

Risk Allocation Matrix (RAM) and Internal Savings Account

Executive Management Committee
January 21, 2016



Overview & Goals

Goals

- Foster a culture of financial discipline throughout Metro
- Aiming to secure Metro's financial stability by mitigating the projected deficit beginning in FY18

RAM and the **Internal Savings Account** is the strategy to achieve these goals

- ▶ **RAM** is an agency wide collaborative process to identify a strategic mix of cost saving and revenue generating new initiatives, and to evaluate the risk of such implementation
- ▶ **Internal Savings Account** will capture the RAM savings and revenues and ensure prudent use of these monies
 - Monitor account activities and provide quarterly updates
 - Establish guidelines on use of funds from the account

RAM New Initiatives (Under CEO Authority)

	Est. FY17 Realization	Est. FY18 Realization
CEO Authority	\$ 67,719,690	\$ 54,711,100
Board Action	104,122,800	34,673,333
Est. Revenues/Savings	\$ 171,842,490	\$ 89,384,433

Proposed new initiatives under **CEO Authority** can be implemented immediately

- ▶ Administrative and transit operations efficiency improvements
- ▶ Expanded advertising efforts recently approved and implemented
- ▶ Right-sizing of inventory levels based on historical data and actual demand
- ▶ Reallocation of funds to free up operations-eligible dollars
- ▶ Repurposing Metro property for revenue generation
- ▶ Detailed assessment of consultant use

RAM New Initiatives (Board Action Required)

	Est. FY17 Realization	Est. FY18 Realization
CEO Authority	\$ 67,719,690	\$ 54,711,100
Board Action	104,122,800	34,673,333
Est. Revenues/Savings	\$ 171,842,490	\$ 89,384,433

New initiatives requiring **Board Action** will be separately presented for necessary approvals prior to implementation

- ▶ Changes to existing policies or creation of new policies
 - Pilot paid parking program at high-use transit stations
 - Increased concessions programs and sale/lease of unused Metro property
 - Reassessment of required level of reserves
- ▶ Approval of contract awards
 - Expanded advertising efforts requiring modifications or new contract awards
 - Consideration of adjustments to agreements for group rate transit passes

Internal Savings Account

- ▶ Established with regular reporting as a separate funding source
- ▶ Establish account with 3 initial deposits:

		Est. FY17 (\$ in millions)
1 st	FY15 Budget-to-Actual	\$ 25.7
2 nd	FY16 Mid-year Budget Assessment	4.5
3 rd	RAM New Initiatives	171.8
Total Estimated Deposits		\$ 202.0

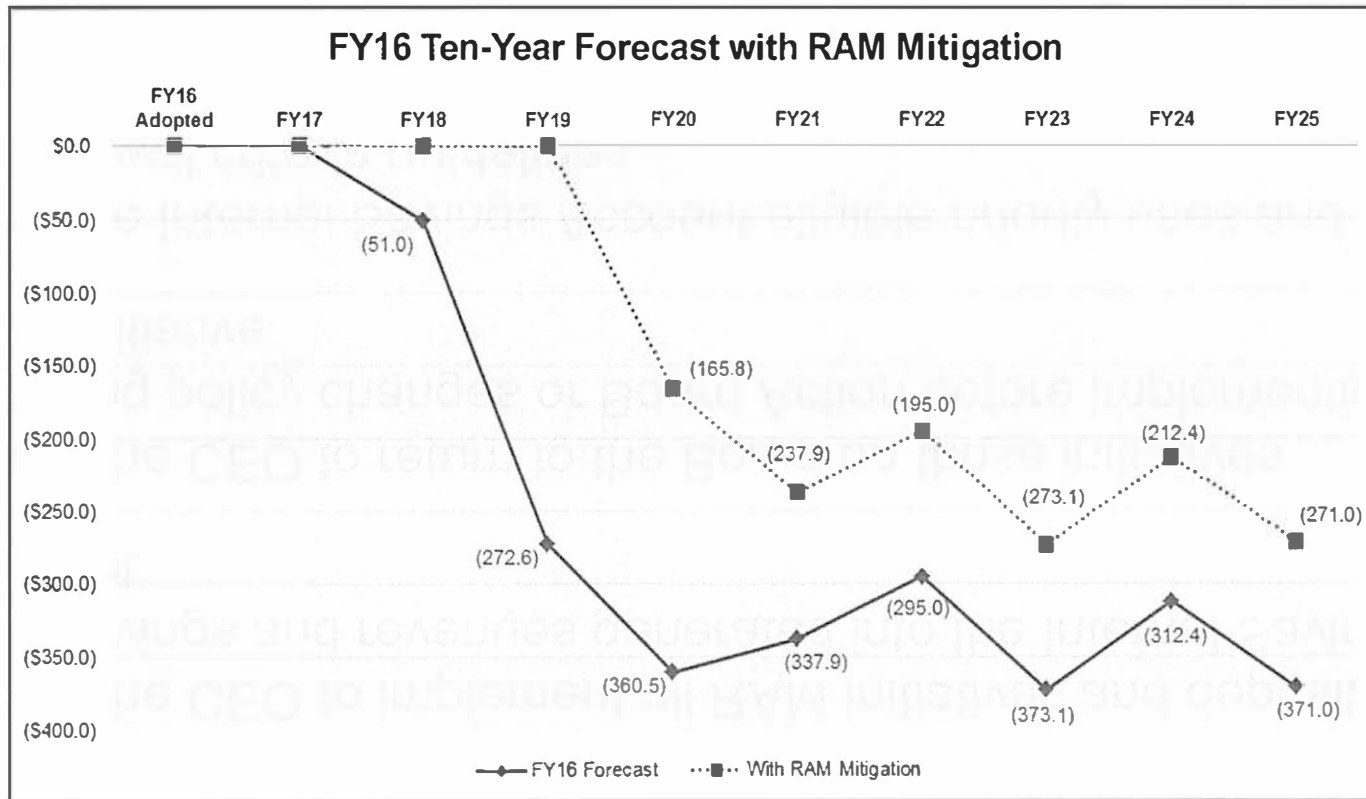
- ▶ Monitor account and activities
- ▶ Quarterly updates to the Board
 - Statement of Activities - detailing all deposits and withdrawals

Internal Savings Account Guidelines

- ▶ Explicitly defined **Eligible Priority Uses** encourage prudent use of the Internal Savings Account; recommended uses listed in *priority order* are:
 1. **Operating Deficit** – funding the core transportation system
 2. **State of Good Repair** – critical need to keep system safe and operational
 3. **Transit Capital Projects** – acceleration of projects, funding shortfalls

- ▶ Recommended **Withdrawal Criteria** establishes guidelines for use of the Internal Savings Account in order to mitigate the operating deficit:
 - CEO will have authority to withdraw funds for approved eligible uses
 - › in order of specified priority
 - › within current Board-approved budget authority
 - › in accordance with Board-approved agency policies
 - Use of funds not specified as eligible priority use: 1) operating deficit, 2) state of good repair, and 3) transit capital projects will require unanimous Board approval

RAM Impact to Forecast



- ▶ Assumes that all funds in the Internal Savings Account will be used to mitigate deficit
- ▶ With implementation of all RAM initiatives:
 - Deficit is delayed from FY18 to FY20
 - FY20 projected deficit is reduced by 54%



Recommendations

- ▶ Establish Internal Savings Account to capture cost savings and revenues generated from RAM
- ▶ Direct the CEO to implement all RAM initiatives and deposit all cost savings and revenues generated into the Internal Savings Account
- ▶ Direct the CEO to return to the Board on those initiatives requiring policy changes or Board Action before implementing each initiative
- ▶ Approve Internal Savings Account eligible priority uses and withdrawal criteria guidelines