MEETING OF THE
Audit and Finance Subcommittee

Date:
October 15, 2020

Starting Time
12:00 p.m.

Location:
Via WebEx/Phone

If you require assistance accessing the meetings on the 10th floor, please go to the 14th floor or call 602.262.7433.
Agenda
October 5, 2020

Audit and Finance Subcommittee
Thursday, October 15, 2020
Webex/Phone
12:00 p.m.

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 September 10, 2020 Audit and Finance Subcommittee meeting are presented for approval.

3. Internal Audit Update
Jennifer Davis, Sr. Internal Auditor, will provide an update on the actions taken in Internal Audit and external reviews.

4. Internal Audit Exceptions Update
The Internal Audit Exceptions log is presented for information.

5. Fiscal Year 2022 (FY22) Budget Assumptions
Paul Hodgins, Chief Financial Officer, will provide an overview of key budget assumptions for FY22.

6. 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.

Action Recommended
1. For Information
2. For action
3. For information
4. For information
5. For information
6. For information
7. **Requested Information Follow-up**

The following information items were distributed via email. AFS members will have an opportunity to ask questions and discuss these items: Peer Agencies List, ADOT Forecast, CARES Act Update.

8. **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, November 12, 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
October 8, 2020

AGENDA ITEM 1

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
Chief Executive Officer
602-262-7433
ssmith@valleymetro.org

ATTACHMENT
None
Minutes

October 8, 2020

AGENDA ITEM 2

Audit and Finance Subcommittee
Thursday, September 10, 2020
Via WebEx/Phone
12:00 p.m.

Meeting Participants
Councilmember Robin Arredondo-Savage, City of Tempe, Chair
Mayor Kate Gallego, 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 12:04 p.m.

Chair Arredondo-Savage said thank you everybody for taking the time. First, I just want to say thank you to Vice Mayor Stipp for your chairmanship last month. I certainly do appreciate you stepping in. I kind of did spring that on you at last minute, and I heard you did a phenomenal job, and I just want to say thank you. I do appreciate the support.

1. Public Comment

None.

2. Minutes

Chair Arredondo-Savage said minutes from the August 13, 2020 Audit and Finance Subcommittee meeting are presented for approval. Has everybody had a chance to review? Any changes, suggestions? And if not, do we have a motion for approval?

Vice Mayor Stipp said I move to approve, but I do have a comment. We're still waiting the information on comparable cities or comparable transit agencies from a couple meetings ago.

Ms. Dillon said Vice Mayor Stipp, can we clarify that you are looking for our peer cities? Is that what you're looking for? The cities we usually measure ourselves against?

Vice Mayor Stipp said well, yes. We had talked about this two meetings ago. And it's all the comparable transit agencies, the cities that we use. Their specific numbers, number of contracts, you know, I mean, really a true analysis of who are we comparing ourselves to. If you recall we had a pretty lengthy discussion about those agencies and
even Mayor Gallego had pointed out that we needed to get a truly fair comparison not just based on the size of the city, but the size of the actual transit agency.

Ms. Dillon said okay, I think we were talking about the cities that report to the NTD and that we use to compare our service to on a yearly basis. So, we’ll look into that some more and get that information to you.

Vice Mayor Stipp said okay. And, I think, if you go back to the minutes from a couple of meetings ago, you’ll see pretty specifically what we were talking about.

Ms. Dillon said okay, we will take care of that for you. Thank you for the reminder.

Vice Mayor Stipp said thanks.

Chair Arredondo-Savage said thank you, Vice Mayor. I know we have a motion and second on the floor. And before we move approval, I will ask Pat to go ahead and add that to our agenda for next month so that way it doesn’t get lost in the shuffle somewhere and that will be hopefully a good agenda item for the future.

**IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY MAYOR GALLEGO, AND UNANIMOUSLY CARRIED TO APPROVE THE AUGUST 13, 2020 AFS MEETING MINUTES.**

3. **Draft Internal Audit Charter**

Chair Arredondo-Savage said I did have an opportunity to read through the minutes and noticed you all had a lot of dialogue and discussion and I certainly do appreciate that. I think this is one thing that is very important not only to this group, but for those groups, those individuals that will continue in our roles in the future. So, I appreciate everybody really taking the time and their effort and energy to get this to where we all feel very comfortable.

What I took away from the minutes and, Bill, go ahead and jump in any time because I know you probably have a lot more knowledge of firsthand discussion. But what I took away and I wanted to make sure that we’re all comfortable with moving forward was that the documents really, truly state: An independent function of the auditor that the AFS, we are solidly very clearly seeing that it approves the audit plan, the performance and let me see, wait, what I got. Performance review and compensation and that it is not an administrative function. I mean, that was what I got pretty clearly from there. And, also, to add, I think, from Councilmember Tolmachoff, about the org chart. And I think the one thing I really did appreciate, I think, Mayor Gallego mentioned this was about the consistency throughout all the docs.

So, I think, a number of things that I pulled away and, I guess, I would ask Ms. Tameron-Kinsey in regards to, from the conversations of the last month and the changes that you’ve implemented to now, maybe you could give us a brief overview and
highlight. And then we can make sure we're all on the same page moving forward. If that sounds okay?

Ms. Tameron-Kinsey said Chair Arredondo-Savage, Members, with regard to the internal audit, it does have all of the incorporated changes that were asked for at the last meeting and, as you mentioned, including the organizational chart that Councilmember Tolmachoff wanted to make sure was a part of this when it was adopted so she can see the reporting structure and the lines. So that was also included.

There were two specific edits with regard to the Internal Audit Charter that were brought up. One, specifically, with regard to how audit reports are conveyed and the format. What I did include in the red lines that the Committee Members receive that language itself is in keeping with the standards which allow for the reporting based on whether it's an audit report or it could be a like a status report, other functions besides specific audit reports. But I also -- both Jennifer and I and the rest of the folks during that meeting were very aware and, I believe, Scott and Paul also committed to making sure that the format of the audit reports do not change from like a PowerPoint to a written narrative. And Jennifer has also provided that written narrative to go along with the paratransit report based upon the feedback we heard.

So with regard to the charters, that was made very -- that, I believe, was made clear in the charter with regard to reporting and, additionally, Vice Mayor Stipp noted about the opportunities for improving the efficiency of governance, risk management, and control process during audit engagements. Wanted to make sure that it was very clear and outlined that they will be communicated to the AFS and the appropriate level of management, when appropriate. We added the "when appropriate" because they wanted -- he wanted to make sure that that was conveyed through the various different levels and we weren't vague about it.

So those were the two including the org chart for Internal Audit Charter that were incorporated from last month's meeting.

Chair Arredondo-Savage said all right. I would ask the Committee if they are okay with these changes that they are comfortable with that or was there any additions? Or concerns?

Vice Mayor Stipp said Chair Arredondo-Savage, this is Bill. So Alexis, one of the things that we talked about the last two or three, well, I think we've down three of these so far, is this conversation about the annual performance evaluation, which is now, well I shouldn't say now. It is on page 2. From the top of that page, the second and third bullets, make it appear as though someone else is going to do the evaluation of the chief auditor and that we are just going to review that. And I don't think that was the intended purpose of what we are talking about.
And then the third bullet is “approve decisions regarding the annual performance evaluation” which, again, indicates that someone else has done this and we’re just approving it as opposed to conducting it or performing it. Is there a reason that we, you know, we keep coming back to this same issue after these meetings? And I thought it was fairly clear. I think the language really needs to say, “perform the annual performance evaluation in consultation with the CEO” not review it.

And then “approve decisions,” I think that there’s some vagueness to that that we want to clear up. I think we really want to be very specific about who is doing this evaluation. Who has the authority? So that there is that clear delineation between the auditor and the CEO or the quote/unquote leadership team of the Valley Metro organization to ensure that we've got that separation.

Ms. Tameron-Kinsey said Chair Arredondo-Savage, Vice Mayor Stipp, I believe, and it's not that we keep coming back to it, but I appreciate your point of pointing that out. Based upon the feedback I heard last week was with those bullets and the sense of members, was making sure that that approval process whether it be, you know, salary, benefits, that occur during the performance evaluation that all of that decision-making and approvals are of the AFS decision or their ability to make those decisions and/or approvals. I can certainly change that "review" to "perform" the annual performance evaluation. I also do believe that there will be a facilitator involved so they will be performing that on behalf of you, but I understand too where the perception of the language is important. That's why in terms of the approval, to come back to the AFS even if it's being facilitated by an outside or a third party those decisions that come from or are, basically, incorporated into any sort of performance review you have -- as an AFS, as the subcommittee of the Board have to approve it.

So, to alleviate any other confusion we can certainly change that "review" to a "perform" knowing that you will likely delegate some of those responsibilities through that facilitator to perform it or at least facilitate it.

Vice Mayor Stipp said correct. I absolutely agree, Alexis. And I think that's the key is we have the responsibility to perform it. How we choose to do that whether it's a facilitator or we use the staff at Valley Metro, or we all sit down with pencils and paper and handwrite it ourselves, we ultimately are performing it. I do agree with the approve decisions piece based on if we're conducting it then I think we're, basically, approving that. So, I'm not hung up on that, but I would really prefer personally, and I don't know if the rest of the Committee feels that way but using the word "perform" instead of "review." I think that cleans it all up.

And I have to, while I have the floor, just absolutely congratulate you on putting up with getting this done. You have made a tremendous amount of changes, but I think in the long run for this organization in the long term it will be time very well spent and I greatly appreciate you entertaining my comments.
Ms. Tameron-Kinsey said Chair Arredondo-Savage, Vice Mayor Stipp, absolutely. I've learned a lot through this process and so I appreciate the confidence in delegating it to me to do. And I've made a note here and my document just to change "review" to "perform." That will be incorporated.

Chair Arredondo-Savage said perfect. Alexis, to both of you. I really do appreciate it. Are there any other comments from Committee members?

Councilmember Tolmachoff said I just want to say I think having to the org chart included as part of the charter, the structure of the reporting, I think, you know, clarifies any issue exactly what the reporting structure of the audit function is so I appreciate it being there.

Chair Arredondo-Savage said I agree. It was a good addition. Anyone else? I just want to make sure that we're okay to change "review" to "perform." Is everybody good with that? If you're not, speak up.

Okay. Are there any other comments in regarding the Internal Audit Charter? I don't want to say it anymore. We've been talking about it for so long. All right.

Ms. Tameron-Kinsey said Chair Arredondo-Savage, with that change from "review" to "perform," if you do move a motion, I believe, we can do that with the caveat of that will be changed and I've already changed it in my document, but I will certainly send it out.

Chair Arredondo-Savage said perfect, I think we can certainly do that. I just want to make sure that there are no other concerns throughout that document before I ask for a motion. None. Do we have a motion to actually approve our Internal Audit Charter with the change of the word "review" to "perform?"

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY COUNCILMEMBER TOLMACHOFF, AND UNANIMOUSLY CARRIED TO APPROVE THE INTERNAL AUDIT CHARTER WITH THE REQUESTED REVISION.

4. Draft Audit and Finance Subcommittee Charter

Chair Arredondo-Savage said again, I want to say, thank you guys for all your work. Alexis, I will go ahead and turn it over to you. I know you've been working on this very diligently. And I certainly do appreciate your work, your patience, and your responsiveness to hearing us all out within the Subcommittee and making sure we get it right. So, with that, I'll turn it over to you.

Ms. Tameron-Kinsey said Chair Arredondo-Savage, Members you have before the updated Audit and Finance Subcommittee charter. What we made sure, or what I made sure, to do after last meeting was to go through and ensure that there was consistency based upon some of the changes or slight modifications to the Audit Charter that were
also included in the AFS Charter. I'm looking through the document right now and, I believe, they were incorporated. There wasn't much to change in the AFS Charter versus the Internal Audit Charter. So, with that, I'll answer any questions you may have.

Chair Arredondo-Savage said I'll turn it over to the committee. Are there any questions, concerns?

Vice Mayor Stipp said yes, ma'am. So, because we made that other change on page five, seven bullets down from the top. Instead of "oversee provide input and approval," I think, we need to use the same language we had before. "Conduct -- "conduct and approve the annual performance evaluation."

Ms. Tameron-Kinsey said I'm making a note here to change "oversee" to "conduct." Do you want me –

Chair Arredondo-Savage said Alexis, I was going to ask instead of using "oversee," do we want to use "perform" and just be consistent with the wording? We didn't use "conduct" in the first one.

Ms. Tameron-Kinsey said yes. Let's do "perform" for consistency sake. So, I have "perform and approve the annual performance evaluation of the chief auditor." This has been incorporated.

Chair Arredondo-Savage said got it. Is there anything else that has any concerns, changes, suggestions?

Vice Mayor Stipp said Chair Arredondo-Savage, I think we can have another motion same as we did before.

Chair Arredondo-Savage said okay. Is there a motion to approve the Audit and Finance Subcommittee Charter with the changes recommended on page 5 of 6 to change bullet point number seven to "perform and approve the annual performance evaluation of the chief auditor?"

IT WAS MOVED BY VICE MAYOR STIPP, SECONDED BY MAYOR GALLEGO, AND UNANIMously CARRIED TO APPROVE THE AUDIT AND FINANCE SUBCOMMITTEE CHARTER WITH REQUESTED REVISION AND FORWARD TO THE BOARDS OF DIRECTORS FOR APPROVAL.

5. Merit Pay for Staff

Deferred to October 15, Audit and Finance Subcommittee meeting.

6. Internal Audit Update
Jennifer Davis, Sr. Internal Auditor, provided an update on the actions taken in Internal Audit and external reviews.

Ms. Davis said good afternoon, Chair Arredondo-Savage, Board Members, thank you very much for your time. I've updated this slide to reflect the audit plan that you guys approved -- members approved last meeting. I have the kick-off for the credit card transaction and travel expenses audit scheduled for later this month. I continue to work with the Safety and Security team to work on the corrective action plans that the Arizona Department of Transportation issued in their three-year review. I'm helping them conduct their internal review.

Also included in the packet was an annual summary of the follow-up activities to just provide the Committee a summary of the items that were reviewed. I wanted to give kudos to the agency to note that 83 percent of the recommendations that were being monitored were being closed as of September 1st. This is compared to about 56 percent that we had last year for the annual review so -- see that there's definitely been a commitment on the part of management to address those based on your advice and guidance to get those addressed and closed. So, I just wanted to give some kudos and ask if there are any questions regarding the update or the follow-up activity information that I provided you.

Chair Arredondo-Savage said great. Thank you, Jennifer. Are there any questions for Jennifer? Comments?

Vice Mayor Stipp said that is a great summary report and I was wondering if this isn't something we don't want to forward to the full Board. Kind of a year-end wrap up. There's a lot of really good information in here and, as Jennifer pointed out, you know, we're making good headway and I think the whole Board needs to know perhaps in a good one-page summary what it is that we're doing.

Chair Arredondo-Savage said yes. I mean, I think that's a great idea too. And thanks to the Audit Department, Jennifer. Thanks to you for your work, but also, I think, just a good reflection of management like she said going from 56 percent to 83 percent closure rate is pretty significant. So, I think, any time we can highlight those things, I think that's a great idea. So, I certainly would support that. Is everybody okay with that? I'm hearing nobody, I'm going with yes, that's okay.

Chair Arredondo-Savage said thank you, Jennifer. And maybe you can help us put together that one page that we can share with the Board? Between you and Pat, we put that together?

Ms. Davis said yes.

Ms. Davis said I want to follow up on the paratransit review. That report was sent out to the Committee Members. I wanted to verify if anyone had any questions, comments,
concerns on that? If not, then I will go ahead and make sure that I publish that to the website. I wanted to give the Committee an opportunity to ask me any questions on that report if you had any.

Chair Arredondo-Savage said are there any questions from the Committee? All right. If not, we'll go ahead and publish, Jennifer. Great.

Ms. Davis said thank you.

This item was presented for information only.

7. Internal Audit Exceptions Update

Ms. Davis said the exception log summary has been provided for information with seven open recommendations. Two with upcoming due dates. They're on track for completion. Four will be addressed during the upcoming travel and credit card audits and one is due at the end of fiscal year. And then we were able to remediate another recommendation since the last meeting.

Just some highlights of the ones that are open is performance management procedures at the end of the month and then IT addendum at the end of October. And the future date was the digital workflow approvals that's being part of that ERP project. And that the OMC was able to put together an issue, a comprehensive inventory management policy and update the applicable SOPs as well.

That was my update. Were there any questions on the exceptions?

Chair Arredondo-Savage said great. Thank you, Jennifer. Again, this is for information. Are there any questions, concerns for Jennifer? Seeing none. Thank you very much. You've been doing really great stuff and I know it hasn't been easy so thank you for everything that you do. We're much appreciated.

This item was presented for information only.

8. Payroll Tax Deferral Executive Order

Mr. Hodgins said thank you, Chair, Members of the AFS. Just an information item, we wanted to let you know kind of our position on the executive order. As I'm sure you're aware, the executive order allowed for a deferral of the employee portion of the Social Security tax, 6.2 percent of employee wages from September through December. Guidance from the IRS came out fairly late, but it's clear that it is a deferral and that those taxes would be due in the first part of calendar 2021 which would mean, basically, doubling up the withholdings from employee wages for January through April.
They did clarify that this is optional and while it may be attractive to put a little more money in a paycheck between now and December, in the long run it's a wash. The tax is due and so we feel that, you know, the leadership team feels that it's really not worth doing the deferral and so we've decided to opt out. I believe this is consistent with what a lot of the cities are doing. I believe the State of Arizona has also decided not to implement this deferral. So, this is really just an information to let you know our position and how we're moving forward with this. And I'd be happy to answer any questions.

Chair Arredondo-Savage said thank you, Paul. Any questions for Paul?

Councilmember Tolmachoff said I do have a question. Are the employees being notified that they have an option to do this if they want to? Or do we have any obligation? It said optional so I'm just wondering if they were notified you can opt in and defer if that's something that you want to do.

Mr. Hodgins said Councilmember, it is optional, but I think the IRS made clear that it's at the employer's option and not at the individual employees.

Councilmember Tolmachoff said okay.

Mr. Hodgins said we wouldn't want to implement for a few employees and not others so we've decided that it's as the employer, we've decided to opt out.

Chair Arredondo-Savage said I agree. I think that's a good decision. Anything else for Paul regarding the payroll tax deferral? Okay.

This item was presented for information only.

9. **Prop 400 Revenue Forecast and Transit Life Cycle Program Impacts**

Mr. Hodgins said thank you, Chair. As we discussed through the budget process with the revenue uncertainties, we were going to move forward with kind of a best case/worst case through the budget process and also looking at potential service reductions or service changes through the Service Planning Working Group. We gave this update to our Financial Working Group and we thought it would be good for the Audit and Finance Subcommittee to see kind of the development of those revenue forecasts and what the impacts are over the life of the Transit Lifecycle Program.

So, I have quite a few slides, but many of them I can go through quickly. There, you know, we've seen them all before so.

So, as you're aware transportation excise tax, Prop 400, it's our 20-year tax. We get 33.3 percent for transit. Next slide.
So, typically, ADOT manages the revenue forecast process. They have had their risk analysis process, their panel discussion this year. We don't expect to see their official forecast until at least the end of September, but they are working on that now. But in meantime, I've developed a couple of alternatives that I want to talk through. You know, just looking at the -- our historical forecasts have been pretty consistent since 2010.

We'll get through a lot of these pretty quickly. So right now, the official forecast that we have the last forecast we had was from last September, shows for public transportation, public transit about $1.3 billion for fiscal 2020 Through 2026 split between the bus and the rail components.

So just looking at some context, I go back to the beginning of Prop 300 back to 1986 for the half cent transportation tax. This is a look at the revenues so that first vertical line separates Prop 300 and Prop 400. That second vertical line separates all our actual revenues from the forecasted revenue. You can see we're getting towards the end of Prop 400. It's a little hard to see with the exception of the great recession where those dips are, where those recessions are just looking at nominal, the nominal collections. So, there's a couple of big factors that go into that.

So, if you look at the next slide, inflation is a pretty significant factor. Obviously, if you're buying the that same things year over year, but the prices go up, you're going to pay more tax. And we can see through the life of Prop 300, the inflation, the Consumer Price Index quite a bit higher especially in the early part of Prop 300 than we've seen in Prop 400 so that's one of the drivers.

Adjust those collections for inflation so look at those real collections then you do start to see where some of those dips were in the economy kind of in the early 90s, post-9/11. The other big factor in our collections is population growth. So, if you look at the next chart, through the Prop 300, we had some significant population growth driven largely by in-migration. I'm not really sure what happened in '95-'96 with that huge spike maybe it's about the time the Coyotes moved here and so all the hockey fans came with them. I don't know. I'm going to with that because I'm a hockey fan. But you can see the significant growth in population during that time really helped to drive the tax revenues so that, you know, even through the recessions we never saw year over year decline in nominal revenues but I think that's largely from population growth.

The other thing I'd like to point out on this chart is during the great recession, you can see the impact the recession had on the population growth. Really the migration almost stopped, and we got down to almost a zero-population growth in I think that's 2010. So, but modest growth into the future.

So, the next chart, we take population out of the picture, and we look at -- so we've taken inflation and population out, so we look at our really collections per capita. You can really see where those dips are, where those recessions are in the early 90s, post-9/11. You can see the dropping off the cliff during the great recession.
The next chart just looks at it slightly differently. It’s growth rates from year to year and again, I'll point out kind of that post-9/11 and that great recession area in how the growth rates changed. So, when I was looking at some alternative forecasts, what I really manipulated was this growth rates and real collections per capita.

So, I adjusted those, three different scenarios. One showed an impact slightly less than the post-9/11. The second similar to post-9/11 and then the worst case would be more like the great recession. I did not adjust population forecasts or CPI. And that's an important note because, as I mentioned, during the great recession, the recession did have an impact on population growth and it did have an impact to inflation, but for this analysis I've kind of set that aside.

You can see how I've adjusted in that forecast period the growth rate so you can see a little bit of a V. There's one year of a negative and then it gets back to the positive. This is the more optimistic scenario. The next chart you can see a much bigger decline in the first year. A couple more years of negative growth before we get back to positive similar to what we saw post-9/11. The third scenario more the worst case much bigger decline with three additional years of negative growth. So, that's kind of the methodology I used to develop the alternative forecasts.

So, this compares the official forecast with the three scenarios. Down at the bottom the remaining forecast period, you can see the more optimistic over the life of Prop 400 decreases about $37 million. The second scenario about $143 million decrease and the third scenario is much larger decrease.

So, what -- how we're using this scenario 1 we're using as kind of our high-end best-case scenario for our budget and our five-year forecast in Transit Lifecycle Program. The second, the kind of the middle scenario, we're going to use as kind of our low-end forecast. The third scenario, great recession-like, at this point, I don't really see that happening. We've seen some positive growth in revenue so far, but I think still driven by the stimulus. There's still discussion of additional stimulus so given that Congress is still looking at that it's more likely that we would see either scenario 1 or 2, in my opinion, and that we wouldn't see the huge crash in revenues like we saw with the great recession.

So, we'll be using the first scenario for our budgeting with the scenario 2 as kind of our worst-case developing strategies to, for that second scenario. We’re also using those two revenue forecasts for our Transit Lifecycle Program doing some modelling for the Service Planning Working Group in looking at potential service reductions and what magnitude of service reductions or differing improvements we would need to do. So, I want to talk a little bit about the Transit Lifecycle Program because this was presented through the Service Planning Working Group. Actually, before I do that are there any questions, specifically, about the forecasting methodology? Or the forecast results? And what we're using?
Councilmember Tolmachoff said Chair Arredondo-Savage, I do have a question. I'm just a little curious about your using the projection for zero population growth because that's the first time I've seen even with the, you know, with the basically the -- and the economy here really kind of went off a cliff, you know. I mean, it's been pretty steady. There's a lot of job creation. This region's still growing so I'm just curious, why or what you used? Did you run the model with zero population growth, moderate population growth, and our original forecasted population growth? Or did you just use zero population growth when you ran your forecast?

Mr. Hodgins said Councilmember. Maybe I didn't state it correctly. I didn't change the population growth forecast for the forecast period so it's whatever was in there. It's the 1.3 to 1.5 percent.

Councilmember Tolmachoff said okay.

Mr. Hodgins said I didn't adjust it but recognizing that that growth forecast could change depending on how the economy goes.

Councilmember Tolmachoff said but you didn't take a number that you've been using and then move it to a zero and then build your forecast?

Mr. Hodgins said no.

Councilmember Tolmachoff said okay. That's the way I interpreted it. Perfect.

Mayor Gallego said I understand this morning the U.S. Senate failed to pass the so-called skinny package so I am not optimistic that there will be additional Congressional aid this year. I, obviously, will do my best to change that and I'm participating with the public transit agents, APTA effort to push Congress to do more support for transit, but I just don't think that we can count on anything getting done. It does not seem like given the recent political events that that's a responsible assumption right now.

I also am nervous having seen the CDC say that we could have a double whammy this fall with the flu and COVID-19. I understand some people believe we will have a vaccine by November. I am not one of them and so I think there will be people who will be cautious and we may see similar patterns to what we have where we have people returning to the economy and then stepping back and strong months followed by weak months. So, I do think we need to be cautious right now and that this could be worse than the response to 9/11.

Chair Arredondo-Savage said understood, Mayor.

Mr. Hodgins said yes. I agree. Thank you for the comments, Mayor. I mean, we could certainly pull that third scenario in and just continue to have some, perhaps, some strategies on how we would deal with the budget and the TLCP if that should happen.
You know, I'm not opposed to having kind of three different levels especially given what happened this morning. But, you know, that's kind of why we're having the discussion if the AFS would feel more comfortable with pulling that worse-case scenario back in, I'm certainly willing to do that.

Mayor Gallego said it seems like a good time to be increasing reserves and just trying to give ourselves flexibility. Obviously, I'm aware you had to do these slides before the U.S. Senate convened and so we couldn't know, but it has been complicated in D.C. for a while and, certainly, believe it's important that they support transit, but I don't know that we can be confident that they will do so. We're all watching our ridership numbers closely, but we are going to have to fight for Choice riders to return to transit and so all of that leads me to want to be cautious.

Mr. Hodgins said yes. Agreed. And when I talk about stimulus I'm not necessarily referring to just the direct support to public transit, but it's all the other programs, the payroll protection, the unemployment -- additional unemployment, so I think there's still some discussion around those, but I, certainly, take your point that there's some inaction in Washington and perhaps that we do need to continue for look at that worse-case scenario.

Councilmember Tolmachoff said I think Mayor Gallego makes an excellent point and, I mean, it's better to be prepared and then have the worst-case scenario happen then be unprepared and have the worst-case scenario happen. So, I think, you know, planning and, you know, be at least be -- have it within our sight line that we need to be prepared for a variety of scenarios and that we are at least prepared to move things and do things quickly in the event that we need to do that is probably the best course of action. Hope it doesn't happen, but (indiscernible) anything is going to move in D.C. between now and the election anyway.

Chair Arredondo-Savage said yes. I would agree with that and I think Paul just, you know, my comments too are I do agree with Mayor Gallego. I'd much rather be more conservative and responsible now while we have the opportunity then to be overly optimistic and then have to make really rash, harsh, reactive decisions that sometimes aren't the best, so I do agree. I'd rather see us be a little bit more conservative moving forward, but also, you know, I think, too, I think we have to remember that this pandemic has affected all of our cities completely differently especially, you know, within the budget and our revenues.

In the city of Tempe our local taxes, are collections are down so we definitely have some concerns. So, with the perception that, you know, we continually hear, you know, from you, Paul, about the PTF revenues are okay and that things are going to be good. I mean, that's really hard for me to, I guess, you know, put in the front burner in the sense of saying, no, don't be concerned. Because I'm very concerned and our city is very concerned about the impact that our decreasing revenues are going to play with the quality of life for everybody. So I would much rather see us be more conservative
and will take into account what's happening across the board with all the cities because everything is just a little bit different for each of us and I don't know, Paul, if that something that you have worked into your equations, but I think it would be very helpful, beneficial.

Mr. Hodgins said we could certainly reach out to all the cities and get a little more detail about their specific revenue sources. I did talk with City of Phoenix Public Transit Department. Their T2050 revenues somewhat are mirroring PTF at least from a trend perspective, but we could certainly reach out to the City of Tempe and City of Mesa and, you know, in fact, all of our members just to get a little better feel for what's happening at the local level and try to take that into account a little better. Absolutely.

Chair Arredondo-Savage said I would certainly appreciate that. I don't know if my colleagues feel the same way because, like I said, it's a little bit different for everybody and, I think, from your perspective it's going to be really good to get a pulse on what's happening in all the different communities, if everybody's okay with that.

Vice Mayor Stipp said Paul, when we're looking at this, how is ridership and the demographic of the ridership? How is that impacting your financial modelling? I'm kind of envisioning that as this pandemic grows and the financial strain on the individual may cause them to give up their automobile or not. You know, maybe not through their own choice. Or not have the freedom to do as much ride sharing and we may actually see an increase in the use despite the fact that there's a pandemic going on that, you know, we may have some change there. So, how does that influence this model, if at all?

Mr. Hodgins said Vice Mayor, we've taken a little more conservative approach in terms of fare revenue and ridership coming back. Obviously, we don't know when we'll return to a front-door boarding and normal fare enforcement. We'd like to get there sooner than later, but, obviously, we have to follow, you know, the trends with COVID and work in concert with the City of Phoenix. But over the next five years let's say, we've looked at a significant reduction for fiscal 2021 and then gradual return to more normal fare collection levels probably in fiscal 2023 or 2024 so kind of a gradual return. Certainly, we'd love to see that happen more quickly, but I haven't really looked at how individuals losing automobiles or being forced to take public transit, I haven't really taken that into account.

Vice Mayor Stipp said sure. So I'm not necessarily asking from a revenue perspective as much as I am, we are providing a public service and those are the folks that are going to rely on, if the worst-case scenario happens and, you know, more and more and more people are laid off then they're not going to go anywhere so I that part I get. But as the other financial strains come in, perhaps, their hours are reduced, and they're forced into public transit. If we aren't as well prepared so I don't know how that works into the planning cycle, but I think that's a consideration outside of the financial piece is we have to remember we're in the public service business. And what, you know, what drives that is the ridership or the demographic of the rider and, perhaps, we've got that
information, perhaps, we don't and maybe it doesn't matter, I don't know. But I'm just throwing it out there as something else to throw into your hopper as you're mixing things up.

Mr. Hodgins said we certainly have rider demographics especially over the years. I mean, we did see during the great recession a pretty big increase in ridership. And then as the economy started growing more, you know, we saw ridership decline so. Certainly, I take your point that, you know, that could certainly affect ridership. If we're still kind of in the pandemic, we'll want to find ways to accommodate more ridership while still social distancing and doing all those other things. It's a bit of a challenge, but, certainly, we are working on kind of a ridership recovery plan that should be coming to the Board next month. We'll have a discussion about kind of the plan to bring riders back. Yeah. It's something we are thinking about.

Vice Mayor Stipp said okay. I know you've got a lot. This isn't a one meeting issue but appreciate the effort on it and look forward to the future discussion.

Mr. Hodgins said this is kind of framing the forecasting discussion as we move forward with budget and TLCP, so I appreciate the feedback. Be more than happy to pull in that worst-case scenario into the planning.

Chair Arredondo-Savage said all right. Is there anybody else that had any comments for Paul before we move on?

Frankie, I wasn't sure. I'm sorry if I overlooked you. I can't see you. You're good? Okay. All right. Paul go ahead.

Mr. Hodgins said so just in terms of how this impacts the Transit Lifecycle Program, just a couple of slides. We do have in our guiding principles on how we administer this. The last one jurisdictional equity is one that we look at pretty seriously with all of our members.

Just as a little reminder our jurisdiction equity guiding principles really revolves around the Prop 400 sales tax revenues. It doesn't include fares. It doesn't include federal or any of that. We have policy allocations by city and by subregion that were adopted by the Board based on the original Prop 400 plan and our policy is to try to keep each subregion within -- not try. It is to keep each subregion within two and a half percent of the policy allocation.

So, we used those alternative revenue forecasts and put those into our financial model just as a guide for the Service Planning Working Group in looking at the kind of the extent of potential service reductions or deferring service improvements.

So, what went into the model as I mentioned, our alternative scenarios. What's in the short-range transit program, we've adjusted kind of all of our inputs to our existing cost
per mile for fixed route. As I noted on the slide here, and I mentioned with fare revenue, kind of that reduced level. It's not a 25 percent fare recovery. It's 25 percent of what would have been the normal level kind of growing back to, you know, almost 100 percent in fiscal 2024 so a gradual return of our fare revenues over time. CARES Act funding is accounted for in the model for fiscal 2021 about half the amount that came to Valley Metro is -- would offset some of the PTFs in the Transit Lifecycle Program. So, we've made all of our adjustments and then used those revenue forecasts to give different outputs.

Just, you know, some summaries on the cost per mile growth on our fixed-route service. You know, we've tried to account as best we can for contractual changes. East Valley contract expires at the end of 2023 so we made some assumptions about what those cost per mile could be beyond that within the TLCP.

Sorry. I won't go through these. This is just kind of a list of the service changes that were included. Many of them are improvements that likely would be deferred rather than having to implement improvements and then cut them. You can go to the next slide.

This is just all of the improvements kind of scheduled through 2025 that are incorporated in the model.

So, as far as the official forecast, you can see by subregion kind of the results using the official forecast. The Phoenix, the Central Valley is a little bit outside the two and a half percent, West Valley is a little bit outside the two and a half percent, East Valley is kind of within there, but, overall, it's negative. We have to make sure that the plan overall has more revenues than expenditures. We'd still need some adjustments here, but it's a $7.3 million overall deficit here for the official forecast. The next slide.

Using that first alternative, it's about a $28 million deficit so you can see the impact and kind of the level that we might have to make some reductions or defer some improvements particularly in the East and West Valleys. And then the second scenario, you know, the deficit there overall is much larger and so we'd have to look at some service reductions and kind of the magnitude of those reductions in all the subregions. We didn't do a scenario to that worst case, but we can certainly do that and provide that to the Service Planning Working Group.

So these are the scenarios that were provided, as I mentioned, in the next month or two, they'll be developing recommendations for how to deal with each of the scenarios and kind of what levels of reductions might need to occur to balance the lifecycle program. I just wanted to provide that for information, get a little feedback if you had any, just so you understand kind of the path we're going down with both the Transit Lifecycle Program and the budget. If there are any questions on that I'd be happy to answer them.
Chair Arredondo-Savage said any questions, Committee Members?

Mayor Gallego said could you talk about the CARES Act funding? Where we are in our sort of how much of our allocation we've spent? And what it will mean if there is, perhaps, a time period when CARES Act funding has run out and there is not an additional federal appropriation immediately following?

Mr. Hodgins said Mayor, I know that for Valley Metro we've drawn down, I'm trying to remember all the reimbursement requests. Maybe $5 to $6 million of our allocation. I don't know where the City of Phoenix Public Transit is in drawing down. I anticipate that percentagewise it's probably similar so we're making progress towards drawing that down. As we discussed in the budget process, most of the CARES Act money is really programmed for fiscal 2021, the current fiscal year to offset operations as we work through kind of some of the uncertainty. But, again, it's schedules to be all spent down before the end of the fiscal year.

So, if there is no subsequent CARES Act 2 or whatever you want to call it, specifically for transit, we'd be looking at trying to balance our program starting next July, fiscal 2022 with potentially some revenue sources down locally some maybe not. So we're definitely, and that's part of what the Service Planning Working Group is looking at is how to make some changes either in April or October of next year to deal with potential deficits in fiscal 2022 so we can balance the program.

Certainly, any additional stimulus that would come would apply to fiscal 2022 and beyond is really support service as we look to go through the recovery. I apologize for cutting you off.

Mayor Gallego said I'm sorry. So, it's the fiscal year, it's not the calendar year ending 2020, December 2020?

Mr. Hodgins said correct. It's our fiscal year ending June of 2021. And so, the efforts with the budget and the Transit Lifecycle Program and what the Service Planning Working Group is doing is really geared towards making adjustments effective next week fiscal year, next July to try to balance our programs regionally.

Mr. Smith said there's a difference between the transit CARES money and the CARES money that went directly to cities. Your CARES money that went to cities has a December 31st use it or lose it kind of date. The transit monies were open ended. They could be spread out as far as until we actually utilized them. Working with city staff, we determined, or they decided to utilize those CARES monies mostly in fiscal 2021 understanding that it would be open in fiscal 2022. But that's a big difference between the CARES money that went directly to the cities or through the state to the cities and the CARES money that went -- that was specifically transit-related. There's a very big difference in when you have to spend those by.
Mayor Gallego said so are we sort of trying to allocate it by month in the same amount per month just spreading it out, the whole?

Mr. Hodgins said not necessarily. We're looking to draw it down as quickly as we can, but it will offset costs through between now and June. Yeah. We'd like to draw them down sooner than later to, you know, we want to be sure that, you know, FTA's encouraged us to spend them as quickly as possible so we want to draw those down as quickly as we can.

Chair Arredondo-Savage said Mayor Gallego, did that answer your question or did it lead to more concerns?

Mayor Gallego said yes, it did. Thank you. I think it might be good at the next Finance Subcommittee to just get an update on where we are in spending and to be able to tell the story of how the CARES Act has helped Valley Metro. It's, I think, part of our responsibility as Board Members is to be able to talk about why it's mattered? And why it will continue to matter? And make sure.

Chair Arredondo-Savage said I think that's a great idea, Mayor. I think I will go ahead and take that as a future agenda item if you're okay with that. And Pat, can we put that on as he a future agenda item? Paul? Great. That's a good idea. Anybody else any questions for Paul? Paul, did we get through that? Or did you have a few more things?

Mr. Hodgins said no. That was it.

Chair Arredondo-Savage said okay. The one other thing too is I think we move forward, and I know you mentioned the ADOT forecast is from September of 2019. We have no idea what we expect to see with the new forecast once it comes out. But did you say that you think it might be out in October? And if it does come out, I think it would be great if you could get a copy of that forecast to the AFS Committee once you have received it.

Mr. Hodgins said yes, absolutely. We were told the other day by the ADOT's chief economist that she expects it to be published by the end of September or maybe the first week of October. I will tell you. We had a couple of staff members that sat in and listened to their panel discussion. They bring together economists and experts, demographers and talk through a lot of the variables that effect the revenue forecasts both the Prop 400. They also talk about HURF which we don't see any of the HURF money directly, but a lot of the cities see the HURF money. The general feeling, I heard, is that the panel was fairly optimistic, probably more optimistic than I've been. So I'll be interested to see what that revenue forecast looks like for us. We could also provide the HURF forecast if anybody is interested in seeing that. Again, it doesn't impact Valley Metro directly, but I know it impacts the cities.
Chair Arredondo-Savage said certainly. I don't think it would hurt if everybody's okay with that. I don't know how much it's going to be any different from what we just heard today, but I think it's going to be certainly very interesting, you know, to get their perspective. Okay.

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

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

A. ERP Consultant – Plante Moran Contract Change Order  
B. Investment Management Services Contract Award  
C. Transit Scheduling Services Purchase Agreement  
D. Light Rail Vehicle (LRV) Brake/Door Components Five-Year Supply Contract  
E. Oracle Aconex Project Controls Software Contract Award  
F. Northwest Phase II Light Rail Extension: Updated Funding, Design and Construction Agreement with City of Phoenix

Mr. Hodgins said those are really the key financial-related items on the Board meeting for next week. I'd be happy to answer any questions about those. Or if you feel there is additional information we need to provide for the Board for make a decision, I'd be happy to take any of that feedback.

Chair Arredondo-Savage said thank you, Paul. Are there any questions, comments, concerns Paul? Okay. I don't see any.

This information presented for information only.

11. Future Agenda Items

Chair Arredondo-Savage said is there anyone on the Committee with a request for an agenda item other than the two we've already covered which would be our CARES spending update and our peer agencies report?

Vice Mayor Stipp said I thought I heard not only the CARES spending update, but maybe we get an update on where we're at budget versus actual on the expense side of the house, an update. I don't know that it needs to be next month, but because, I think, we will have just completed the September financial so the first quarter, but maybe that comes up in November. But get a little idea of where we're at on a revenue versus actual and how this year a shaping up as well. I think that will be helpful. Whether it's November or October, I don't know.

Chair Arredondo-Savage said right. I’d like to see how that would align with the new ADOT forecast also too. Paul, does that sound reasonable?

Mr. Hodgins said yes, absolutely.
Chair Arredondo-Savage said okay. Anyone else?

Mayor Gallego said after we have finished the November election, I think it might be good to check in about our financial commitments on government affairs and just look at our strategy once we know who is elected to which offices.

Chair Arredondo-Savage said okay. That's good idea. Yes. I agree. Okay. I have one I'd kind of like to throw out and I think, Vice Mayor, you were the one that brought it up, in regards to, just maximizing revenues. And one of the things that I know we've been fighting over this last year and we talked about pretty heavily at the study session last month was about fare box recovery. And that's kind of been something I think on our radar for many, many months and a big concern of the Board and, I think, of this Committee. And, I think, we've done a lot the really good things to make some changes with regards to the sellers and I want to talk about this, the new fare system, which I think will be really beneficial. But I'm kind of wondering, can we have a discussion about fare enforcement? And just making sure as we move forward and we're implementing these new things that we are doing everything that we can to make sure that we have consistencies throughout the region, that we're looking at the contracts that we have with our bus operators to make sure that we are all enforcing the same things along the different routes and that we're really maximizing our revenues. Because I don't want us to get behind the eight ball on this. It's a great opportunity for us to start having that discussion now and just make sure we're all on the same page moving forward.

You know, I think, with the barriers that we're putting in place for the operators, I know there's some concerns, but it also could be some solution. So, to me it just seems like a really good time to have that discussion as we move forward if you're okay with that.

And since I didn't hear anything, I'm going to go with yes, Robin that's a great idea. Okay. Are there any other future agenda items? No?

Thank you, everybody. I just, you know, again, just want to give a shout out to Alexis and all of her work to get us through our charters. That is much appreciated. I went back and found some documents all the way from June. So, we have definitely been plugging away trying to get through this and it doesn't happen without the work of each and every one of you so thank you guys so very much for that.

And just remember our next meeting is scheduled for Thursday, October 15th. And hope you're all well and safe and take care.

With no further discussion, the meeting adjourned at 1:12 p.m.
DATE
October 8, 2020

SUBJECT
Internal Audit Update

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

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**

**October 2020**

## Update:

**Fiscal Year 20/21 Audit Plan**

<table>
<thead>
<tr>
<th>Process</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card Transactions and Travel Expenses</td>
<td>Fieldwork, In-Progress</td>
</tr>
<tr>
<td>Contract Mgmt.–Fare Inspection &amp; Security Services</td>
<td>Not Started</td>
</tr>
<tr>
<td>Contract Mgmt.–Rail Transportation Services</td>
<td>Not Started</td>
</tr>
<tr>
<td>Mobility Center Cash Collection</td>
<td>Not Started</td>
</tr>
<tr>
<td>Federal Grant Compliance</td>
<td>Not Started</td>
</tr>
<tr>
<td><strong>Special Projects</strong></td>
<td></td>
</tr>
<tr>
<td>Safety and Security Audits-ISSA Review Security #1</td>
<td>Completed 9/04</td>
</tr>
<tr>
<td>-ISSA Review Security #4 &amp; #5</td>
<td>Draft report 10/7</td>
</tr>
<tr>
<td>-ISSA Review Safety #1-4</td>
<td>Kick-off scheduled 10/27</td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP) System</td>
<td>Monitoring</td>
</tr>
</tbody>
</table>

### External Audits:
- AZ Auditor General-MAG Regional Transportation Plan Audit
- City of Phoenix-Contract Risk Assessment
- ADOT-Rail Safety Audit

- SEC performing, 10/30 Kick-off
- Met with CoP 10/01-CAPs closed
- PTASP to BoD on 10/22, remaining CAPs due by May 2021
DATE
October 8, 2020

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 FY20/21 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
October 2020

Audit Exception Log Summary

• Seven Open Recommendations
  • One has been delayed – Oracle changes
  • One with upcoming due date – On track for completion
  • Four being reviewed during the Travel & Credit Card audits
  • One due by the end of FY20/21
### 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>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Performance Management Procedures</td>
<td>9/30</td>
<td>CAO and HR Director</td>
<td>Changes to the Oracle Perf. Mgmt. modular are delaying the final procedures.</td>
</tr>
<tr>
<td>6</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>
</tr>
</tbody>
</table>

### Reviewed During Current Audits:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that travel documentation is proper and complete.</td>
</tr>
<tr>
<td>2</td>
<td>Annual refresher training will be provided to ensure compliance with the Travel Policy.</td>
</tr>
<tr>
<td>3</td>
<td>Management will revise the Credit Card policy to clarify that a management staff (Manager or Director level) must review and approve transactions. Finance staff will confirm that a management staff has approved the credit card packet and return unapproved packets to the cardholder.</td>
</tr>
<tr>
<td>4</td>
<td>Complete documentation for authorized travel or for local dining is the responsibility of the Travel Administrators as described in the Travel Policy, or the Controller (or designee) as described in the Local Dining Policy. Management will update the Local Dining Policy to clarify that standing committee meetings are exempt from the requirements.</td>
</tr>
</tbody>
</table>
### Future Due Date:

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Management Action</th>
<th>Due Date</th>
<th>Responsible Parties</th>
<th>Current Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Explore electronic form options for the Division Sponsored Professional Development form; a solution that includes a digital workflow approval process and payment through the Financial System.</td>
<td>6/30/2021</td>
<td>Learning &amp; Development Manager and CFO</td>
<td>ERP Project kicked-off on 9/1 and planning meetings are on-going. Electronic forms and digital workflow processes will be considered within the scope of the project.</td>
</tr>
<tr>
<td>Ref #</td>
<td>Finding Title</td>
<td>Department</td>
<td>Finding Description</td>
<td>Recommendations</td>
</tr>
<tr>
<td>-------</td>
<td>----------------------------------------</td>
<td>------------</td>
<td>---------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>1</td>
<td>Travel Policy Clarification</td>
<td>Finance</td>
<td>The Travel policy:</td>
<td>Management should align the Travel policy intent with associated forms and practices. If circumstances warrant travel to be completed in less than 21-day of the submission the Agency Travel, Conference and Out-of-County Training form, the policy should reflect such verbiage. The Travel Authorization form should be revised to include identification if the user is staying at the host hotel and the rate exceeds the GSA rate. Otherwise, revisions to verbiage related to &quot;hotel expense are reimbursed up to the maximum GSA hotel rate; and a traveler is responsible for the difference in the rates&quot;, should be Management concurs with the recommendation. Additional clarity is being added to the Travel Policy and procedures will be updated to ensure that documentation is proper and complete.</td>
</tr>
<tr>
<td>2</td>
<td>Travel Policy Exceptions</td>
<td>Finance</td>
<td>After reviewing 93 travel requests, 87 instances were in compliance. In six instances, documentation was insufficient to determine whether costs were appropriate. The six instances were: One traveler requested to arrive at a more distant airport and rent a car to a different city where the conference was held. The traveler indicated on the Travel Authorization form the arrival city would be a savings. Additionally, a copy of the airfare cost comparison or explanation was not included. Therefore evidence to verify the saving was not present. One traveler used a more expensive vehicle option for transportation for a San Francisco hotel to the Oakland airport at the end of the conference. The cost was $96. Management should require travelers acknowledge review of the current Travel policy on an annual basis. Travel Administrators should document within the travel file any unusual requests for travel expenses and receive appropriate approval for such requests prior to booking. Travelers should be required to explain any unusual expenses incurred on the Expense form prior to being approved for reimbursement. Management concurs with the recommendation. Annual refresher training will be provided to ensure compliance with the Travel Policy.</td>
<td>4/6/2018</td>
</tr>
<tr>
<td>3</td>
<td>Policy Compliance – Documented Division Head Approvals Not Maintained</td>
<td>Finance &amp; Procurement</td>
<td>Six cardholders did not have evidence of the Division Head’s review/approval by means of a dated Division Head signature for 18 monthly credit card reconciliation packets. Four cardholders had sixteen credit card reconciliation packets that were not signed by the Division Head, but rather a Manager with no delegation of authority paperwork applicable. One cardholder had one credit card reconciliation packet that did not have a Division Head signature. Although notations indicating the cardholder was no longer a Valley Metro employee, no Division Head review/approval signature was obtained. One cardholder had one credit card reconciliation packet that did not have the required Audit and Finance Subcommittee. Management should expand the policy’s training requirement beyond the cardholders to include applicable employees in the Agency’s credit card transaction process. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy-required documentation. Management disagrees with the recommendation. The intent of the credit card policy is to ensure that credit card transactions comply with the procurement policies and procedures. It is management’s view that a cardholder’s manager is responsible for reviewing and approving the cardholder’s transactions. Management will revise the policy to clarify that a management staff (Manager or Director level) must review and approve transactions. Finance staff will confirm that a management staff has approved the credit card packet and return unapproved packets to</td>
<td>2/21/2019</td>
</tr>
<tr>
<td>Ref #</td>
<td>Finding Title</td>
<td>Department</td>
<td>Finding Description</td>
<td>Recommendations</td>
</tr>
<tr>
<td>-------</td>
<td>---------------</td>
<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>
<td>Credit card reconciliation packets were submitted and processed without all policy required signatures or documentation. One cardholder’s Pre-Approval Local Dining and Refreshments form for a credit card transaction, totaling $113, was for a FTA meeting, did not have the CFO and CEO approval signatures, only the Division Head signature existed. Eight cardholders did not have the Pre-Approval Local Dining and Refreshments forms in their credit card reconciliation packets. Fifty-seven credit card transactions totaling $16,237, were for committee/employee meetings and events. Evidence of a completed form could not be located.</td>
<td>Management should expand the cardholder’s training requirements beyond the Credit Card, Acceptable Use policy to include other policies wherein credit card purchases maybe applicable, specifically the Agency Local Dining and Refreshments policy. Additionally, management should include in the credit card transaction review process a method to track and return credit card packets to Division Heads who fail to complete all policy required documentation.</td>
</tr>
<tr>
<td>5</td>
<td>Established Performance Management Policies and Procedures Do Not Exist</td>
<td>Human Resources</td>
<td>Valley Metro does not have documented policies or procedures regarding performance management to address: • Job Descriptions (Creation, Minimum contents, Periodic reviews, Modifications) • Pay Ranges (Establishment, Evaluations and modifications, Guidance when an employee exceeds the range) • Performance Evaluations (Requirements to complete, Guidance for factors to consider, Timing, Documentation) • Performance Incentives (Recategorization, Market adjustments, Merit increases, Factors to consider, Necessary documentation)</td>
<td>Develop, document and implement comprehensive performance management policies and procedures.</td>
</tr>
<tr>
<td>6</td>
<td>Software License Tracking</td>
<td>IT</td>
<td>The IT department tracks Software as a Service (SaaS) and subscription licenses by reviewing each SaaS administrative portal account. The ITAM inventory system is used for tracking on premise device software licenses and these licenses are reconciled during annual true-up periods for each software application. During our audit we discovered: • Windows 10 Enterprise software was installed on 334 machines and licensed for 180 machines. • Six installations of a PDF editor were installed by employees • 105 unsupported versions of another PDF editor were installed on machines • We observed questionable software such as Spotify, Facebook, Netflix, TuneIn, etc.</td>
<td>The IT Department agrees with the recommended improvements. 1. An addendum to Acceptable Use Policy detailing approved software will be developed. The policy will be communicated and unapproved software will be deleted. Due Date: October 31, 2020 2. The IT will re-image reissued machines to eliminate old software versions. It is important to note, however, that regular vulnerability scans mitigate any risk posed by older software versions. Due Date: March 31, 2020 3. The IT Department will create a procedure to uninstall inactive software to make license tracking cleaner.</td>
</tr>
<tr>
<td>Ref #</td>
<td>Finding Title</td>
<td>Department</td>
<td>Description</td>
<td>Recommendations</td>
</tr>
<tr>
<td>-------</td>
<td>---------------</td>
<td>------------</td>
<td>-------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>7</td>
<td>Process Efficiencies for Approving and Tracking Division Sponsored Development Opportunities</td>
<td>HR &amp; Finance</td>
<td>Valley Metro’s current systems do not support electronic request/approval/processing of professional development forms. Additionally, there is no electronic method to track and report, only the manually maintained Excel file. The professional development processes could be strengthened and more efficient if a centralized electronic approval and tracking system was utilized. This would allow, Divisions to enter and route their department’s trainings for approvals and provide an electronic platform to track and report on the activities.</td>
<td>Valley Metro should include the electronic processing and tracking of Division Sponsored Development opportunities in the implementation of the new Enterprise Resource Planning (ERP) system or another electronic based workflow system.</td>
</tr>
</tbody>
</table>
DATE          AGENDA ITEM 5
October 8, 2020

SUBJECT
Fiscal Year 2022 Preliminary Budget Assumptions

PURPOSE
To provide an overview of the preliminary assumptions that are proposed for developing the
Fiscal Year 2022 preliminary operations budget.

BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro has begun development of the Fiscal Year 2022 annual operating budget. The first milestone in the process is to develop and distribute a preliminary operations budget by October 31st. The preliminary operations budget encompasses all of the transit services that are funded with member city contributions. The intent of the preliminary budget is to provide input to the cities for the development of their city budgets. The preliminary budget is intended to be a “not-to-exceed” amount and as such has more contingency than the final adopted budget.

The assumptions that will be used to develop the preliminary operations budget, along with any currently known strategic initiatives and staffing requests, will be presented to the Audit and Finance Subcommittee for discussion. These assumptions have previously been presented to the Financial Working Groups in late September.

RECOMMENDATION
For information only.

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

ATTACHMENT
None
FY22 Budget
Key Assumptions

Preliminary Budgets

• Define Inputs/Assumptions
  • Planned service
    • Miles, boardings, fare revenues
  • Operations & Maintenance Staffing
  • Strategic Initiatives
  • Contingency

• Goals
  • Provide “not-to-exceed” amount
  • Fit within your budget process
Revenue Forecasts

**Fares**
- Average Fare Uncertain
  - FY20 Q4 - $0.61
  - July 2020 - $0.37
- Ridership appx 70% of normal levels

**Federal Funds**
- Increase 1.5% from actual FY21 allocation (PM)
- No CARES Act funds

**Advertising**
- Contract currently being renegotiated
- Conservative in FY22
Streetcar Operations

New Staffing Necessary for Operations
- At least 2 Track Maintainers
- At least 2 Traction Power Technicians

“Revenue” Start Date
- Sep/Oct 2021

Fares
- To be determined

Rail Transportation

Headways
- 12 minutes

Alternate Concepts Inc.
- Rates up 6%

Allied Universal
- Contract up 6/30/21
- 5% increase over known rates

Propulsion Power
- APS – 4%
- SRP – 3%

Contingency
- 5%
State of Good Repair

- FY22 from current CIP
  - Locally funded major items include:
    - Replace non-revenue vehicles (5)
    - Repaint Kinkisharyo Fleet LRVs (14)
    - Repaint passenger stations (7)
    - Asphalt Repairs and Resealing
      - OMC, Park and Rides, Substations/Signal Buildings
    - Continue installing station fencing at locations with high pedestrian crossings (4)
Revenue Forecasts

Prop 400
- PTF – 3 scenarios
  - Budget based on optimistic scenario
  - Develop strategies to address other scenarios

Average Fare Uncertain
- FY20 Q4 - $0.10
- July 2020 - $0.26

Federal
- Increase 1.5% from actual FY21 allocation
- No CARES Act funds

PTF Forecasts

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY20 Actual</th>
<th>FY21 Budget</th>
<th>#1</th>
<th>#2</th>
<th>#3</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPTA</td>
<td>$92.8</td>
<td>$94.7</td>
<td>$99.3</td>
<td>$91.0</td>
<td>$82.7</td>
</tr>
<tr>
<td>VMR</td>
<td>$70.7</td>
<td>$72.1</td>
<td>$75.7</td>
<td>$69.4</td>
<td>$63.0</td>
</tr>
<tr>
<td>Total</td>
<td>$163.5</td>
<td>$166.8</td>
<td>$175.0</td>
<td>$160.4</td>
<td>$145.7</td>
</tr>
</tbody>
</table>

* 2020 Updated Forecast expected in October
Base Service Levels

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Locally Funded Service</th>
<th>PTF Funded Service</th>
<th>Total Revenue Miles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Circulator</td>
<td>Express</td>
<td>Local</td>
</tr>
<tr>
<td>Phoenix</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>First Transit</td>
<td>1,673,573</td>
<td>55,276</td>
<td>4,100,028</td>
</tr>
<tr>
<td>Total Ride</td>
<td>916,305</td>
<td>27,563</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>2,589,877</td>
<td>82,838</td>
<td>4,100,028</td>
</tr>
</tbody>
</table>

FY21 Budgeted Miles used as base

Service Changes

- Scenario 1 – defer SRTP improvements beyond prop 400
- Scenario 2 – 15% reduction in PTF funded service or shifts in funding
- Scenario 3 – Will discuss with Service Planning Working Group

- Revenue miles to be determined by Service Planning Group
- Detailed mileage assumptions to cities in December
Contract Rates – East Valley Bus

New contract - Rates Unknown

![East Valley Bus Rates Chart](image)

Contract Rates – West Valley Bus

![West Valley Bus Rates Chart](image)
Fixed Route Bus

Fuel
- Natural gas and diesel fuel are fairly stable

Facilities
- Mesa and Tempe Bus Operations & Maintenance
  - 3-5% increase from FY21 budget

Contract rates – Demand Services
Ridership Recovery Plan

- Phased approach
- Surveys
- Communication Plans
- Front Door Boardings
Information Summary

DATE
October 8, 2020

AGENDA ITEM 6

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. Cisco Security Products Enterprise Agreement
Enter into an Enterprise Agreement (EA) with Cisco Systems not to exceed a value of $1,218,300. The period of service will cover from November 2020 through September 2025.

B. Lead IT Project Manager Contract Award
Purchase staffing augmentation services not to exceed a value of $190,000 for FY 2021.

C. Cybersecurity Program Improvement and Support
Purchase professional services to support the ongoing maturation of Valley Metro’s Information Security (IS) program for an amount not to exceed $488,500.

D. Regional Fare Collection System Funding Agreement with the City of Phoenix
Execute a Funding Agreement with the City of Phoenix to allow Valley Metro to reimburse Phoenix for the local share of eligible costs for the regional Fare Collection System.

E. Light Rail Vehicle (LRV) Line Filter Choke Overhaul Contract Change Order
Execute a contract change order with Delta Electric Motors to increase the contract amount and allow the completion of the refurbishment and overhaul of LRV line filter chokes in an amount not to exceed $125,000.

RECOMMENDATION
For information only.

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

ATTACHMENT
Information Summaries for items listed above.
Information Summary

DATE
October 8, 2020

AGENDA ITEM 6A

SUBJECT
Cisco Security Products Enterprise Agreement

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to enter into an Enterprise Agreement (EA) with Cisco Systems to reduce the cost of various cybersecurity-focused services over the next five years.

COST AND BUDGET
The total cost for Cisco Systems Security Enterprise Agreement is not to exceed $1,218,300 over the period from November 2020 to September 2025. The RPTA portion will be $609,150 (50%), and the VMR portion will be $609,150 (50%). The FY 2021 cost, $229,500, is included in the RPTA and VMR Adopted FY 2021 Operating and Capital Budgets.

The Enterprise Agreement will be procured from Cisco Systems’ value-added reseller Hye-Tech Networks using 1 Government Procurement Alliance (1GPA) cooperative contract #16-11PV-09 to ensure a competitively negotiated price and leverage the better volume discounts available through the contract.

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cisco Enterprise Agreement Bundle, FY 2021</td>
<td>$229,500</td>
</tr>
<tr>
<td>Cisco Enterprise Agreement Bundle, FY 2022</td>
<td>$236,400</td>
</tr>
<tr>
<td>Cisco Enterprise Agreement Bundle, FY 2023</td>
<td>$243,400</td>
</tr>
<tr>
<td>Cisco Enterprise Agreement Bundle, FY 2024</td>
<td>$250,700</td>
</tr>
<tr>
<td>Cisco Enterprise Agreement Bundle, FY 2025</td>
<td>$258,300</td>
</tr>
</tbody>
</table>

Grand Total: $1,218,300

RECOMMENDATION
Staff recommends the TMC/RMC forward to the Boards of Directors authorization for the CEO to enter into an Enterprise Agreement (EA) with Cisco Systems not to exceed a value of $1,218,300. The period of service will cover from November 2020 through September 2025.

1 Future fiscal year expenditures are estimated based on the assumption of a 3% year-over-year increase in licenses required.
BACKGROUND | DISCUSSION | CONSIDERATION
Valley Metro makes use of a variety of Cisco Systems cybersecurity products as part of a layered ‘defense-in-depth’ strategy that combines those systems into a defensive mechanism that is more than the sum of its parts. The components of the proposed EA are as follows:

- Currently implemented capabilities
  - Firewalls
  - Advanced endpoint detection and response (EDR)
  - Virtual private network (VPN)
  - Multi-factor authentication (MFA)
  - Network access policy enforcement
  - Enterprise network security for remote users and sites
  - Web security and content management
- Capabilities transitioning from another vendor in FY21
  - Email security and malware threat defense
- Capabilities added by the EA
  - Threat intelligence and analysis
  - Advanced solution support<sup>2</sup>

These services are currently purchased ala carte annually. In FY 2021, the current approach would cost $252,600. Over five years it would cost approximately $1,356,300. By bundling these services into a consolidated EA, Valley Metro will save $23,100 in FY 2021, with total projected savings over the five-year period of $138,000. In addition, the EA protects Valley Metro from licensing price increases during the five-year term and allows Valley Metro to increase or decrease its utilization as necessary during annual true ups.

COMMITTEE ACTION
RTAG: September 15, 2020 for information
TMC/RMC: October 7, 2020 for action
Board of Directors: October 22, 2020 for action

CONTACT
Phil “Oz” Ozlin
Manager, Information Technology
(602)495-8253
pozlin@valleymetro.org

ATTACHMENT
None

---
<sup>2</sup> Technical and integration support across product lines rather than siloed within product lines.
Information Summary

DATE
October 8, 2020

AGENDA ITEM 6B

SUBJECT
Lead IT Project Manager Contract Award

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to purchase staffing augmentation services for a Lead IT Project Manager.

COST AND BUDGET
The total cost for this staffing augmentation is not to exceed $190,000. The RPTA portion will be $95,000 (50%), and the VMR portion will be $95,000 (50%). The cost is included in the RPTA and VMR Adopted FY 2021 Operating and Capital Budgets.

The staffing augmentation services will be procured through GMI using Mohave cooperative contract #18K-NVIS2-1109 to ensure a competitively negotiated price and leverage the better volume discounts available through the contract.

<table>
<thead>
<tr>
<th>Item</th>
<th>Fiscal Year 2021</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead IT Project Manager, 1760 hours</td>
<td></td>
<td>$167,200</td>
</tr>
<tr>
<td>Overtime Authorization, 160 hours</td>
<td></td>
<td>$22,800</td>
</tr>
</tbody>
</table>

Grand Total: $190,000

RECOMMENDATION
Staff recommends the TMC/RMC forward to the Boards of Directors authorization for the CEO to purchase staffing augmentation services not to exceed a value of $190,000 for FY 2021.

BACKGROUND | DISCUSSION | CONSIDERATION
In FY 2021, Valley Metro will be leading or participating in more than a dozen technology projects to increase efficiency and improve services. These projects include:

- Valley Metro IT Projects
  - Ridership communication channel improvements (SMS, mobile app, etc.)
  - Ellipse Enterprise Asset Management (EAM) interim upgrade

1 Time over 40 hours in a week is billed at 1.5x. After-hours work on technology projects in a 24x7x365 operational environment like Valley Metro is not uncommon.
- Security Incident Management System selection and implementation
- Information Security Program assessment and improvement
- Board process and packet generation workflow automation
- Core network infrastructure refresh
- Website refresh and enhancements (valleymetro.org)

- Projects implemented by 3rd parties requiring VM technology support
  - Enterprise Resource Planning (ERP) and EAM system refresh
  - Siemens LRV fleet expansion (wayside systems support)
  - OMC Expansion (network and trainyard wireless coverage expansion)
  - Paratransit & Ride Choice customer portal and app implementations
  - Transportation Demand Management solution refresh and enhancement

- Regional cooperative initiatives requiring technology support
  - Clever Devices CAD/AVL implementation
  - Clever Devices SmartYard implementation
  - Regional Fare Collection System refresh
  - Community Connect regional paratransit eligibility integration
  - Multi-modal schedule and real-time data enhancement

Each of these projects will require close coordination between business analysts, technical staff, vendors, Valley Metro users, and outside stakeholders. The volume of this work is beyond the capacity of Valley Metro's current single IT project manager. As a result, Valley Metro seeks to create an IT Project Management Team (PMT) to manage internal IT projects and liaise with the leadership of other projects that need Valley Metro technology support, including and technology initiatives with regional partners. The IT Project Management Team will be created by placing four current staff -- Valley Metro's one current project manager, two business analysts, and a systems analyst -- under the leadership of a new IT Lead Project Manager position. This position will:

- Lead the IT PMT and provide functional supervision
- Provide expertise in managing multiple, simultaneous, major IT projects
- Act as primary business liaison for the portfolio of Valley Metro technology projects and Valley Metro’s participation in regional cooperative initiatives
- Improve existing and introduce new processes and procedures to improve the maturity level and efficiency of the IT Project Management function
- Directly project manage the most complex technology projects
- Mentor and further developing existing staff to improve efficiency and productivity

A request to create this role as a full-time position was submitted to Finance while the draft FY 2021 budget was moving through the approvals process. After discussion and

---

2 This project is being overseen by the Finance division and project managed primarily by Plante Moran due to the encompassing scope and the significant level of resources required

3 The Manager, Information Technology will continue to provide administrative supervision to Valley Metro staff while the IT Lead Project Manager provides project management expertise.
with the advent of the COVID-19 pandemic, however, we decided it was more prudent to staff the position in FY 2021 with a contractor so that, should COVID-19 force staffing reductions in FY 2022, we could downsize more easily. If the volume of IT projects continues and staffing reductions are not necessary in FY 2022, Valley Metro will request permission to establish a lower cost full-time position.

COMMITTEE ACTION
RTAG: September 15, 2020 for information
TMC/RMC: October 7, 2020 for action
Board of Directors: October 22, 2020 for action

CONTACT
Phil “Oz” Ozlin
Manager, Information Technology
(602)495-8253
pozlin@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
October 8, 2020

AGENDA ITEM 6C

SUBJECT
Cybersecurity Program Improvement and Support

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to purchase professional services to support the ongoing maturation of Valley Metro’s Information Security (IS) program.

COST AND BUDGET
The total cost for these professional services is not to exceed $488,500. The RPTA portion will be $244,250 (50%), and the VMR portion will be $244,250 (50%). The FY 2021 cost, $370,800, is included in the RPTA and VMR adopted FY 2021 Operating and Capital Budgets.

The professional services will be procured through Knowledge Services using Arizona State Procurement Office cooperative contract #ADSPO17-174599 to ensure a competitively negotiated price and leverage the better volume discounts available through the contract.

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal Year 2021</strong></td>
<td></td>
</tr>
<tr>
<td>Security Program Support</td>
<td>$88,300</td>
</tr>
<tr>
<td>Risk Management Program Support</td>
<td>$70,600</td>
</tr>
<tr>
<td>Security Operations Development</td>
<td>$176,600</td>
</tr>
<tr>
<td>Security Recruitment &amp; Tool Selection Support</td>
<td>$35,300</td>
</tr>
<tr>
<td><strong>FY 2021 Subtotal:</strong></td>
<td>$370,800</td>
</tr>
<tr>
<td><strong>Fiscal Year 2022</strong></td>
<td></td>
</tr>
<tr>
<td>Security Program Support</td>
<td>$70,600</td>
</tr>
<tr>
<td>Risk Management Program Support</td>
<td>$47,100</td>
</tr>
<tr>
<td><strong>FY 2022 Subtotal:</strong></td>
<td>$117,700</td>
</tr>
<tr>
<td><strong>Grand Total:</strong></td>
<td>$488,500</td>
</tr>
</tbody>
</table>

RECOMMENDATION
Staff recommends the TMC/RMC forward to the Boards of Directors authorization for the CEO to purchase professional services to support the ongoing maturation of Valley Metro’s Information Security (IS) program for an amount not to exceed $488,500.
Valley Metro’s operations rely on a combination of on-premises and cloud-based technology solutions which must be secured to prevent disruptions. Additionally, access to certain funding and revenue sources require adherence to certain IS standards. One example is that processing credit cards for fare collection requires that Valley Metro adhere to the Payment Card Industry’s Data Security Standards (PCI DSS). Another is that the Federal Transit Administration (FTA) has introduced a requirement to abide by the National Institute of Standards and Technology’s (NIST) Cybersecurity Framework (CSF) in order to receive funding.

Valley Metro began implementation of a formal IS program with funds approved by the board at the April 2018 meeting. Over the last two years Valley Metro’s IS capabilities have grown in leaps and bounds, even contributing to the business in ways beyond securing information systems. An Operationally Critical Threat, Asset, and Vulnerability Evaluation (OCTAVE) risk assessment led by the IS team became a significant input to Valley Metro’s COVID-19 response plan. Unfortunately, progress on the program suffered a setback in late April 2020 when our in-house IS staff along with our on-premises contractor were recruited by a local data center.

The IS labor market has tightened during the current pandemic as organizations move to remote work. As a result, Valley Metro is seeking approval to utilize vacancy savings along with budgeted IS program improvement funds in order to engage a consultant to maintain the progress required to meet these growing security and compliance needs until the vacant positions are backfilled. This temporary gap will be addressed through four distinct professional services initiatives:

- **Security Program Support**
  - Regulatory compliance assessment and roadmap development
  - Annual IS policy review and update
  - IS tool/technology review
- **Risk Management Program Support**
  - OCTAVE risk assessment annual update
  - Risk Management Lifecycle process improvement
  - Annual Business Continuity and Disaster Recovery review and update
- **Security Operations Development**
  - Patching and vulnerability lifecycle management improvement
  - Log collection, monitoring, and alerting tuning
  - Security dashboard and reporting improvement
  - Incident Response management and improvement
- **Security Staff Hiring Support** – assess the technical skills of candidates for:
  - IS Engineer/Lead recruitment
  - IS Analyst recruitment
  - Annual penetration testing vendor selection
COMMITTEE ACTION
RTAG: September 15, 2020 for information
TMC/RMC: October 7, 2020 for action
Board of Directors: October 22, 2020 for action

CONTACT
Phil “Oz” Ozlin
Manager, Information Technology
(602)495-8253
pozlin@valleymetro.org

ATTACHMENT
None
Information Summary

DATE
October 8, 2020

AGENDA ITEM 6D

SUBJECT
Regional Fare Collection System Funding Agreement with the City of Phoenix

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a Funding Agreement with the City of Phoenix to allow Valley Metro to reimburse Phoenix for the local share of eligible costs for the regional Fare Collection System.

COST AND BUDGET
The project will cost $60.3 million, which includes upfront capital costs of $31.7 million and a 16-year operating and maintenance agreement of $28.6 million. This agreement is to provide funding for the capital portion of the project. The $31.7 million will be funded 80% with FTA funds and 20% regional PTF. The City of Phoenix will draw all federal funds directly. Valley Metro will reimburse the local share of the project with regional Public Transportation Funds. The regional PTF will be split between the bus and rail programs. All expenses are in the approved budget for FY21 and 5-Year Capital budget.

RECOMMENDATION
Staff recommends that the TMC forward to the Board of Directors authorization for the CEO to execute a Funding Agreement with the City of Phoenix to allow Valley Metro to reimburse Phoenix for the local share of eligible costs for the regional Fare Collection System.

BACKGROUND | DISCUSSION | CONSIDERATION
The current Fare Collection System (FCS) has reached end of life and the technology is obsolete. The City of Phoenix has procured a replacement FCS, which will include mobile ticketing, a contactless smartcard system, validators for buses and rail platforms, and ticket vending machines for the rail and streetcar systems.

The new FCS will provide greater control of fare media and usage through account based technology. While providing greater control for Valley Metro, the system will also allow for more flexibility and options for the riders. The system will include a web based management tool for riders to manage their accounts.

The new system will also allow Valley Metro to address the increased use of reduced fare media. The reduced fare paper passes are widely available and historically have not required any identification to demonstrate eligibility. This has resulted in a significant
increase in use of reduced fare passes far above what would be expected from the number of eligible riders.

The account based system will allow Valley Metro to control which accounts are eligible for reduced fares. Mobile tickets or stored value smartcards would have to be associated with eligible accounts in order to benefit from the reduced fare. Valley Metro would manage a reduced fare eligibility process to ensure that only legitimate reduced fare eligible riders would benefit.

This project is a regional project that will benefit all fixed route bus and rail riders. The system is flexible and would allow for expansion to paratransit in the future. The project is included in the adopted Transit Life Cycle Program for funding with regional PTF. The local share is split between the bus and rail programs. The annual project expenses and funding sources are summarized in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>Federal</th>
<th>Bus PTF</th>
<th>Rail PTF</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>$6,348,444</td>
<td>$5,078,755</td>
<td>$422,488</td>
<td>$847,201</td>
</tr>
<tr>
<td>FY22</td>
<td>$12,855,599</td>
<td>$10,284,479</td>
<td>$855,538</td>
<td>$1,715,582</td>
</tr>
<tr>
<td>FY23</td>
<td>$8,094,266</td>
<td>$6,475,413</td>
<td>$538,672</td>
<td>$1,080,181</td>
</tr>
<tr>
<td>FY24</td>
<td>$4,443,911</td>
<td>$3,555,129</td>
<td>$295,742</td>
<td>$593,041</td>
</tr>
<tr>
<td>Total</td>
<td>$31,742,220</td>
<td>$25,393,776</td>
<td>$2,112,440</td>
<td>$4,236,004</td>
</tr>
</tbody>
</table>

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: September 15, 2020 for information
TMC: October 7, 2020 for action
Board of Directors: October 22, 2020 for action

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

ATTACHMENT
None
Information Summary

DATE
October 8, 2020

AGENDA ITEM 6E

SUBJECT
Light Rail Vehicle (LRV) Line Filter Choke Overhaul Contract Change Order

PURPOSE
To request authorization for the Chief Executive Officer (CEO) to execute a contract change order with Delta Electric Motors to increase the contract amount and allow the completion of the refurbishment and overhaul of LRV line filter chokes in an amount not to exceed $125,000.

COST AND BUDGET
The cost of the change order to the LRV line filter choke overhaul contract with Delta Electric Motors is an amount not to exceed $125,000 and is included in the Valley Metro Rail Adopted FY 2021 Operating and Capital Budget. Contract obligations beyond FY2021 are incorporated into the Valley Metro Rail Five-Year Operating Forecast and Capital Program (FY2021 thru FY2025).

The source of funding is from member cities.

RECOMMENDATION
Staff recommends that the RMC forward to the Board of Directors authorization for the CEO to execute a contract change order with Delta Electric Motors to increase the contract amount and allow the completion of the refurbishment and overhaul of LRV line filter chokes in an amount not to exceed $125,000.

BACKGROUND | DISCUSSION | CONSIDERATION
In June 2019, the Board of Directors authorized the CEO to execute a contract with Delta Electric Motors to refurbish and overhaul LRV line filter chokes in an amount not to exceed $226,100.

There are two line filter chokes on each LRV which requires 100 to be refurbished and overhauled. Line filter chokes act as surge protectors to protect the propulsion system on the LRV from high voltage spikes. The filter chokes have deteriorated over the last 10 years from use in an environment of extreme heat.

When the initial scope was developed it was based on the industry standard for overhauling these units. Valley Metro and the contractor were not aware of the additional damage to the line filter chokes. The damage the contractor is finding is carbon tracing to ground, the buss bars are needing to be reinsulated, and shorting.
between winding turns. Also, on some units they are finding that the top layer of windings are damaged to the point of needing replacement.

Therefore, a change order to increase the contract amount is needed to complete the refurbishment and overhaul of the LRV line filter choke project. The original estimated cost of overhaul of each unit was $2,195 but with the damage that the contractor is finding, the estimated overhaul cost per unit is now $3,335. Contingency is also included in the $125,000 change order amount for any possible further damage that may be found.

The purpose of the overhaul is to keep the equipment in a state of good repair and to maintain safe and reliable operation. This is consistent with the approved Transit Asset Management (TAM) Plan.

An independent cost estimate including a cost comparison and price analysis have been completed. The proposed price has been deemed fair and reasonable based on the price analysis.

**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: September 15, 2020 for information
RMC: October 7, 2020 for action
Board of Directors: October 22, 2020 for action

**CONTACT**
Ray Abraham
Chief Operations Officer
602-652-5054
rabraham@valleymetro.org

**ATTACHMENTS**
None
DATE
October 8, 2020

SUBJECT
Information Follow-up

PURPOSE
To provide AFS members an opportunity to ask questions and discuss items that were distributed via email. The following items were distributed:

- Peer Agencies List
- ADOT Forecasts for RARF/PTF and HURF
- CARES Act Update

CONTACT
Paul Hodgins
Chief Financial Officer
602-262-7433
phodgins@valleymetro.org
DATE
October 8, 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>Budget Key Assumptions</td>
<td>October 2020</td>
</tr>
<tr>
<td>ADOT Forecast</td>
<td>October 2020</td>
</tr>
<tr>
<td>CARES Act Spending Update</td>
<td>October 2020</td>
</tr>
<tr>
<td>Peer Agencies List</td>
<td>October 2020</td>
</tr>
<tr>
<td>Farebox Recovery/Fare Enforcement</td>
<td>November 2020</td>
</tr>
<tr>
<td>Budget – Position Justifications</td>
<td>TBD</td>
</tr>
<tr>
<td>TLCP Update – Bus</td>
<td>TBD</td>
</tr>
<tr>
<td>TLCP Update – Rail</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