway 17 in Q4 of FY21.

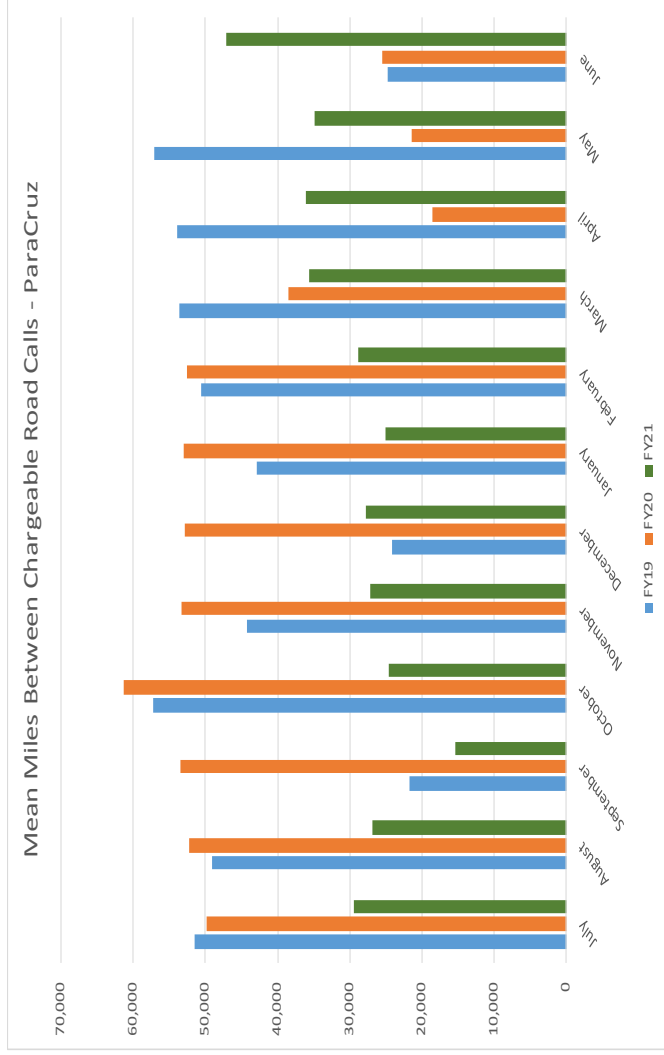
Reliability:

Metrics:

- Mean Miles Between Chargeable Road Calls - ParaCruz

Description & Importance:

A chargeable road call results from a mechanical failure that impedes the vehicle from completing or starting a scheduled revenue trip because actual movement is limited, or there are safety concerns. The mileage depicted is how many miles were run for the month divided by the number of chargeable road calls. The graph below is for METRO's ParaCruz vehicles.



Fiscal Year	12 Month Average
FY19	44,236
FY20	44,374
FY21	29,869

Fiscal Year	Average age of Fleet	Avg. Road Miles
FY19	5.13 yrs	663,786
FY20	6.13 yrs	571,539
FY 21	6.18 yrs	255,833

6.15 Current Status:

ParaCruz had no chargeable road calls in Q4 of FY21. While road calls have been low, ParaCruz mileage has significantly decreased, which is why mean miles between chargeable road calls has stayed low as well.

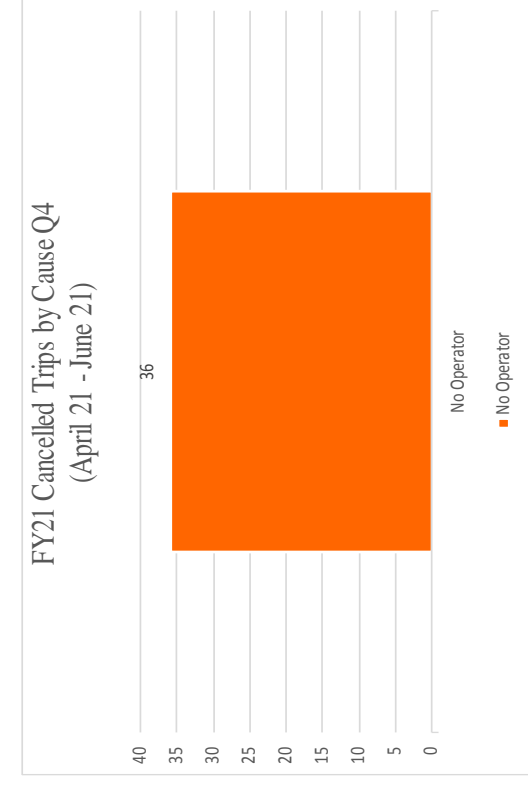
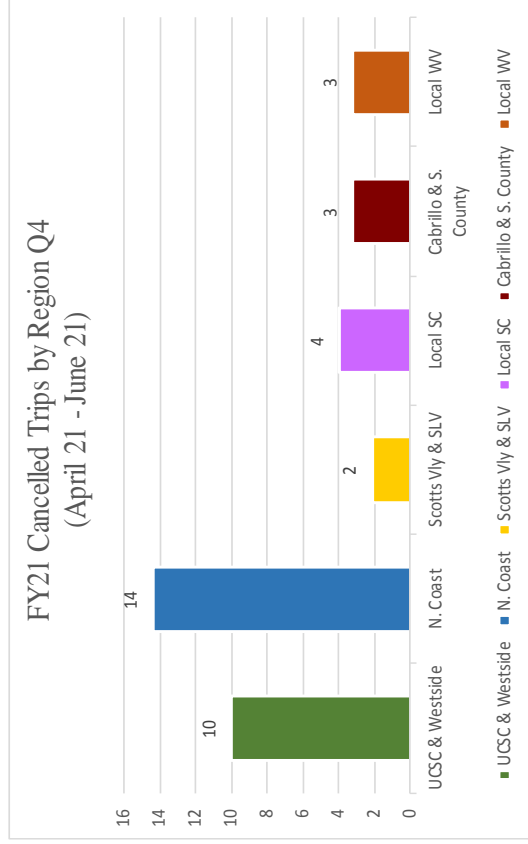
Dependability:

Metrics:

- Cancelled Trips by Region
- Cancelled Trips by Cause

Description & Importance:

Cancelled trips are analyzed for different causes. Cancelled trips by Region show the areas the trip was canceled, while Cancelled Trips by Cause reveal the cause for the cancellations.

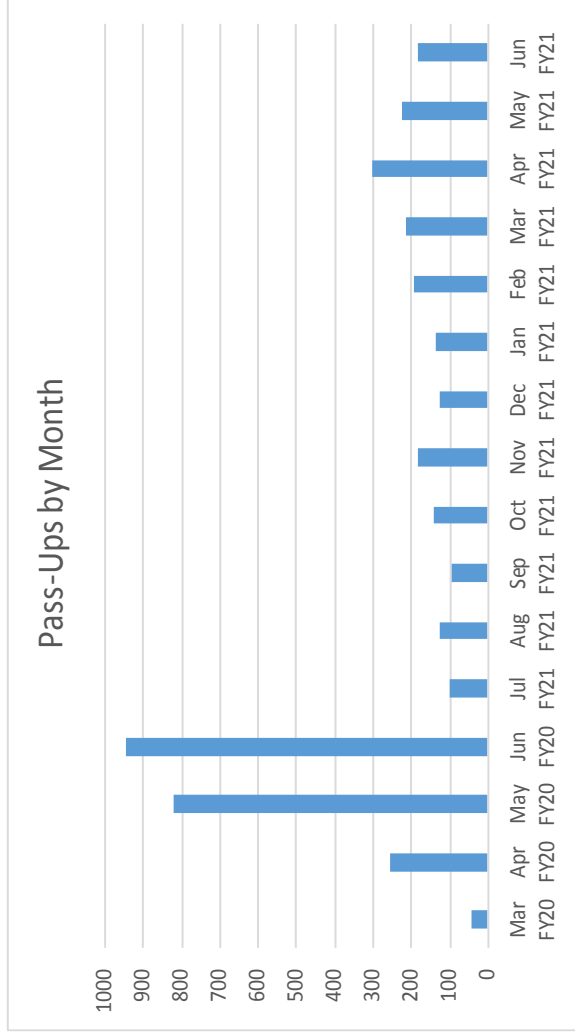


Current Status:

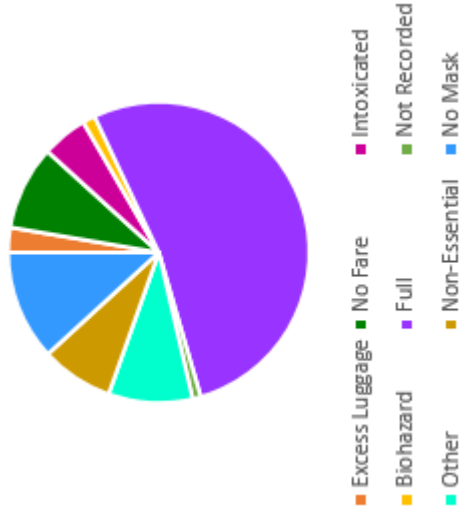
In Q4 of FY21 all cancelled trips were due to No Operator and in the month of April. All the cancelled trips in this month fell on either Thursday April 8th, Friday April 9th, or Monday April 12th and were dispersed around Santa Cruz County

Dependability:

Metrics:	<ul style="list-style-type: none"> • Pass-Ups
Description & Importance:	<p>Pass-Ups are when a bus route must leave behind a passenger and are caused by a variety of reasons. Pass-ups are analyzed for different causes including: No Fare, Exceeds Capacity Load (Full Bus), Excess Luggage, Intoxicated and Other.</p>



Total Pass-Ups by Reason



Current Status:

- In April through June of FY20 the number of pass-ups spiked due to reduced bus capacity. Once capacity increased in FY21, the number of pass-ups significantly declined.
- Pass-ups have declined in FY21 but had a slight increase in Q4, seen in April, then continued to gradually decline

Questions

6.18



Pension and OPEB Discussion

Finance, Budget & Audit Standing Committee

August 13, 2021

Chuck Farmer, Chief Financial Officer

Pension and OPEB Discussion

- Review Pension and OPEB's Liabilities
- Analysis on Reducing Unfunded Liabilities
- Review Strategic Alternatives to Reduce METRO exposure to Unfunded Liabilities
- Optimize METRO's ability to save cash and minimize risk – short and long term

Pension and OPEB Liabilities as of 6/30/19

Category	Total Accrued Liability	Market Value of Assets	Unfunded Accrued Liability	% Funded
Pensions [1]	\$192,306,857	\$127,847,867	\$64,458,990	66.5%
Other Post-Employment Benefits [2]	\$124,340,668	\$0	\$124,340,668	0.0%

[1] CalPERS' Actuarial Valuation Report - 06/30/2019

[2] MacLeod Watts Actuarial Valuation Report - 06/30/2019

Definitions:

Total Accrued Liability = What You Need

Market Value of Assets = What You Have

Unfunded Accrued Liability = What You Owe

Pension UAL vs. OPEB

PENSION UAL

- Must prefund with CalPERS
- High Rate of Return – 7.00% (Discount Rate)
- Current Payment \$5.1M
- Payment does not fully cover existing retirees or current employees
- Pension is subject to interest
- UAL payment subject to CalPERS Investment Returns
- Pension Interest Payment goes to CalPERS and not METRO's UAL

OPEB

- Pay-go
- No real discount rate
- Current Payment of \$3.2M
- Payment is for actual spending within year
- OPEB does not accrue interest
- Payment subject to Health Care increases
- METRO pays \$0.0 interest on any outstanding OPEB's – Pay Go

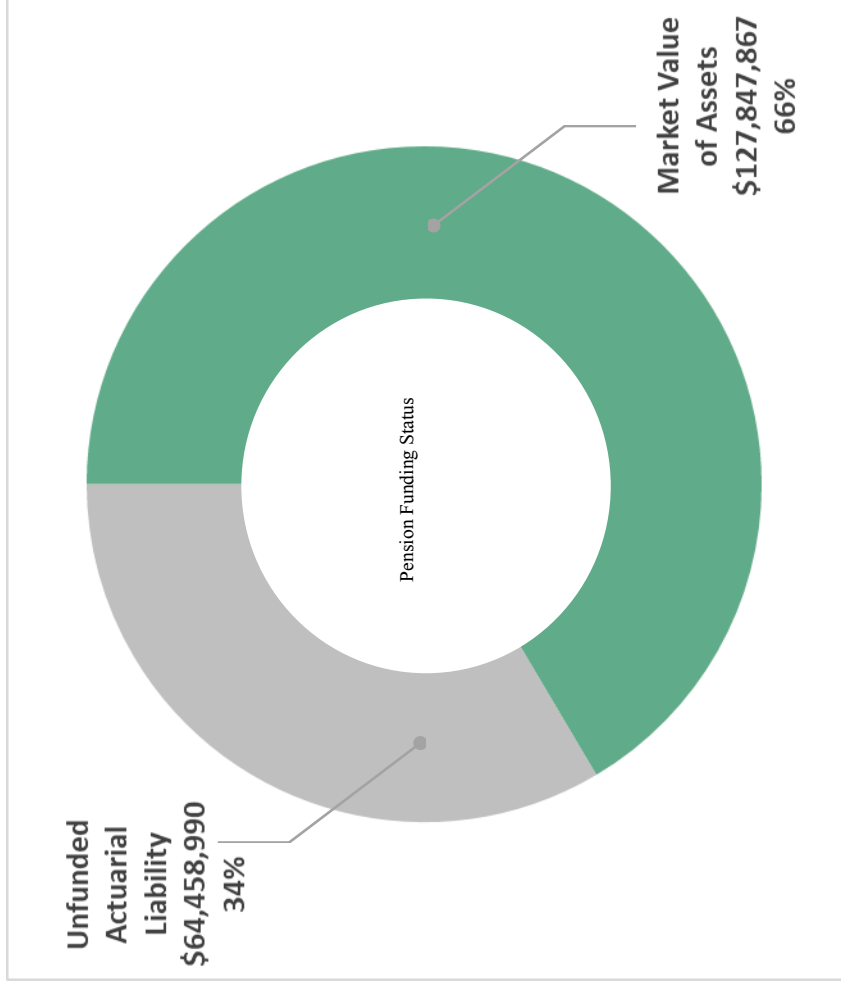
METRO will focus on the Pension UAL and tackle OPEB afterwards

Pension Liability Analysis

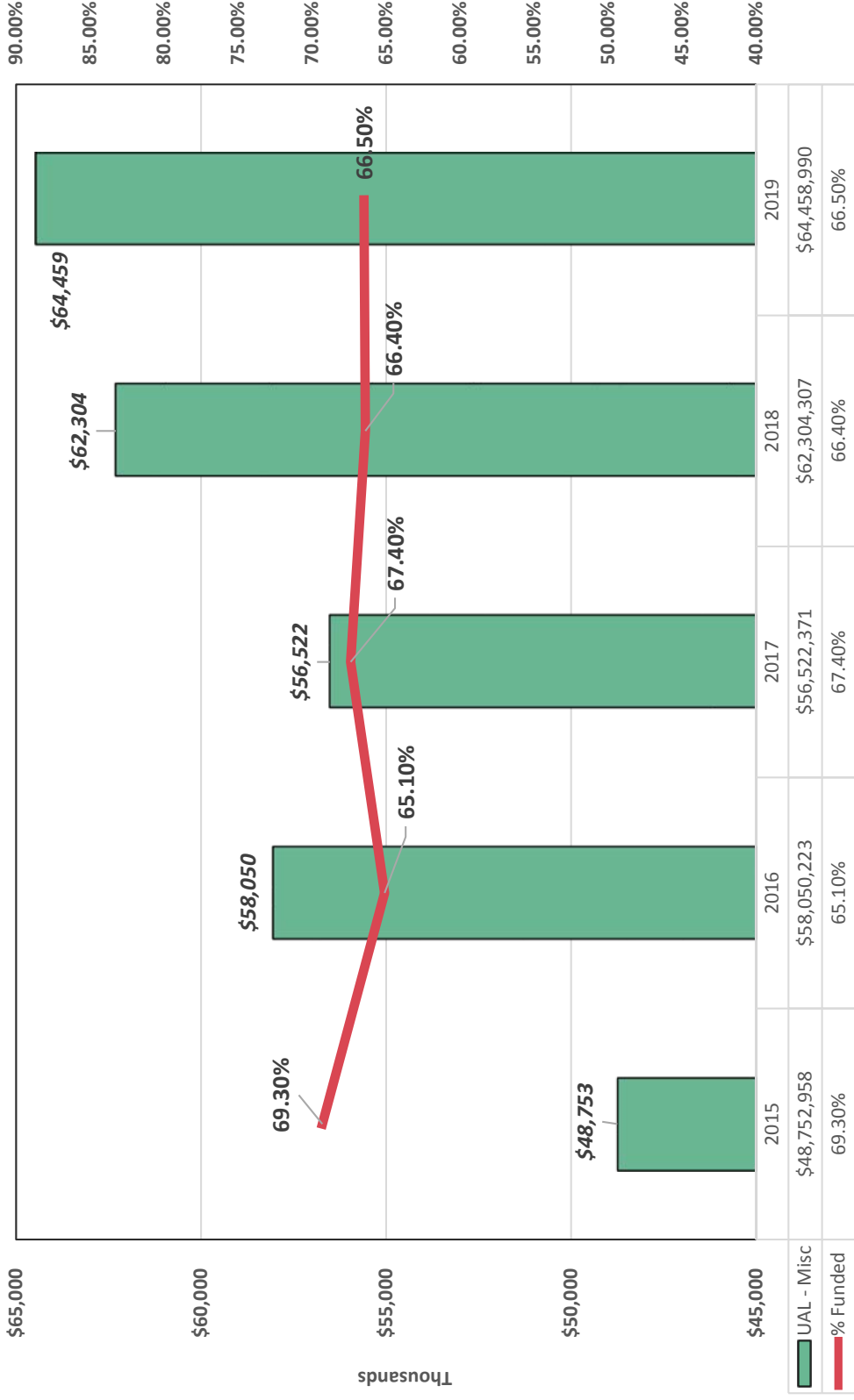
06/30/2019 Pension Funding Status

- Total Pension Obligations = \$192M
- Pension Assets = \$128M
- Shortfall = \$64M (34% of what is needed)
- **Shortfall (UAL) = DEBT:**
- Owed to CalPERS
- Reduced or delayed payments not allowed
- Amortizes over time (20-30 years)
- Accrues interest at 7%* interest rate (**\$54M total**)
- METRO's most expensive debt
- No prepayment restrictions or penalties

* CalPERS recently announced reduction of discount rate to 6.8% and is evaluating further reductions.



UAL and Funding Level



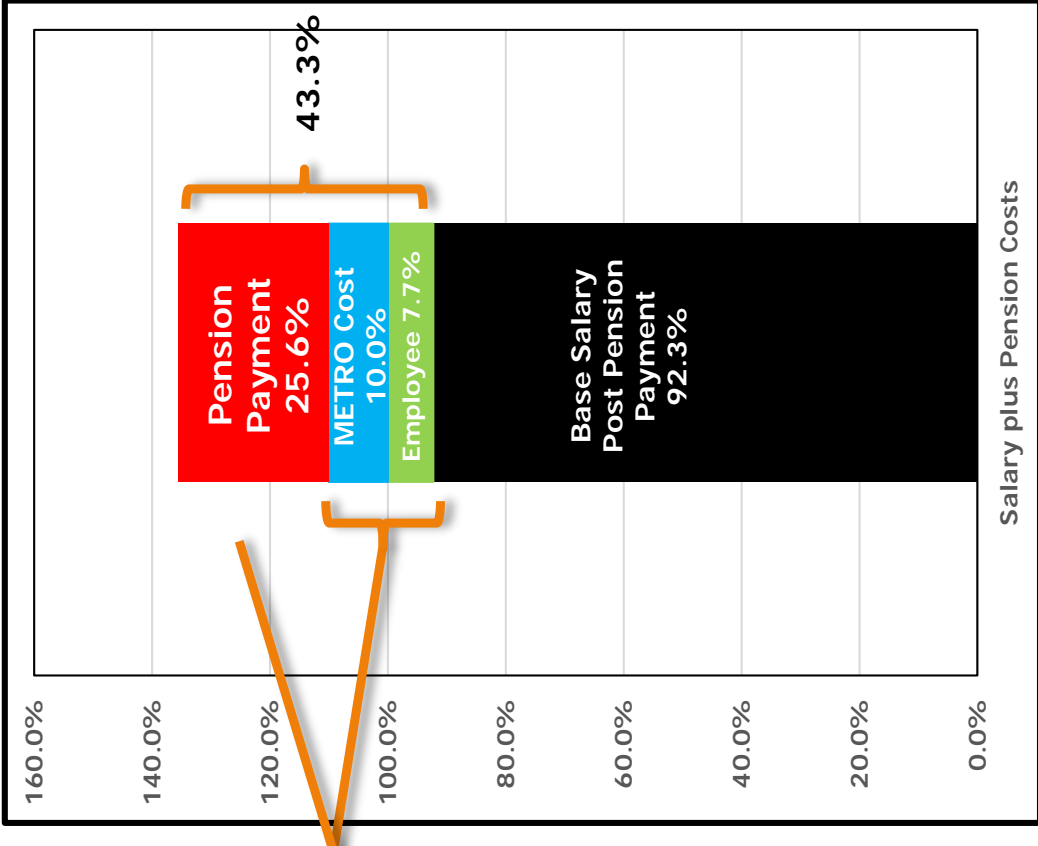
5-year trend

- UAL \$15.7M (32%) higher
- Funded level 3% lower

Pension Costs Overview

Two types of payments to CalPERS:

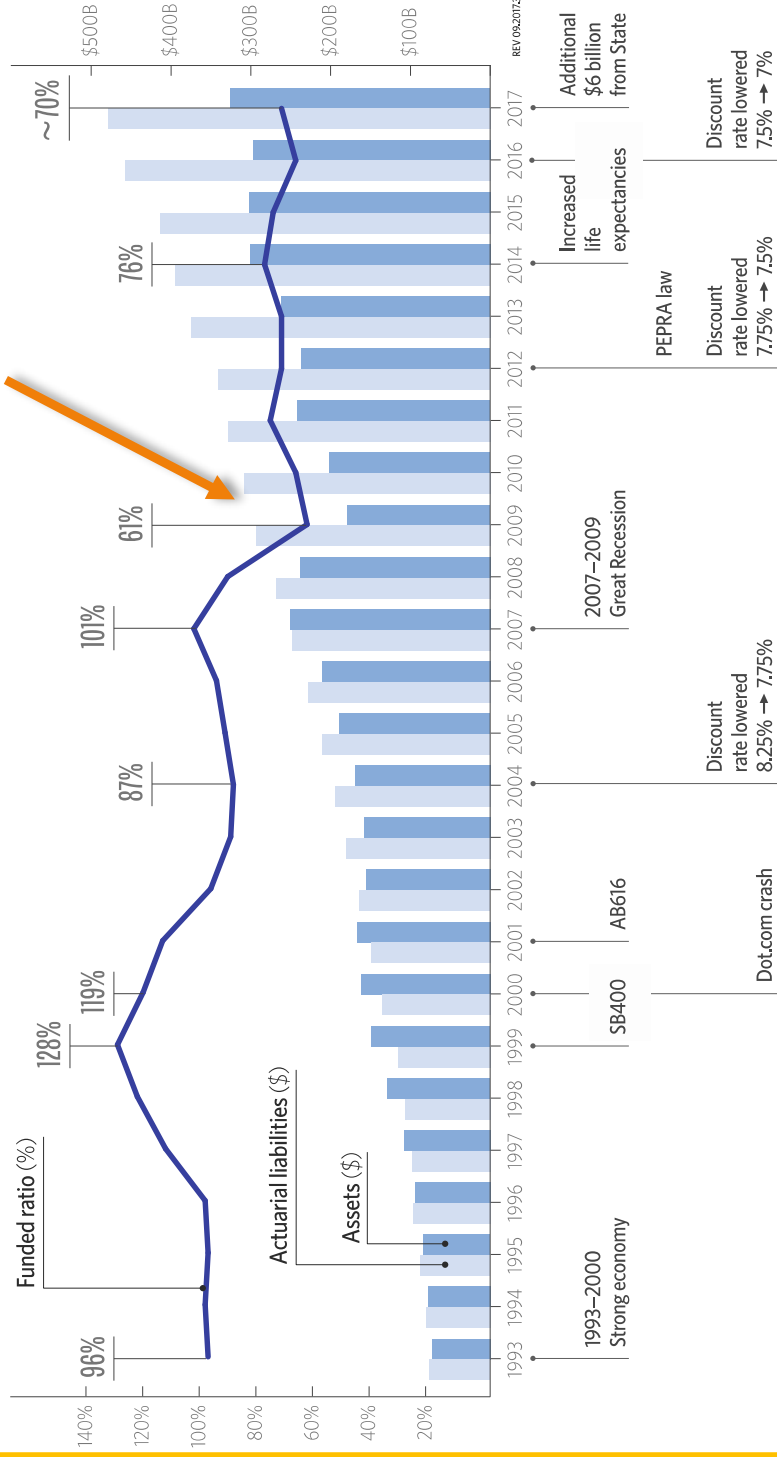
- **Normal Cost:**
 - Shared by METRO and employees
 - Annual pension benefit cost for current employees
 - Payment determined by CalPERS
 - Percentage of payroll
- **UAL Payment**
 - Paid by METRO – No employee funding
 - Repayment of pension funding shortfall from prior years
 - Includes interest at **7%** (CalPERS keeps the Interest as a Penalty)



CalPERS History Lesson

- 1999 – CalPERS “Superfunded” (128%)
- 2000 – SB 400 / AB 616
 - (Retroactive Benefit Increase)
- 2000-02 – dot.com investment losses:
 - 2000-01: -7.2%
 - 2001-02: -6.1%
- Loss of “Super Funded” Status
- 2008-09 – Great Recession:
 - Investment Loss: - 27% (\$67 Bn)
 - Full impact: - 34.75% (+ 7.75% discount rate)
 - CalPERS 61% funded
- 2012 – PEPR A - New Employees Only

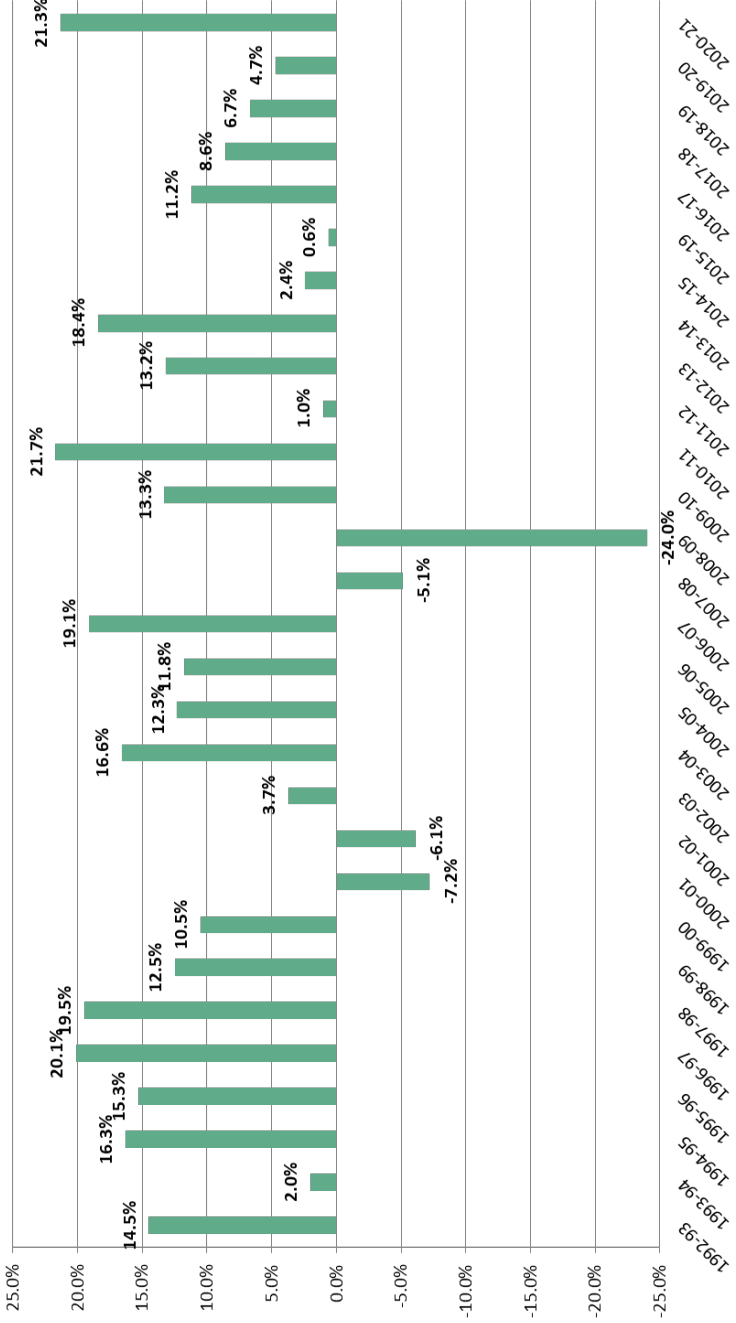
Problem Started



Investment Risk and Returns

CalPERS Historical Average Rates of Return:

Thru 2019-20: 5 years – 6.3% 10 years – 8.5% 20 years – 5.5% 30 years – 8.0%



- 2020: 55% of pension benefits funded by investment returns
- CalPERS manages pension investments
- METRO bears all investment risk
- Failure by CalPERS to achieve target investment returns does not relieve METRO from pension benefit guarantees to employees and retirees
- METRO's cash (UAL payments) makes up investment return shortfalls

Future Return Expectations

- **Lower overall return environment**
- CalPERS has been reducing discount rate / return expectations:
 - 8.75% in 1995 => 7.0% in 2019
 - Automatic reduction from 7.0% to 6.8% based on 2021 investment performance
 - Studying further reduction (November 2021 – 6.50%?)
- **2020 return example: 4.7%**
- **Any return below 7% = shortfall => UAL increase**
- **4.7% return ≈ \$2.9M UAL increase for METRO**

● CalPERS' Average Return vs. Indices:

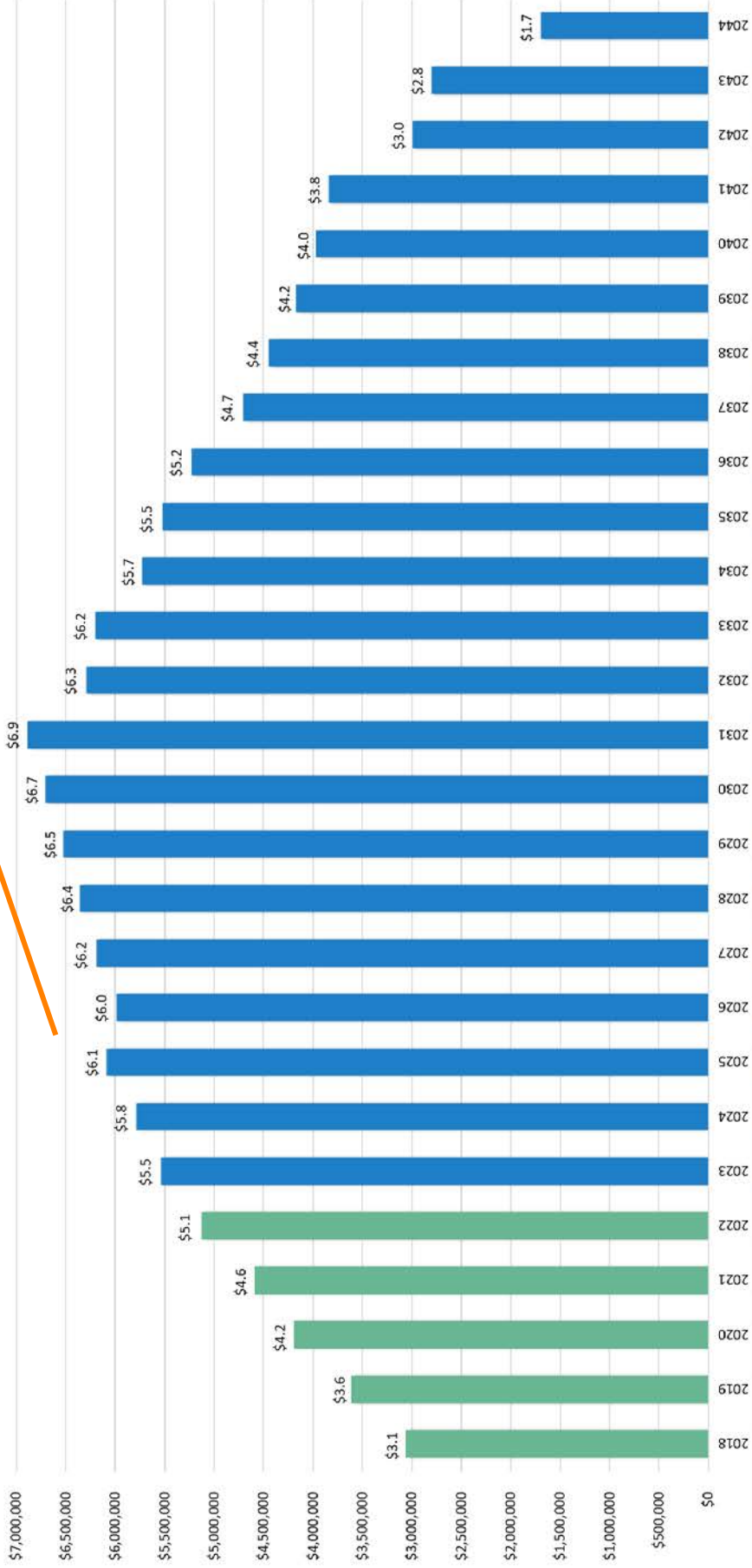
Sources: CalPERS and dqy.dj.com

	CalPERS		S&P500		DJIA	
	No	Yes	No	Yes	No	Yes
FYs 2016-21	10.3%	17.4%	15.3%	17.4%	13.8%	16.3%
FY 2021	21.3%	38.2%	36.5%	30.3%	30.3%	32.5%

Current UAL Amortization Schedule

Projected Increase based on new future personnel

Does not include future personnel



06/30/2019

Valuation

UAL Payments Only

DOES NOT

INCLUDE:

- Normal Cost
- 2020 Shortfall

PENSION COST OPTIMIZATION STRATEGIES

Pension Strategy Objectives

Holistic approach: reserves, cash flow constraints, policy objectives, political dynamics

- Normal Cost – direct proportion to payroll as calculated by CalPERS
- UAL Payments – can be reduced thru multiple strategies

MINIMIZE PAYMENTS

- Cash flow management
- Extend repayment period
- Reduce interest rate

O R

MINIMIZE INTEREST

- Total cost management
- Accelerate repayment
- Reduce interest rate

Pension Optimization Strategies

PAY DOWN

1. Annual Prepayment
2. Additional Payments
 - A. Revenue Increases
 - B. Profit carryover
 - C. New assessments / taxes

REFINANCE

3. Fresh Start
4. Capital Financing
5. Pension Obligation Bonds

OTHER

6. 115 Trust
7. Sale of Surplus Property

Modeled Pension Cost Optimization Strategies

1. Additional Discretionary Contributions (Prepay UAL Faster)
2. Section 115 Trust (Investment Alternative to CalPERS)
3. Pension Obligation Bonds (Directly Refinance UAL at Lower Interest Rates)
4. CalPERS' Fresh Start (Re-amortize UAL with CalPERS)
5. Rolling Stock Equipment Lease Program (Indirectly Refinance UAL at Lower Interest Rates)*

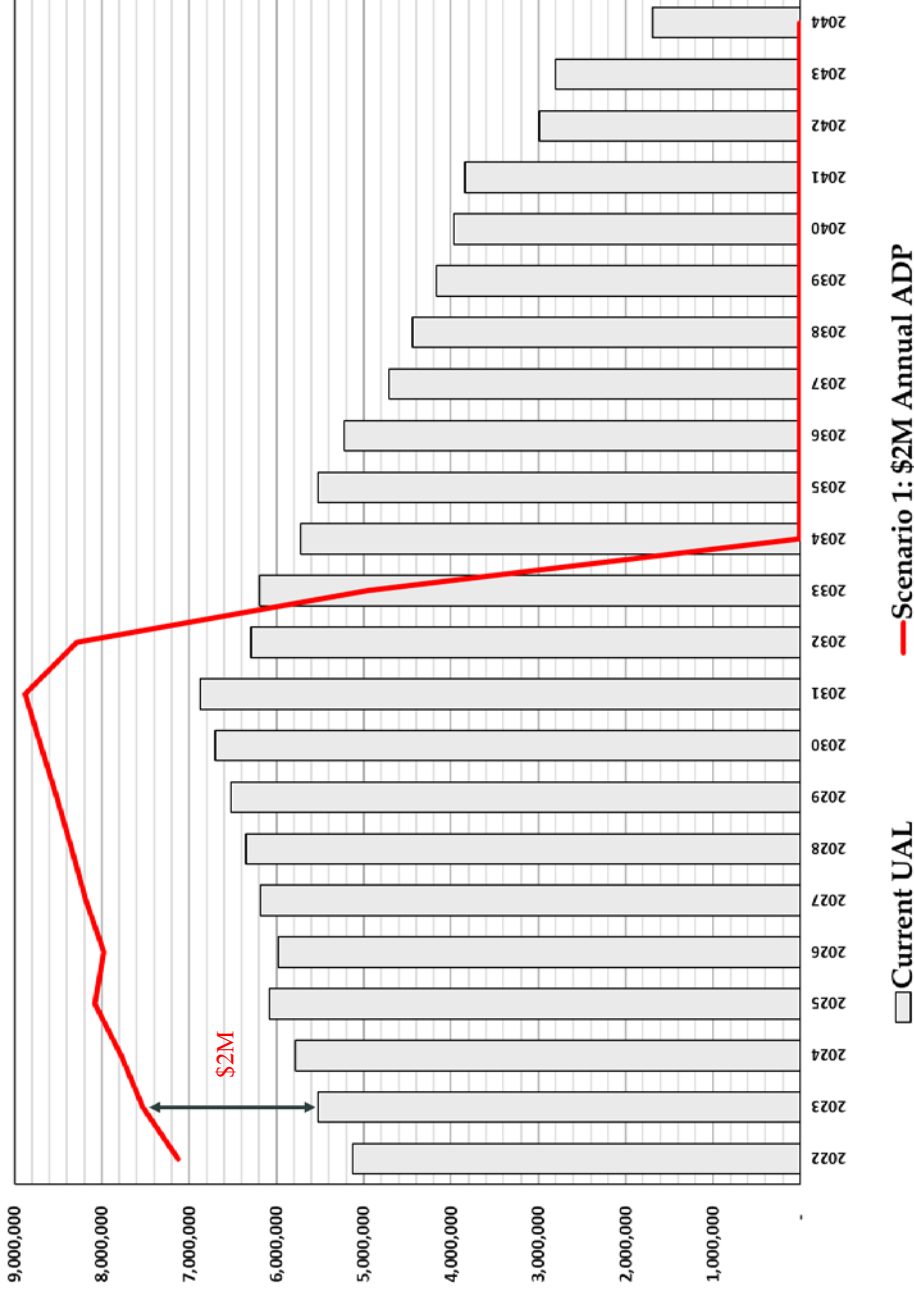
* Equipment Lease Program was reviewed but determined METRO will not qualify due to Federal regulations regarding Grants, and Bus useful lives are too short for leasing

**ADDITIONAL DISCRETIONARY
CONTRIBUTIONS
(Prepay UAL Faster)**

Additional Discretionary Contributions

- Annual minimum \$2.0M additional contributions to pay down UAL
- Long-term cash flow savings from early prepayment of UAL
- Requires higher payments in earlier years
- Simple implementation and no additional costs

\$2M Annual Additional Contributions



Net Cash Flow Savings [1]	Year UAL Repaid	Year Contributions Recovered
\$24,324,000	2033	2037

Note: All numbers rounded.

[1] Savings are based on 7% CalPERS discount rate. CalPERS is in the process of discount rate review.

- Eleven annual \$2M additional contributions
- No UAL payments after 2033
- Recoup all \$2M payments (\$22M in total) by 2037
- Total \$94.4M in payments vs. \$118.7M for UAL

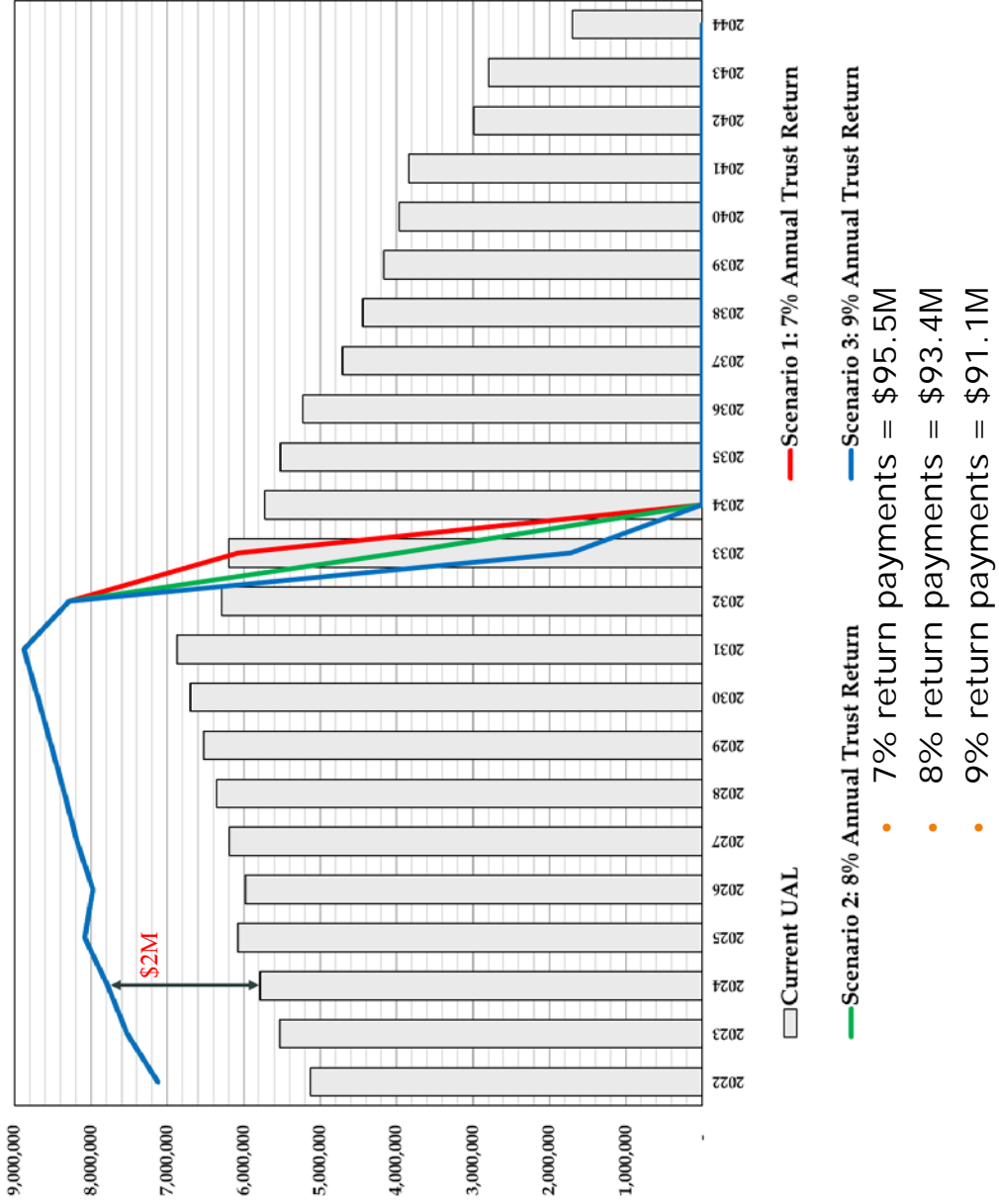
ADP = Additional Discretionary Contribution

**SECTION 115 TRUST
(Investment Alternative to CalPERS)**

Section 115 Trust

- Annual minimum \$2.0M contributions into Section 115 Trust until trust balance matches UAL
- Trust balance repays outstanding UAL
- Modeled 7%, 8% and 9% annual trust returns
- **METRO controls the investment portfolio within the Trust**
- Long-term cash flow savings from early prepayment of UAL, reduction of interest cost and trust investment earnings
- Moderate implementation process, no additional costs
- Currently approved by Board

Section 115 Trust



Scenario	Net Cash Flow Savings [1]	Year UAL Paid Off	Year Contributions Recovered
Current UAL		2044	
Scenario 1: 7% Return	\$23,201,000	2033	2038
Scenario 2: 8% Return	\$25,305,000	2033	2037
Scenario 3: 9% Return	\$27,555,000	2033	2037

Note: All numbers rounded.

[1] Savings are based on 7% CalPERS discount rate. CalPERS is in the process of discount rate review.

- Eleven annual \$2M additional contributions
- No UAL payments after 2033

PENSION OBLIGATION BONDS

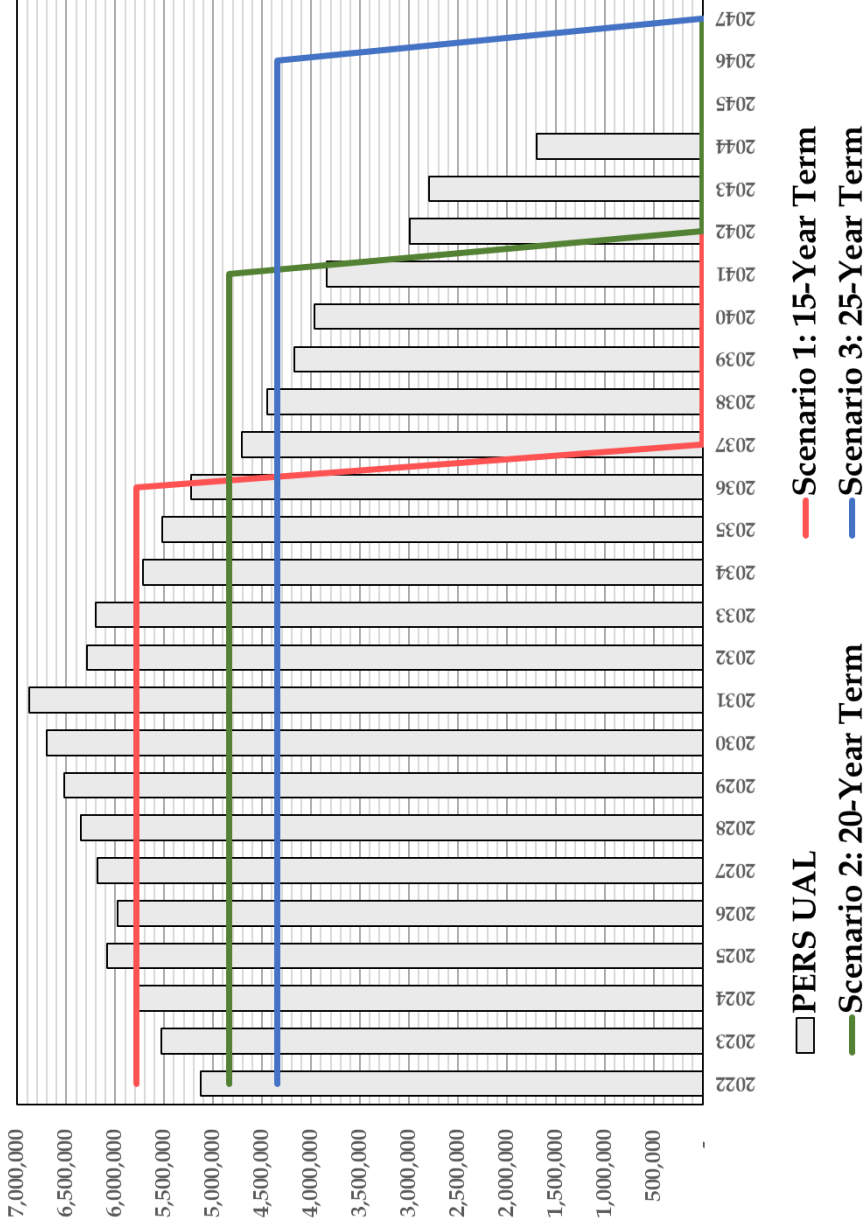
(Direct Funding of UAL at Lower Interest Rates)

Pension Obligation Bond

- Fund outstanding UAL balance with pension obligation bonds at lower interest rates
- Modeled 15-, 20- and 25-year funding terms with level debt service
- Flexibility in designing repayment schedule – then Fixed Payments
- Cash flow savings from reduction of interest cost and early prepayment of UAL
- Cash flow savings can start immediately
- Interest rates near historic lows
- Complex implementation process can take up to 5 months (credit rating; sale of bonds)
- Costs of issuance are estimated around \$200K and can be funded by bonds
- Costs do not include METRO staff time or the maintenance to do all the reporting post issuance

Potential Refunding Options

06/30/21 UAL Balance \$64,586,000
 % of UAL Funded 100%
 Current UAL Payments (Years 1-15):
 Lowest \$5,126,000
 Highest \$6,878,000



Refunding Scenario	Term	Annual Debt Service	Cash Flow Savings [2]	Estimated Interest Rate [3]
Scenario 1	15 years	\$5,785,000	\$31,914,000	4.00%
Scenario 2	20 years	\$4,841,000	\$21,874,000	4.25%
Scenario 3	25 years	\$4,343,000	\$10,119,000	4.50%

Note: All numbers rounded.

[1] Annual UAL Cost consists of semi-annual loan payments and includes amortization of costs of issuance (estimated at \$200,000 for public sale).

[2] Savings are based on 7% CalPERS discount rate and estimated interest rate. CalPERS is in the process of discount rate review.

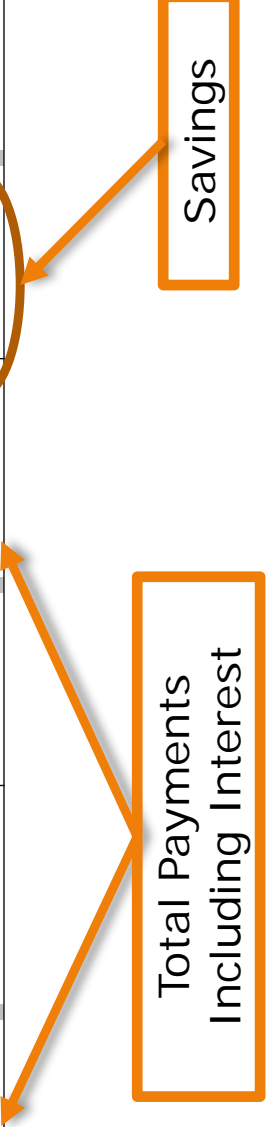
[3] Interest rate estimate is based on current market rates. Actual rates may vary.

- 15 year payments = \$86.8M
- 20 year payments = \$96.8M

How the Math Works

- CalPERS charges a discount rate of 7% (soon to drop to 6.8% or 6.5% - TBD)
- 20 Year Bond at 4.25% at \$4.8M per year payment
- METRO will pay 4.25% in interest on Bond payments vs. 7% UAL interest to CalPERS
 - saving \$21.9M in interest payments

UAL Payment Schedule		Scenario 1: 15-Year Term		Scenario 2: 20-Year Term		Scenario 3: 25-Year Term	
Years	UAL Pmt	Debt Service	Difference	Debt Service	Difference	Debt Service	Difference
1-10	61,131,656	57,853,484	3,278,172	48,410,249	12,721,407	43,430,173	17,701,483
11-15	28,951,053	28,926,742	24,311	24,205,125	4,745,928	21,715,086	7,235,967
16-25	28,612,368	-	28,612,368	24,205,125	4,407,243	43,430,173	(14,817,805)
	118,695,077	86,780,226	31,914,851	96,820,499	21,874,578	108,575,432	10,119,645



Discount Rate is equal to CalPERS projected return on investment

Funding Considerations - Benefits

- Level annual payments => budget predictability
- Lower interest rate => near-term cashflow savings and fiscal resiliency
 - Cash flow savings can be utilized for any legal purpose
 - A portion of the savings should go into reserves for future UAL increases and OPEB costs
- Savings **IF** CalPERS earns more than the funding interest rate (currently 7%)
- Increased “funded status” of retirement plan
- Interest rates are presently at all-time lows

Refunding Considerations - Risks

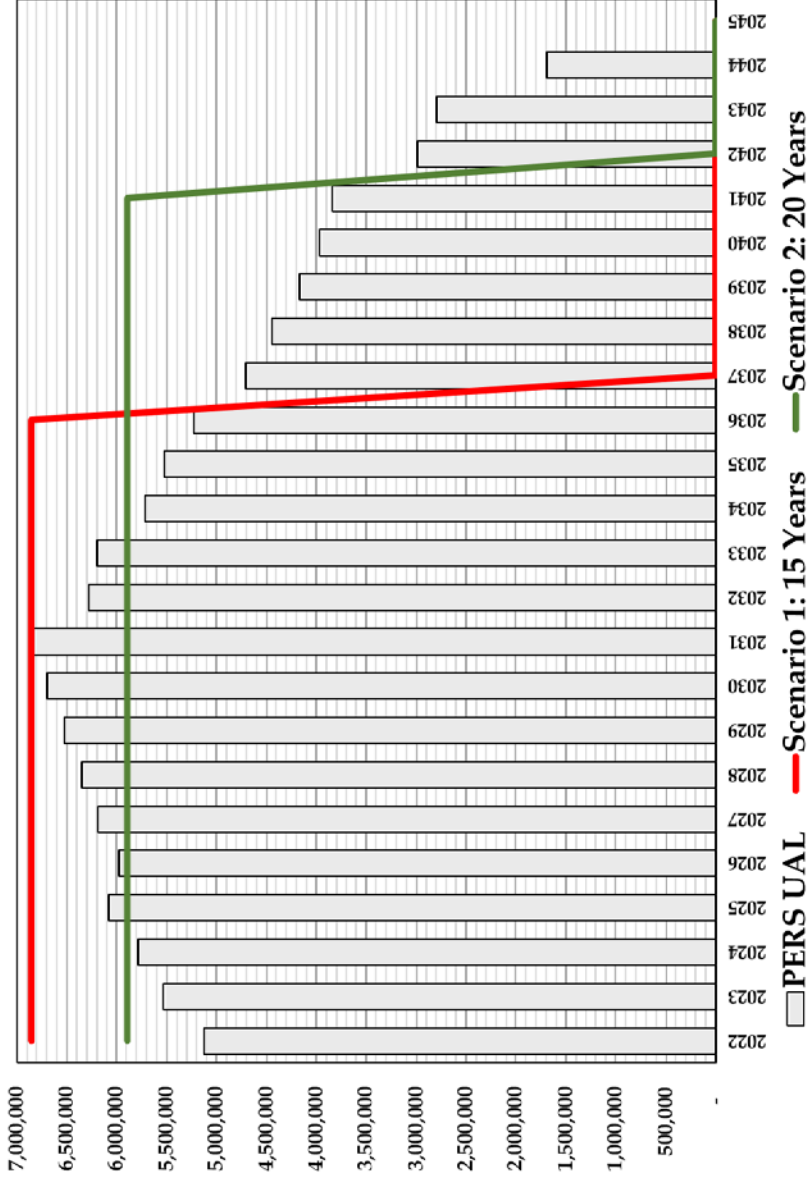
- CalPERS Reinvestment Risk (applies to ALL pension contributions)
- Present Value Savings Not Guaranteed:
 - CalPERS has to earn more than the funding interest rate
 - Easier to achieve than earning CalPERS' own 7% discount rate
- For some debt structures, pledge of assets or revenues may be required
- Saturated Market for Bonds due to low interest rates - competition

**CALPERS' FRESH START
(Re-amortize UAL with CalPERS)**

CalPERS' Fresh Start Program

- Re-amortization of UAL over shorter term by CalPERS
- Modeled 15- and 20-year terms
- Long-term cash flow savings from early prepayment of UAL and reduction of interest cost
- Interest rate remains unchanged
- Requires higher payments in some years or even every year
- **Fresh Start cannot be reversed**
- Simple implementation, no implementation costs

CalPERS' Fresh Start Program



Scenario	Term	Annual UAL Cost Years 1-15 [1]		Cash Flow Savings [2]	Year UAL Repaid	CalPERS Interest Rate [3]
		Min	Max			
CalPERS UAL		\$5,126,000	\$6,878,000		2044	
Scenario 1	15 years	\$6,855,000	\$6,855,000	\$15,866,000	2036	7.00%
Scenario 2	20 years	\$5,894,000	\$5,894,000	\$822,000	2041	7.00%

Note: All numbers rounded

[1] Annual UAL Cost consists of payments to CalPERS.

[2] Savings are based on 7% CalPERS discount rate. CalPERS is in the process of discount rate review.

[3] Current CalPERS' discount rate.

- 15 year payments = \$102.8M
- 20 year payments = \$117.9M

SUMMARY

Scenario	Estimated Net Cash Flow Savings	Term	Year UAL Repaid	Annual Payment	Implementation			Notes
					Cost	Schedule	Complexity	
\$2M Add'l Annual Contribution	\$24.3M	12 years	2033	Variable: UAL + \$2M	\$0	n/a	Minimal	\$2M/yr contributions - 11 years
Section 115 Trust @ 8% Return	\$25.3M	12 years	2033	Variable: UAL + \$2M	\$0	≈1-2 mo	Moderate	\$2M/yr contributions - 11 years
Pension Obligation Refunding								
15-year Term	\$31.9M	15 years	2036	Fixed: \$5.8M	\$200,000	up to 5 mo	Complex	15-yrs @ 4.0%; 20-yrs @4.25%
20-year Term	\$21.9M	20 years	2041	Fixed: \$4.8M				
CalPERS Fresh Start	\$15.9M	15 years	2036	Fixed: \$6.9M	\$0	n/a	Minimal	Fixed - cannot cancel or change
Equipment Lease Program								
	\$10.1M	20 years	2044	Variable: ≈ UAL	Minimal	Annual	Complex	Indirect UAL refunding. Separate program.

- Chart represents a conservative approach to returns
- For comparison across all 5 alternatives – similar terms were selected

Yearly Payments by Funding Type



- Selective terms above for comparison across all 5 alternatives

Next Steps

- Further review alternatives with Management Team to determine which alternative to pursue
- Create a Comprehensive Pension Liability Management Plan
- Present final selection to Committee in September
- **There is no one-time fix!!**

APPENDIX

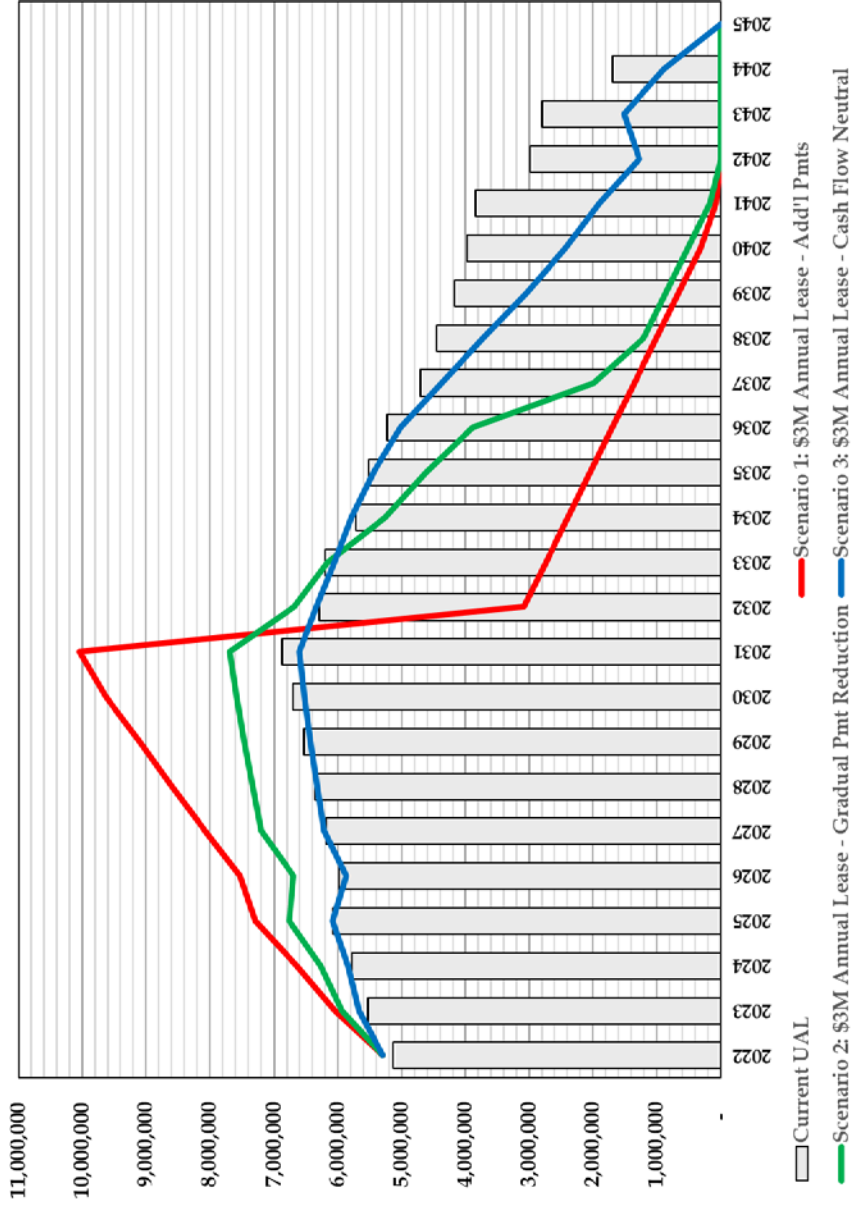
**ROLLING EQUIPMENT LEASE PROGRAM
(Indirectly Refund UAL at Lower Interest
Rates)**

OPTIONAL – Informative Only

Rolling Equipment Lease Program

- Essential equipment purchases lease-financed; freed up cash used to pay down UAL
- Modeled 3 scenarios:
 1. Additional Payments
 2. Gradual Reduction of UAL Payments
 3. Cash Flow Neutral
- Flexibility in program design
- Cash flow savings from reduction of interest cost
- Interest rates near historic lows – but subject to future increase risk for new leases
- Complex implementation process; annual borrowing
- Costs of issuance are minimal and can be funded by leases

Rolling Equipment Lease Program



Scenario	Annual UAL Cost Years 1-10 [1]		Net Cash Flow Savings [2]	Year UAL Repaid	Year of Net Cash Flow Saving
	Min	Max			
Current UAL	\$5,126,000	\$6,878,000		2044	
Scenario 1	\$5,299,000	\$10,056,000	\$25,054,000	2041	2037
Scenario 2	\$5,299,000	\$7,695,000	\$19,149,000	2041	2038
Scenario 3	\$5,299,000	\$6,600,000	\$10,084,000	2044	2030

Note: All numbers rounded.

[1] Annual UAL Cost consists of lease payments and payments to CalPERS.

[2] Savings are based on 7% CalPERS discount rate. CalPERS is in the process of discount rate review.

Additional Payments

Current UAL		Scenario 1: \$2M Annual ADP				
Years	UAL Pmt	UAL Pmt	ADP	Total Pmt	Difference	Cumulative
1-10	61,131,656	61,131,656	20,000,000	81,131,656	(20,000,000)	(20,000,000)
11-15	28,951,053	11,239,000	2,000,000	13,239,000	15,712,053	(4,287,947)
16-25	28,612,368	-	-	-	28,612,368	24,324,421
Total	118,695,077	72,370,656	22,000,000	94,370,656	24,324,421	

Total Payments 118,695,077

Misc Balance (64,585,649)

Total Financing Cost 54,109,428

94,370,656

(64,585,649)

29,785,007

Section 115 Trust

Current UAL		Scenario 1: 7% Annual Trust Return			Scenario 2: 8% Annual Trust Return			Scenario 3: 9% Annual Trust Return					
Years	UAL Pmt	UAL Pmt	115 Trust Contribution	Total Pmt	Difference	UAL Pmt	115 Trust Contribution	Total Pmt	Difference	UAL Pmt	115 Trust Contribution	Total Pmt	Difference
10	61,131,656	61,131,656	20,000,000	81,131,656	(20,000,000)	61,131,656	20,000,000	81,131,656	(20,000,000)	61,131,656	20,000,000	81,131,656	(20,000,000)
15	28,951,053	12,362,528	2,000,000	14,362,528	14,588,525	10,257,604	2,000,000	12,257,604	16,693,449	8,007,827	2,000,000	10,007,827	18,943,226
25	28,612,368	-	-	-	28,612,368	-	-	-	28,612,368	-	-	-	28,612,368
Total	118,695,077	73,494,184	22,000,000	95,494,184	23,200,893	71,389,260	22,000,000	93,389,260	25,305,817	69,139,483	22,000,000	91,139,483	27,555,594

Total Payments 118,695,077

95,494,184

(64,585,649)

93,389,260

(64,585,649)

91,139,483

(64,585,649)

Total Financing

30,908,535

28,803,611

26,553,834

54,109,428

Fresh Start

UAL Payment Schedule		Scenario 1: 15 Years			Scenario 2: 20 Years		
Years	UAL Pmt	New UAL Pmt	Total	Difference	New UAL Pmt	Total	Difference
1-10	61,131,656	68,552,803	68,552,803	(7,421,147)	58,936,399	58,936,399	2,195,257
11-15	28,951,053	34,276,403	34,276,403	(5,325,350)	29,468,197	29,468,197	(517,144)
16-25	28,612,368	-	-	28,612,368	29,468,198	29,468,198	(855,830)
	118,695,077	102,829,206	102,829,206	15,865,871	117,872,794	117,872,794	822,283

Total Payments	118,695,077	102,829,206	117,872,794
Misc Balance	(64,585,649)	(64,585,649)	(64,585,649)
Total Financing Cost	54,109,428	38,243,557	53,287,145
Total Interest Cost	54,109,428	38,243,557	53,287,145

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VERBAL PRESENTATION

CEO ORAL REPORT / COVID-19 UPDATE

Alex Clifford, CEO/General Manager

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