MEETING OF THE
Audit and Finance Subcommittee

Date:
June 11, 2020

Starting Time
12:00 p.m.

Location:
Via WebEx/Phone

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Agenda
June 4, 2020

Audit and Finance Subcommittee
Thursday, June 11, 2020
Webex/Phone
12:00 p.m.

Action Recommended

1. For Information

1. Public Comment (yellow card)

Public comment is being taken in written format and will be entered into the official minutes of the meeting.

2. Minutes

Minutes from the May 14, 2020 Audit and Finance Subcommittee meeting are presented for approval.


Paul Hodgins, Chief Financial Officer, will provide an overview of the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast and request that the AFS forward to the Board of Directors approval the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast.


Paul Hodgins, Chief Financial Officer, will provide an overview of the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast and request that the AFS forward to the Board of Directors approval the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast.
5. **Fiscal Year 2021 Agency Internal Audit Plan**

Scott Smith, CEO, will present the FY21 Agency Internal Audit Plan for discussion and possible action.

6. **Draft Internal Audit Charter**

Alexis Tameron Kinsey, Chief of Staff, will present the draft charter of the Internal Audit Office for discussion and possible action.

7. **Draft Audit and Finance Subcommittee Charter**

Alexis Tameron Kinsey, Chief of Staff, will present the draft charter of the AFS for discussion and possible action.

8. **Internal Audit Update**

Jennifer Davis, Sr. Internal Auditor, will provide an update on the actions taken in Internal Audit.

9. **Internal Audit Exceptions Update**

The Internal Audit Exceptions log is presented for information.

10. **Intergovernmental Agreements, Contract Change Orders, Amendments and Awards**

Paul Hodgins, Chief Financial Officer, will provide an overview of upcoming intergovernmental agreements, contract change orders, awards, amendments.

11. **Future Agenda Items**

Chair Arredondo-Savage will request future AFS Agenda items from members and members may provide a report on current events.

The next meeting of the Audit and Finance Subcommittee is scheduled for Thursday, August 13, 2020 at 12:00 p.m.

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print, or flash drive) are available upon request. For further information, please call Valley Metro at 602-262-7433 or TTY at 602-251-2039. To attend this meeting via teleconference, contact the receptionist at 602-262-7433 for the dial-in-information. The supporting information for this agenda can be found on our web site at [www.valleymetro.org](http://www.valleymetro.org).
Information Summary

DATE
June 4, 2020

SUBJECT
Public Comment

PURPOSE
Public comment is being taken in written format and will be entered into the official minutes of the meeting.

COST AND BUDGET
None

RECOMMENDATION
This item is presented for information only.

BACKGROUND | DISCUSSION | CONSIDERATION
None

COMMITTEE PROCESS
None

CONTACT
Scott Smith
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ATTACHMENT
None
Minutes

AGENDA ITEM 2

June 4, 2020

Audit and Finance Subcommittee
Thursday, May 14, 2020
Via WebEx/Phone
12:00 p.m.

Meeting Participants
Councilmember Robin Arredondo-Savage, Chair, City of Tempe
Jesus Sapien, Public Transit Director, City of Phoenix
Councilmember Lauren Tolmachoff, City of Glendale
Vice Mayor Bill Stipp, City of Goodyear
Councilmember Francisco Heredia, City of Mesa

Chair Arredondo-Savage called the meeting to order at 12:02 p.m.

Chair Arredondo-Savage said good afternoon, everybody. Thank you all for being here. I really certainly do appreciate it.

1. Public Comment

None.

2. Minutes

Chair Arredondo-Savage said are there any changes, suggestions, corrections from anyone on the March 12, 2020 meeting minutes? If not, is there a motion?

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF, AND UNANIMOUSLY CARRIED TO APPROVE THE MARCH 12, 2020 AFS MEETING MINUTES.

3. Professional Development Audit

Chair Arredondo-Savage said we will next turn to Jennifer Davis, Sr. Internal Auditor for a presentation of the Professional Development Audit.

Ms. Davis said thank you. I appreciate your time today. In regard to the Professional Development Audit, we looked at an 18-month period from July of 2018 through December of 2019. The goal of this was really to see how we offer professional development and what kind of things we had offered to everybody, and if there was any
exceptions that came up we'd bring those to light. We did not see any exceptions, but we do have a recommendation and two observations in here.

Professional development is managed in part by the Learning and Development function within Human Resources and then in part by the Division Directors. In general, the Professional Development programs have basically a three prong approach, the organization sponsored, the division sponsored, and tuition assistance program. We looked at organization sponsored, and division sponsored with this review.

In the organization sponsored development, the manager either taught or coordinated a total of 110 onsite trainings during our scope that cost break down is about $125 per attendee. If you look on page 4, the chart there, attendees and participants kind of put a footnote on the bottom but didn't footnote it necessary necessarily that some employees attended multiple classes and that's why those numbers aren't necessarily in agreement. For example, one participant may have attended multiple classes for Achieving Results category and that's why the attendee number is higher.

Any questions on the organizational sponsored development section before I move on to division?

Chair Arredondo-Savage said any questions? Yes, Vice Mayor.

Vice Mayor Stipp said thank you. I'm not sure if this is the right place, but Ms. Davis mentioned page 4 and we talk about organizational sponsored development classes. We asked the question of Ms. Davis a couple of day ago whether this pertained to contract employees as well if they were eligible. And the answer that we got was yes, they are. And they're not reflected in these numbers, but it for me generated a couple of additional costs, a couple of questions related to cost. One is, do we know how many contractors attended? And what would be the cost or value associated with that?

Ms. Davis said I do not have a direct number of how many contractors attended the classes. As I was going through the documentation, I wouldn't say that it was a high percentage of the attendees were contractors. There were a couple discrepancies and when I brought that up to Julie Landsburg, she said that yes, they did attend. More of them were IT contractors and, I believe, a CSD contractor possibly, but I don't have a breakdown of what that cost equals, but I do not think that their attendance was very percentage material if that makes sense.

Vice Mayor Stipp said yes, it does. I would imagine that at $125 per class if they attended a handful of them, but I'm honestly concerned, and we've talked about this before that we're treating contractors like employees and I think we're headed down a very slippery slope with that. I'd really like to get a generic answer eventually certainly not today. Is this appropriate? Are there provisions in the contracts that we would provide training for these contractors? We're hiring contractors because they're...
supposed to be highly trained and then we're training them while they're here. There seems to be kind of a disconnect with that.

Also, then you have to ask the question if we did it for organizational sponsored development classes, have we been paying for travel for contractors? So, I'd like to know the answer to that question.

We did ask Jennifer and I really appreciated the answer. The contractors are not eligible for tuition reimbursement so I breathed a sigh of relief with that anyway, but I would be curious about travel. Should we be looking at auditing how our contractors are being and can be used? What “benefits” they're receiving from working for Valley Metro? And whether we should really be examining this for a somewhat different perspective?

Chair Arredondo-Savage said thank you Vice Mayor. I think it would be worthy of getting the information. I don't know if we need to do an audit for that, but would that be possible, Ms. Davis, to kind of gather some of the information in regard to how we are treating our contractors when it comes to the professional development? You know, what, I guess, within the organization -- what do they have access to? Is that what you're talking about, Vice Mayor?

Vice Mayor Stipp said yes, that's exactly what I'm talking about.

Councilmember Tolmachoff said before we move on, I do have a question also, Chair Arredondo-Savage. Do we have a policy? I mean, the whole idea of using a contractor is because there is a cost savings associated because they don't receive benefits. What other benefits are we providing? And when we bring a contractor on board the idea is that they're a fit for whatever it is they're doing. They're not to be considered employees. They shouldn't have the benefit of everything that the Valley Metro employees have. I'm not sure what our policy with regard to professional development is whether only employees are eligible for professional development, only employees are eligible for travel. I can see probably there might be sometimes where a contract employee would need to travel, but I would think that would be more probably an exception than rule. So, I don't know whether this is a something we need to bring back for a policy discussion with the entire Board as to do we want to offer professional development to contract employees? I believe that's a policy decision anyway.

Chair Arredondo-Savage said yes, I agree. Are there thoughts from any of the other Board members? And I certainly don't have an issue with at least understanding for sure what benefits are provided to our contractors. First and foremost, we can probably do that and then we could have that come back at our next AFS meeting. Let's put it on the agenda for our June meeting. Does that sound good? Are you okay with that? We'll talk about what is available. What we have been providing. What expenses, what that looks like for us bigger picture-wise and then we can have a little bit deeper conversation then.
Councilmember Tolmachoff said sounds good.

Ms. Davis said in regard to the travel, I think that's something that we were going to cover in the travel audit that we're going to be starting in the next quarter. I don't know if you want me to try to pull that information now. It's a very paper-based system so it would be labor intensive. I think if you are okay with waiting until that travel audit to have those numbers specifically of how much dollars we've spent on contractor travel. I think I definitely can reach out to Ms. Landspurg and find out if we're able to determine how many contractors have already taken advantage of different trainings.

Chair Arredondo-Savage said perfect. I think if we can at least get that first question answered is what benefits do we allow for the contractors? And if we need more time to be able to get that data, I think we can allow that. Are you all okay with that?

Councilmember Tolmachoff said I think it would be helpful for her to include that in her report that if there is a policy that relates to, in this case, professional development? If there's a policy that relates to travel specific our travel policy, does it even address contract employees? And then if it doesn't then it would be helpful to me to have that noted in the audit so that we know that's something we need to address is because we don't have a policy in place for that issue.

Chair Arredondo-Savage said yes, I definitely agree. I think we need to address the policies that are relevant to the discussion. Whether it's professional development, whether it's travel whatever it may be and how that is includes our contractors? Vice Mayor Stipp, did you have something?

Vice Mayor Stipp said yes. I would like to just add if we could get to at least know if and how many contractors have been traveling? I don't think we need to know the cost associated. Then we can dive into the details later to save a lot of time later on.

Chair Arredondo-Savage said yes, I think we're good with that. Is that okay, Jennifer? Is something we can pull together?

Ms. Davis said yes.

Mr. Hodgins said yes. We can certainly go back through previous travel reports that we've provided and pull out if there are any contractors. In general, the contractors would buy their own travel and we would reimburse them through the contract payments. There could be some exceptions for an unusual circumstance, but typically, we don't buy the travel directly for contractors. We'll go through the last 12 months of reports and see if there are any contractors that we've paid directly.
Chair Arredondo-Savage said I don’t think it’s just about travel either. I think it’s about benefit overall to so I think anything that we have policy-wise that relates to contractors is something that we want to look at moving forward. Are you all good with that?

The AFS members are in agreement.

Vice Mayor Stipp said Paul, are we reimbursing dollar for dollar? Or is there a markup in that?

Mr. Hodgins said I would have to go back and look at each contract. I don’t know off the top of my head. I would think there wouldn’t be a markup on pass-through expenses, but I don’t want to say for sure until I go back and look at the contract specifically.

Vice Mayor Stipp said yes, I think that’s another aspect of this is if there’s some contracts allow for an administrative cost’s connection or, you know, a slight upgrade if you will in that. So, whether the contractor him or herself is paying for it and we’re reimbursing or we do it directly the cost is still the cost. I think to Councilmember Tolmachoff’s point, we should look from a policy perspective is this really the appropriate way to do that, so I think we’re all to the right path. Thanks for humoring me.

Ms. Davis said moving on to division sponsored opportunities. We had put together some charts kind of summarizing which divisions had sent how many participants to travel inside and outside of Maricopa. The numbers on page 7 for outside are just reflecting the registration fees and we did not consider any travel fees at this point because we knew we were going to do the travel review the beginning of next fiscal.

And tuition assistance program, we didn’t do a deep dive into that, but we did just summarize the monies spent over the 18 months and realized that we invested $125,000 in supporting higher education for 15 employees. We said our employees and not contractors because there’s a 12-month full time employee requirement to be even eligible for that program so we make sure that people have some tenure with us and plan on sticking around for a while.

Councilmember Tolmachoff said excuse me. Can I ask a question here? It's probably for Paul. How much money? I remember there was a lot of discussion in last year’s budget about the amount of money allocated for tuition reimbursement. We spent $125,000 it looks like, but how much did we allocate that we did not use for tuition reimbursement? Do you know that?

Mr. Hodgins said I don’t know that off the top of my head. I know we have about $105,000 in next year's budget, but I can look at what this year and last year was. I just don't recall off the top of my head.

Councilmember Tolmachoff said okay. Thank you.
Ms. Davis said so we did come up with one audit recommendation to basically say that the process could be strengthened and more efficient if there was a centralized approval and tracking system utilized. It's very paper-based or extremely paper-based right now and then any tracking is a manual entry into an Excel spreadsheet. And then management agreed and they're definitely going to work with IT and look to see what options are available either as part of the upcoming ERP or some other electronic-based workflow process.

Something new that we added to this report was an audit observation section so basically if something that was brought to our attention, but it was either fixed during the audit or wasn't a concern that needed a correction action plan. So that we observed that on the website wasn't linked to newest and greatest policy. As soon as we let Ms. Landspurg know that, she was on it and went ahead and got that website updated. And that the process for organizational sponsored events was through a sign-up genius process and didn't have an approval work flow, but she said that she did do a notification a week prior so that the supervisors had opportunities to see if there was scheduling conflicts. And then with the new learn program, it will be an online sign in process, but then she'll still do that notification a week before just to make sure that trainings are approved. Are there any other questions, comments, changes for the professional development audit?

Chair Arredondo-Savage said Jennifer, I've got one really quick follow up in regard to your recommendation. To streamline things are you expecting it just to be more efficient? Or was there actually like a cost savings and time?

Ms. Davis said definitely a cost savings and time. I wasn't able to quantify that, but I know that as far as trying to circulate the paperwork around that and even time to review it and have the data to analyze to give you the information that you asked for. If it was an electronic-based system, it wouldn't be but a query to kind of go oh, you wanted to know this? Cool. All the information is already electronic. I think we're all going back to the paper files and Excel spreadsheets to try to gather that information.

Chair Arredondo-Savage said and I guess that was one of the things and I'd have to talk to my fellow colleagues too is I think when we make a recommendation it would be kind of great to understand what we expect that outcome to be. I just wasn't sure so that was the only reason why I asked. Do you have any other questions in regarding the professional development audit? This is actually an action item. Based on what you see here we do need to make an approval, but I did write some notes in regards to some of the things that have come out of this to discuss in regards to our contractors moving forward. But with that if there's no other questions or comments? Is there a motion to approve our professional development audit?
IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF AND UNANIMOUSLY CARRIED TO ACCEPT THE PROFESSIONAL DEVELOPMENT AUDIT.

4. Internal Audit Update

Chair Arredondo-Savage said moving on to the Internal Audit Update.

Ms. Davis said just in regard to what I've been up to. Paratransit audit is still on my docket. It's been put on the back burner. I've gotten through the RFP process, the contract review, I've looked at the pay ups, and the disincentive reviews so I just need to follow back up with Mr. Hillyard and his team to see if there's anything additional that you guys want as part of that paratransit review before we close it out. Otherwise that will be looking to be closed out in the next month or so.

So, what I've been really focusing my time on is working with SSQA, Safety Security Quality Assurance, and doing document reviews with them. They had an opportunity to look at the program standard six that ADOT's putting out and wanted comments and referrals back, so I've spent some time doing some research with them on that.

Following up with the HRMIS implementation that Human Resources is working on single sign on functionality. They're doing some testing today and tomorrow so hopefully that will get the single sign on functionality going and that will be a big hurdle for them in moving towards full implementation.

The City of Phoenix did a contract risk assessment. I reached out to them to see when their final report was coming out. I did get a hard copy of the report on my desk today from February from REDW and then Ross's memo to Mr. Sapien. I talked to Shelley over at COP and we're just waiting for them to make their management decision and submit a full packet back to us before we call that final. So, if we get that in the interim, we'll have that for June otherwise possibly the next meeting.

Just today or last night, ADOT released their Risk Safety Audit from their three-year review. Didn't get a chance to do a deep dive into that, but what I did see is from the draft that they sent us back in October to the final that they issued, concerns that they had fell 21 percent so we were able to close about 20-21 of those. And then they have a ranking system where they call it either 1 meets compliance, 2 is partially or 3 is noncompliant. We only had five items out of about 77 that were flagged as noncompliant which is great so that we have 72 items that are partially in compliance. And that ADOT has in process a CAP so they do corrective action plans, but they have to report monthly back on those to ADOT. So I'll be working with Ms. Ruiz and Leadership to see which role she needs me to help you with in kind of facilitating closure of these CAPs so that we can kind of get all that situated.
Ms. Davis said any questions on the update? Anything else from the AFS members? I believe we'll go ahead and start looking into this travel and the contracting things that you just mentioned, but is there anything else you need me to be working on at this point?

Chair Arredondo-Savage said committee, is there anything? Any questions regarding the update?

This item presented for information only.

5. **Internal Audit Exceptions Update**

Ms. Davis said for information, we presented the Audit Exceptions Summary and we do still have nine that are open, four are pending the next travel and credit card audits for review. I didn't know if you needed me to keep reporting on that each month. It is on my log and I'm going to keep tracking it, but I didn't know if we need to bog down that log with that information each month? Please let me know what you prefer.

Chair Arredondo-Savage said what does that look like, Jennifer? What do you mean? So, you're logging it every month?

Ms. Davis said so each month I come bring the AFS members the Audit Exception Log and those four have been on there for a while. I just didn't know if you wanted to keep having that information on that log or just knowing that I will be following up on it on the next travel and credit card audit which isn't scheduled to happen at least for another six months or so. I'm just curious if it was value added information that we still have that on the tracking or not.

Chair Arredondo-Savage said other than it being a reminder that it's to come?

Ms. Davis said yes ma'am.

Chair Arredondo-Savage said I think that's not a bad idea.

Ms. Davis said I did want to give kudos to our IT department. The report we just issued in March, five of their items have been remediated so we just have two that are outstanding at this point with due dates in the future that are going to be on track.

The next slide shows that the one past due item, we extended that due date. Paula Novacek, our Controller, said that she's working on an AR collections procedure to address the relocation expense that came out of that FTE audit, I believe.

Chair Arredondo-Savage said just one incident?
Mr. Hodgins said the policy will address AR collections in general. The relocation being one piece of it. We don’t really have a policy right now on how we follow up on anything that's very past due. We don’t charge interest, fees or anything on late payments so Ms. Novacek is trying to craft a policy that covers all of the AR not just that one piece.

Chair Arredondo-Savage said oh, so we're actually creating a procedure based on that?

Mr. Hodgins said yes.

Chair Arredondo-Savage said okay. Hence that's probably why it’s going to take a little bit of time. I got it.

Ms. Davis said upcoming due dates of Performance Management Procedures, that one we went ahead and extended out to September because of the COVID pandemic. There was a delay in implementation the HRMIS system so we really want to make sure that we have the system up and functioning before we write a procedure of how to follow it and I was agreeable with the extension of the deadline at that point.

Uninstalling inactive software procedures, the Inventory Management Policy and Applicable Procedures and addendum to the Acceptable Use Policy for approved software, all of those are being reported as on track at this time. Depending on how the pandemic pays out, we might ask for more time later if other things pull us for priority, but right now they are feeling that they are on track for that.

I did include some information about how the efforts IT took to remediate the five findings. Those are the next couple slides. And then you do have the log and I just wanted to know if the log itself adds value? If there’s additional information you want in there? If there’s something you want me to take out? Because I realize that's a lot of information and it becomes difficult to read at points so just trying to figure out the best format to give you that information and what you really take out of it. Do you want the travel and credit card audit information to be on the log going forward?

Chair Arredondo-Savage said so a couple of questions, right? Do you want to keep it in the log? The travel and the credit cards? Keep it in the log just so we know that it's coming with the date.

Ms. Davis said yes, and then which information is not value-added in that log? Or it is all value-added?

Chair Arredondo-Savage said what do the AFS members think?

Councilmember Tolmachoff said I like having everything there just because it helps us to remember.
Chair Arredondo-Savage said yes, I agree. and then in regard to the exceptions? You also wanted some feedback on that? I just want to give kudos to management for some of the follow up and the actions that they've taken so just pass that on. They did a lot of really good work to comply and meet the recommendations so thank you to all the management and the staff that have been working really hard on that. Is the committee okay with that? We're going to leave it the same?

Ms. Davis said okay. Then I will keep it in. Thank you very much for your time.

Chair Arredondo-Savage said all right. And, you know, what? Just a real quick thank you to you, Jennifer, for everything that you've been doing. I know you've gotten a lot thrown on your plate probably unexpectedly, but you've handled it really well and we certainly do appreciate it.

This item presented for information only.

6. Intergovernmental Agreements, Contract Change Orders, Amendments and Awards

Chair Arredondo-Savage said let's go ahead and move on then.

Mr. Hodgins provided a brief overview of Intergovernmental Agreements, Contract Change Orders, Amendments and Awards that included the following:

A. Information Technology Contract Staffing Renewal
B. Alesig Consulting, LLC Contract Renewal
C. Information Technology Infrastructure Refresh
D. Security Log Collector Maintenance and Support Purchase
E. Replacement Bus Wash System Contract Award
F. Transportation Planning Software Contract Renewal
G. Paratransit Eligibility, Scheduling, and Dispatch Software Purchase
H. Fare Collection Software Maintenance and Support Contract Award
I. Town of Queen Creek Park-and-Ride Study Intergovernmental Agreement
J. Northwest Extension Phase II (NWEII) Design Services Contract Amendment
K. South Central Extension/Downtown Hub Construction Manager at Risk Contract Amendment

There was discussion about and concerns expressed about the two Full Stack Developers that are included in the Information Technology Contract Staffing Renewal and whether the long-term plan is to make them full time employees of Valley Metro.

Mr. Hillyard said so we maintain two full stack developers, one that's an FTE and then we have this contractor that we use for essentially overflow work so when there's additional work needed, we're able to draw on the full stack developer. The number there is a significant one partly because these positions compete head-to-head with the
private sector. This is a developer that does, when we say full stack that's both application development and database work so you're talking about a person here with 10 to 15 years of development experience. The straight up salary for a position like this tends to be about $125,000. You then have benefits on top of that and then the contractor companies markup on top of that so that $252,000 that we show there would be the full cost for a full year if we use that person 2,080 hours. We don't typically use them 40 hours a week every week so the work kind of ebbs and flows and that's why we use a contractor instead of an FTE for that. I don't have off the top of my head the number of hours we used last year, but we staff this as a contractor to give us that flexibility to use as needed rather than to hire them on as an FTE. We'd avoid the contractor markup so the annual cost would be lower, but we wouldn't have the flexibility to only use them when we need them. It's a high-skill position that competes with the private sector.

Chair Arredondo-Savage said it just seems a really high number just for a contractor. Is there no intent to bring on an FTE in the future?

Mr. Hillyard said we certainly could. I would need to do some analysis with the IT team on the number of hours that we have used in recent years and what we believe we're going to be using in the future to determine whether an FTE would reduce the cost or increase it. Because, as I say this, is the maximum cost for the year. We probably won't use 40 hours a week and therefore it would be lower than this, but we're setting the threshold at the maximum possible. We could certainly do that analysis and if it would be cheaper to staff it through an FTE, we would absolutely explore that.

Chair Arredondo-Savages said I understand that. I was just curious just because the number was high. I'm sorry. Go ahead, Vice Mayor Stipp.

Vice Mayor Stipp said that's a really good point. If this $252,000 is the maximum of money for a 2,080-hour work year even at $150,000 a year salary, we would have access to that kind of talent for 2,000 hours and save us $100,000. So I think we have to look beyond just the number of hours that the person actually works and try to find out what it is we've paid over the last a couple of years to try to use that as a benchmark as opposed to using just the number of hours that they've worked because I'm sure there is other IT work that could be done by this individual that may save us elsewhere in the IT fund. So, before we bring that to the full Board next week, can we have that information it that's possible? I think that would be really helpful with the discussion.

Mr. Hodgins said the Board packet is going out either today or tomorrow so it wouldn't be reflected in memo at this point, but we'd certainly have the information available at either before or during the Board Meeting.

Chair Arredondo-Savage said I think if we could add it, or just send a follow up email the beginning of next week, yes, I think that would be great.
Mr. Hodgins said okay. Moving on. Those are the big items. The items of financial significance that the Boards will see next week.

Vice Mayor Stipp said I wanted to say, I'm the first to criticize and I try to be the first to compliment as well. The idea of bringing the paratransit software in-house so that we own it, I was relieved to see that and I was appreciative of everyone's effort to try to do that when we found ourselves being handicapped by some of the other software platforms that we have and this one is a big one and we went through a lot of pain and suffering to get through it and for the amount of money, it's a good call and I appreciate everyone's effort to bring that in-house.

Mr. Hodgins said thank you. I'd love to take credit for it, but I believe it was Jim's team that worked on that.

Chair Arredondo-Savage said oh, okay. We're done. Any other questions? I just to want to make sure, in regard to Item 6.

This information presented for information only.

7. Valley Metro RPTA and Valley Metro Rail Fiscal Year 2021 (FY21) Preliminary Operating and Capital Budget

Chair Arredondo-Savage said all right. We are going to go ahead and move on then to our favorite topic: budget.

Paul Hodgins, Chief Financial Officer, provided a brief presentation overview of the Valley Metro RPTA Fiscal Year 2021 (FY21) Budget Update that included the following items:

- FY 21 Budget Update
  - Changes from March version
- Uses of Funds: Operating
- Sources of Funds: Operating
- Uses of Funds: Capital
- Sources of Funds: Capital
- FY21 Staffing
- Historical Staffing – Total RPTA Effort
- Historical Staffing – Costs as % of Budget
- Potential Merit Adjustments
- FY21 Travel
- RPTA FY21-25 Proposed Five-Year Forecast
- 5-Year Operating Assumptions
- 5-Year Operating Sources and Uses
- 5-Year Capital Assumptions
Mr. Hodgins said thank you. The budget presentations that I have for both RPTA and VMR are slightly different than what was in the packet. The focus was on really highlighting the changes between what we presented to you in March and what we have now in May, but for additional context we went back and added FY20. On the charts, you'll see FY20 as a reference, what we presented in March and then what we're now presenting in May just for a little additional context so hopefully it's helpful in reviewing it.

Some of the changes that we've made from March we've deferred most of the new staffing that we had in the March budget. We've also put a hold on many vacant positions. You'll see a significant decrease in the number of FTEs that are funded in this budget. For this version we did remove the three percent merit increase, so we had a three percent in the March version, we have zero in this May version. But I do have a slide that talks a little bit about what the cost would be for merit increases at various levels just for discussion purposes.

We've reduced a number of administrative costs and deferred some of our capital activities. We've reduced the planned travel significantly, updated our Prop 400 revenue forecast, updated fare revenues, and the biggest thing is added the CARES Act funding that's available. We did not, as I've mentioned at the Board Meeting, we were not making any changes to planned bus service. We've kept our assumptions the same there. The CARES Act will support some of the bus service as we work through a regional process to really look at what makes sense for the region and how we can reduce service. We'll expect to start that process in June with the Service Planning Working Group, but we will be working on a process to reduce service because we know that long term revenues will be impacted. The CARES Act is a limited amount of funding that will support us through FY21, but it does give us the time to make good decisions, database decisions on what's the best way to proceed.

The biggest changes here just under $50 million in CARES Act funding to support service that means we can reduce the reliance on both regional Prop 400 and local funding. The local funding represented there is transit service agreements. That's a $19 million decrease, but a $33 million decrease in the regional Prop 400 funds. Overall, it's about a $14 million decrease in revenues and about $9 million from the March version and FY20.

Are there any questions on kind of the overall summary on operating or capital budgets? If not, I'll talk a little bit about staffing.

Vice Mayor Stipp said right now we're in a this is the plan mode. Six months or eight months from now when we start to get some actual revenue numbers that are more telling, are you and the staff prepared for further reductions in revenue should they
come? Or do we feel pretty confident about FY21 and it's FY22 that will be the battleground?

Mr. Hodgins said I feel pretty confident that with the CARES Act money we're in solid ground for FY21. Really FY22 is what's up in the air because we've focused all of that CARES Act money in FY21. So as we get three to six months into the year and really understand what our longer term revenue situation will be that's where we will have to make some significant decisions about both internal costs and staffing, but also service levels and what we as a region can afford to put on the street.

Vice Mayor Stipp said I think for next week if there's a way to weave that in that may help the rest of the Board have an understanding of this really means. I think us having been on the Executive Committee and have had discussion week in and week out, I think we have a pretty good understanding of what the CARES Act money really means. Since most of the cities are not getting any, I think it would be helpful to maybe weave that into the conversation next week for the whole Board to understand.

Mr. Hodgins said I can do that. Most of the cities won't receive any CARES Act funding directly, but for any of the cities that purchase service through Valley Metro or even through the City of Phoenix, they will get pass-through of CARES Act money.

For the service that's in the budget, we were estimating $47.5 million would come from local sources and with the CARES Act that's dropped down to $28 million so we are providing some relief to those local funding sources with the CARES Act, but, again, that's really just for FY21. But I'll be sure to emphasize that.

Vice Mayor Stipp said I'm not referring for transportation CARES Act money, but I'm referring to the other sensitive matter that unless you're a community of over 500,000 you're not getting any additional money and I think if you look at it from the rest of the smaller communities they're not going to completely grasp what that meant. That was where I was driving, not relationship to transit, but the relationship to trying to offset the revenue losses that the cities are experiencing. Just a little explanation. Thank you.

Councilmember Tolmachoff said I have a question. So, did you say Paul, that the whole $186 million in CARES has been allocated already into FY21?

Mr. Hodgins said so the $198 million that's coming to the region, about just under $50 million is coming to Valley Metro for bus and paratransit service. There's about $45 million coming to Valley Metro for light rail service. The rest is for the City of Phoenix which they will use to offset some of the costs. If you fund service that the City of Phoenix operates, then that chunk of money that Phoenix has will support some of those costs. We do expect to use some of the funds in FY20 to offset some of the increased costs and lost fare revenue, but as a region at the financial working group, we did agree to try to focus as much of that funding in FY21 as we could. There's very little
that will carry forward to FY22. I think there's a small amount for the Avondale-Goodyear urbanized area since that's really a separate pot of funding.

Mr. Hodgins said okay. Just to look at staffing and what we have in the May budget. We have 427 FTEs in current fiscal '20 adopted budget some of them shared, some of them RPTA or VMR only. We had proposed in the preliminary budget increasing that by about 15, but we've, as I mentioned, we've put a hold on any noncritical staff hiring this year which will carry forward through next year so really what we're looking to fund in next year's budget at this point is 412 FTEs. So it's a reduction of 15 from fiscal '20, but a reduction of 30 from what we presented in March.

Just to provide some context, historical staffing levels for the effort for RPTA that is a slight decrease in fiscal '21 and in terms of a percentage of the budget, we are still -- historically staffing is a low percentage of our budget still around three and a half just over three and a half percent.

Councilmember Tolmachoff said can I ask another question here? These graphs and this information is representative of only Valley Metro employees, right? Not contractors?

Mr. Hodgins said correct. Yes.

Councilmember Tolmachoff said okay. So, are we making any changes to the amount of contractors? Are we, like, we're not filling the gap with contractors? Or how is this affecting our contractor staffing?

Mr. Hodgins said at this point, we have not shifted any of the effort to contractors. We're just pulling back staffing. There were a couple of positions that we had looked to convert from contractor to staff. Those will stay as a contractor. I have a couple positions in procurement I'm not going to hire a consultant to fill that gap. We'll just keep those positions vacant.

Councilmember Tolmachoff said okay, so that's was what I was asking is we're saying we're going to go, if you go back a couple slides to the actual increase in employees is here, right?

Mr. Hodgins said so we're not going to go and hire 30 new consultants.

Mr. Hodgins said no.

Councilmember Tolmachoff said that's what I was asking. Okay. Or even 10 or 15? We're not looking to fill those gaps in other ways. We're just going to tighten our belt and see how it goes?
Mr. Hodgins said yes. There was a question at the Board meeting a couple of three weeks ago whenever that was about merit increases. We do not have, as I mentioned, we don't have cost of living across the board increases. We don't have any -- a step system where you get increases based on your position. Merit is really the only way that we provide salary adjustments. So, as I said, in the numbers that I just presented, there is not a merit adjustment in there, but for -- for context, you know, since the recession we've provided three percent increases typically. To do that this year would be just over $800,000 to do something, you know, a one percent. And I just wanted to have a little discussion, what the feeling was.

We haven't really heard what most of the cities are doing. If they're proposing zero or a small increase, you know, we'd certainly be open to having a discussion about potentially having merit effective in January depending on how revenues go. So I just wanted to put it out there and see what the feeling of the committee was, if leaving the merits out is the way to go? Or if we can, you know, if there's something kind of in between that we might put into the budget?

Chair Arredondo-Savage said I think we can have that discussion. I can just tell you from the cities' perspective because we have contracts so we basically will be honoring the contracts for our employee groups which do include merit raises. However, I think with that said, one of the things is that we strive to, and I'm sure all of the other cities, do is to make sure that we're paying market rate. And I think it would be really good to know how our Valley Metro employees are faring out in the market. Are they paid at market rate? Are we valuing them like we should? And I don't know how we figure that out, but I think that would be to me the very first question that we need to ask.

But also, too what we're asking is all of our departments to come back with a 15 percent budget reduction. And that's up to them of how they're going to do that and what that looks like so, kind of twofold. We want to make sure that we continue to value our employees but realize that there is going to definitely be some changes in the future probably for the next a couple of years. So I don't know if anyone wants to chime in?

Vice Mayor Stipp said, you know, I would certainly like to see that information. I'm kind of in a weird place. We are going to be providing market adjustments to our employees across the board in addition to our contracted work force. However, let me say this, I think we're in a different situation and we need to know from Valley Metro perspective where we sit with our comparables not only across the nation, but even closer regionally.

In addition, I also think we need to look at the lower paid group a little differently than the executive group when it comes to salary adjustments, etc. There's, I think, there's going to be some challenge in maintaining our overnight work force in the maintenance faculty. We seem to always struggle with them. That's a group that probably needs to have that merit adjustment as opposed to folks on the Executive Committee who are probably pretty comfortable.
So, I'm okay with not doing anything now and waiting until October or December after we have a better idea of what the real impacts are going to be. I think we have to keep in mind that we've got CARES Act money for 2021, we don't have it for 2022 so whatever we do today is going to impact this discussion a year from now because we're going to add to the ongoing. So, I think we have to tread very carefully as we move forward.

Mr. Hodgins said one of the things that we had originally planned to do next year is a full compensation and benefits study. I think given the situation we've pulled that back, but perhaps we could do just more of a market study for the staff and bring that to the AFS and, you know, to answer that question of where are we within the market? And then make some decisions based off what that study shows.

Councilmember Tolmachoff said so in Glendale, what we did was we had just literally at the end of 2019 done a class and comp study. So we are putting in our budget the adjustments for all of those who were not appropriately compensated based on the class and comp study and then our represented are going to get their benefits, whatever their adjustments are that are in both of their MOUs and then the rest of the employee population we're putting a placeholder.

I actually disagreed with this because I didn't feel like it was fair for pretty much everybody else to get a raise, but we're putting a placeholder in there and it's going to be reevaluated at the beginning of the 3rd quarter to whether or not we can go ahead and give them and it was going to be a one and a half. We had lowered it down from two and a half form last year to 1.5 cost of living increase and then up to it's going to be either .75 or a percent in merit increase so that's what we're doing in Glendale.

I'm a little curious though. So basically, what Valley Metro has been doing is you have to be exceeding expectations to qualify? How does the merit? I guess, I want to know how have we been doing these salary increases? If you're just meeting expectations, then you don't get a merit increase? How does this merit adjustment policy work?

Mr. Hodgins said so basically if you are meeting your job performance, you are not falling below standard, you would get the typical three percent raise. If you have performance issues, you would get less than a three percent, you know, as down to zero, if needed. But it's based on your performance evaluation at the end of the year.

Chair Arredondo-Savage said everybody has one? Everybody does a performance eval?

Mr. Hodgins said yes. Everyone will be evaluated throughout the year.

Chair Arredondo-Savage said will be or they are?
Mr. Hodgins said they are.

Chair Arredondo-Savage said okay.

Councilmember Tolmachoff said Paul, so if somebody who's exceeding say five out of five in every category, you're getting the same adjustment as somebody who's getting three out of five?

Mr. Hodgins said if somebody is exceeding expectations, out performing their peers there is a possibility to get more than three percent. It doesn't happen very often. There's probably maybe a dozen or so each year which has to be approved by the CEO so there's a possibility to get more. The three percent is an overall budget number so clearly not everybody can get more than the three percent, but it's offset by some who don't get the full three percent.

Councilmember Tolmachoff said what percentage of employees normally usually qualify for the three percent overall?

Chair Arredondo-Savage said maybe it's better to say who doesn't qualify? Because it sounds like the majority of people do.

Mr. Hodgins said it's a clear majority. I'm trying to remember back to the audit that was done, internal audit a few months ago. I want to say maybe 80 percent.

Councilmember Tolmachoff said that's a little disappointing because you only have to be meeting expectations to qualify for that and if we're only getting 80 percent there that's not fair. So is that $812,870, is that 80 percent? Is that what that's based on?

Mr. Hodgins said that's based on three percent of the salaries so it would be an overall three percent increase for everybody, but it doesn't always work out necessarily that way.

Chair Arredondo-Savage said Paul, would that be something that we could get some information on some more clarity before the meeting next week possibly? And maybe some options of what that might look like? Because I don't really have a strong opinion in the sense of where we are. I would like to know where we fall in the market because I have no idea especially if we haven't done a market study ever. That's a problem. I don't know if that's the case.

Mr. Hodgins said but we've done a couple of studies that are targeted to specific areas. Our customer service, for instance, I think a year and a half or two years ago, we did a market study for just that segment, so we've done a couple, but we haven't done one across the board for a few years. We could look at an option of just having a placeholder number pending a market survey. We could look at only offering a merit to certain classifications. We can develop some options.
Mr. Sapien said Paul, I know you mentioned earlier that you guys were planning on doing a market study and that was pulled back. I guess, the only suggestion I would have is it going to be nationwide? Or should it be narrowed more to peer-type cities that have similar cost of living and similar size agency? Just some suggestions there, because if you do nationwide, I think, you’re going to get as we’ve seen before when we get peer city reviews versus cast a big net. There’s a couple of numbers that sometimes skew the averages. So just wondering what the plan might be. It’s not a question that needs to be answered today, but you know something to think about in the future.

Mr. Hodgins said we'll certainly take that into consideration. Thank you.

Chair Arredondo-Savage said well, I wonder if moving forward with what we could do is if you could do a little bit deeper dive, Paul, in regard to do the market studies that have been done. That's something that you could give us, an Executive Summary what that looks like. What departments have already received a market study? Just so we have a little bit more clarity in regard to overall what the agency is kind of looking like and where we do need to do more market study. As a Board we'll have more discussion next week, but I like the idea of at least talking about different options and I know Councilmember Tolmachoff mentioned a placeholder though she doesn't love it and possibly a deferment until the next quarter so I think there is definitely some things for us to talk about in regards to what it looks like moving forward. But it's hard to say where we even fall if we don't even know where we're at when it comes to a market study to begin with.

Mr. Smith said if I could chime in on you just a little bit. The targeted market study that Paul's talked about is basically based on our ability to compete in the marketplace either in retaining employees or hiring employees. That's the ultimate market study is can you hire people? And are people leaving? Because you're underpaying. I can tell you that in areas such as customer service representatives, maintenance especially, and other noncontractual employees, we have had to adjust upward, and three percent would not have covered those adjustments. So, we have done some fairly significant targeted where the market has dictated to us that in order to hire. Information Technology was another area where the market in general dictated our ability to both hire and retain employees, so I don't want you to think that we're just flying blind because we've had to adjust in certain areas by pretty significant amounts.

I think if we did an agency wide, I'm a little leery of those simply because everyone I've ever been associated with the market never says that you're overpaying. It always says that you're underpaying. And I think people get shock when they found that this $812,000 is much lower than what I envision. And looking at our targeted areas, I will tell you we've had to adjust much more than three percent to meet the market demands.

I like the idea of having a placeholder in there and having further discussion as we get a better picture of not only what the economy is doing, but what you're doing too as cities
to meet this. I don't think anyone is really clear right now and I've heard of some cities putting placeholders in because they just don't know. And we don't know what the market it. One thing we do that is a little different than cities, is that in areas especially in our rail operations is that we don't compete with cities and with governments. We're out there competing with you know the Honeywells and the Boeings and the others of the world and we're at a disadvantage when it comes to that so I like the idea of maybe putting a placeholder in and then, of course, revisiting it as we get more information down the road.

Chair Arredondo-Savage said go ahead Jim, you got something.

Mr. Hillyard said Chair Arredondo-Savage, if I could quickly answer Councilmember Tolmachoff's question. In FY19, eight percent of the work force received a raise of less than three percent. It was 22 individuals. Two percent, five individuals received merit increases greater than three percent and then everyone else, 253 folks received the standard three percent.

Chair Arredondo-Savage said got it. So not very many actually get more. Was there a number that didn't get any? Did you say that? What was that first number you said, Jim?

Mr. Hillyard said 22 individuals received less than three percent.

Chair Arredondo-Savage said got you. Okay. So, 75 percent received the three percent, the standard.

Mr. Hillyard said I'm sorry, Chair Arredondo-Savage. I was just reading this chart backwards. Okay, five individuals got less than three percent, 253 received the three percent and 22 received greater than three percent.

Chair Arredondo-Savage said got it.

Mr. Hillyard said certainly. Just for context, as Paul mentioned, we were planning on doing a full market survey because the classifications and the pay ranges that Valley Metro uses haven't been adjusted in eight years. So we're continuing to find ourselves as we compete to bring in folks, as Scott mentioned, at competitive levels. What we're finding is our long-term employees who have remained in those pay ranges that haven't moved are seeing a lot of compression and we're having to start to deal with salary equity issues for existing staff because of those dated ranges. The challenge is we would be looking at so many different classifications that we were anticipating that a full market survey was going to take us about a year to conduct. We just did in-depth market survey for the positions at the OMC both maintenance of way and maintenance of vehicle. That took about four months and was really only covering about a dozen positions so that's why we believe that the full survey would be a longer affair.
Chair Arredondo-Savage said that's something to think about and we can address it as AFS Committee too in regard to what that market study looked like and maybe creating a policy so we are proactive in the sense of not waiting for vacancy positions or people to leave because we’re not being competitive. I think that's why you do a market study and you keep it consistent in the years. And you alternate different positions so one year you do this and the next year you do that or however it works out, but it seems like there can be a pretty seamless process put in place that would be more proactive than reactive moving forward. I don't know if this is the time and the place to talk about that too much, but I think something that probably needs to probably be implemented as an organization in the future. Do AFS members have any other thoughts in regard to the merit discussion?

Vice Mayor Stipp said I think everything we've talked about sounds correct. Putting the placeholder in there for uncovering it may be a viable solution, but I am worried about, the conflict between the competition with Boeing and Honeywell versus Valley Metro and city staffs. We’ve got to figure out where the smooth part of that conflict is. So, I'm more cautious which is how we ended up in the position that we’re in the city about being very conservative and looking at it once the real numbers come in as far as what we're able to do and offer. Then really looking at even an informal salary identification will be very helpful for us to make a decision.

Chair Arredondo-Savage said I think that's a really good idea. I think that there's some things that we can do a little bit better when it comes to, you know, merit discussions in the future, but I think for now, you know, we move forward. We have a bigger discussion probably next week with the whole Board, but we can certainly reference some of our concerns and what that might look like and maybe showing some different options to the Board as a whole may be helpful moving forward with that.

Mr. Hodgins said we'll see if we can craft a couple of options to add to the presentation for the Board meeting next week.

Chair Arredondo-Savage said I think these are really uncertain times and being conservative seems like the right thing to do, but at the same time, I want to make sure that if we're paying our employees right, we don't give them a bonus when times are great so I don't think they should make less money when times are bad. But I do understand that it's going to impact us all at some point or another. We may get to that point, but we'll get a little bit deeper discussion next week. All right. Anything else about the merit topic? We're going to keep going on.

Mr. Hodgins said I very much appreciate the discussion. So, looking at a couple of the other areas for travel. We have reduced the travel budget significantly. Looking at the combined agency, we're at $409,000 for the current fiscal year. Clearly, we'll come under budget this year since we put a hold on all travel back in March. We had presented a slight decrease for the FY21 budget in March at $403,000, but we've cut
that by more than 50 percent so down to about $187,000. We still have some required travel largely related to --

Chair Arredondo-Savage said can you just really remind us what the required and the essential, what the two differences of those?

Mr. Hodgins said so the required are trips that we need to do. They're largely related to fleet inspections so when we buy new vehicles we have to travel to the manufacturer to do inspections. That's mostly what the required is. There could also be some FTA-related. If there's something specific for FTA quarterly meetings.

Essential travel are things that we really should be doing but not level of required. So having Scott go to meet with FTA headquarters to talk about our projects and the capital investment grant program. It's not necessarily required, but face-to-face contact with FTA headquarters really helps to support and get the message to FTA about what our projects are doing so they're really things that we really should be doing.

Professional development, those are all related to conferences, seminars. We've cut that back significantly. We do have several conferences that we are still planning to attend if they happen. An example, the APTA, American Public Transportation Association, every three years has a giant expo and the expo has all of the latest and greatest of everything related to transit. They have locomotives, light rail vehicles, every size of bus, fare collection equipment, software, tools everything you can think of, they have in one convention center. It's a great opportunity for staff to go and see what's available. It's in Anaheim this year so we anticipate still sending some people maybe not as many as we would have, but, again, it's just a great opportunity. So we do have some travel for professional development in the budget still, but it will be based on whether or not the conferences or seminars happen. But also, we'll minimize the number of staff that go to those.

And then with our training budget we talked about the three different types, the organizational. We have kept our organizational training budget basically the same as what was presented in March. We believe that training is important especially if we are not offering merit increases. Professional development is an opportunity to keep the employees engaged. The organizational is quite important to us.

Division sponsored. We have a slight decrease from what was presented in March. It's still a decrease from what was in the FY20 budget. The tuition reimbursement is $105,000. There's the FY20 budget of $65,000. I think the audit showed we had spent about $41,000 in FY20 so far. So, by the end of the year we may be pretty close to on target for that FY20 number. That's just related to the number of employees that are in the program that have been accepted into the tuition assistance program. So then quickly I'll go through the 5-year forecast.
Chair Arredondo-Savage said before you do that I just want to go back and see if anybody has any questions on those few slides that we just went through. The travel slide. The training slide which is new because I don't think we had the training slide.

Mr. Hodgins said is was not in the packet. No.

Chair Arredondo-Savage said yes. Are you all good? Move on.

Mr. Hodgins said all right. So, I'll go through the five-year fairly quickly. It's based on current assumptions and revenues whatever they turn out to be will certainly adjust this five-year.

Our assumptions though are based on our current Short-Range Transit Program. The changes that we made as recently as May of 2020. That is subject to adjust based on some of the discussions we have. We have some assumptions about paratransit trips forecasted to increase about one percent. Ride Choice increasing six percent in FY22 and then five percent each year thereafter. We have fare revenue, we have a significant decrease for FY21, but then we phase it back in over the next few years and then an increase in FY25 to coincide with the new fare collection system and better control over reduced fares. Then our federal preventive maintenance revenue, we just have some general increases based on what's in the MAG forecast and the transportation improvement program.

So, there's a lot of numbers on this slide, but overall sources of funds over the five-year for operating just about $1.1 billion with uses half of that roughly on fixed route operations. A significant amount on paratransit operations and then you can see some of the other areas.

On the capital side really focused largely on replacement fleet. So, all of the expansion fleet's been deferred out, our assumption is that we'll continue to receive 85 percent federal funding for all of our fleet replacement. Van pool fleet, we do have some expansion that's programmed. Depending on how the program recovers, you know, we would only buy the expansion vehicles we believe we need, but in the five-year, we do have 25 per year programmed. Those are funded at 100 percent federal.

And then there are some facilities and equipment. The Laveen Park and Ride which is reimbursements to the City of Phoenix for that Park and Ride project for the local match. The fare collection system is the local match for that as well. Some upgrades to the Mesa bus facility. Some engine rebuilds and IT infrastructure.

So, for the five-year capital sources and uses, over the five years about $768 million largely in federal funding and Prop 400 funding. Again fleet and rail program disbursements being kind of the highest uses other than debt service.
So that was a very quick look at the five-year. I didn't want to spend a whole lot of time because we know that's going to change significantly based on our future plans, but so it's information today. Again, we'll present it to the Board next week for information with some of the additional discussion we had today and then we anticipate coming through the June process for adoption. And if there aren't any further questions, I will jump over to the Valley Metro Rail budget.

Chair Arredondo-Savage said you guys have any quick questions? Paul, I've got one really quick one. You probably just know this off the top of your head. On slide number 14 with the five-year operating sources? The public transportation funds, what's our current right now? What's FY20? Was that on that slide? I know it's not on this slide.

Mr. Hodgins said so the total budgeted for Prop 400 for this year was about $165 million. We were on track to get about -- to reach about $170 million until the whole COVID-19 so we may end up somewhere around $157 million.

Chair Arredondo-Savage said I guess, I was just looking for the decline from FY21 and FY22 so that's why I was asking about that this year comparison just to see how we're capturing the COVID impact. I'm talking about the sources of funds, the public transportation funds right off the top right? The top line?

Mr. Hodgins said right. And it's the uses of PTF for operating or the uses for capital. It doesn't necessarily reflect what our total estimated forecast is because there could be some fund balance either adding to or using.

Chair Arredondo-Savage said you're putting those numbers together? The capital and the operating numbers?

Mr. Hodgins said right.

Chair Arredondo-Savage okay. So, what's our operating numbers without the capital for FY20?

Mr. Hodgins said so we had estimated the use of about $91.4 million in Prop 400 funds on the operating budget for FY20.

Chair Arredondo-Savage said right. I kind of worry because you get into FY22 and do you really think we're going to hit that 100 mark?

Mr. Hodgins said no. This is based on current forecast, current assumptions. This is likely not sustainable. So, we are going to have to make some changes through the five-year and that will be part of discussion over the next year of how we make service reduction, what are the appropriate reductions, to both service and agency costs. What this really shows is that it's not sustainable.
Chair Arredondo-Savage said understood.

Councilmember Tolmachoff said so that brings up a point that I know you and I have had a discussion about. Have we looked anywhere besides our operations of ways to cut expenses? For example, one of the questions I had is especially, now that we've seen that telecommuting works on a pretty big scale, can we look to, rather than operationally and cutting and reducing services and things like that, reduce our leased space? I don't know how many offices we provide for contractors. Whether we're going to be able to move towards shared workspaces? Offsetting schedules and ways we can reduce our costs that way so we're not only looking to our operations to trim our costs.

Mr. Hodgins said so we're absolutely looking at all of those. At the use of our own space. We've made some adjustments to some of those internal costs, but when we look at the overall budget 85 to 90 percent of the budget is on service. So, I mean, there's a limit to how much we can trim from our leased space and our staff costs and internal costs. I mean, we are tightening as much as we can, but it's certainly not going to make up, you know, tens of millions dollar deficit in regional funding. There will have to be an impact on service at some point.

Councilmember Tolmachoff said oh, right. I'm not thinking that we're not going to be able to impact service. I'm just saying are we looking at the whole menu of things where we can cut costs? Because I think a lot of us have seen that productivity, if you've got good people, doesn't necessarily suffer if everybody's not coming into the workplace every day so I think we're going to see a shift in that direction. I don't know if Valley Metro's looking at that. I know we have a substantial amount of office space there in the US Bank building and I don't know what our obligations are going forward, but it's just something to look at that going forward are we going to continue to need? That's I'm sure more of a question for Scott, but are we going to continue to need all of that space? As an ongoing looking out into the future, are we going to continue to need all of that?

Mr. Hodgins said yes, great point. In fact, that's something I already brought up with Scott a few weeks ago. He wasn't ready to make any commitment to breaking leases on any of the floors at this point. He wanted to see how telecommuting went, but I think it's been working very well. We can certainly look at how we might reduce the space needs at the U S Bank building to minimize costs. The lease does extend through, I believe, 2025 so there could be a cost to breaking that early for one or more floors, but it's certainly something that we are willing to look at.

Councilmember Tolmachoff said I just thought I'd throw it out there.

Chair Arredondo-Savage said it's a good idea. I think we're all looking internally to see where we can cut. Unfortunately, nothing's off the table. So, go ahead.
Mr. Hodgins provided a brief presentation overview of the Valley Metro Rail Fiscal Year 2021 (FY21) Budget Update that included the following items:

- FY21 Budget Update
  - Changes from March version
- Uses of Funds: Operating
- Sources of Funds: Operating
- Uses of Funds: Capital
- Sources of Funds: Capital
- FY21 Staffing
- Historical Staffing – Total Staff Effort
- Historical Staffing – Costs as % of Budget
- VMR FY21-25 Proposed Five-Year Forecast
- 5-Year Operating Assumptions
- 5-Year Uses of Funds: Operating
- 5-Year Uses of Funds: Capital
- 5-Year Sources of Funds: Operating
- 5-Year Sources of Funds: Capital
- 5-Year Operating Sources and Uses
- 5-Year Operating by Segment
- 5-Year Capital Sources and Uses
- 5-Year State of Good Repair
- FY21 Travel
- Budget Schedule

Mr. Hodgins said moving on to the Valley Metro Rail preliminary budget. Essentially the same types of changes. The deferring staff, reducing administrative costs. We've reduced travel, added CARES Act.

So jumping in to the uses of funds, we've made some minor adjustments to the O&M budgets. A fairly significant adjustment to the safety and security budget and then, you know, 11 percent on the future project development or planning budget. And then it's only half a million, but it's about a 22 percent decrease in the agency operating budget so overall four percent less.

Chair Arredondo-Savage said can we go back to that really quick? I look at the operating and it's a big increase from FY20, $45.7 million now we're still up at $49 million. I think we have to look at that number.

Mr. Hodgins said we can certainly revisit that. A lot of that is driven by the additional staff that we are hiring for managing our state of good repair. As the vehicle fleet ages, we're getting close to 15 years soon. We are managing more overhauls, more maintenance with the fleet. So, this assumes a number of new maintenance positions that we talked about for the FY20 budget that we had phased in. So, this assumes a full year of those additional positions to manage state of good repair projects, but certainly
we can reevaluate kind of the needs on staffing. It's really a policy decision about how we want to stay on top of state of good repair. We certainly don't want to let the vehicles fall into any disrepair but are there items that we could defer for a year or two. We could certainly have that discussion about how to manage that.

Chair Arredondo-Savage said I would say too, moving forward I know we've had a lot of discussion in regard to increased personnel because of our increased fleet so we need to make sure we always have those discussions together. Because if you just look at these numbers of where we are in FY20 and where we expect to be, it's still a $4 million increase which I think most people really won't understand that or realize what is impacting that number so we have to continue to have that dialogue and really work on getting those operating costs down.

Mr. Hodgins said we can certainly take another look. On the sources of funds, again, the big addition here is federal funds from the CARES Act. Valley Metro Rail, as I mentioned, is receiving just about $45 million. We're looking at using a couple million in FY20. It's not reflected in the FY’20 column because that's the adopted budget figure, but we're looking at about $2 million this year so that leaves $43 million for FY21. We've reduced fare revenue and a little bit of the advertising revenue, but that's really a direct savings to the member cities, the three cities that fund light rail. We had initially $48 million in local funds for this. It's down to $12 million, a significant reduction in what we're asking from the cities to fund this. This is really for FY21. It will give us the time to really have a good discussion with all three cities about what are the appropriate service levels. Not just looking at the revenues, but taking a close look at the costs, and also what are the appropriate service levels moving forward that is sustainable with local revenues.

Mr. Sapien said I had a quick question, at least a suggestion. Paul, thanks for the info and I think the information you provided is helpful because that is a question that we had. What are the primary drivers between the increases in light rail budget between FY20 and 21? So, for purposes of the Board meeting, if you could provide as much detail there as you can, that would be appreciated because sometimes we don't know those things, the level of detail you just provided. Sometimes we just think it's year-to-year on cost or something like that so it's a good thing moving forward to provide as much detail on that increase from one year to the next for the Board meeting.

Mr. Hodgins said we can do that. We provided a little bit of that information back in March and I said this is really focused on the change from March to May, but we can pull some of that information back in for the Board presentation next week on what's driving the increase. Thank you for that suggestion.

Uses of funds for capital, our capital budget's largely driven by our corridor projects. A significant amount some minor changes from March to May, but significant numbers for the capital projects. We'll be wrapping up Tempe Streetcar, South Central Downtown Hub. I mentioned we're moving forward with the guaranteed maximum price and so that
will be full steam ahead on that project assuming that's approved by the Board. Northwest Phase II, we are in the engineering phase and full steam ahead with the final design and hoping to get to a full funding grant agreement there. OMC expansion.

The bigger changes we made are farther down on the system-wide improvements. In our five-year plan, we have included some improvements to the original 20-mile line that would support operations so additional cross overs, powering switches so we've deferred those out. We want to keep them on a back burner because they're important for operations. They're important to manage the system better, but we're just not sure we have the funding for those right now so that's the biggest change in the system-wide improvements.

Some of the state of good repair we've deferred. The $1.3 million that we've deferred, it really is a deferral. It will show up either in FY22 or FY23 because these state of good repair projects. We need to do them to maintain the system, but we felt that these were some items that could be deferred at least one fiscal year.

On the sources just some adjustment in some of the contributions. Slight increase on member city contributions and decrease in Prop 400 funding.

And then staffing slide again I won't go through it except to highlight that for Valley Metro Rail for the VMR only activities, we're looking at from FY20 to what's in the May budget a reduction of two positions for VMR only and then a reduction of four positions from FY20 to the May version on shared activities so overall it's a six FTEs from in total effort from FY20 to what we're proposing in FY21.

And just a couple other charts again to highlight or to put it in some context. We have been growing the Valley Metro Rail staff effort quite significantly, but really it's because the agency is growing, projects are growing, the service is growing, and as a percent of the overall budget it's still within that reasonable or historical levels. Just over five percent of the budget is staffing.

If there aren't any additional questions on the annual budget, I'll very quickly go through the five-year for Valley Metro Rail.

Mr. Hodgins said so some of the assumptions, the Tempe Streetcar May of 2021, we've had some discussions with our vehicle manufacturer. They're located in Pennsylvania. Pennsylvania's had a fairly strict lockdown, stay-at-home order. The Brookville factory is shut down for a few weeks but has been operating at about 15 percent capacity. We don't expect that to open up to 100 percent any time soon so we're concerned that the vehicle delivery may jeopardize that 2021 date. We're continuing to monitor that, but, ultimately, that could get pushed out because of the vehicle delivery. If we don't have the vehicles, we wouldn't be able to start the service.
South Central Downtown Hub, we're looking at December of 2024. As part of the South Central, we had an overlay service that would provide additional frequency between Central Station and Sycamore. That's programmed for 2024. It's more than likely that that will believe removed, that we won't be doing that given the current situation, but for the numbers that you'll see that it is assumed in the five-year budget. And then Northwest Extension Phase II, an opening in January 2025.

Some assumptions on the fare revenue, as I mentioned, same with the bus program, we are assuming a significant decrease fiscal '21 with a ramping up through the five-year as ridership hopefully comes back. And then some preventive maintenance kind of inflationary increases based on MAG's forecast.

Just a quick reminder of our project schedule, as I noted, the opening dates for those projects. We also have Capital I-10 West Phase 1 and Phase 2 on the horizon that we're still looking at. Working with the City of Phoenix on the timing for those on what's appropriate given the current situation.

So, five-year operating sources and uses, assuming the current headways, assuming the current service parameters, not the COVID-19 ones, but our base assumptions. We're looking at nearly $400 million over the five-year program. That includes not just O&M and safety and security, but that's our planning budget and our agency operating budget so the operations themselves with safety and security looking at about $340 million of the $400 million over five years.

Just looking at some of the costs by segment for our current system and then when the additional lines come on and overall cost per revenue mile just for comparison. The streetcar cost per revenue mile is higher largely because we operate one-car trains. Light rail operates two-car trains so you have one operator for two vehicles whereas with streetcar it's one-for-one so that's the largest difference -- accounts for the difference between the two modes.

On the five-year capital, again, largely driven by our corridor projects, but also some of the system-wide improvements and state of good repair just over $2 billion with almost half of that coming from federal funding through the capital investment grant and SEEMAC (phonetic) programs.

Five-year state of good repair, we are looking at about $34.5 million over five years on state off good repair items for both the fleet and the infrastructure, stations and track, overhead catenary. We do show a decrease over the five years. We do expect that somewhere around fiscal '26 that will start to ramp up again as some of the vehicle overhauls and some of the overhauls for the infrastructure come into play.

I won't go over the budget schedule again. It's the same as for RPTA. So that concludes my overview, I'd be happy for answer any additional questions.
Chair Arredondo-Savage said anybody got any questions for Paul? We still have a few items left on the agenda so what I would suggest is we go through these. I just don't want anybody to feel pressured that we take any action on these. They're listed for possible actions so just keep that in mind. Let's just spend a few minutes and try to go through them at least so we understand. If there's any questions, then we can get some clarification right now with that. If you are okay with that?

This item presented for information only.

8. **Fiscal Year 2021 Agency Internal Audit Plan**

Mr. Smith provided an overview of the Fiscal Year 2021 Internal Audit Plan.

There was discussion that this item requires further review and will be discussed at the next AFS meeting.

This item was presented for discussion and possible action only. No action taken.

9. **Draft Internal Audit Charter**

Ms. Tameron-Kinsey provided a brief overview of the Draft Internal Audit Charter.

There was discussion that this item requires further review and will be discussed at the next AFS meeting.

This item was presented for discussion and possible action only. No action taken.

10. **Draft Audit and Finance Subcommittee Charter**

Ms. Tameron-Kinsey provided a brief overview of the Draft Internal Audit Charter.

There was discussion that this item requires further review and will be discussed at the next AFS meeting.

This item was presented for discussion and possible action only. No action taken.
11. **Future Agenda Items**

Mr. Hillyard said he had a follow-up response for the Professional Development Audit. We do allow training for contractors. There were four contractors that participated in Organization Sponsored Training to train them on our procedures versus general skills.

The next meeting of the Audit and Finance Subcommittee is June 11, 2020 at 12:00 p.m.

With no further discussion, the meeting adjourned at 1:58 p.m.
Information Summary

DATE
June 4, 2020

AGENDA ITEM 3

SUBJECT
Valley Metro RPTA Fiscal Year 2021 (FY21) Proposed Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY21 through FY25)

PURPOSE
To provide an overview of the FY21 Proposed Operating and Capital Budget and the Five-Year Operating Forecast and Capital Program (FY21 through FY25).

RECOMMENDATION
Staff recommends that AFS forward to the Board of Directors for approval the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast.

BACKGROUND/DISCUSSION/CONSIDERATION
The Valley Metro Regional Public Transportation Authority (RPTA) FY21 combined operating and capital budget (the budget) is $335.1 million (M) and includes $82.0M of expenses for light rail/high capacity transit capital.

The Proposed FY21 budget has been prepared with the goal of delivering a fiscally prudent, balanced budget using carry forwards and reserves when needed. The budget was developed in compliance with Board of Directors' adopted budget, financial and Transit Life Cycle Program (TLCP) policies.

As a result of the anticipated economic impacts of the COVID-19 pandemic, we have made some reductions to the operating budget in the areas of administration as well as deferred some fleet purchases for service expansion. The updated Proposed budget also incorporates Federal Funding from the CARES Act as well as more conservative estimates for Prop 400 funding and fares. The full impact of the pandemic may not be known for six months or more.

The budget does not include any service reductions as a result of the economic impacts from the pandemic. The CARES Act funding was provided by FTA to account for any loss of revenues, either fares or sales tax, which will support current levels of service. However, the CARES Act funds will largely be used in FY21, with very little left to support service in FY22 and beyond. Beginning in June, Valley Metro will work through the Service Planning Working Group to develop options for long term service changes to address reduced revenues. We anticipate developing options over the next 6 months for implementation as soon as April 2021.
The annual budget is prepared on an accrual basis and adopted by the Board of Directors each fiscal year. The legal level of budgetary control is the total annual appropriated budget. With respect to Capital Budgets, project contingency accounting is used to control expenditures within available project funding limits. With respect to Operating Budgets, encumbrance accounting is not used and all appropriations lapse at the end of the year. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

The RPTA budget includes a significant level of expenditures on behalf of Valley Metro Rail (VMR). RPTA is the official employer for all Valley Metro employees therefore all employee related expenses for VMR are include in the RPTA budget. VMR reimburses RPTA for its share of employee expenses. RPTA is also the recipient of all public transportation funds received from Proposition 400. Revenues to support the rail program are passed through to VMR on a reimbursement basis.

The total operating budget of $196.5M, which includes pass-throughs, represents a $8.1M (4%) decrease from the previous year's operating budget of $204.5M. The total capital budget of $138.7M, which includes pass-throughs, represents a $29.8M (18%) decrease from the previous year's capital budget of $168.4M.

The CARES Act funding reduces the regional and local commitments for operations funding by $49.8M, which includes reductions of $24.6M from PTF and $25.2M from local sources.

The RPTA and Valley Metro Rail (VMR) budgets are developed with a unified staff plan, with department managers planning the level of effort required to meet the bus and rail activities. Salary and overhead charges to bus and rail projects are based on actual time worked on each project. As a result of the current economic uncertainty, all staffing has been re-evaluated for criticality and the proposed staffing levels have decreased through a combination of removing most new positions and deferring some unfilled positions. For FY21 there are 412 employees budgeted in the integrated agency, with 218 FTE’s budgeted to RPTA/Shared agency activities and 194 budgeted to VMR only activities.

We have included a placeholder of 3% for salary increases. The budget and revenues for the first quarter of FY21 will be reviewed with the Financial Working Group and AFS in October. If AFS does not have sufficient information at that time, a second review in January would occur. The implementation of any salary changes would be dependent on the review and recommendation by AFS, with final approval by the Board of Directors.
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

- Goal 2: Advance performance-based operation

COMMITTEE PROCESS
Proposed Budget Review:
Financial Working Group: February 18, 2020 for information
RTAG: February 18, 2020 for information
TMC: March 4, 2020 for information
AFS: March 12, 2020 for information
Boards of Directors Study Session: April 16, 2020 for information
AFS: May 14, 2020 for information
Board of Directors: May 21, 2020 for information

Proposed Budget Adoption:
TMC: June 3, 2020 for action
AFS: June 11, 2020 for action
Board of Directors: June 18, 2020 for action

RECOMMENDATION
Staff recommends that AFS forward to the Board of Directors for approval the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast.

CONTACT
Paul Hodgins
Chief Financial Officer
602-523-6043
phodgins@valleymetro.org

ATTACHMENT
None
Audit and Finance Subcommittee
June 11, 2020

RPTA

Additional Information Requested
Travel

- Budget has been reduced by $100K
- Some travel is required
  - Vehicle design/inspections, FTA Project Meetings, etc.
- All travel will be reviewed for essential business operations

Merit Adjustment, Staffing

- 3% placeholder in budget, reviewed by AFS in Q2
  - Will require Board approval

- Staffing reductions will not be replaced with consultants
  - Additional info provided to FWG on vacant number of positions

<table>
<thead>
<tr>
<th>FTE</th>
<th>March</th>
<th>May</th>
<th>Change</th>
<th>Vacant</th>
<th>FY21 New</th>
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<tbody>
<tr>
<td>RPTA/Shared Agency Activities</td>
<td>124</td>
<td>118</td>
<td>(6)</td>
<td>5</td>
<td>1</td>
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<tr>
<td>RPTA only Activities</td>
<td>114</td>
<td>100</td>
<td>(14)</td>
<td>11</td>
<td>3</td>
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<tr>
<td>VMR only Activities</td>
<td>204</td>
<td>194</td>
<td>(10)</td>
<td>8</td>
<td>2</td>
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<tr>
<td>Total FTE</td>
<td>442</td>
<td>412</td>
<td>(30)</td>
<td>24</td>
<td>6</td>
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</table>
**Tuition Reimbursement**

- Request for FY20 actuals

<table>
<thead>
<tr>
<th>FY20 Actual (thru April)</th>
<th>FY20 Forecast</th>
<th>FY21 Budget</th>
<th>Increase over FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$ 75,000</td>
<td>$ 90,000</td>
<td>$ 105,000</td>
</tr>
</tbody>
</table>

**Office Space**

- **Current office lease expires in 2025**
  - Aligned with expiration of Prop 400

- **Short Term**
  - Staff will begin a phased return

- **Long Term**
  - Exploring opportunity to telework
  - Evaluate beyond pandemic
Baseline: RPTA Operations

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUS OPERATIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger boardings</td>
<td>13,863,645</td>
<td>14,200,000</td>
<td>3,501,000</td>
</tr>
<tr>
<td>Service miles delivered-RPTA operated</td>
<td>12,543,000</td>
<td>12,866,000</td>
<td>13,049,000</td>
</tr>
<tr>
<td>Gross Operating Costs</td>
<td>$83,084,000</td>
<td>$88,318,000</td>
<td>$90,017,000</td>
</tr>
<tr>
<td>Fare Revenues</td>
<td>$9,064,000</td>
<td>$8,837,000</td>
<td>$2,179,000</td>
</tr>
<tr>
<td>Fare Recovery</td>
<td>11%</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>Average Fare</td>
<td>$0.65</td>
<td>$0.62</td>
<td>$0.62</td>
</tr>
</tbody>
</table>
## Baseline: RPTA Operations

### Paratransit Operations

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trips</td>
<td>460,115</td>
<td>460,000</td>
<td>439,000</td>
</tr>
<tr>
<td>Gross Operating Costs</td>
<td>$21,082,000</td>
<td>$23,646,000</td>
<td>$22,604,000</td>
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<tr>
<td>Fare Revenues</td>
<td>$1,617,000</td>
<td>$1,840,000</td>
<td>$1,768,000</td>
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<tr>
<td>Fare Recovery</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Cost per Trip</td>
<td>$45.82</td>
<td>$51.40</td>
<td>$51.49</td>
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<tr>
<td>Average Fare per trip</td>
<td>$3.51</td>
<td>$4.00</td>
<td>$4.03</td>
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### RideChoice Operations

<table>
<thead>
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<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trips</td>
<td>84,000</td>
<td>201,000</td>
<td>237,000</td>
</tr>
<tr>
<td>Gross Operating Costs</td>
<td>$1,802,000</td>
<td>$4,055,000</td>
<td>$4,792,000</td>
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<tr>
<td>Fare Revenues</td>
<td>$265,000</td>
<td>$683,000</td>
<td>$798,000</td>
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<tr>
<td>Fare Recovery</td>
<td>15%</td>
<td>17%</td>
<td>17%</td>
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<tr>
<td>Cost per Trip</td>
<td>$21.45</td>
<td>$20.17</td>
<td>$20.22</td>
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<tr>
<td>Average Fare per trip</td>
<td>$3.15</td>
<td>$3.40</td>
<td>$3.37</td>
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</table>
**Uses of Funds: Operating & Capital**

- Passenger Services: 41%
- Regional Transit Services: 5%
- Agency Administration: 1%
- Fiscal Administration: 19%
- Capital Activities: 34%

**Sources of Funds: Operating & Capital**

- VMR Public Transportation Funds Program: 16%
- VMR Reimbursements: 8%
- Federal Funds - CARES: 15%
- AZ Lottery Funds: 3%
- Carry Forward & Reserves: 1%
- Fares: 1%
- Other: 2%
- Federal Funds: 15%
- Public Transportation Funds: 30%
## Uses of Funds: Operating ($,000,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Route Operations</td>
<td>$101.7</td>
<td>$103.8</td>
<td>$2.2</td>
<td>2%</td>
</tr>
<tr>
<td>Demand Service Operations</td>
<td>42.7</td>
<td>31.4</td>
<td>(11.3)</td>
<td>-26%</td>
</tr>
<tr>
<td>Vanpool Operations</td>
<td>0.9</td>
<td>1.0</td>
<td>0.1</td>
<td>7%</td>
</tr>
<tr>
<td>Planning</td>
<td>2.1</td>
<td>2.0</td>
<td>(0.1)</td>
<td>-7%</td>
</tr>
<tr>
<td>Commute Solutions</td>
<td>1.3</td>
<td>1.3</td>
<td>(0.0)</td>
<td>-1%</td>
</tr>
<tr>
<td>Administration and Finance</td>
<td>4.6</td>
<td>4.1</td>
<td>(0.5)</td>
<td>-11%</td>
</tr>
<tr>
<td>Regional Services</td>
<td>12.8</td>
<td>13.6</td>
<td>0.8</td>
<td>6%</td>
</tr>
<tr>
<td><strong>RPTA Operating</strong></td>
<td><strong>$166.2</strong></td>
<td><strong>$157.3</strong></td>
<td><strong>($8.9)</strong></td>
<td><strong>-5%</strong></td>
</tr>
</tbody>
</table>

## Sources of Funds: Operating ($,000,000)

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$91.4</td>
<td>$62.5</td>
<td>($28.8)</td>
<td>-32%</td>
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<tr>
<td>Regional Area Road Funds</td>
<td>4.6</td>
<td>4.7</td>
<td>0.1</td>
<td>1%</td>
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<tr>
<td>Transit Service Agreements</td>
<td>47.4</td>
<td>28.4</td>
<td>(19.0)</td>
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<tr>
<td>MAG Funds</td>
<td>0.5</td>
<td>0.2</td>
<td>(0.3)</td>
<td>-55%</td>
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<tr>
<td>AZ Lottery Funds</td>
<td>0.2</td>
<td>0.1</td>
<td>(0.1)</td>
<td>-73%</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>9.0</td>
<td>7.5</td>
<td>(1.6)</td>
<td>-17%</td>
</tr>
<tr>
<td>Federal CARES Act</td>
<td>0.0</td>
<td>49.8</td>
<td>49.8</td>
<td>0%</td>
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<tr>
<td>Fare Revenues</td>
<td>11.3</td>
<td>2.9</td>
<td>(8.3)</td>
<td>-74%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>0.6</td>
<td>0.4</td>
<td>(0.2)</td>
<td>-36%</td>
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<td>Carry forward and Reserves</td>
<td>1.2</td>
<td>0.8</td>
<td>(0.4)</td>
<td>-30%</td>
</tr>
<tr>
<td><strong>RPTA Operating</strong></td>
<td><strong>$166.2</strong></td>
<td><strong>$157.3</strong></td>
<td><strong>($8.9)</strong></td>
<td><strong>-5%</strong></td>
</tr>
</tbody>
</table>
### Uses of Funds: Capital ($,000,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Fleet</td>
<td>$43.4</td>
<td>$49.4</td>
<td>$5.9</td>
<td>14%</td>
</tr>
<tr>
<td>Regional Facilities</td>
<td>5.2</td>
<td>4.1</td>
<td>(1.1)</td>
<td>-22%</td>
</tr>
<tr>
<td>Other Regional Projects</td>
<td>1.0</td>
<td>1.2</td>
<td>0.2</td>
<td>21%</td>
</tr>
<tr>
<td>Member Agency Disbursements</td>
<td>5.1</td>
<td>5.6</td>
<td>0.5</td>
<td>9%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>25.3</td>
<td>24.5</td>
<td>(0.8)</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>RPTA Capital</strong></td>
<td><strong>$80.0</strong></td>
<td><strong>$84.7</strong></td>
<td><strong>$4.7</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>

### Sources of Funds: Capital ($,000,000)

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transportation Funds</td>
<td>$28.6</td>
<td>$39.5</td>
<td>$10.9</td>
<td>38%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>0.5</td>
<td>0.2</td>
<td>(0.3)</td>
<td>-55%</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>38.2</td>
<td>43.4</td>
<td>5.1</td>
<td>13%</td>
</tr>
<tr>
<td>Carry forward and Reserves</td>
<td>12.7</td>
<td>1.6</td>
<td>(11.1)</td>
<td>-87%</td>
</tr>
<tr>
<td><strong>RPTA Capital</strong></td>
<td><strong>$80.0</strong></td>
<td><strong>$84.7</strong></td>
<td><strong>$4.7</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>
Pass-thru Funds: Uses ($,000,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>VMR RARF Disbursements</td>
<td>$0.5</td>
<td>$0.5</td>
<td>$0.0</td>
<td>0%</td>
</tr>
<tr>
<td>AZ Lottery Funds Disbursements</td>
<td>11.2</td>
<td>11.2</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>VMR Personnel Costs</td>
<td>26.8</td>
<td>27.5</td>
<td>0.7</td>
<td>3%</td>
</tr>
<tr>
<td>Rail Program Disbursements</td>
<td>88.4</td>
<td>53.9</td>
<td>(34.4)</td>
<td>-39%</td>
</tr>
<tr>
<td>RPTA Pass-Thru</td>
<td>$126.8</td>
<td>$93.2</td>
<td>(33.6)</td>
<td>-27%</td>
</tr>
</tbody>
</table>

Pass-thru Funds: Sources ($,000,000)

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>VMR Reimbursements</td>
<td>$26.7</td>
<td>$27.5</td>
<td>$0.8</td>
<td>3%</td>
</tr>
<tr>
<td>AZ Lottery funds</td>
<td>11.2</td>
<td>11.2</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>VMR PTF Rail Program</td>
<td>52.2</td>
<td>53.9</td>
<td>1.7</td>
<td>3%</td>
</tr>
<tr>
<td>VMR PTF Reserve Funds</td>
<td>36.2</td>
<td>0.0</td>
<td>(36.2)</td>
<td>-100%</td>
</tr>
<tr>
<td>Regional Area Road Funds</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>RPTA Pass-Thru</td>
<td>$126.8</td>
<td>$93.2</td>
<td>(33.6)</td>
<td>-27%</td>
</tr>
</tbody>
</table>
### RPTA/Shared Staff Changes from FY20 to FY21

<table>
<thead>
<tr>
<th>Positions by Division</th>
<th>FY20 Budget</th>
<th>FY21 Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Business, Technology &amp; Services</td>
<td>51</td>
<td>51</td>
<td>0</td>
</tr>
<tr>
<td>Capital and Service Development</td>
<td>29</td>
<td>28</td>
<td>-1</td>
</tr>
<tr>
<td>CEO Executive Office</td>
<td>6</td>
<td>4</td>
<td>-2</td>
</tr>
<tr>
<td>Communication &amp; Strategic Initiatives</td>
<td>14</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Finance &amp; Procurement</td>
<td>35</td>
<td>34</td>
<td>-1</td>
</tr>
<tr>
<td>Human Resources</td>
<td>11</td>
<td>9</td>
<td>-2</td>
</tr>
<tr>
<td>Internal Audit Services</td>
<td>3</td>
<td>2</td>
<td>-1</td>
</tr>
<tr>
<td>Legal</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>75</td>
<td>66</td>
<td>-9</td>
</tr>
<tr>
<td>Safety and Security</td>
<td>5</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total RPTA and Shared Positions by Division</strong></td>
<td><strong>231</strong></td>
<td><strong>218</strong></td>
<td><strong>-13</strong></td>
</tr>
</tbody>
</table>

---

### RPTA

**FY21-25 Proposed Five-Year Forecast**
5-Year Operating Assumptions

Fixed Route Service Changes
• FY21-24 SRTP Changes as of May 2020

Demand Service
• Paratransit trips forecasted to increase 1% annually
• RideChoice trips forecasted to increase 6% in FY22, increase 5% each year after

Fare Revenue
• FY21-FY24 adjusted revenues for phased return of pre-Covid levels, 15% increase in FY25 with replacement fare collection system and control of reduced fare at point of sale

Federal PM revenue level per MAG forecast
• FY22 up 1.8%, increase 1.9% each year after

5-Year Operating Sources and Uses

<table>
<thead>
<tr>
<th>Operating ($,000)</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Transportation Funds</td>
<td>$63,376</td>
<td>$100,755</td>
<td>$102,285</td>
<td>$104,789</td>
<td>$106,997</td>
<td>$478,202</td>
</tr>
<tr>
<td>Regional Area Road Funds</td>
<td>5,180</td>
<td>5,258</td>
<td>5,337</td>
<td>5,417</td>
<td>5,497</td>
<td>26,689</td>
</tr>
<tr>
<td>Transit Service Reimbursements</td>
<td>28,386</td>
<td>45,801</td>
<td>47,616</td>
<td>48,587</td>
<td>50,274</td>
<td>220,664</td>
</tr>
<tr>
<td>VMR Reimbursements</td>
<td>27,530</td>
<td>29,703</td>
<td>30,594</td>
<td>31,512</td>
<td>34,101</td>
<td>153,440</td>
</tr>
<tr>
<td>AZ Lottery Funds</td>
<td>11,200</td>
<td>11,200</td>
<td>11,200</td>
<td>11,200</td>
<td>11,200</td>
<td>56,000</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>7,459</td>
<td>8,056</td>
<td>8,781</td>
<td>9,571</td>
<td>10,432</td>
<td>44,299</td>
</tr>
<tr>
<td>Federal Funds - CARES Act</td>
<td>40,774</td>
<td>1,211</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,985</td>
</tr>
<tr>
<td>Fares</td>
<td>2,944</td>
<td>8,844</td>
<td>9,922</td>
<td>11,001</td>
<td>13,129</td>
<td>45,840</td>
</tr>
<tr>
<td>MAG Funds</td>
<td>225</td>
<td>225</td>
<td>225</td>
<td>225</td>
<td>225</td>
<td>1,125</td>
</tr>
<tr>
<td>Other</td>
<td>413</td>
<td>370</td>
<td>378</td>
<td>385</td>
<td>393</td>
<td>1,939</td>
</tr>
<tr>
<td>Total Sources of Funds</td>
<td>196,487</td>
<td>211,423</td>
<td>216,338</td>
<td>222,687</td>
<td>232,248</td>
<td>$1,079,183</td>
</tr>
</tbody>
</table>

Uses of Funds

| Paratransit Operations | 32,392 | 42,460 | 42,952 | 44,693 | 46,354 | 207,850 |
| Vanpool Operations | 953 | 982 | 1,011 | 1,041 | 1,073 | 5,060 |
| Planning | 2,033 | 2,074 | 2,115 | 2,157 | 2,201 | 10,580 |
| Commute Solutions | 1,299 | 1,325 | 1,351 | 1,379 | 1,406 | 6,760 |
| Regional Services and Administration | 13,917 | 14,195 | 14,479 | 14,769 | 15,064 | 72,425 |
| Administration and Finance | 3,610 | 3,682 | 3,756 | 3,831 | 3,908 | 18,787 |
| Operating Contingency | 500 | 515 | 530 | 546 | 563 | 2,655 |
| Pass-through Disbursements | 38,950 | 40,903 | 41,795 | 42,712 | 45,301 | 209,662 |
| Total Uses of Funds | 196,487 | 211,423 | 216,338 | 222,687 | 232,248 | $1,079,183 |
**5-Year Capital Assumptions:**

- **Bus Fleet** - $118.4 Million for 5 years
  - Only replacement units in FY21; Deferred all FY21 expansion units to FY22
  - 85% Federal / 15% PTF

- **Vanpool Fleet** - $17.1 Million
  - 45 replacement units; 25 expansion units annually - 100% Federal STP

- **Facilities and Equipment** - $13.2 Million
  - Laveen Park and Ride - Local match PTF
  - Fare Collection System Upgrade - Local match PTF
  - Mesa Bus Facility Upgrades - 100% PTF
  - Mid-Life Bus Engine Rebuilds (249 units) - 80% Federal / 20% PTF
  - IT Infrastructure Upgrades - 100% PTF

---

**5-Year Capital Sources and Uses**

<table>
<thead>
<tr>
<th>Capital ($,000)</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Transportation Funds</td>
<td>39,529</td>
<td>36,774</td>
<td>32,771</td>
<td>30,170</td>
<td>28,210</td>
<td>167,454</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>43,365</td>
<td>18,970</td>
<td>25,429</td>
<td>14,605</td>
<td>19,986</td>
<td>122,355</td>
</tr>
<tr>
<td>Other</td>
<td>225</td>
<td>114</td>
<td>-</td>
<td>117</td>
<td>143</td>
<td>599</td>
</tr>
<tr>
<td>Carry Forward &amp; Reserves</td>
<td>1,611</td>
<td>2,270</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>6,881</td>
</tr>
<tr>
<td>VMR Public Transportation Funds Program</td>
<td>-</td>
<td>56,248</td>
<td>60,419</td>
<td>64,985</td>
<td>70,802</td>
<td>252,454</td>
</tr>
<tr>
<td>VMR Public Transportation Funds Reserve</td>
<td>53,930</td>
<td>41,364</td>
<td>45,307</td>
<td>71,913</td>
<td>-</td>
<td>212,514</td>
</tr>
<tr>
<td><strong>Total Sources of Funds</strong></td>
<td><strong>138,660</strong></td>
<td><strong>155,740</strong></td>
<td><strong>164,926</strong></td>
<td><strong>182,790</strong></td>
<td><strong>120,141</strong></td>
<td><strong>762,257</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Fleet</td>
<td>49,379</td>
<td>24,011</td>
<td>30,140</td>
<td>17,632</td>
<td>23,969</td>
<td>145,131</td>
</tr>
<tr>
<td>Regional Facilities</td>
<td>4,094</td>
<td>3,210</td>
<td>2,134</td>
<td>2,312</td>
<td>1,406</td>
<td>13,156</td>
</tr>
<tr>
<td>Other Regional Projects</td>
<td>1,185</td>
<td>1,098</td>
<td>1,098</td>
<td>882</td>
<td>882</td>
<td>5,145</td>
</tr>
<tr>
<td>Member Agency Disbursements</td>
<td>5,563</td>
<td>5,346</td>
<td>3,979</td>
<td>2,731</td>
<td>1,329</td>
<td>18,948</td>
</tr>
<tr>
<td>Debt Service</td>
<td>24,509</td>
<td>24,463</td>
<td>21,849</td>
<td>22,335</td>
<td>21,753</td>
<td>114,909</td>
</tr>
<tr>
<td>Rail Program Disbursements</td>
<td>42,924</td>
<td>97,612</td>
<td>105,726</td>
<td>136,898</td>
<td>40,874</td>
<td>424,034</td>
</tr>
<tr>
<td>VMR Reserve for Future Use</td>
<td>11,006</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,928</td>
<td>40,934</td>
</tr>
<tr>
<td><strong>Total Uses of Funds</strong></td>
<td><strong>$138,660</strong></td>
<td><strong>$155,740</strong></td>
<td><strong>$164,926</strong></td>
<td><strong>$182,790</strong></td>
<td><strong>$120,141</strong></td>
<td><strong>$762,257</strong></td>
</tr>
</tbody>
</table>
## Budget Schedule

<table>
<thead>
<tr>
<th>Committee/Boards/ FWG</th>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aug 29, 2019</td>
<td>Board Study Session</td>
</tr>
<tr>
<td></td>
<td>Oct 10, 2019</td>
<td>Present Key Assumptions to AFS</td>
</tr>
<tr>
<td></td>
<td>Feb 3, 2020</td>
<td>Present update of Key Assumptions to AFS</td>
</tr>
<tr>
<td></td>
<td>Feb 13, 2020</td>
<td>Present annual budget to FWG</td>
</tr>
<tr>
<td></td>
<td>Feb 18, 2020</td>
<td>Present 5-year plans to FWG</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>Present Annual Budgets to Committees/Boards for Info</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>Board Study Session</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>Present Annual Budgets and 5-Year plans to AFS and Board for Info</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>Present Annual Budgets and 5-Year plans for action</td>
</tr>
</tbody>
</table>

---

### Thank You
Information Summary

DATE
June 4, 2020

SUBJECT
Valley Metro Rail, Inc. Fiscal Year 2021 (FY21) Proposed Operating and Capital Budget and Five-Year Operating Forecast and Capital Program (FY21 through FY25)

PURPOSE
To provide an overview of the FY21 Proposed Operating and Capital Budget and the Five-Year Operating Forecast and Capital Program (FY21 through FY25).

RECOMMENDATION
Staff recommends that AFS forward to the Board of Directors for approval the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast.

BACKGROUND | DISCUSSION | CONSIDERATION
The Valley Metro Rail, Inc. (VMR) FY21 combined operating and capital budget (the budget) is $507.6 million (M) and includes $42.9M in projects funded with Proposition 400 Public Transportation Fund (PTF) revenues for light rail/high capacity transit capital.

The Proposed FY21 budget has been prepared with the goal of delivering a fiscally prudent, balanced budget using carry forwards, reserves and bond proceeds. The budget was developed in compliance with Board of Directors' adopted budget, financial and Transit Life Cycle Program (TLCP) policies.

As a result of the anticipated economic impacts of the COVID-19 pandemic, we have made some reductions to the operating budget in the areas of administration as well as deferred some state of good repair activities. The updated Proposed budget also incorporates Federal Funding from the CARES Act as well as more conservative estimates for Prop 400 funding and fares. The full impact of the pandemic may not be known for six months or more.

The budget does not include any service reductions as a result of the economic impacts from the pandemic. The CARES Act funding was provided by FTA to account for any loss of revenues, either fares or sales tax, which will support current levels of service. However, the CARES Act funds will largely be used in FY21, with very little left to support service in FY22 and beyond. Beginning in June, Valley Metro will work through the Service Planning Working Group to develop options for long term service changes to address reduced revenues. We anticipate developing options over the next 6 months for implementation as soon as April 2021.
The annual budget is prepared on a modified accrual basis and adopted by the Board of Directors each fiscal year. The legal level of budgetary control is the total annual appropriated budget. With respect to Capital Budgets, project contingency accounting is used to control expenditures within available project funding limits. With respect to Operating Budgets, encumbrance accounting is not used and all appropriations lapse at the end of the year. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

The total operating budget of $72.0M represents a $1.7M (2%) increase from the previous year’s operating budget of $70.3M. The total capital budget of $435.6M represents a $26.3M (6%) increase from the previous year’s capital budget of $409.3M.

The CARES Act funding reduces the regional and local commitments for operations funding by $43.0M, allocated to the member cities by track miles.

The RPTA and Valley Metro Rail (VMR) budgets are developed with a unified staff plan, with department managers planning the level of effort required to meet the bus and rail activities. Salary and overhead charges to bus and rail projects are based on actual time worked on each project. As a result of the current economic uncertainty, all staffing has been re-evaluated for criticality and the proposed staffing levels have decreased through a combination of removing most new positions and deferring some unfilled positions. For FY21 there are 412 employees budgeted in the integrated agency, with 218 FTE’s budgeted to RPTA/Shared agency activities and 194 budgeted to VMR only activities.

We have included a placeholder of 3% for salary increases. The budget and revenues for the first quarter of FY21 will be reviewed with the Financial Working Group and AFS in October. If AFS does not have sufficient information at that time, a second review in January would occur. The implementation of any salary changes would be dependent on the review and recommendation by AFS, with final approval by the Board of Directors.

**STRATEGIC PLAN ALIGNMENT**
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

- Goal 2: Advance performance based operation

**COMMITTEE PROCESS**
Proposed Budget Review:
Financial Working Group: February 18, 2020 for information
RTAG: February 18, 2020 for information
RMC: March 4, 2020 for information
AFS: March 12, 2020 for information
Boards of Directors Study Session: April 16, 2020 for information
AFS: May 14, 2020 for information
Board of Directors: May 21, 2020 for information

Proposed Budget Adoption:
RMC: June 3, 2020 for action
AFS: June 11, 2020 for action
Board of Directors: June 18, 2020 for action

RECOMMENDATION
Staff recommends that AFS forward to the Board of Directors for approval the Fiscal Year 2021 Proposed Operating and Capital Budget and for acceptance the FY21-25 Five-Year Operating and Capital Forecast.

CONTACT
Paul Hodgins
Chief Financial Officer
602-523-6043
phodgins@valleymetro.org

ATTACHMENT
None
Audit and Finance Subcommittee
June 11, 2020

VMR
Additional Information Requested
VMR Operations

• Concerns regarding increasing costs of light rail
  • Presented key budget driver detail
    • Operations Contractor
    • Phasing-in of new staff from FY20

• Will explore different scenarios for options on pulling back costs
  • Service frequency
  • Security
  • Maintenance and cleaning

Valley Metro Rail
FY21 Proposed Budget and 5-Year Forecast
June 2020
### Baseline: Light Rail Operations

<table>
<thead>
<tr>
<th></th>
<th>FY19 Actuals</th>
<th>FY20</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RAIL OPERATIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger boardings</td>
<td>15,084,000</td>
<td>15,827,000</td>
<td>3,783,000</td>
</tr>
<tr>
<td>Service miles delivered</td>
<td>3,352,000</td>
<td>3,593,000</td>
<td>3,610,000</td>
</tr>
<tr>
<td>Gross Operating Costs</td>
<td>$48,417,000</td>
<td>$55,039,000</td>
<td>$57,716,000</td>
</tr>
<tr>
<td>Fare Revenues</td>
<td>$11,072,000</td>
<td>$11,712,000</td>
<td>$2,710,000</td>
</tr>
<tr>
<td>Fare Recovery</td>
<td>23%</td>
<td>21%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Baseline: Streetcar Operations

<table>
<thead>
<tr>
<th></th>
<th>FY19 Actuals</th>
<th>FY20</th>
<th>FY21</th>
</tr>
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<tbody>
<tr>
<td><strong>STREETCAR OPERATIONS (6 weeks)</strong></td>
<td></td>
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<tr>
<td>Passenger boardings</td>
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<tr>
<td>Service miles delivered</td>
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<tr>
<td>Gross Operating Costs</td>
<td></td>
<td>$723,000</td>
<td>TBD</td>
</tr>
<tr>
<td>Fare Revenues</td>
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<tr>
<td>Fare Recovery</td>
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LRT Capital Project Schedule

<table>
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</thead>
<tbody>
<tr>
<td>Central Mesa (3.1 miles)</td>
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<tr>
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<tr>
<td>Gilbert Road (1.9 miles)</td>
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<td>Tempe Streetcar (3.0 miles)</td>
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<tr>
<td>South Central (6.5 miles)</td>
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<td>Northwest Phase II (1.8 miles)</td>
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<td>Capitol/I-10 West Phase I</td>
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<tr>
<td>Fiesta District Corridor Study</td>
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<tr>
<td>Downtown Chandler/Arizona Ave AA</td>
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<tr>
<td>Tempe/Mesa Streetcar System Study</td>
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<tr>
<td>Systems Planning &amp; Project Development</td>
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<tr>
<td>Capital Project Development Administration</td>
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</tr>
</tbody>
</table>

LEGEND
- Green: Project Development
- Purple: Design
- Orange: Construction and Testing

Uses of Funds: Project Development ($,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitol/I-10 West Phase I</td>
<td>$3,307</td>
</tr>
<tr>
<td>Capitol/I-10 West Phase II</td>
<td>125</td>
</tr>
<tr>
<td>Fiesta District Corridor Study</td>
<td>241</td>
</tr>
<tr>
<td>Downtown Chandler/Arizona Ave AA</td>
<td>168</td>
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<tr>
<td>Tempe/Mesa Streetcar System Study</td>
<td>71</td>
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<tr>
<td>Systems Planning &amp; Project Development</td>
<td>6,290</td>
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<td>Capital Project Development Administration</td>
<td>1,484</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$11,686</strong></td>
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</tbody>
</table>
Uses of Funds: Operating & Capital

- Capital Activities: 86%
- Agency Administration: <1%
- Regional Transit Services: 2%
- Passenger Services: 12%

Sources of Funds: Operating & Capital

- Federal Funds - CARES: 9%
- Member City Contributions: 26%
- Public Transportation Funds: 8%
- Other: <1%
- Fares: 1%
### Uses of Funds: Operating ($,000,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Rail Operations &amp; Maintenance</td>
<td>$45.7</td>
<td>$49.2</td>
<td>$3.6</td>
<td>8%</td>
</tr>
<tr>
<td>Streetcar O&amp;M</td>
<td>0.0</td>
<td>0.6</td>
<td>0.6</td>
<td>-</td>
</tr>
<tr>
<td>Security</td>
<td>9.4</td>
<td>8.6</td>
<td>(0.8)</td>
<td>-8%</td>
</tr>
<tr>
<td>Future Project Development</td>
<td>13.2</td>
<td>11.7</td>
<td>(1.5)</td>
<td>-11%</td>
</tr>
<tr>
<td>Agency Operating</td>
<td>2.1</td>
<td>1.9</td>
<td>(0.3)</td>
<td>-13%</td>
</tr>
<tr>
<td><strong>Total Operating Uses</strong></td>
<td>$70.3</td>
<td>$72.0</td>
<td>$1.7</td>
<td>2%</td>
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</table>

### Sources of Funds: Operating ($,000,000)

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
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</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>$1.4</td>
<td>$0.3</td>
<td>-$1.1</td>
<td>-80%</td>
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<tr>
<td>Fares</td>
<td>11.7</td>
<td>2.7</td>
<td>(9.0)</td>
<td>-77%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>2.6</td>
<td>1.5</td>
<td>(1.0)</td>
<td>-39%</td>
</tr>
<tr>
<td>Federal Funds - CARES</td>
<td>0.0</td>
<td>43.0</td>
<td>43.0</td>
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<tr>
<td>MAG Funds</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Public Transportation Funds</td>
<td>10.5</td>
<td>10.5</td>
<td>(0.0)</td>
<td>0%</td>
</tr>
<tr>
<td>Member City Contributions</td>
<td>43.2</td>
<td>12.9</td>
<td>(30.3)</td>
<td>-70%</td>
</tr>
<tr>
<td>Regional Area Road Funds</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Operating Sources</strong></td>
<td>$70.3</td>
<td>$72.0</td>
<td>$1.7</td>
<td>2%</td>
</tr>
</tbody>
</table>
## Uses of Funds: Capital ($,000,000)

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tempe Streetcar</td>
<td>$85.7</td>
<td>$39.8</td>
<td>($45.9)</td>
<td>-54%</td>
</tr>
<tr>
<td>South Central/Downtown Hub</td>
<td>223.3</td>
<td>253.1</td>
<td>29.9</td>
<td>13%</td>
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<tr>
<td>Northwest Phase II</td>
<td>39.7</td>
<td>91.3</td>
<td>51.7</td>
<td>130%</td>
</tr>
<tr>
<td>OMC Expansion</td>
<td>32.1</td>
<td>27.9</td>
<td>(4.2)</td>
<td>-13%</td>
</tr>
<tr>
<td>Gilbert Road Extension</td>
<td>4.1</td>
<td>3.3</td>
<td>(0.8)</td>
<td>-19%</td>
</tr>
<tr>
<td>50th Street Station</td>
<td>1.2</td>
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<td>(1.2)</td>
<td>-100%</td>
</tr>
<tr>
<td>Central Mesa Extension</td>
<td>0.3</td>
<td>0.0</td>
<td>(0.3)</td>
<td>-100%</td>
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<tr>
<td>Systemwide Improvements</td>
<td>9.4</td>
<td>11.5</td>
<td>2.1</td>
<td>22%</td>
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<tr>
<td>State of Good Repair</td>
<td>13.5</td>
<td>8.7</td>
<td>(4.8)</td>
<td>-35%</td>
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<tr>
<td><strong>Total Capital Uses</strong></td>
<td><strong>$409.3</strong></td>
<td><strong>$435.6</strong></td>
<td><strong>$26.3</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>

## Sources of Funds: Capital ($,000,000)

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>FY20</th>
<th>FY21</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Funds</td>
<td>$108.3</td>
<td>$282.6</td>
<td>$174.3</td>
<td>161%</td>
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<tr>
<td>Member City Contributions</td>
<td>224.6</td>
<td>120.6</td>
<td>(104.0)</td>
<td>-46%</td>
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<tr>
<td>Public Transportation Funds</td>
<td>77.9</td>
<td>32.4</td>
<td>(45.4)</td>
<td>-58%</td>
</tr>
<tr>
<td>City of Mesa Financing</td>
<td>(1.5)</td>
<td>0.0</td>
<td>1.5</td>
<td>-100%</td>
</tr>
<tr>
<td><strong>Total Capital Sources</strong></td>
<td><strong>$409.3</strong></td>
<td><strong>$435.6</strong></td>
<td><strong>$26.3</strong></td>
<td><strong>6%</strong></td>
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</tbody>
</table>
### VMR Only Staff Changes from FY20 to FY21

<table>
<thead>
<tr>
<th>Positions by Division</th>
<th>FY20 Budget</th>
<th>FY21 Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Business, Technology &amp; Services</td>
<td>28</td>
<td>24</td>
<td>-4</td>
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<tr>
<td>Capital and Service Development</td>
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<tr>
<td>CEO Executive Office</td>
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<tr>
<td>Communication &amp; Strategic Initiatives</td>
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<td>1</td>
<td>0</td>
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<tr>
<td>Finance &amp; Procurement</td>
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<td>1</td>
<td>0</td>
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<tr>
<td>Human Resources</td>
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<tr>
<td>Internal Audit Services</td>
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<tr>
<td>Legal</td>
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<tr>
<td>Operations and Maintenance</td>
<td>161</td>
<td>164</td>
<td>3</td>
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<tr>
<td>Safety and Security</td>
<td>5</td>
<td>4</td>
<td>-1</td>
</tr>
<tr>
<td><strong>Total VMR Only Positions by Division</strong></td>
<td><strong>196</strong></td>
<td><strong>194</strong></td>
<td><strong>-2</strong></td>
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</tbody>
</table>

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### VMR

**FY21-25 Proposed Five-Year Forecast**
5-Year Operating Assumptions:

New Service
• Tempe Streetcar (3.0 miles) - May 2021
• South Central (5.0 miles) – Dec 2024
• Northwest Ext. II (1.6 miles) – Jan 2025

Fare Revenue
• Ridership is forecasted to decrease from previous years due to Covid-19
• FY22 fare revenue is 75% of pre-covid19 forecast, with 10% increase each year.

Federal PM revenue
• FY22 up 1.5% and each year after.
## 5-Year Operating by Segment

<table>
<thead>
<tr>
<th>Operations (,000)</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base 27.9 miles</td>
<td>$57,716</td>
<td>$58,870</td>
<td>$61,321</td>
<td>$61,249</td>
<td>$63,579</td>
<td>$302,735</td>
</tr>
<tr>
<td>South Central</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,119</td>
<td>5,119</td>
</tr>
<tr>
<td>Northwest 2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,295</td>
<td>1,295</td>
</tr>
<tr>
<td>Tempe Streetcar</td>
<td>723</td>
<td>6,554</td>
<td>6,685</td>
<td>6,819</td>
<td>6,955</td>
<td>27,736</td>
</tr>
<tr>
<td><strong>Total Operations</strong></td>
<td>$58,439</td>
<td>$65,424</td>
<td>$68,006</td>
<td>$68,068</td>
<td>$76,948</td>
<td>$336,885</td>
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<tr>
<td>Light Rail Cost per Mile</td>
<td>$16.31</td>
<td>$16.63</td>
<td>$16.97</td>
<td>$17.31</td>
<td>$17.65</td>
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<tr>
<td>Streetcar Cost per Mile</td>
<td>$30.12</td>
<td>$31.36</td>
<td>$31.99</td>
<td>$32.63</td>
<td>$33.28</td>
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</table>

## 5-Year Capital Sources and Uses

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Funds</td>
<td>$282,658</td>
<td>$164,756</td>
<td>$168,312</td>
<td>$220,004</td>
<td>$74,358</td>
<td>$910,088</td>
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<td>Member City Contributions</td>
<td>120,518</td>
<td>153,543</td>
<td>163,583</td>
<td>116,400</td>
<td>(4,956)</td>
<td>549,088</td>
</tr>
<tr>
<td>Public Transportation Funds</td>
<td>32,443</td>
<td>90,600</td>
<td>98,078</td>
<td>129,193</td>
<td>33,124</td>
<td>383,438</td>
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<tr>
<td><strong>Total Sources of Funds</strong></td>
<td>435,619</td>
<td>408,899</td>
<td>429,973</td>
<td>465,597</td>
<td>102,526</td>
<td>1,842,614</td>
</tr>
<tr>
<td>Uses of Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tempe Streetcar</td>
<td>39,837</td>
<td>1,543</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>41,380</td>
</tr>
<tr>
<td>South Central</td>
<td>253,136</td>
<td>245,443</td>
<td>254,837</td>
<td>292,855</td>
<td>46,554</td>
<td>1,092,825</td>
</tr>
<tr>
<td>Northwest Phase II</td>
<td>91,334</td>
<td>86,200</td>
<td>82,527</td>
<td>65,331</td>
<td>5,932</td>
<td>331,324</td>
</tr>
<tr>
<td>OMC Expansion</td>
<td>27,860</td>
<td>1,840</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,700</td>
</tr>
<tr>
<td>Gilbert Road Extension</td>
<td>3,296</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,296</td>
</tr>
<tr>
<td>Capitol I-10 West Phase I</td>
<td>-</td>
<td>47,614</td>
<td>83,175</td>
<td>103,424</td>
<td>47,952</td>
<td>282,165</td>
</tr>
<tr>
<td>Systemwide Improvements</td>
<td>11,461</td>
<td>14,404</td>
<td>990</td>
<td>277</td>
<td>240</td>
<td>27,372</td>
</tr>
<tr>
<td>State of Good Repair</td>
<td>8,695</td>
<td>11,855</td>
<td>8,444</td>
<td>3,710</td>
<td>1,848</td>
<td>34,552</td>
</tr>
<tr>
<td><strong>Total Uses of Funds</strong></td>
<td>$435,619</td>
<td>$408,899</td>
<td>$429,973</td>
<td>$465,597</td>
<td>$102,526</td>
<td>$1,842,614</td>
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</tbody>
</table>
## 5-Year State of Good Repair

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PTF Funded</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance Buildings</td>
<td>$3,950</td>
<td>$273</td>
<td>$100</td>
<td>-</td>
<td>-</td>
<td>$4,323</td>
</tr>
<tr>
<td>Revenue Vehicles - Overhaul (SOGR)</td>
<td>2,203</td>
<td>8,025</td>
<td>6,251</td>
<td>3,242</td>
<td>1,490</td>
<td>21,211</td>
</tr>
<tr>
<td>Personal Service &amp; Overhead</td>
<td>236</td>
<td>292</td>
<td>237</td>
<td>121</td>
<td>54</td>
<td>940</td>
</tr>
<tr>
<td><strong>Total PTF Funded</strong></td>
<td>6,389</td>
<td>8,590</td>
<td>6,588</td>
<td>3,363</td>
<td>1,544</td>
<td>26,474</td>
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<tr>
<td><strong>Member City Funded</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guideway</td>
<td>139</td>
<td>106</td>
<td>106</td>
<td>-</td>
<td>233</td>
<td>584</td>
</tr>
<tr>
<td>Maintenance Buildings</td>
<td>-</td>
<td>50</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Passenger Stations</td>
<td>1,200</td>
<td>2,163</td>
<td>1,450</td>
<td>-</td>
<td>-</td>
<td>4,813</td>
</tr>
<tr>
<td>Revenue Vehicles - Overhaul (SOGR)</td>
<td>683</td>
<td>676</td>
<td>208</td>
<td>324</td>
<td>-</td>
<td>1,891</td>
</tr>
<tr>
<td>Service Vehicles (non-revenue)</td>
<td>169</td>
<td>106</td>
<td>-</td>
<td>-</td>
<td>56</td>
<td>331</td>
</tr>
<tr>
<td>Other</td>
<td>29</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>Personal Service &amp; Overhead</td>
<td>86</td>
<td>164</td>
<td>92</td>
<td>24</td>
<td>15</td>
<td>381</td>
</tr>
<tr>
<td><strong>Total Member City Funded</strong></td>
<td>2,306</td>
<td>3,265</td>
<td>1,856</td>
<td>348</td>
<td>304</td>
<td>8,079</td>
</tr>
<tr>
<td><strong>Total State of Good Repair</strong></td>
<td>$8,695</td>
<td>$11,855</td>
<td>$8,444</td>
<td>$3,711</td>
<td>$1,848</td>
<td>$34,553</td>
</tr>
</tbody>
</table>

### Budget Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 29, 2019</td>
<td>Board Study Session</td>
</tr>
<tr>
<td>Oct 10, 2019</td>
<td>Present Key Assumptions to AFS</td>
</tr>
<tr>
<td>Feb 3, 2020</td>
<td>Present update of Key Assumptions to AFS</td>
</tr>
<tr>
<td>Feb 13, 2020</td>
<td>Present annual budget to FWG</td>
</tr>
<tr>
<td>Feb 18, 2020</td>
<td>Present 5-year plans to FWG</td>
</tr>
<tr>
<td>March</td>
<td>Present Annual Budgets to Committees/Boards for Info</td>
</tr>
<tr>
<td>April</td>
<td>Board Study Session</td>
</tr>
<tr>
<td>May</td>
<td>Present Annual Budgets and 5-Year plans to AFS and Board for Info</td>
</tr>
<tr>
<td>June</td>
<td>Present Annual Budgets and 5-Year plans for action</td>
</tr>
</tbody>
</table>
Thank You
Information Summary

DATE
June 4, 2020

AGENDA ITEM 5

SUBJECT
Fiscal Year 2020/2021 Audit Plan

PURPOSE
Request authorization for Internal Audit to execute the proposed Fiscal Year 2020/2021 Audit Plan.

COST AND BUDGET
Funding for the Fiscal Year 2020/2021 Audit Plan is included in the Fiscal Year 2020/2021 Valley Metro Budget and in the Five-Year Operating Forecast and Capital Program (FY2019 thru FY2024).

RECOMMENDATION
Staff recommends that the Audit and Finance Subcommittee authorize Internal Audit to proceed with the proposed Fiscal Year 2020/2021 Audit Plan.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2010 states:

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

2010.A1 – The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.
Internal Audit performed an Internal Audit Risk Assessment over the organization in March 2020, meeting with each Division Head and General Counsel. Attached is the proposed Fiscal Year 2020/2021 Audit Plan.

This plan is subject to change based upon resource availability and request for additional assistance with other projects, such as consultation on policy revisions, training, and enhancement to internal controls.

COMMITTEE ACTION
AFS: May 14, 2020

CONTACT
Scott Smith
Chief Executive Officer
Ssmith@valleymetro.org
602-262-7433

ATTACHMENT
Fiscal Year 2020/2021 Audit Plan
Valley Metro’s
Annual Audit Plan
Fiscal Year 2020-2021
{This page was intentionally left blank}
Purpose
Valley Metro’s Annual Audit Plan for Fiscal Year 2021 (July 2020 – June 2021) is provided to management for informational purposes only. Internal Audit Services reports to the Chief Executive Officer. The Audit and Finance Subcommittee (AFS) is responsible for reviewing and approving the Annual Audit Plan, along with any changes to the plan that occur throughout the year.

The primary purpose of this plan is to convey the audits that will be performed during the fiscal year. The plan is a living document that requires continual monitoring and revisions as conditions change, resource needs change and to meet the needs of the Valley Metro.

Audit Goals and Objectives
Audit Services developed three main goals:

1. Compliance – Ensure Valley Metro staff are complying with established policies and procedures.
2. Contract Compliance – Ensure consultants, and contractors comply with contract requirements and federal cost principles when performing work for or on behalf of Valley Metro; and
3. Add Value – Provide management with independent, objective assurance and consulting services designed to add value and improve the effectiveness of the Valley Metro’s operations and internal controls.

General Office Administration, Development and Training
As with any office there are certain hours that are needed to perform administrative duties. Audit Services strives to spend between 85 and 90% of our total staff hours on audit projects. The remaining time is spent on Training, Staff Development and Administrative Duties.

Training
Training is provided to our staff to maintain their proficiency in the audit standards as well as the areas that they work in. Under the audit standards, the internal audit group is required to have continuing professional education to further develop their knowledge in various audit areas each year. We try to provide them at least 40 hours per year.

Staff Development
In addition to technical training, we provide the staff training in soft skills and team building. We try to provide staff up to 40 hours of professional development training each year.
Audit Types
To provide management with independent, objective assurance and consulting services designed to add value and improve the effectiveness of the department operations and internal controls, there are two types of Internal Audits that may occur:

- **Operational audits** which are concerned with the effectiveness and efficiency of operational units within MDT. Effectiveness is measured by how successfully an organization achieves its goals and objectives. Efficiency is measured by how well an entity uses its resources to achieve its goals.
- **Compliance audits** which measures the compliance of the process with some established department, federal, or state laws, regulations, and/or policies/procedures.

Audit Services also participates in consulting engagements for Valley Metro. These engagements are not audits, but they help management manage risk, improve department’s operations, and/or add value. Typically, these are small projects, or participation in a committee.

Audit Strategy
We will accomplish our goals by performing internal audits designated by the AFS. The audits will address areas of risks within the department as well as areas that will provide added value to management.

Prior Year Wrap-up
At the end of fiscal year 2020, Internal Audit will have one internal audit still in process. This audit will be completed during fiscal year 2021. The audit is:

- Contract Management Audit – Marketing & Advertising
**Risk Assessment**

The International Professional Practices Framework established by the Institute of Internal Auditors requires Internal Audit to establish a risk-based plan to develop the priorities of the internal audit activity and to ensure such activity is consistent with the organization’s goals.

Internal Audit performed an Internal Audit Risk Assessment over the organization in March 2020, meeting with each Division Head and General Counsel. The overall areas of high-risk identified at Valley Metro are related to developing policies and ensuring funds are collected on-time. These are both areas that management is working on.

For the Internal Audit Risk Assessment, Internal Audit focused on other high-risk areas identified by management and areas of interest identified by the AFS. For each area identified, Internal Audit identified an audit to address the risk. Each of the areas of risk are listed below:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Risk Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide safe, reliable, and efficient rail services.</td>
<td>The operation of the light rail is contracted out to ensure operations are maintained. Valley Metro relies heavily on contracted services to manage this risk.</td>
</tr>
<tr>
<td>Maintaining a safe and secure transit experience for Light Rail passengers.</td>
<td>The security unit utilizes a private security contractor to provide customer service, highly visible preventative transit security, fare inspection, and special event coordination. Valley Metro relies heavily on contracted services to manage this risk.</td>
</tr>
<tr>
<td>Manage grants to ensure funds are spent according to the grant agreements.</td>
<td>There are two individuals that manage grant compliance in Finance, but staff are starting to cross train the functions in case the individuals leave Valley Metro. The majority of compliance requirements are managed at the program level. Decentralization of the compliance management increases the risk of inconsistency and not meeting all federal requirements.</td>
</tr>
</tbody>
</table>
| Ensure accountability to the Board of Directors and AFS. | The Board of Directors and AFS are concerned about accountability in various areas. The main areas of concern are:  
  - Travel Expenses  
  - Credit Card Transactions |
Audit Plan

Based on review and discussion, the AFS decided to perform the following audits to help reduce the risks noted above:

- **Operational Audit – Federal Grant Compliance**: The audit will focus on overall internal controls for federal grant tracking and reporting. It will review the internal controls in Finance and identify the internal controls in the various program areas. The audit will leverage the risk assessment performed by the City of Phoenix.

- **Operational Audit – Mobility Center Cash Collection**: The audit will focus on the ticket sales and cash collections at the Mobility Center. It will review the process followed to ensure it is effective, efficient, and internal controls are established to safeguard ticket sales.

- **Operational Audit – Contract Management – Rail Transportation Services**: The audit will focus on the contract management process over the Rail Operations contract. It will review contract monitoring and financial payments for the last two fiscal years.

- **Operational Audit – Contract Management – Fare Inspection and Security Services**: The audit will focus on the contract management processes over the Allied Services contract. We will review contracting monitoring and financial payments for the last two fiscal years.

- **Compliance Audit – Travel Expenses**: The audit will focus on whether travel expenses requested, incurred, and reimbursed; adhered to Valley Metro policies and any other matters that raise to a level of attention. It will cover all expenses incurred in Fiscal Year 2019-2020.

- **Compliance Audit – Credit Card Transactions**: The audit will focus on whether credit card activities adhered to applicable policies and if management has addressed prior audit recommendations. It will cover all transactions in Fiscal Year 2019-2020.

**Special Projects**

Other areas that the management has requested assistance from Internal Audit:

- **Enterprise Resource Planning (ERP) System**: Valley Metro is in the process of developing an ERP system. Internal Audit will participate in the implementation to assist in identifying internal controls, best practices, and providing feedback.

- **Safety and Security Audit**: Arizona Department of Transportation performed an audit over Safety and Security. Internal Audit will assist Safety and Security in addressing recommendations that resulted from that audit.
DATE
June 4, 2020

SUBJECT
Internal Audit Charter

PURPOSE
Present the Internal Audit Charter to the Audit and Finance Subcommittee (AFS) for discussion and approval.

COST AND BUDGET
None

RECOMMENDATION
Staff recommends that the AFS approves the Internal Audit Charter.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 1000 (Purpose, Authority, and Responsibility) states:

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

With the Chief of Staff/Senior Advisor’s assistance, Internal Audit drafted the charter to align with the requirements of the Standards.

COMMITTEE ACTION
AFS: May 14, 2020 for discussion and action

CONTACT
Alexis Tameron Kinsey
Chief of Staff/Senior Advisor
ATameronKinsey@valleymetro.org
602-322-4450

ATTACHMENT
Internal Audit Charter
Internal Audit Charter

Purpose and Mission
The purpose of Valley Metro’s Internal Audit activity is to provide independent, objective assurance and consulting services designed to add value and improve Valley Metro’s operations. The mission of internal audit is to assist Valley Metro in providing a safe, efficient and reliable transit network by providing risk-based and objective assurance, advice, and insight. The internal audit activity helps Valley Metro accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing
The internal audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors’ International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Director, Internal Audit (“Chief Auditor”) will report periodically to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee regarding the internal audit activity’s conformance to the Code of Ethics and the Standards.

Authority
In accordance to the Administrative Code of the Regional Public Transportation Authority, the Chief Auditor will report both functionally and administratively (i.e., day-to-day operations) to the Chief Executive Officer or designee. To establish, maintain, and assure that Valley Metro’s internal audit activity has sufficient independence and authority to fulfill its duties, the Audit and Finance Subcommittee, in consultation with the Chief Executive Officer, shall also:

- Approve the internal audit activity’s charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit activity’s budget and resource plan.
- Receive communications from the Chief Auditor on the internal audit activity’s performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Auditor to determine whether there is inappropriate scope or resource limitations.
- Review the annual performance evaluation of the Chief Auditor prepared by the CEO, discuss with the Chief Auditor and CEO the evaluation and provide input and feedback as desired.

The Chief Auditor shall have unrestricted access to, and communicate and interact directly with the Chief Executive Officer and the Audit and Finance Subcommittee, which may include a request for private meetings without senior management present.
By approving this Charter, the Audit and Finance Subcommittee, in consultation with the Chief Executive Officer, authorizes the internal audit activity to:

- Have full, free, and unrestricted access to all Valley Metro functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information, except when prohibited by law.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of Valley Metro, as well as other specialized services from within or outside Valley Metro, in order to complete the engagement.

Independence and Objectivity
The Chief Auditor will ensure that the internal audit activity remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the Chief Executive Officer and the Audit and Finance Subcommittee.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for Valley Metro or its affiliates.
- Initiating or approving transactions external to the internal audit activity.
- Directing the activities of any Valley Metro employee not employed by the internal audit activity, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the Chief Executive Officer and the Audit and Finance Subcommittee.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Auditor shall report periodically, but no less than each calendar quarter, to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee regarding:

- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Auditor will confirm to the Chief Executive Officer and Audit and Finance Subcommittee, at least annually, the organizational independence of the internal audit activity and will disclose any difficulties or issues related to completing engagements, performing work, or communicating results.

**Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Chief Executive Officer and Audit and Finance Subcommittee, senior and department management, and outside parties (as applicable) on the adequacy and effectiveness of governance, risk management, and control processes for Valley Metro. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of Valley Metro’s strategic objectives are appropriately identified and managed.
- The actions of Valley Metro’s officers, directors, employees, and contractors are in compliance with Valley Metro’s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Valley Metro.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Auditor shall report periodically, but no less than each calendar quarter, to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee regarding:

- The internal audit activity’s plan and performance relative to its plan.
- The internal audit activity’s conformance with The IIA’s Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Chief Executive Officer or the Audit and Finance Subcommittee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any decisions by management to accept an identified risk that internal audit deems may be unacceptable to Valley Metro.
The Chief Auditor may also coordinate activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

**Responsibility**
The Chief Auditor has the responsibility to:

- Submit, at least annually, to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee a risk-based internal audit plan for review and approval.
- Communicate to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee the impact of resource limitations on the internal audit plan or any significant interim changes to the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in Valley Metro’s business, risks, operations, programs, systems, and controls.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact Valley Metro are considered and communicated to senior management and the Audit and Finance Subcommittee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to Valley Metro’s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to the Chief Executive Officer, senior management and the Audit and Finance Subcommittee as appropriate.
- Ensure conformance of the internal audit activity with the Standards, with the following qualifications:
Quality Assurance and Improvement Program and Peer Review

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply The IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The Chief Auditor will communicate to the Chief Executive Officer and the Audit and Finance Subcommittee on the internal audit activity’s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments (peer review) conducted every five years (or more often if deemed necessary) by a qualified, independent assessor or assessment team from outside Valley Metro.

Approval/Signatures

_________________________________  _________________
Audit and Finance Subcommittee Chair  Date

_________________________________  _________________
General Counsel  Date

_________________________________  _________________
Chief Executive Officer  Date
AGENDA ITEM 7

June 4, 2020

SUBJECT
Audit and Finance Subcommittee Charter

PURPOSE
Present the Audit and Finance Subcommittee (AFS) Charter to the AFS for discussion, approval, and recommendation to forward to the Board of Directors for final approval.

COST AND BUDGET
None

RECOMMENDATION
Staff recommends that the AFS approve the Audit and Finance Subcommittee Charter and forward it to the Board of Directors for final approval.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 1000 (Purpose, Authority, and Responsibility), requires an audit function charter. In addition to an audit function charter, the IIA Audit Standards recommend the governing body also have a charter.

Therefore, based on the Board of Directors documents that established the AFS and with the Chief of Staff/Senior Advisor’s assistance, Internal Audit drafted a charter for Valley Metro’s Audit and Finance Subcommittee to align with the requirements of the Standards.

COMMITTEE ACTION
AFS: May 14, 2020 for discussion and action

CONTACT
Alexis Tameron Kinsey
Chief of Staff/Senior Advisor
ATameronKinsey@valleymetro.org
602-322-4450

ATTACHMENT
Audit and Finance Subcommittee Charter
Audit and Finance Subcommittee Charter

Background
The Audit and Finance Subcommittee (AFS) was originally formed by Valley Metro Regional Public Transportation Authority (RPTA) Board of Directors (Board) as the Budget and Finance Subcommittee (BFS) in 2006 after the passage of Proposition 400 to provide policy oversight of the expanded financial activities of the RPTA. The RPTA and Valley Metro Rail (VMR) Boards renamed the Subcommittee to the AFS in 2016 and expanded the scope of the AFS to add oversight of internal audit functions and to oversee financial and audit functions of VMR.

Purpose
The purpose of the AFS is to provide oversight of the organization’s governance, risk management, and internal control practices. The committee assists the Boards by providing advice and guidance on:

1. Annual operating and capital budget process of the agency
2. Preparation of budget inputs and assumptions
3. Oversight of the compilation of financial reports for the Boards and member agency review
4. Preparation of the annual Transit Life Cycle Program and its financial model
5. Development of the five-year operating and capital plan
6. Oversight and review of internal and external audit activity

In broad terms, the AFS reviews each of the items noted above and provides the Boards with independent advice on the adequacy and effectiveness of management’s practices. Advice and guidance also may include suggestions and recommendations to strengthen these processes.

Mandate
The mandate for the establishment of the AFS was derived from a vote from the Board of Directors on March 17, 2016.

Authority
The authority of the AFS to perform its work is established within the scope of its charter. In discharging its responsibilities, the AFS shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties.

The committee is entitled to receive explanations from management and staff of the organization that it deems necessary to discharge its responsibilities. The AFS may engage independent counsel and/or other advisers as it deems necessary to carry out its duties.

Composition of the Audit and Finance Subcommittee
The AFS will consist of up to five (5) members. A member’s financial background will be considered, along with geographic representation. One of the five members will always be the elected official representing the City of Phoenix. Two (2) of the members will represent both RPTA
and VMR (with the Phoenix member always being one of the two). No more than two members of the AFS will be from the VMR Board due to quorum requirements.

The Chair of the Audit and Finance Subcommittee  
The Chair of the AFS will be appointed by the Chairs of the RPTA and VMR Boards.

Terms of Office  
Terms of membership are for two years, with the ability to be re-elected by the Board. No member shall serve more than four years, except the member representing the City of Phoenix. Membership is structured so that two members are elected in even numbered years and two members elected in odd numbered years. Elections will occur at the last meeting of the fiscal year with membership to begin at the beginning of the following fiscal year.

In the event a vacancy occurs on the AFS, the Board(s) will conduct an election to fill the vacant seat as soon as practicable.

Quorum  
The quorum for the AFS is defined as a majority of the total authorized membership of the AFS.

Operational Principles of the Audit and Finance Subcommittee values  
The AFS will conduct itself in accordance with the Valley Metro’s core of values and ethics policy LGL – 01.02. The AFS expects that management and staff of the organization will adhere to these requirements.

Communications  
The AFS expects that communications with management and staff of the organization as well as with any external assurance providers will be direct, open, and complete.

Work plan  
The AFS chair, in concert with the Chief Executive Officer (CEO), Chief Financial Officer and Chief Auditor, will establish a [finance/budget] work plan, in addition to a risk-based audit plan, to ensure that the responsibilities of the AFS are scheduled and will be carried out.

Meeting agenda  
The chair shall establish meeting agendas in consultation with AFS members, Chief Financial Officer (CFO), and the Chief Auditor.

Information requirements  
The AFS shall establish and communicate its information requirements. This shall include the nature, extent, and timing of such information requirements. Information shall be provided to the AFS at least one week prior to the meeting.

Executive sessions  
Executive sessions of the AFS may be held for purposes of discussing/considering personnel issues; non-public records; legal advice; the Board’s position on contract negotiations, litigation or claim settlement; and any other purpose authorized by A.R.S. Title 38, Chapter 3, Article 3.1. At least annually, the AFS shall hold a private session with the CEO, the CFO, the Chief Auditor, external assurance providers, and with any other officials that the AFS may deem appropriate.
Preparation and attendance
AFS members have an obligation to prepare for and participate in committee meetings.

Conflict(s) of interest
Members of the AFS and all employees and agents of the Regional Public Transportation Authority shall comply with the State Conflict of Interest Law, A. R. S. Sections 38-501, et seq.

Orientation and training
AFS members should receive formal orientation training on the purpose and mandate of the committee and on the organization’s objectives. A process of continuing education may be established at the discretion and under the direction of the AFS.

Operational Procedures Meetings
The AFS shall meet no less than once each calendar quarter or as frequently as the committee deems necessary.

Minutes
The AFS shall comply with the State Open Meeting Law, shall keep regular meeting minutes of the proceedings, and shall report their proceedings to the Board.

Access to officials
The AFS shall have unrestricted access to officials of the organization as may be required to discharge their duties.

Required attendance
The CFO and the Chief Auditor are required to attend all committee meetings.

Chair Responsibilities
It is the responsibilities of the AFS Chair include the following:

- Chair the meetings of the AFS
- Review agency expenses related to credit cards, travel and entertainment, specifically:
  - Approve credit card expenditures for the CEO
  - Approve travel expense reports for CEO
  - Review monthly expenditure activity for Agency credit cards
    - AFS Chair, at their discretion, may defer to the AFS members for review
  - Review a summary of Local Dining and Refreshments expenditures incurred by the Agency on a quarterly basis
    - AFS Chair, at their discretion, may defer to the AFS members for review
  - Review, approve and sign any Relocation over $25,000 prior to offer letter being sent to Candidate
    - AFS Chair, at their discretion, may defer to the AFS members for review
- Provide general guidance to CFO and Chief Auditor
Risk management
To obtain reasonable assurance with respect to the organization’s risk management arrangements, the AFS, in consultation with the CEO and CFO, shall:

- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.
- Review and provide advice on the risk management arrangements established and maintained by management and the procedures in place to ensure that they are operating as intended.
- Annually review the organization’s risk profile.
- Obtain from the Chief Auditor an annual report on management’s implementation and maintenance of an appropriate integrated risk management process.

Fraud
To obtain reasonable assurance with respect to the organization’s procedures for the prevention and detection of fraud, the AFS, in consultation with the CEO and CFO, shall:

- Take an active role in the prevention and deterrence of fraud.
- Challenge management and the auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.
- Ensure that appropriate action is taken against known perpetrators of fraud.

Oversight of Internal and External Audit and Other Assurance Providers Internal audit
To obtain reasonable assurance with respect to work of the audit activity, the AFS, in consultation with the CEO, should:

- Review and approve the internal audit charter at least annually. The charter should be reviewed to ensure that it is consistent with changes in the financial, risk management, and governance arrangements of the organization and reflects developments in internal audit professional practices.
- Review and approve proposed risk-based internal annual audit work plans and make recommendations concerning internal audit projects.
- Review and consult with the CEO and the Chief Auditor on the annual performance evaluation prepared by the CEO of the Chief Auditor.
- Review the budget, expertise, and staffing levels of the internal audit program.
- Review internal audit reports and other communications to management.
- Review and advise management on the results of any special investigations.
- Inquire of the Chief Auditor whether any evidence of fraud has been identified during internal audits and further action to be taken.
- Review and track management’s action plans to address internal audit recommendations.
- Inquire of the Chief Auditor whether any internal audit engagements or tasks have been carried out that did not result in a report to the committee. If there have been, inquire as to the matters of significance, if any, arising from such work.
- Review and provide input on internal audit’s strategic plan, program goals, performance measures, and outcomes.
Inquire of the Chief Auditor about steps taken to ensure that the audit activity is consistent with The IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Ensure that the internal audit function has an external quality assurance (peer) review every five years or more often if deemed necessary.

Review the results of the independent external quality assurance (peer) review and monitor the implementation of the action plans to address recommendations raised.

Advise the Board of any recommendations concerning the continuous improvement of the audit activity.

**External audit**

To obtain reasonable assurance with respect to work of the external assurance providers, the AFS, in consultation with Chief Executive Office and senior management, may meet with the external assurance providers during planning of the audit, the presentation of the audited financial statements, and the discussion of the letter to management on recommendations.

**Follow up on management action plans**

To obtain reasonable assurance that management has acted on the observations and recommendations from internal and external audit, the AFS may review regular reports on the progress of implementing agreed upon management action plans and audit recommendations included in completed audits.

**Oversight of Chief Financial Officer**

To obtain reasonable assurance with respect to work of the CFO, the AFS, in consultation with the CEO, should:

- Provide oversight over annual operating and capital budget process of the agency.
- Review budget inputs and assumptions.
- Provide oversight of the compilation of financial reports for the Boards and member agency review.
- Review the annual Transit Life Cycle Program and its financial model
- Review the five-year operating and capital plan
- Provide, in consultation with the CEO, the annual performance evaluation of the CFO
- Review and provide input on budget, contracts and procurement management goals, performance measures, and outcomes.

**Financial statements and public accountability reporting**

The AFS is responsible for oversight of the independent audit of the government entity’s financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.
Other responsibilities
In addition, the AFS, in consultation with the CEO, may:

- Perform other activities related to this charter as requested by the governing body.
- Institute and oversee special investigations as needed.

Reporting on Audit and Finance Subcommittee performance
The AFS should:

- Report periodically to the Board summarizing the committee’s activities and recommendations or less frequently as the committee deems necessary. The report should be delivered at the regularly scheduled meeting of the Board.
- The report may include:
  - A summary of the work the committee performed to fully discharge its responsibilities during the preceding year.
  - A summary of management units’ progress in addressing corrective actions on the findings and recommendations made in internal and external audit reports.
  - An overall assessment of the management units’ risk, control, and compliance framework, including details of any significant emerging risks or legislative changes impacting the governing organization.
  - Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.

The committee may, at any time, report to the governing body any other matter it deems of sufficient importance.

Approval/Signatures

_________________________________  _________________  
RPTA Board Chair                    Date

_________________________________  _________________  
VMR Board Chair                     Date

_________________________________  _________________  
Audit and Finance Subcommittee Chair Date

_________________________________ _________________  
CEO                                  Date

Audit and Finance Subcommittee Charter
Valley Metro
DATE
June 4, 2020

AGENDA ITEM 8

SUBJECT
Internal Audit Update

PURPOSE
To update the Audit and Finance Subcommittee on Internal Audit activities.

COST AND BUDGET
None

RECOMMENDATION
Item presented for information only.

BACKGROUND/DISCUSSION/CONSIDERATION
None

COMMITTEE ACTION
None

CONTACT
Jennifer Davis
Senior Internal Auditor
jdavis@valleymetro.org
602-322-4452

ATTACHMENT
None
## Valley Metro Audit and Finance Subcommittee
### Internal Audit Update
#### June 2020

### Update:
**Fiscal Year 19/20 Audit Plan**

<table>
<thead>
<tr>
<th>Process</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit card transactions</td>
<td>Moved to FY 20/21 Audit Plan</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>Moved to FY 20/21 Audit Plan</td>
</tr>
<tr>
<td>Professional Development</td>
<td>Complete</td>
</tr>
<tr>
<td>Full-Time Employee Additions</td>
<td>Complete</td>
</tr>
<tr>
<td>Contract Management (specific)</td>
<td>Planning for Advertising Review</td>
</tr>
<tr>
<td>Paratransit Contract Management</td>
<td>Present Report in August</td>
</tr>
<tr>
<td>OMC Non-Capitalized Rail Parts and Tools Inventory</td>
<td>Complete</td>
</tr>
<tr>
<td>Hardware/Software Management</td>
<td>Complete</td>
</tr>
<tr>
<td>Performance Evaluation</td>
<td>Complete</td>
</tr>
<tr>
<td>Internal Safety and Security Audit Review</td>
<td>Assisting with ADOT CAPs &amp; ISSA reviews</td>
</tr>
<tr>
<td>CSD Invoice Processing</td>
<td>Not started</td>
</tr>
<tr>
<td>HRMIS Implementation</td>
<td>Monitoring</td>
</tr>
<tr>
<td>ERP Implementation</td>
<td>Monitoring-Vendor Selected</td>
</tr>
<tr>
<td>ADOT – Rail Safety Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Maricopa Co. – Paratransit</td>
<td>Complete</td>
</tr>
<tr>
<td>City of Phoenix – Fare Revenue</td>
<td>Complete</td>
</tr>
</tbody>
</table>
Information Summary

DATE
June 4, 2020

AGENDA ITEM 9

SUBJECT
Audit exceptions update

PURPOSE
Update the Audit and Finance Subcommittee on the progress of audit exceptions.

COST AND BUDGET
Funding for monitoring the progress of audit exceptions is included in the FY 2019/20 Valley Metro Budget.

RECOMMENDATION
Items presented for information only.

BACKGROUND/DISCUSSION/CONSIDERATION
The International Standards for Professional Practice of Internal Auditing (Standards) 2017 version, Standard number 2500 Monitoring Progress states:

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

COMMITTEE ACTION
None

CONTACT
Jennifer Davis
Senior Internal Auditor
jdavis@valleymetro.org
602-322-4452

ATTACHMENT
Audit exceptions log
Valley Metro
Audit and Finance Subcommittee
Audit Exception Log Summary
June 2020

Audit Exception Log Summary

• Eight Open Recommendations
  • Four with upcoming due dates – On track for completion
  • Four pending next the Travel and Credit Card audit reviews
• One Remediated Recommendation
Upcoming Due Dates:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Responsible Parties</th>
<th>Current Actions</th>
<th>Estimated Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Uninstall Inactive Software Procedures</td>
<td>6/30</td>
<td>IT Manager</td>
<td>On track</td>
<td>6/30/2020</td>
</tr>
<tr>
<td>6</td>
<td>Inventory Management Policy and update applicable procedures</td>
<td>8/31</td>
<td>CFO and COO</td>
<td>On track, Policy draft circulating</td>
<td>8/31/2020</td>
</tr>
<tr>
<td>5</td>
<td>Performance Management Procedures</td>
<td>6/30</td>
<td>HR Manager</td>
<td>On track</td>
<td>9/30/2020</td>
</tr>
<tr>
<td>7</td>
<td>Create an Addendum to the Acceptable Use Policy for Approved Software</td>
<td>10/31</td>
<td>IT Manager</td>
<td>On track</td>
<td>10/31/2020</td>
</tr>
</tbody>
</table>

Note: Exceptions for the Travel Audit and the Credit Card Audit (Ref #s 1 - 4) will be evaluated during the FY 2020/2021 reviews of those areas.

Reported as Remediated this Month:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Audit’s Recommendation</th>
<th>Management Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relocation Process (Remed 1)</td>
<td>Define a process for providing and tracking relocation payments and repayment plans to ensure all funds are handled appropriately.</td>
<td>The CFO approved and issued AR Collection procedures on June 5, 2020 to address collect efforts at Valley Metro.</td>
</tr>
<tr>
<td>Ref #</td>
<td>Finding Title</td>
<td>Department</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>1</td>
<td>Travel Policy Clarification</td>
<td>Finance</td>
</tr>
<tr>
<td>2</td>
<td>Travel Policy Exceptions</td>
<td>Finance</td>
</tr>
<tr>
<td>3</td>
<td>Policy Compliance – Documented Division Head Approvals Not Maintained</td>
<td>Finance &amp; Procurement</td>
</tr>
<tr>
<td>Ref #</td>
<td>Finding Title</td>
<td>Department</td>
</tr>
<tr>
<td>-------</td>
<td>-------------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>4</td>
<td>Policy Compliance – Insufficient/incomplete Documents within Cardholder Reconciliation Packets</td>
<td>Finance &amp; Procurement</td>
</tr>
<tr>
<td>5</td>
<td>Established Performance Management Policies and Procedures Do Not Exist</td>
<td>Human Resources</td>
</tr>
<tr>
<td>6</td>
<td>No Established Inventory Management Policy</td>
<td>OMC &amp; Finance</td>
</tr>
<tr>
<td>Ref #</td>
<td>Finding Title</td>
<td>Department</td>
</tr>
<tr>
<td>-------</td>
<td>---------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>7</td>
<td>Software License</td>
<td>IT</td>
</tr>
<tr>
<td>8</td>
<td>Tracking</td>
<td></td>
</tr>
<tr>
<td>Remed 1</td>
<td>Relocation Process</td>
<td>Finance Division</td>
</tr>
</tbody>
</table>
Information Summary

DATE
June 4, 2020

AGENDA ITEM 10

SUBJECT
Intergovernmental Agreements, Contract Change Orders, Amendments and Awards

PURPOSE
To provide an update to the Audit and Finance Subcommittee on upcoming Intergovernmental Agreements, Contract Amendments and Awards that will be presented to the Boards of Directors for action. For additional background information, the Board Information Summaries are included.

The following items will be presented to the Boards of Directors for approval:

A. Fiscal Year 2021 (FY21) Intergovernmental Agreements (IGA)
Execute the FY21 IGAs and IGA amendments as listed and for the periods of performance and in the amounts indicated for each agreement.

B. Autonomous Vehicle Pilot Program with Waymo Contract Extension
Issue an extension of service for the Autonomous Vehicle Pilot for one year. The extended period of service will be from July 1, 2020 to June 30, 2021 at a cost not to exceed $50,000.

C. Enterprise Resource Planning (ERP)/Enterprise Asset Management (EAM) System Contract Award
Execute a contract with Denovo Ventures, LLC for an integrated ERP/EAM System in an amount not to exceed $7,113,070 for a contract period of 47 months with options to extend not to exceed a maximum term of 10 years.

D. Intergovernmental Agreement between the City of Phoenix and Valley Metro Rail, Inc for Bridge Inspections
Execute an Intergovernmental Agreement between the City of Phoenix and Valley Metro Rail, Inc for Bridge Inspections and incur costs not to exceed $500,000.

E. Amendment to the Agreement for Operations and Maintenance of the Light Rail Transit System between the City of Phoenix and Valley Metro (Agreement No. 122030-AR-0)
Execute an amendment to the Agreement regarding Operations and Maintenance (O&M) of the Light Rail System between the City of Phoenix and Valley Metro.

F. Northwest Extension Phase II Third Party Utility Relocation Work Orders
Execute Work Orders with third party utility companies for them to relocate their utilities for an amount not to exceed $18,423,900, in conjunction with the NWEII light rail project.
G. South Central Extension/Downtown Hub Design and Construction Agreement

Amend the Design and Construction Agreement between the City of Phoenix and Valley Metro Rail for the SCE/DH.

RECOMMENDATION
For information only.

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org
602-262-7433

ATTACHMENT
Information Summaries for items listed above.
DATE
June 4, 2020

SUBJECT
Fiscal Year 2021 (FY21) Intergovernmental Agreements (IGA)

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute FY21 IGAs and IGA amendments for projects in the approved Valley Metro RPTA FY21 Operating and Capital Budget.

COST AND BUDGET
Please see the attached spreadsheet.

RECOMMENDATION
Staff recommends that the Boards of Directors authorize the CEO to execute the FY21 IGAs and IGA amendments as listed and for the periods of performance and in the amounts indicated for each agreement.

BACKGROUND | DISCUSSION | CONSIDERATION
There are a number of IGAs and IGA amendments that require Board approval prior to the start of FY21. The attachment provides a list of the FY21 RPTA required IGAs and renewals.

The IGAs are based on the latest estimates of costs and services funded by each member. IGA changes that are required as a result of service changes in October 2020 and April 2021 will be brought to the Board for approval after the final list of service changes is determined. IGA amounts are significantly reduced for FY21 as a result of the application of CARES Act funding to operations.

COMMITTEE ACTION
RTAG: May 19, 2020 for information
TMC/RMC: June 3, 2020 for action
Boards of Directors: June 18, 2020 for action

CONTACT
Paul Hodgins
Chief Financial Officer
602-523-6043
phodgins@valleymetro.org

ATTACHMENT
Attachment 1 - List of FY21 IGAs
<table>
<thead>
<tr>
<th>Expense/ Revenue</th>
<th>Member Agency/Jurisdiction Intergovernmental Agreement No.</th>
<th>Brief Description</th>
<th>FY 2020 Amount</th>
<th>FY 2021 Amount</th>
<th>Change from FY 2018 to FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense</td>
<td>AZ Dept. of Environmental Quality</td>
<td>Repayment of Lottery Advance</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
<td>$0</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Avondale 106-75-2020</td>
<td>ADA Allocations</td>
<td>$148,200</td>
<td>$265,905</td>
<td>$117,705</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Avondale 106-75-2020</td>
<td>Fixed Route Transit Services</td>
<td>$1,199,913</td>
<td>$183,200</td>
<td>($1,016,713)</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Avondale 106-75-2020</td>
<td>RideChoice</td>
<td>$0</td>
<td>$57,966</td>
<td>$57,966</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Avondale 106-75-2020</td>
<td>Paratransit</td>
<td>$148,200</td>
<td>$139,227</td>
<td>($8,973)</td>
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<tr>
<td>Revenue</td>
<td>City of Avondale 106-75-2020</td>
<td>Fixed Route Transit Services</td>
<td>$1,276,849</td>
<td>$0</td>
<td>($1,276,849)</td>
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<tr>
<td>Revenue</td>
<td>City of Buckeye 166-75-2020</td>
<td>Fixed Route Transit Services</td>
<td>$39,500</td>
<td>$29,000</td>
<td>($10,500)</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Chandler 118-75-2020</td>
<td>ADA Allocations</td>
<td>$1,719,350</td>
<td>$1,729,000</td>
<td>$9,650</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Chandler 118-75-2020</td>
<td>Fixed Route Transit Services</td>
<td>$6,011,005</td>
<td>$3,843,438</td>
<td>($2,167,567)</td>
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<td>PTF Reimbursement</td>
<td>City of Chandler 118-75-2020</td>
<td>Paratransit</td>
<td>$1,719,350</td>
<td>$1,629,000</td>
<td>($90,350)</td>
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<tr>
<td>Revenue</td>
<td>City of Chandler 118-75-2020</td>
<td>Paratransit</td>
<td>$906,245</td>
<td>$249,320</td>
<td>($656,925)</td>
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<tr>
<td>Revenue</td>
<td>City of Chandler 118-75-2020</td>
<td>Fixed Route Transit Services</td>
<td>$1,734,532</td>
<td>$1,078,415</td>
<td>($656,117)</td>
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<tr>
<td>Revenue</td>
<td>City of Chandler 118-75-2020</td>
<td>RideChoice</td>
<td>$194,290</td>
<td>$166,747</td>
<td>($27,543)</td>
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<tr>
<td>Revenue</td>
<td>City of Chandler AAFA-COC-2019</td>
<td>Arizona Avenue Alternatives Analysis FA</td>
<td>$600,000</td>
<td>$0</td>
<td>($600,000)</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of El Mirage 121-48-2020</td>
<td>ADA Allocations</td>
<td>$26,900</td>
<td>$26,220</td>
<td>($680)</td>
</tr>
<tr>
<td>PTF Reimbursement</td>
<td>City of El Mirage 121-48-2020</td>
<td>Paratransit</td>
<td>$26,900</td>
<td>$26,220</td>
<td>($680)</td>
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<tr>
<td>Revenue</td>
<td>City of El Mirage 121-48-2020</td>
<td>Paratransit</td>
<td>$7,419</td>
<td>$30,904</td>
<td>$23,485</td>
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<td>PTF Reimbursement</td>
<td>City of Glendale 133-75-2020</td>
<td>ADA Allocations</td>
<td>$784,844</td>
<td>$759,003</td>
<td>($25,841)</td>
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<td>PTF Reimbursement</td>
<td>City of Glendale 133-75-2020</td>
<td>Fixed Route Transit Services</td>
<td>$3,843,888</td>
<td>$2,100,728</td>
<td>($1,743,160)</td>
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<tr>
<td>Expense/Revenue</td>
<td>Member Agency/Jurisdiction</td>
<td>Intergovernmental Agreement No.</td>
<td>Brief Description</td>
<td>FY 2020 Amount</td>
<td>FY 2021 Amount</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------------------</td>
<td>--------------------------------</td>
<td>-----------------------------------------------</td>
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<td>----------------</td>
</tr>
<tr>
<td>Revenue</td>
<td>City of Glendale</td>
<td>133-75-2020</td>
<td>Paratransit</td>
<td>$1,192,995</td>
<td>$1,223,522</td>
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<tr>
<td>PTF Reimbursement</td>
<td>City of Goodyear</td>
<td>136-75-2020</td>
<td>ADA Allocations</td>
<td>$14,400</td>
<td>$14,155</td>
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<td>145-75-2020</td>
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<td>City of Peoria</td>
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<td>Intergovernmental Agreement No.</td>
<td>Brief Description</td>
<td>FY 2020 Amount</td>
<td>FY 2021 Amount</td>
</tr>
<tr>
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<td>Peoria Park and Ride Operations and Maintenance</td>
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<td>$51,395</td>
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<td>PTF Reimbursement</td>
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<td>Paratransit</td>
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<td>($1,205)</td>
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<td>PTF Reimbursement</td>
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<td>Senior Shuttle</td>
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<td>$0</td>
<td>$0</td>
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<td>Fixed Route Transit Services</td>
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<td>EVBOM</td>
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<td>Expense/ Revenue</td>
<td>Member Agency/Jurisdiction</td>
<td>Intergovernmental Agreement No.</td>
<td>Brief Description</td>
<td>FY 2020 Amount</td>
<td>FY 2021 Amount</td>
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<tr>
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<tr>
<td>Revenue</td>
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<td>Member Agency/Jurisdiction</td>
<td>Intergovernmental Agreement No.</td>
<td>Brief Description</td>
<td>FY 2020 Amount</td>
<td>FY 2021 Amount</td>
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<td>Fixed Route Transit Services</td>
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Information Summary

DATE
June 4, 2020

AGENDA ITEM 10B

SUBJECT
Autonomous Vehicle Pilot Program with Waymo Contract Extension

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to issue an extension of services for the Autonomous Vehicle Pilot.

COST AND BUDGET
Regional Public Transportation Authority (RPTA) funding in the amount of $50,000 is included in the proposed FY 2021 budget. In FY 2019, the Board approved $200,000 for this pilot project through FY 2020. Only $14,292 has been expended to-date due to a delay in the official pilot start. As a result, an extension of the pilot through FY 2021 is needed. However, the pilot has also proven less expensive than anticipated and, including the authorization in this memo, is projected to cost less half of the Board’s original authorization.

RECOMMENDATION
Staff recommends the Boards of Directors authorize the CEO to issue an extension of service for the Autonomous Vehicle Pilot for one year. The extended period of service will be from July 1, 2020 to June 30, 2021 at a cost not to exceed $50,000.

BACKGROUND | DISCUSSION | CONSIDERATION
RPTA executed a two-year contract with Waymo in July 2018 with a budget of $200,000 to pilot test-use cases of autonomous vehicles to gain insight about public perception and integration of cutting-edge technology to enhance the regional public transportation system. The current contract expires June 30, 2020. However; planning and coordination between Valley Metro, Waymo, and ASU delayed the official start of the pilot until 2019. As a result, an extension of the contract is necessary to complete the pilot.

In September 2018, Valley Metro conducted a test with employees to ensure the pilot would provide an acceptable customer experience. In April 2019, Arizona State University was added as our research partner to collect and analyze data to assess the behavioral impacts and operational aspects of Autonomous Vehicle services. ASU’s participation was funded using the FTA’s Mobility on Demand Sandbox grant. As a result, there was a need to identify research questions of interest to Valley Metro,
FTA, ASU, and Waymo. This coordination took longer than initially anticipated and delayed the official start of the pilot until FY 2019. As a result, the pilot will conclude in FY 2021.

COMMITTEE ACTION
RTAG: May 19, 2020 for information
TMC/RMC: June 3, 2020 for action
Boards of Directors: June 18, 2020 for action

CONTACT
Jim Hillyard
Chief Administrative Officer
602-495-8234
jhillyard@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
May 28, 2020

AGENDA ITEM 10C

SUBJECT
Enterprise Resource Planning (ERP)/Enterprise Asset Management (EAM) System Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract with Denovo Ventures, LLC for an integrated ERP/EAM System in an amount not to exceed $7,113,070, which includes a contingency of $474,894.

COST AND BUDGET
The contract includes implementation, training and change management services and the purchase of licenses/software fees totaling $4,748,944, plus a 10% contingency of $474,894. The upfront costs will be shared equally between RPTA and Valley Metro Rail (VMR). Funding from RPTA will be from Regional Area Road Funds (RARF). Funding from VMR will be regional Public Transportation Funds (PTF).

Annual On-going costs for software licenses fees are $472,308 for the first 47 month contract term for a total of $1,889,232. Additional optional terms may allow for inflationary increases. The annual fees will be shared among RARF, PTF and member city contributions.

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<thead>
<tr>
<th>Service</th>
<th>Cost</th>
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<tbody>
<tr>
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<tr>
<td>Contingency</td>
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<tr>
<td>Annual Fees</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$7,113,070</strong></td>
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</tbody>
</table>

RECOMMENDATION
Staff recommends that the T Boards of Directors authorize the CEO to execute a contract with Denovo Ventures, LLC for an integrated ERP/EAM System in an amount not to exceed $7,113,070 for a contract period of 47 months with options to extend not to exceed a maximum term of 10 years.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro currently has multiple financial systems that are not integrated and/or unable to integrate with each other. Certain aspects of these systems have been in use for more than 10 years. Staff must use numerous shadow systems with manual uploads and downloads to accomplish work. A needs assessment was completed by Valley Metro’s consultant Plante Moran and authorization was given to the CEO by the
Board in June 2019 to issue a Request for Proposals (RFP) for Enterprise Resource Planning System.

In September 2019, Valley Metro issued a RFP for the ERP System and requested proposals from qualified providers of municipal software solutions whose product offering meet or exceeded current Valley Metro requirements to provide a robust solution set that will allow Valley Metro to leverage this investment well into the future as the needs of Valley Metro grow and evolve.

The solicitation included the following evaluation rounds:

<table>
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<th>ROUND 1 – Minimum Criteria</th>
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<td>RFP Response Timeliness</td>
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<tr>
<td>Response Authorization</td>
</tr>
<tr>
<td>Response Completeness</td>
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<tr>
<td>Minimum Client Software Installations</td>
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<table>
<thead>
<tr>
<th>ROUND 2 -Technical Criteria</th>
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</thead>
<tbody>
<tr>
<td>Functional requirements</td>
</tr>
<tr>
<td>Cost including both initial and on-going</td>
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<tr>
<td>Implementation requirements, plan and timeline</td>
</tr>
<tr>
<td>General Vendor to include number and size of</td>
</tr>
<tr>
<td>comparable municipal installations (preference for those in Arizona), financial stability, completeness of response, and quality of proposal response</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ROUND 3 – Demonstrations/Reference Checks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional and Usability</td>
</tr>
<tr>
<td>Service and Support</td>
</tr>
<tr>
<td>Investment and Costs</td>
</tr>
<tr>
<td>Technical Requirements</td>
</tr>
<tr>
<td>Vendor Viability</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

A total of 10 firms submitted proposals with five moving to the 2nd round and three of the five moving to the 3rd round.

A selection committee, comprised of key Valley Metro staff evaluated the proposals including live demonstrations held at Valley Metro locations with three of the five firms. Reference checks via WebEx were also completed. Based on the proposals, demonstrations and reference checks Denovo Ventures, LLC was selected.
COMMITTEE ACTION
RTAG: May 19, 2020 for information
TMC/RMC: June 3, 2020 for action
Boards of Directors: June 18, 2020 for action

CONTACT
Paul Hodgins
Chief Financial Officer
phodgins@valleymetro.org

ATTACHMENT
None
Enterprise Resource Planning
Enterprise Asset Management

Recommended Contract Award
June 2020

Background

• Valley Metro hired Plante Moran in December 2018
  • Assess current systems/capabilities
  • Map current business processes
  • Develop requirements for future system
  • Assist with procuring/selecting new system

• Board of Directors approved issuance of RFP for ERP/EAM in June 2019 and the RFP was issued in September 2019.
Assessment Key Findings

Technology Key Findings

Need for new ERP system apparent

- Limited system functionality and reporting capabilities
- Lack of real-time data due to disconnected systems environment
- Poor user experience and lack of confidence in systems
- Multiple systems and processes in place (dual entry, shadow systems)
- Lack of standardization (workflows and approval processing)

Current technology does not support the organization as a whole
Process Key Findings

- Lack of overall strategic ERP vision and governance
  - Broad ERP footprint (high cost design)
  - Lack of system integration, dual entry and shadow systems
  - Siloed based approach to technology
  - Process inconsistencies across departments
  - Lack of governance over IT systems
- Lack of consistent, efficient business processes
  - Business processes are not efficient
  - Lack of general understanding across the enterprise
  - Many attempts to enhance business processes in a silo

Readiness Assessment Findings

<table>
<thead>
<tr>
<th>Risks to changing the ERP system</th>
<th>Risks of not changing the ERP system</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Not correctly mapping out business processes that will be included in the system</td>
<td>- Continuing with outdated siloed processes/systems</td>
</tr>
<tr>
<td>- Concerns that management does not understand the current process therefore, may not identify</td>
<td>- Not having shared data</td>
</tr>
<tr>
<td>- Loss of historical comparison when changing account structure</td>
<td>- Continue to struggle with efficiency and productivity</td>
</tr>
<tr>
<td>- Data conversion/data loss</td>
<td>- Continue operating a disconnected environment</td>
</tr>
<tr>
<td>- Overcoming learning curve</td>
<td>- Continue with system/processes that allow for errors</td>
</tr>
<tr>
<td>- Additional training costs</td>
<td>- Falling behind with technology</td>
</tr>
<tr>
<td></td>
<td>- Unable to make informed decisions</td>
</tr>
<tr>
<td></td>
<td>- Inadequate controls and risk</td>
</tr>
</tbody>
</table>
Proposal Review

- Proposals received in November 2019
  - 10 proposals received
  - 5 proposals met minimum criteria
  - 3 proposers were brought in for demonstrations
    - Virtual reference checks were conducted with organizations using the finalist systems
- Evaluation Team unanimously agreed to move forward with Denovo for the implementation of the following products:
  - Oracle ERP
  - Trapeze EAM
Implementation Team

- **Denovo Ventures, LLC**
  - Third party implementer for Oracle Cloud
  - Oracle Platinum Partner
- **Trapeze**
  - Transit specific technology solutions
- **nMomentum**
  - Change management

Enterprise Resource Planning (ERP)

**Oracle Cloud**
- General Ledger
- Accounts Payable
- Accounts Receivable and Billing
- Budget
- Cash Management
- Contracts Management
- Fixed Asset Management
- Inventory
- Payroll
- Procurement
- Projects and Grants Management
- Time and Labor
Trapeze EAM

• **Cloud Managed Service**
  • Asset Management
    • Rolling stock, non-revenue vehicles, facilities, linear infrastructure
  • Work Management
    • Work orders
    • Resource assignment (vehicles, tools, etc.)
    • Warranty management
  • Inventory Management
  • State of Good Repair
    • Meet FTA TAM requirements
      • Asset condition

Contract Term

• **Initial Term 47 months**
  • Aligns with Oracle HRIS term

• **Two 3-Year options**

• **Maximum term of 10 years**
Costs

• Do nothing
  • Current systems estimated $900,000 per year
  • 10-Year Cost: $9 million

• Denovo proposal
  • Implementation Cost: $4,748,944
  • Annual License Fees: $472,308
  • 10-Year Cost: $9,472,024

Project Objectives
Project Benefits

- **Integrated Systems Environment**
  - Eliminate time consuming reconciliations between multiple sources
  - Error checking and transaction validation
  - ERP and EAM system cohesion

- **Increased System Capabilities**
  - Reduce dependency on shadow systems supporting the ERP/EAM processes by using functionality native to these systems
  - Access to On Demand reporting and analytics with an increased emphasis on data transparency
  - Electronic workflow, tracking and approvals.

Project Benefits

- **Internal Control Improvements**
  - Segregation of duties
  - Permissions/role management

- **Process Documentation and Training**
  - User training and tailored system documentation to support ongoing training
  - Opportunity to modernize business processes

- **Overcome Past Practices**
  - Re-focus on process outcomes
  - Reduce knowledge silos
  - Eliminate paper-dependent processes
Project Benefits

• **Cycle Time**
  - Reduced handoffs
  - Quicker payment processing with invoice submission and review enhancements
  - Parallel vs. linear tasks
  - Workflow and status tracking

• **Search / Indexing**
  - Moving towards ‘One Source of Truth’
  - Increased accessibility to data
  - Consistent data indexing

• **Mobility**
  - Ability to access approvals, work orders, time requests and time entry via mobile devices

Recommendation

Staff recommends that the Boards of Directors authorize the CEO to execute a contract with Denovo Ventures, LLC for an integrated ERP/EAM System in an amount not to exceed $7,113,070 for a contract period of 47 months with options to extend not to exceed a maximum term of 10 years.
Thank You
AGENDA ITEM 10D

DATE
June 4, 2020

SUBJECT
Intergovernmental Agreement between the City of Phoenix and Valley Metro Rail, Inc for Bridge Inspections

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute an Intergovernmental Agreement (IGA) between the City of Phoenix and Valley Metro Rail for light rail bridge inspections.

COST AND BUDGET
Projected costs for bridge inspections over a 5-year period total approximately $500,000. The five-year period includes calendar years 2020-2024. No costs will be incurred in FY20. Obligations beyond FY20 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025). The source of funding is Member City and Federal.

RECOMMENDATION
Staff recommends that the Board of Directors authorize the CEO to execute an Intergovernmental Agreement between the City of Phoenix and Valley Metro Rail, Inc for Bridge Inspections and incur costs not to exceed $500,000.

BACKGROUND | DISCUSSION | CONSIDERATION
Since completion of the initial 20-mile light rail line, the City of Phoenix Street Transportation Department has provided expertise to Valley Metro to conduct regular inspections of light rail bridges. The period of performance for this agreement between the City of Phoenix and Valley Metro ended on December 31, 2019. Given that the expiration has passed, it is necessary to extend the agreement to ensure that light rail bridges are regularly inspected and remain in good condition.

The agreement states that the City will perform inspections of bridges owned and operated by Valley Metro, and outlines procedures and scope of work. This Agreement carries forward the terms of the prior agreement and includes additional bridges that will be part of the South Central Extension/Downtown Hub and Northwest Extension Phase II projects.

STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
  • Goal 2: Advance performance based operation
COMMITTEE PROCESS
RTAG: May 19, 2020 for information
RMC: June 3, 2020 for action
Board of Directors: June 18, 2020 for action

CONTACT
Wulf Grote, PE
Director, Capital & Service Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None

The draft agreement is available upon request.
Information Summary

DATE
June 4, 2020

AGENDA ITEM 10E

SUBJECT
Amendment to the Agreement for Operations and Maintenance of the Light Rail Transit System between the City of Phoenix and Valley Metro (Agreement No. 122030-AR-0)

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute an amendment to the Agreement regarding Operations and Maintenance (O&M) of the Light Rail System between the City of Phoenix and Valley Metro.

COST AND BUDGET
Operations and maintenance costs are allocated to member cities based upon the proportion of light rail miles operational within each jurisdiction. Valley Metro Rail establishes an operations and maintenance budget annually subject to Board approval.

RECOMMENDATION
Staff recommends that the Board of Directors authorize the CEO to execute an amendment to the agreement for Operations and Maintenance of the Light Rail Transit System between the City of Phoenix and Valley Metro.

The O&M Agreement does not specify costs. It only defines responsibilities for O&M.

BACKGROUND | DISCUSSION | CONSIDERATION
The O&M Agreement is the document that defines light rail operating parameters and the entities responsible for maintaining facilities, systems and elements along the corridor. For example, maintenance requirements are outlined for track work, roadways, landscape, street lighting, traffic signals, signage, etc. The O&M Agreement defines how parties will notify, acquire permits and gain access to another party’s property; emergency access procedures; and protocols for coordination with emergency response personnel. The O&M Agreement also identifies insurance requirements, indemnification and agreement amendment procedures.

The O&M Agreement was last amended and restated in December 2012. This update is necessary to expand the definition of the system to include the South Central Extension/Downtown Hub and Northwest Extension Phase II, which are anticipated to open for revenue service in 2024, and include provisions specific to new facilities.

Valley Metro I 101 N. 1st Ave. Phoenix, AZ 85003 602.262.7433
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:
  • Goal 2: Advance performance based operation

COMMITTEE PROCESS
RTAG: May 19, 2020 for information
RMC: June 3, 2020 for action
Board of Directors: June 18, 2020 for action

CONTACT
Wulf Grote, PE
Director, Capital & Service Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None

The draft amended agreement is available upon request.
Information Summary

DATE
June 4, 2020

AGENDA ITEM 10F

SUBJECT
Northwest Extension Phase II Third Party Utility Relocation Work Orders

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute Work Orders with third party utility companies for them to relocate their utilities for an amount not to exceed $18,423,900, in conjunction with the Northwest Extension Phase II (NWEII) light rail project.

COST AND BUDGET
The estimated cost for relocation of third party utilities is $16,749,000 plus an additional $1,674,900 (10% Contingency) for a total of $18,423,900. A summary of the funding needs is shown below:

<table>
<thead>
<tr>
<th>Required Third Party Relocation Authority</th>
<th>Relocation Cost Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>APS</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>AT&amp;T/TCA</td>
<td>$350,000</td>
</tr>
<tr>
<td>CenturyLink</td>
<td>$1,730,000</td>
</tr>
<tr>
<td>Cox Communications</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>LEVEL3</td>
<td>$200,000</td>
</tr>
<tr>
<td>Salt River Project - Fiber Optics</td>
<td>$130,000</td>
</tr>
<tr>
<td>Salt River Project - Irrigation</td>
<td>$660,000</td>
</tr>
<tr>
<td>Salt River Project - Power</td>
<td>$5,275,000</td>
</tr>
<tr>
<td>Salt River Project - Transmission</td>
<td>$500,000</td>
</tr>
<tr>
<td>Southwest Gas</td>
<td>$660,000</td>
</tr>
<tr>
<td>Telecom Group (TCG)</td>
<td>$230,000</td>
</tr>
<tr>
<td>ZAYO (Telecom Provider)</td>
<td>$514,000</td>
</tr>
</tbody>
</table>
This project is funded by the City of Phoenix, the regional Public Transportation Fund (PTF) and the Federal Transit Administration. Funding is included in the Preliminary Valley Metro Rail FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the Preliminary Five-Year Operating Forecast and Capital Program (FY21 thru FY25). The cost for utility work is included in the overall cost estimate established for the project.

**RECOMMENDATION**

Staff recommends that the Board of Directors authorize the CEO to execute Work Orders with third party utility companies for them to relocate their utilities for an amount not to exceed $18,423,900, in conjunction with the NWEII light rail project.

**BACKGROUND | DISCUSSION | CONSIDERATION**

The Northwest Extension Phase II extends the light rail line within Phoenix by approximately 1.6 miles from 19th Avenue and Dunlap northwesterly to Metrocenter. An important element of this project is to relocate all underground utilities, both public and private, to avoid conflicts with the light rail guideway and to minimize future maintenance conflicts. This memo addresses only the private, third party, utility relocations.

To date, the Board has authorized $1,191,700 in funding for third party utility relocation design for Work Orders as summarized below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2017</td>
<td>Board approval to execute letters of authorization for third-party utility design</td>
<td>$964,091</td>
</tr>
<tr>
<td>December 2018</td>
<td>Board approval for amendment to increase funding for third party design activities</td>
<td>$119,273</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>$1,083,364</strong></td>
</tr>
<tr>
<td></td>
<td>10% contingency</td>
<td><strong>$108,336</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$1,191,700</strong></td>
</tr>
</tbody>
</table>

Board authorization is now required to provide construction funding for all third party
utilities to be relocated within the NWEII project.

**STRATEGIC PLAN ALIGNMENT**
This item relates to the following goals and in the Five-Year Strategic Plan, FY 2016 – 2020:
- Goal 2: Advance performance based operation
- Goal 3: Grow transit ridership

**COMMITTEE PROCESS**
RTAG: May 19, 2020 for information
RMC: June 3, 2020 for action
Board of Directors: June 18, 2020 for action

**CONTACT**
Wulf Grote, P.E.
Director, Capital & Service Development
602-322-4420
wgrote@valleymetro.org

**ATTACHMENTS**
None
Date: June 4, 2020

Subject: South Central Extension/Downtown Hub Design and Construction Agreement

Purpose:
To request authorization for the Chief Executive Officer (CEO) to amend the Design and Construction Agreement between the City of Phoenix and Valley Metro Rail for the South Central Light Rail Extension/Downtown Hub (SCE/DH).

Cost and Budget:
Funding for the SCE/DH will be through the Federal Transit Administration’s Capital Investment Grant (CIG) program and will include local match participation by Phoenix and regional Public Transportation Funds (PTF). A separate agreement between Valley Metro Rail and the City of Phoenix addresses funding commitments for this project.

Expenses expected within FY21 are included in the Valley Metro Rail Preliminary FY21 Operating and Capital Budget. Contract obligations beyond FY21 are incorporated into the Preliminary Five-Year Operating Forecast and Capital Program (FY21 thru FY25).

Recommendation:
Staff recommends that the Board of Directors authorize the CEO to amend the Design and Construction Agreement between the City of Phoenix and Valley Metro Rail for the SCE/DH.

Background/Discussion/Consideration:
Valley Metro has completed final design for the SCE/DH, a 5.5 mile extension to connect with the current light rail system in downtown Phoenix and operate south to Baseline Road. Construction activities began in 2019 and will continue through 2024.

This Design and Construction Agreement delineates the responsibilities and expectations of each party during the design and construction phases of the SCE/DH project, including for project management reporting and coordination; execution of concurrent non-project activities; construction phasing and access; temporary traffic control; public notification; water service shutdowns; construction inspections; real estate acquisition; and other factors. This agreement will be operative until the project enters revenue operations and the conclusion of all design and construction activities, warranty work, and the completion and acceptance of as-built documents.

This agreement amends the August 2017 Design and Construction Agreement, to update the document based on current conditions and understandings.
STRATEGIC PLAN ALIGNMENT
This item relates to the following goals and strategies in the Five-Year Strategic Plan, FY 2016 – 2020:

- Goal 2: Advance performance based operation
- Goal 3: Grow transit ridership

COMMITTEE PROCESS
RTAG: May 19, 2020 for information
RMC: June 3, 2020 for action
Board of Directors: June 18, 2020 for action

CONTACT
Wulf Grote, P.E.
Director, Capital and Service Development
602-322-4420
wgrote@valleymetro.org

ATTACHMENT
None

Draft agreement available upon request
AGENDA ITEM 11

DATE
June 4, 2020

SUBJECT
Future Agenda Items Request and Report on Current Events

PURPOSE
Chair Arredondo-Savage will request future agenda items from members and members may provide a report on current events.

Future Items

<table>
<thead>
<tr>
<th>Item</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Exceptions Update</td>
<td>Ongoing</td>
</tr>
<tr>
<td>o Management status for overdue/past due items</td>
<td></td>
</tr>
<tr>
<td>Enterprise Resource Planning contract award</td>
<td>June 2020</td>
</tr>
<tr>
<td>Present Annual Budgets and 5-Year Plans for Action</td>
<td>June 2020</td>
</tr>
<tr>
<td>Present 5-Year Operating and Capital Forecast</td>
<td>June 2020</td>
</tr>
<tr>
<td>Proposed Audit Plan for FY21</td>
<td>June 2020</td>
</tr>
<tr>
<td>External Audits:</td>
<td></td>
</tr>
<tr>
<td>o City of Phoenix Contract Management Risk Assessment</td>
<td>August 2020</td>
</tr>
<tr>
<td>Contract Management (Specific) Paratransit</td>
<td>August 2020</td>
</tr>
<tr>
<td>Professional Development Audit – Follow-up discussion</td>
<td>August 2020</td>
</tr>
<tr>
<td>TLCP Update – Bus</td>
<td>August 2020</td>
</tr>
<tr>
<td>TLCP Update – Rail</td>
<td>August 2020</td>
</tr>
<tr>
<td>Update on Reduced Fare program</td>
<td>August 2020</td>
</tr>
<tr>
<td>Agency Credit card Audit</td>
<td>Moved to next year’s audit plan</td>
</tr>
<tr>
<td>Travel Audit</td>
<td>Moved to next year’s audit plan</td>
</tr>
<tr>
<td>Budget – Position Justifications</td>
<td>TBD</td>
</tr>
<tr>
<td>Travel Data</td>
<td>TBD</td>
</tr>
</tbody>
</table>

CONTACT
Paul Hodgins
Chief Financial Officer
602-262-7433
phodgins@valleymetro.org