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# Los Angeles County Metropolitan Transportation Authority:

*Its Plan for Managing Debt Is Reasonable*

October 1998

98119

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CALIFORNIA STATE AUDITOR

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October 20, 1998 98119

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Los Angeles County Metropolitan Transportation Authority's (MTA) current and future fiscal outlook, given its debt structure. This report concludes that the MTA has taken a number of steps to ensure that its existing and proposed long-term debt structure is conducive to its overall financial viability and solvency. For example, it has prepared a seven-year restructuring plan for addressing future anticipated deficits that, if carefully monitored, should help in balancing the MTA's future years' budgets. Furthermore, our analysis indicates that the MTA is continuing to ensure that its long-term debt structure falls within prescribed limits for ongoing solvency. The MTA is also projecting local sales tax receipts, a primary source of debt repayment, using more conservative assumptions than in past years.

We found that as of June 30, 1998, the MTA had approximately $3.2 billion in outstanding long-term debt with aggregate future interest payments totaling $2.8 billion, and that approximately 24 percent of its fiscal year 1997-98 operating expenditures will go toward servicing its debt. However, the MTA does not prepare analyses justifying the type and composition of its new debt and has yet to issue a formal policy that encompasses its goals and strategies regarding long-term debt. We believe taking these actions would further strengthen the MTA's overall financial viability.

Respectfully submitted,

KURT R. SJOBERG
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# SUMMARY

*Audit Highlights . . . .*

***The Los Angeles Metropolitan Transportation Authority (MTA) has taken a number of steps to ensure its existing and proposed long-term debt structure does not jeopardize its financial viability and solvency. Specifically, we found the MTA:***

- ☑ ***Owes $6 billion in principal and interest as of June 30, 1998.***
- ☑ ***Used 24 percent of its operating income to service debt in fiscal year 1997-98.***
- ☑ ***Is reasonably projecting its future sales tax revenues and is taking steps to improve its financial condition.***
- ☑ ***Has not prepared formal analyses justifying the type and composition of new debt nor issued a long-term debt policy.***

## RESULTS IN BRIEF

The Los Angeles County Metropolitan Transportation Authority (MTA) coordinates all public transportation services in Los Angeles County, including long-range regional transportation planning, light and heavy commuter rail systems, and bus service. Our review focused on the MTA's existing financial condition and the impact of its current and proposed mix of debt type and composition, its debt structure, on its financial viability and solvency.

As of June 30, 1998, the MTA had approximately $3.2 billion in outstanding long-term debt. Additionally, over the remaining term of the debt, the MTA will pay interest totaling approximately $2.8 billion. Most of this debt will be paid by sales tax revenues from voter-approved Proposition A and Proposition C. Each proposition imposes a 0.5 percent sales and use tax on goods and services purchased in Los Angeles County. Expenditures incurred for principal and interest represented approximately 24 percent of the MTA's total operating expenditures during fiscal year 1997-98.

Our review found that the MTA has taken a number of steps to ensure that its existing and proposed long-term debt structure does not jeopardize its overall financial viability and solvency. Specifically, the MTA is reasonably projecting its financial activities, particularly local sales tax receipts, a primary source of revenues dedicated to debt repayment. In addition, as a condition of receiving certain federal funds, it has prepared a seven-year restructuring plan outlining its strategies for addressing future anticipated deficits. Federal agencies have reviewed and approved this plan and concluded that the MTA's recent efforts, if carefully monitored, should assist in improving its financial condition. The MTA also continues to ensure that its long-term debt structure falls within prescribed limits for ongoing solvency. However, it does not prepare formal written analyses discussing the type and composition of its new debt, nor has it issued a formal long-term debt policy summarizing its goals and strategies, practices that we believe would further strengthen its overall financial viability.

## RECOMMENDATIONS

To continue maintaining its future financial viability and solvency, the MTA should do the following:

- Formalize its long-term debt policy to be clear on its objectives and strategies. This policy should reflect its recent focus of using conservative revenue projections.

- Prepare written analyses describing its decisions on the type and composition of each proposed new debt issue. In light of recent criticism of its debt structure and financial condition, the MTA should describe why its choice is financially viable. In addition, the analysis should explain how the type and composition of the debt are consistent with the MTA's long-term debt policy, particularly if the structure of the proposed new debt may appear unusual or questionable.

## AGENCY COMMENTS

The MTA agrees with our recommendations and plans to present a formal debt policy to its board of directors for adoption. The debt policy will require written analyses describing the decisions on the type and composition of each debt transaction. ■

# INTRODUCTION

## BACKGROUND

The Los Angeles County Metropolitan Transportation Authority (MTA) was established in 1993 by state law as the result of the merger of the Los Angeles County Transportation Commission and the Southern California Rapid Transit District. The MTA is governed by a 14-member board of directors (board) consisting of 5 county supervisors, the mayor of Los Angeles, 3 members appointed by the mayor, 4 elected officials representing other cities in Los Angeles County, and a nonvoting member appointed by the governor. A chief executive officer manages the MTA to provide leadership and to fulfill the board's mission.

The MTA coordinates all public transportation services in Los Angeles County (county). It plans, operates, and constructs all aspects of ground transportation, including highway construction and traffic-flow management; public parking facilities; rail construction; and bus, rail, and ferry services. It is also responsible for developing alternative modes of transportation; researching and developing alternative energy sources for transit vehicles; and making air quality, environmental impact, land use, and economic development decisions.

The MTA's operations and capital projects are funded from a variety of sources, including local, state, and federal governments. A major source of local funding comes from voter-approved Proposition A and Proposition C. Each proposition imposes a 0.5 percent sales and use tax on goods and services purchased in Los Angeles County. The two propositions generate approximately 40 percent of the MTA's budgeted annual revenues for fiscal year 1998-99. The MTA also receives state funds, such as gasoline and sales taxes, for transportation planning, operation of rail and bus lines, and for other transportation purposes. Additionally, the federal government funds transit operations and capital projects. Finally, bus and all other transit riders contribute about 10 percent of budgeted annual revenues through cash fares, passes, and tokens.

In addition to its ongoing revenue sources, the MTA and its predecessors sold bonds to assist in constructing rail systems and purchasing equipment such as buses and rail cars. This long-term debt is secured by various revenue sources, including Proposition A and Proposition C sales and use taxes. As of June 30, 1998, the MTA's long-term debt was approximately $3.2 billion. The MTA incurred principal and interest expenses of about $258 million in fiscal year 1997-98 and estimates it will incur about $353 million in fiscal year 1998-99.

## SCOPE AND METHODOLOGY

We were asked to assess the MTA's financial condition and to evaluate its financial viability and solvency given its current and future long-term debt structure. In August 1996, we issued a report that included our assessment of the MTA's financial condition through fiscal year 1995-96. For our current audit, we focused on the events and actions affecting the MTA's financial condition during fiscal years 1996-97 and 1997-98. Specifically, we reviewed all bond issues authorized by the board during these two fiscal years. We reviewed official statements and other documents in the bond transcripts to identify the sources securing the MTA's long-term debt and the uses of the debt proceeds. We also reviewed analyses performed by the MTA and its financial advisers that supported the decisions to issue or refinance these bonds. Furthermore, we reviewed the MTA's methodology and plan for managing its future debt.

We identified the MTA's funding sources and uses by analyzing its audited financial statements for fiscal years 1995-96 and 1996-97. Because the MTA had not completed its year-end closing procedures for fiscal year 1997-98 at the time of our review, we obtained unaudited interim financial statements as of April 30, 1998, and annualized the revenues and expenditures for this fiscal year.

To assess the MTA's financial viability and solvency, we reviewed its budgets for fiscal years 1997-98 and 1998-99. We reviewed the supporting schedules for revenues and expenditures and determined whether the MTA's budget assumptions were reasonable. We also interviewed MTA management to confirm our understanding of its budget approach. Furthermore, we compared significant components of the fiscal year 1997-98 budget to the annualized actual revenues and expenditures during this same period to determine whether the MTA's projections were reasonable.

In addition to our analysis of the budget, we reviewed the MTA's March 1998 draft of its long-range plan for fiscal years 1998-99 through 2019-20 and analyzed the projections for major revenue sources. We reviewed the MTA's key assumptions and methodologies for estimating these revenues and determined whether they were reasonable, supportable, and consistent with its adopted budget for fiscal year 1998-99. Furthermore, we determined whether the projected revenue is sufficient to repay the principal and interest on the existing long-term debt. We also reviewed a report the MTA issued to the Federal Transit Administration in May 1998 that addressed its long-range ability to complete certain rail construction and to meet requirements of a mandated decree directing additional resources to its bus operations.

Finally, we obtained information on the financial condition and amount of outstanding debt of some of the other major transit districts in the United States and compared them to the MTA's financial condition and outstanding debt. ■

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# AUDIT RESULTS

## *The MTA's Debt Structure Is Consistent With Its Goal of Remaining Financially Viable and Solvent*

### SUMMARY

To provide public transportation services, the Los Angeles County Metropolitan Transportation Authority (MTA) has structured its debt to generate funds for transportation projects such as rail construction and bus acquisitions. As of June 30, 1998, the MTA had outstanding long-term debt of $3.2 billion, on which it will pay interest totaling $2.8 billion over the remaining term of the debt.

We believe that the MTA has taken a number of steps to ensure that its existing and proposed long-term debt provides for its overall financial viability and solvency. Specifically, the MTA is projecting local sales tax receipts, a primary source of revenues for debt repayment, using a more conservative estimate than in past years. The MTA has also prepared a seven-year restructuring plan outlining its strategies for addressing future anticipated deficits. The Federal Transit Administration and other federal agencies have reviewed the revenue and expenditure projections in the restructuring plan and concluded that the MTA's recent efforts should help improve its financial condition. However, the federal agencies emphasize that the MTA must continue to monitor its projections to ensure its overall viability and solvency.

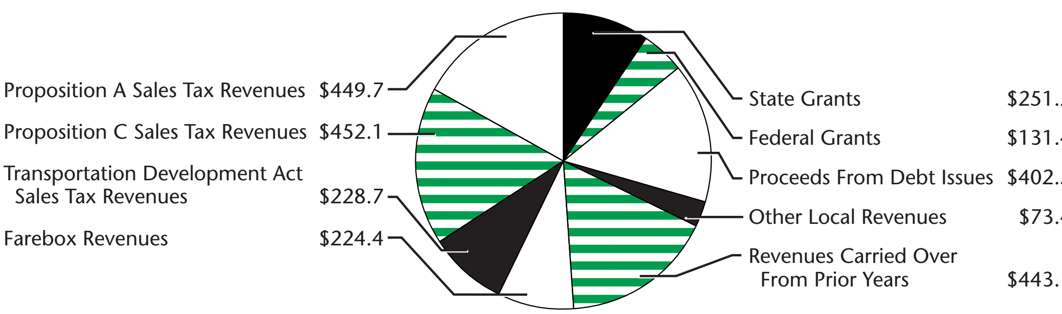
In addition to using more conservative assumptions for projecting revenues, the MTA is incurring new debt only when it has sufficient capacity to repay the principal and interest. Also, it is analyzing the cost of issuing new debt and refinancing current debt when it proves cost-effective. However, the MTA does not prepare formal analyses to document its decisions on the type and composition of proposed new debt. Finally, it has not issued a formal long-term debt policy to summarize its goals and strategies. We believe that preparing these analyses and developing a debt policy would further strengthen the MTA's overall financial viability.

## VARIOUS SOURCES FUND THE MTA'S FUNCTIONS

The MTA coordinates the operation of all public transportation services in Los Angeles County. One of its roles is to update the county's strategic long-range transportation plan. The MTA also plans, coordinates, and constructs rail systems serving the county, and it currently operates three metropolitan rail lines. In addition, the MTA serves as the main bus service for the county. It operates a fleet of 2,500 buses over a route system of 1,433 square miles to provide transportation for 1.15 million passengers each weekday.

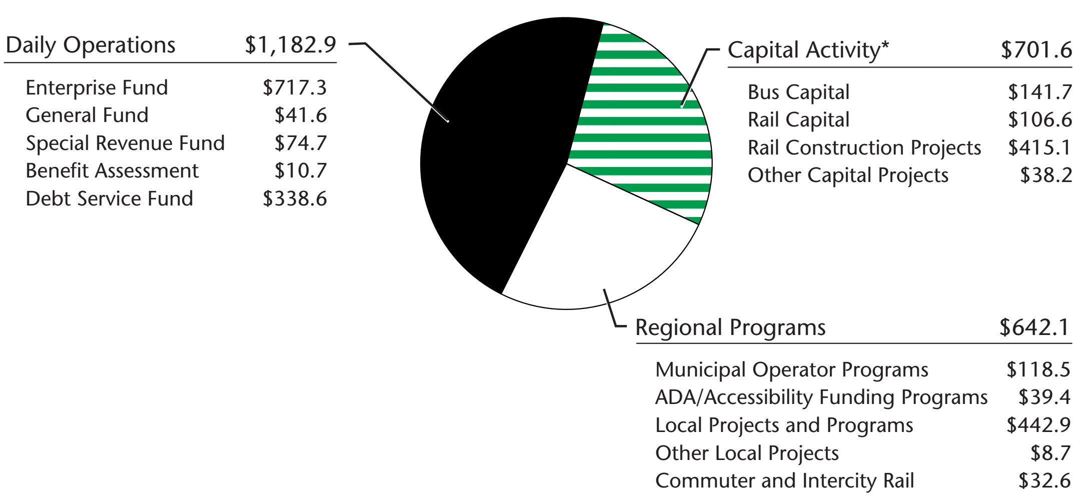
**FIGURE 1**

**Fiscal Year 1998-99 Adopted Budget**
**Sources and Uses of MTA Funds (In Millions)**




Total Sources $2,657.1

Total Uses $2,526.6




*Construction, acquisition, and maintenance of bus and rail assets.

As illustrated in Figure 1, as a multipurpose entity, the MTA obtains its funding from various sources. The MTA directs these funds to pay for its activities, including bus and rail operations, planning activities, freeway service patrol, and bus and rail capital construction. As summarized in Figure 2, Proposition A and Proposition C sales tax revenues are earmarked for specific uses outlined in these ordinances.

### FIGURE 2

**Distribution of Proposition A and Proposition C Sales Tax Revenues**

| | |
|---|---|
| **PROPOSITION A** | |
| 35% | Rail construction and operations |
| 25% | Local cities and municipal operators within Los Angeles County |
| 40% | Discretionary use for public transit improvements |
| **PROPOSITION C** | |
| 25% | Transit-related street and highway improvements |
| 10% | Commuter rail and transit centers |
| 5% | Rail and bus security |
| 20% | Local cities and municipal operators within Los Angeles County |
| 40% | Discretionary use for public transit improvements |

## THE MTA'S OUTSTANDING LONG-TERM DEBT TOTALED $3.2 BILLION AS OF JUNE 30, 1998

As Table 1 shows, the MTA's outstanding long-term debt as of June 30, 1998, was $3.2 billion, and over the remaining term of the debt it will pay interest totaling $2.8 billion. Also, as of June 1998, the MTA had $224 million in taxable and tax-exempt commercial paper outstanding and $9.5 million in obligations associated with financing agreements whereby the MTA sold some of its buses to investors and leased them back. We did not include the payments associated with the commercial paper and lease obligations in the table because these debts have relatively short maturity dates.

## TABLE 1

**MTA Annual Long-Term Debt Obligation as of June 30, 1998**

| Due in Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 1998-99 | $ 60,576,347 | $ 180,888,513 | $ 241,464,860 |
| 1999-00 | 61,950,548 | 176,389,314 | 238,339,862 |
| 2000-01 | 73,610,230 | 172,385,473 | 245,995,704 |
| 2001-02 | 77,401,196 | 168,000,042 | 245,401,237 |
| 2002-03 | 81,729,173 | 163,234,112 | 244,963,285 |
| Thereafter | 2,857,553,638 | 1,939,002,762 | 4,796,556,400 |
| **Total** | **$3,212,821,132** | **$2,799,900,216** | **$6,012,721,348** |

Note: Differences in totals are due to rounding.

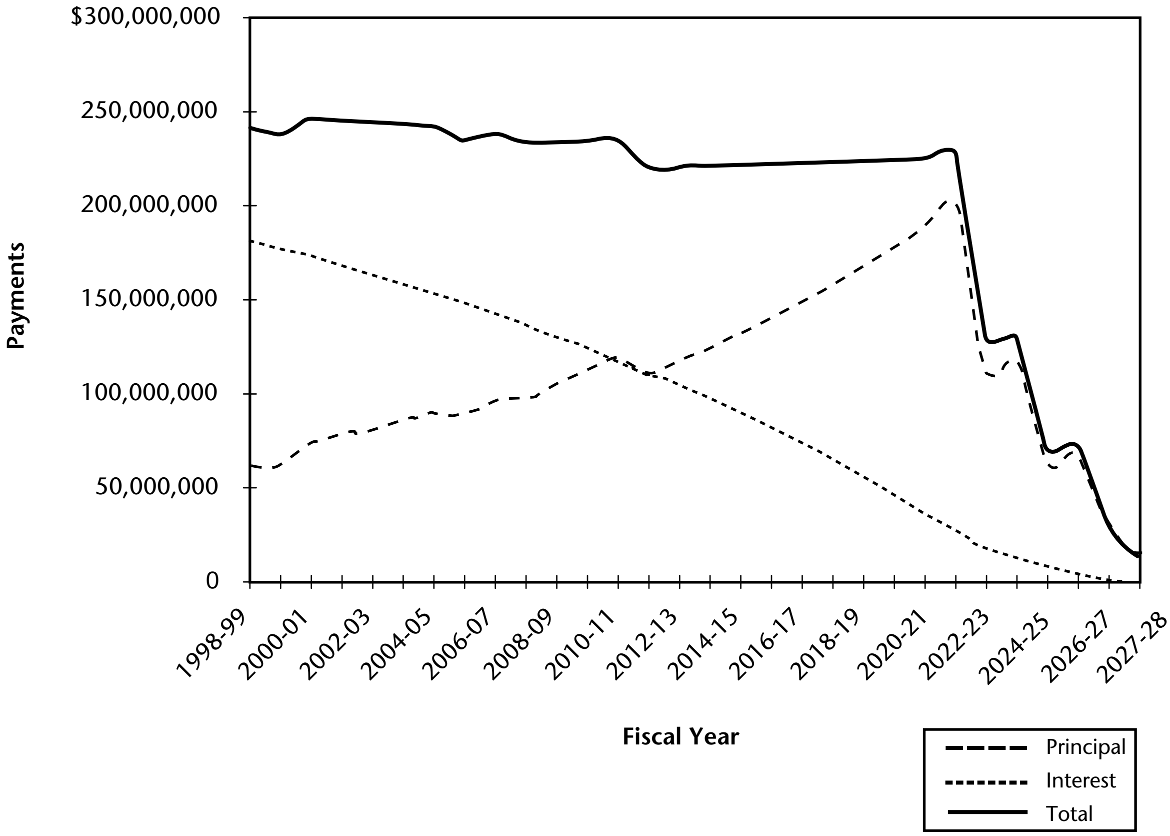
Approximately 88 percent of the MTA's long-term debt is secured by future sales tax revenues from Proposition A and Proposition C. Each bond issue specifies the particular funding source intended to repay the principal and interest. For example, the MTA issued bonds worth $110.6 million in 1996 that were backed primarily by the rail construction and operations portion of Proposition A sales tax revenues. Appendix A summarizes the sources of repayment for each bond issue.

***Sales tax revenues from Propositions A and C fund most of the MTA's long-term debt.***

Figure 3 illustrates the MTA's principal and interest payments over the life of its long-term debt. From fiscal year 1998-99 to fiscal year 2021-22, annual principal and interest payments are fairly level and range between $220 million and $246 million per year. In fiscal year 2022-23, these annual payments drop significantly to about $130 million. In fiscal year 2024-25, the payments fall again to about $71 million per year. Based on its outstanding long-term debt as of June 30, 1998, the MTA will pay final principal and interest payments of $13.2 million during fiscal year 2027-28.

## FIGURE 3

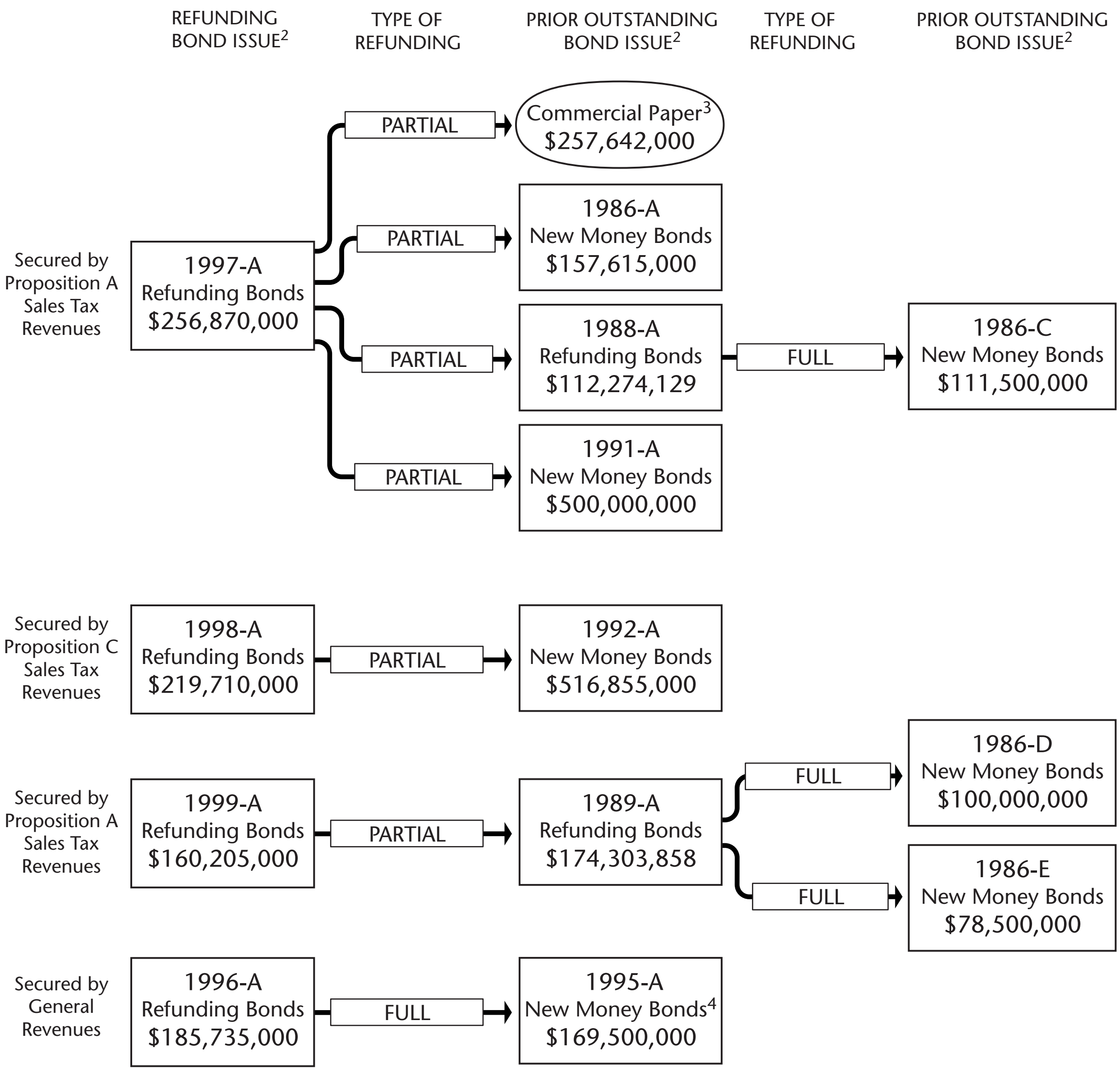
**Annual Debt Service Payments Are Relatively Stable Throughout the Majority of the Debt's Life**




During fiscal years 1996-97 and 1997-98, the MTA's board of directors (board) authorized the sale of three bond issues. The MTA sold two of these issues, along with another previously authorized issue, before June 30, 1998. It plans to sell the remaining bond issue in April 1999. These four issues will pay off debt from other outstanding bond issues, a practice known as "refunding." For instance, the MTA issued $219.7 million worth of bonds in 1998 to refund a portion of the outstanding balance of another bond issue it sold in 1992. Figure 4 depicts the refunding history of these issues. Two of the issues involve a multiple refunding scenario in which new bonds refund one or more sales that in turn had previously refunded other bond issues.

## FIGURE 4

### The MTA Frequently Issues Refunding Bonds[1]




[1] Dollar amounts in the “bond issue” columns represent the bonds’ original par value.

[2] The letter following the year of the bonds identifies the specific bond series.

[3] Commercial paper refers to short-term unsecured loans typically due within 270 days of issuance.

[4] All new money bond proceeds, except for 1995-A, were used for rail construction. New money bond proceeds from 1995-A were used for construction of the MTA headquarters building.

*The MTA uses over 24 percent of its operating budget to cover debt service.*

The MTA's budget identifies operating expenditures as costs that support its operations, including payment of principal and interest. We calculated that debt service, consisting of principal and interest expenditures, totals 24.2 percent of the MTA's budgeted operating expenditures in fiscal year 1997-98 and 24.3 percent in fiscal year 1996-97. Using the 1998-99 adopted budget, we calculated the MTA's budgeted principal and interest expenditures to be $353 million, or 30 percent of its projected overall operating budget of $1.18 billion. The MTA estimated higher debt-service expenditures for fiscal year 1998-99 primarily because it plans to retire a large quantity of short-term commercial paper and estimates incurring additional principal and interest payments of $72 million during this year. As previously described, the main source of funds to pay these expenditures is local sales tax revenues.

Appendix B compares the MTA with other major transit agencies in the United States using a variety of indicators. However, caution must be used in making such comparisons because some data was unavailable. Also, the debt used to purchase the transit equipment of the authorities may have been issued at different times, which would affect future debt-service costs.

## THE MTA REVISED ITS FISCAL YEAR 1997-98 BUDGET TO ADJUST FOR OVERLY OPTIMISTIC REVENUE ESTIMATES AND ANTICIPATED DEFICITS

In June 1997, the board adopted the MTA's fiscal year 1997-98 budget with the condition that the MTA submit revised revenue assumptions every 30 to 60 days and ultimately submit a revised budget. One issue of concern was the MTA's overly optimistic estimate of sales tax revenues. Accordingly, in November 1997, the MTA revised its fiscal year 1997-98 adopted budget to include an updated estimate of projected sales tax revenues that increased less significantly than originally projected. The revised budget also addressed an anticipated $51 million deficit by identifying other revenue sources and cost reductions that eliminate the funding shortfall. For instance, the revised budget identifies available funds from various revenue categories, such as Proposition A and Proposition C sales tax interest, that were not previously included in the operating budget. In addition, the MTA reduced its expenditures through a variety of methods including staff reductions.

According to the deputy executive officer of the MTA's Office of Management and Budget, based on its experiences with the fiscal year 1997-98 revised budget, the MTA also reviewed the effect of the anticipated deficit on its financial condition for fiscal year 1998-99. The deputy executive officer stated that the MTA was able to address a potential deficit of $40 million in fiscal year 1998-99 during its normal budget cycle, resulting in a balanced budget for fiscal year 1998-99. We reviewed the forecasts and assumptions that the MTA used to revise the fiscal year 1997-98 budget and to develop the fiscal year 1998-99 budget and determined that they appear to be reasonable.

## FEDERAL AGENCIES ARE CAUTIOUSLY OPTIMISTIC REGARDING THE MTA'S FUTURE FINANCIAL CONDITION

In May 1998, the MTA's board adopted a restructuring plan responding to the concerns of the Federal Transit Administration (FTA) over the MTA's financial and managerial ability to complete certain rail construction and to meet the terms of a mandated decree directing the MTA to enhance its bus service. The MTA submitted the restructuring plan as a condition of receiving a $61.5 million federal appropriation. The restructuring plan outlines a seven-year time frame for reducing the $1.1 billion deficit in its operating and capital budgets. Rather than providing a detailed quantitative analysis to solve the shortfalls, the restructuring plan describes the processes used to reduce the deficits in the budget. For instance, the restructuring plan discusses the projected reduction of bus, rail, and administrative capital costs by approximately $37 million that would be reflected in the fiscal year 1998-99 budget.

***The MTA's restructuring plan outlines a seven-year approach for reducing the $1.1 billion deficit in its operating and capital budgets.***

The MTA also proposed various options to address the deficits projected to occur in fiscal year 1999-2000 and the subsequent five years the plan covers. These options include deferring some capital projects and canceling others, increasing bus fares to reflect consumer price index increases as allowed in the bus consent decree, and reducing overhead costs. The restructuring plan also states that the MTA still has substantial borrowing capacity that it could use to address its deficits.

The restructuring plan also includes the MTA's revised estimate of sales tax revenues available from Proposition A and Proposition C. The MTA acknowledges in its plan that the sales tax forecast is a key budget component because many of its programs and activities, including principal and interest payments, are supported by sales tax receipts.

***Although the Federal Transit Administration was encouraged by the MTA's efforts, it noted more remains to be done and will closely monitor the MTA's financial condition.***

The MTA presented its restructuring plan for review to the FTA, the federal Department of Transportation's Office of Inspector General (OIG), and the United States General Accounting Office (GAO). The FTA accepted the plan in July 1998, citing that it demonstrated that the MTA can complete the rail segments now under construction within available and conservatively projected revenues. Although it was encouraged by the MTA's significant efforts, the FTA noted that more remains to be done to meet the transit needs of the county. Therefore, the FTA planned to continue closely monitoring the MTA's financial condition.

The OIG concluded that the restructuring plan's seven-year projections of revenues and expenditures are supportable and reasonable. However, the OIG emphasized that the MTA still needs to identify additional funding sources or cost efficiencies to address the $1.1 billion shortfall projected during the next seven years. The OIG stressed the importance of adhering to the balanced fiscal year 1998-99 budget and using a similar approach in attempting to eliminate future years' deficits. The OIG observed that the MTA's capacity for deferring maintenance expenditures and reinvestments in buses is somewhat limited because of the requirements of the bus consent decree. The OIG also recognized the MTA's additional debt capacity but emphasized that new debt issues will consume additional funding sources in later years.

The GAO reviewed the restructuring plan and concluded that the MTA is making progress toward meeting its financial challenges. However, changes in key assumptions could negatively impact its ability to reduce future years' deficits. Furthermore, the GAO emphasized that the MTA still faces major funding shortfalls in future years that may impede its ability to meet the requirements of the bus consent decree.

## CURRENT PROJECTIONS OF DEBT-SERVICE FUNDING ARE MORE CONSERVATIVE THAN PRIOR YEARS' ESTIMATES

The MTA believes that its plan for managing debt must be guided by the transportation system mandated by the voters with the passage of Proposition A and Proposition C. To fulfill this mandate, the MTA has issued bonds and plans to issue additional bonds over the next several years. The MTA intends to use these proceeds to construct a rail and highway transportation system that meets the transit needs of the county's residents. One area the MTA focuses on to identify its capacity for issuing new bonds is its estimation of future sales tax revenues available to make principal and interest payments.

As previously discussed, the MTA revised its approach for estimating sales tax revenues available for debt servicing. Prior to November 1997, it used a forecast prepared by the Business Forecasting Project at the University of California, Los Angeles (UCLA). Using the UCLA forecast, the MTA projected Proposition A sales tax revenues to increase by 6.7 percent between fiscal years 1994-95 and 1995-96 and by 6.6 percent between fiscal years 1995-96 and 1996-97. Actual Proposition A sales tax revenues during fiscal year 1996-97 were only $411.5 million, but the MTA estimated they would be $432.7 million.

***The MTA is basing its estimate of future sales tax revenues using different information projecting lower growth estimates.***

When it adopted the fiscal year 1997-98 budget, the board instructed the MTA to revise its revenue assumptions and develop a more conservative estimate. The MTA's Capital Planning and Development Department and Office of Management and Budget responded by reviewing the sales tax forecasts prepared by other entities, such as the California State Board of Equalization and the City of Los Angeles. Based on this review, the MTA estimated a 4 percent base increase in sales tax revenues in fiscal year 1997-98, with an annual increase in the growth rate of 0.2 percent. Using this revised estimate, the growth rate for sales tax revenues was projected to be 4.2 percent in fiscal year 1998-99 and 4.4 percent in fiscal year 1999-2000.

The MTA believes that this conservative estimate is more reasonable. The MTA's board of directors concurred by approving the fiscal year 1997-98 revised budget. In fact, based on the MTA's unaudited financial data, sales tax revenues received during fiscal year 1997-98 were approximately $1.1 billion, which represents an increase of 7.8 percent from the prior fiscal year.

Using its new estimate, the MTA's projection of revenues available for debt servicing was more conservative than the actual revenues it has recently received.

## THE MTA'S PLAN FOR MANAGING ITS DEBT-SERVICE PROGRAM CONTINUES TO MEET PRESCRIBED LIMITS

The MTA's plan for managing its debt-service program continues to comply with prescribed limits imposed by the MTA's trustees for new bond issues. In addition, the MTA's plan meets self-imposed limits that require it to issue new bonds to refund outstanding bonds only when a net present-value savings of at least 3 percent can be achieved.

***The MTA's trustees require agreements that guarantee the source of payment on any new bond issues.***

The MTA's trustees require agreements wherein the MTA guarantees the source of payment to secure the bonds it plans to issue. These agreements permit the MTA to issue additional bonds within the various debt categories but only after meeting a variety of tests. Specifically, before it issues additional bonds, the MTA is required to obtain certification from a financial adviser that the revenues it has pledged as the source of principal repayment for the debt equal or exceed one or more predetermined debt service coverage ratios. These ratios vary depending on which bonds are outstanding when additional bonds are issued. Use of the ratios limits the amount of outstanding debt the MTA will have after the new bonds are issued. The financial adviser performs tests, known as "additional bonds" tests, to certify the MTA's compliance with the ratios required by the various debt agreements.

Its financial adviser certified that the MTA complied with the various bond agreements for those bond issues sold between July 1996 and June 1998 that required additional bonds tests. For example, prior to June 1997, when the MTA issued refunding bonds worth $257 million, the financial adviser certified that 35 percent of the Proposition A sales tax revenues collected by the MTA for any 12 of 15 consecutive months immediately preceding the proposed bond issuance equaled at least 115 percent of the maximum annual debt service for all bonds that would be outstanding after the bonds were issued. The additional bonds tests provide the MTA with a threshold of additional debt for which it can provide debt service while still meeting its existing debt service obligations.

When it issues new bonds to refund outstanding bonds, the MTA requires a decline in the interest rate that will save it at least 3 percent in net present value. This means that before the MTA can replace an outstanding bond issue with a refunding issue, it must be able to show that the refunding issue will generate a savings of at least 3 percent in debt-service costs over what would be paid during the remaining life of the existing issue. Whenever the MTA contemplates such a refunding, its financial adviser is involved in analyzing the net present-value savings.

Because the three bond issues the MTA sold between July 1996 and June 1998 were to refund existing outstanding bonds, we reviewed the corresponding net present-value analyses. For each issue, the financial adviser concluded that the MTA would save at least 3 percent in net present value by refunding the existing debt. We reviewed the data used in these analyses and determined that the adviser's conclusions appeared reasonable. For example, the MTA sold bonds in 1998 totaling about $220 million to refund outstanding bonds issued in 1992. According to our review of the analysis prepared by its financial adviser, this refunding will save the MTA $11 million, or 5.4 percent, in debt-service costs over the term of the debt.

The MTA's board also plans to sell a bond issue in April 1999 that will refund other outstanding debt. In December 1996, the MTA's financial adviser analyzed the possibility of refunding a bond issue sold in 1989. In addition to reviewing the net present-value savings from the proposed refunding, the financial adviser also calculated the expected savings, which is derived from the expected value of the refunding interest rate. The financial adviser developed a model using a distribution of future interest rates to calculate the expected savings. According to the financial adviser, using the expected savings method to decide whether to refund allows the MTA to compare current present-value savings with expected future available savings and to determine the most cost-beneficial time to initiate the refunding.

***Its financial advisor recommended that the MTA wait to refund a bond issue and save even more on interest.***

In the December 1996 analysis of the proposed refunding issue, the financial adviser recommended that the MTA wait to sell its refunding bonds until it was closer to the call date of the outstanding debt. The call date is a feature of some bonds that allows the issuer to redeem them prior to the maturity date by paying bondholders an amount in excess of the face value of the bond. The call feature is generally used to retire bonds when interest rates decline. According to a senior financial analyst in the MTA's treasury department, interest rates began to decline in June 1997 and subsequently dropped further during the period from August 1997 to January 1998, resulting in a greater potential savings from the refunding. Therefore, the MTA proceeded with the refunding in December 1997. The senior financial analyst informed us that the MTA plans to use the expected savings method in its future refunding analyses as well.

## THE MTA DOES NOT DOCUMENT THE DECISIONS BEHIND ITS SELECTION OF THE TYPE AND COMPOSITION OF NEW DEBT

The MTA does not prepare formal written analyses that summarize its basis and decision for the type and composition of new debt it issues. Documentation prepared by the MTA and its financial adviser for the bond issues authorized during fiscal years 1996-97 and 1997-98 did not include any formal written analyses that specifically described why the MTA favored traditional fixed-rate bonds over other types of debt, such as variable-rate bonds, commercial paper, or certificates of participation. In addition, although these issues consist of a combination of serial bonds, which are designed to be repaid at set times and amounts over successive years, as well as term bonds, which must be repaid in several lump sums at future points in time, neither the MTA nor its financial adviser prepared written analyses describing the reasons for choosing the particular composition of each of these bond issues.

*Although capitalizing interest may assist cash flow in the short-term, this strategy raises the debt service cost.*

Furthermore, no analysis was prepared justifying why one of the issues included capitalized interest. Capitalized interest is an amount included in the bond issue's aggregate principal intended to cover interest payments during the first few years of the issue. In other words, the MTA issued additional debt beyond that needed for transportation services. According to the senior financial analysts of its treasury department, the MTA has included capitalized interest in past debt issues to compensate for decreases in sales tax revenues the MTA receives caused by economic downturns. Although capitalizing interest might assist the MTA in managing its cash flow in the short-term, this strategy ultimately raises its debt-service cost over the life of the debt.

We identified only one formal requirement that the MTA developed regarding written analyses for new bond issues, but found that it had never been implemented. In June 1995, the MTA's former chief financial officer issued a management memorandum that required its financial adviser to document in writing certain relevant information for all current and future bond issues. This information included a cost-benefit analysis that identified potential short-term and long-term savings or increased revenue to the MTA, the effect of the issuance on the MTA's debt capacity, strategies other than increasing the outstanding debt to generate potential savings and increased revenue, and the financial adviser's recommendation for the most prudent course of action considering the cost-benefit analysis. However, as of August 1996, when we last issued a report that addressed, in part, the MTA's debt structure, we did not confirm whether or not the MTA consistently enforced this requirement. When we attempted to follow up on this area during the current audit, we discovered that the requirement had never been implemented.

According to a senior financial analyst in its treasury department, subsequent to its issuance, the MTA determined that it would not be practical to enforce this requirement because not all the factors described in the memorandum applied to every bond issue. Also, the requirement incorrectly implies that only the financial adviser can make the final recommendation concerning a potential bond issue. The analyst informed us that the process for issuing debt is detailed and thorough to ensure the financial viability of the decision. The analysis is a collaborative effort between the MTA and its financial adviser and varies in its scope depending on the nature of the debt. Therefore, the MTA determined that requiring the financial adviser to prepare a written analysis without such a collaborative process did not seem practical.

***Without formal analysis of the financial viability of the type and composition of proposed debt issuances, the MTA is less able to defend its decisions.***

The senior financial analyst informed us that the MTA determines the appropriate type and composition of the debt based on its assessment of risk and return. For example, the MTA will typically issue conventional fixed-rate bonds with level debt-service payments for most borrowings. However, in certain cases, it may consider variable-rate bonds more prudent if it can identify an economic benefit. Nevertheless, we believe that the MTA should justify its decisions about debt it issues. Without a formal written analysis of the financial viability of the type and composition of debt it intends to issue, the MTA is less able to defend its decisions regarding future debt.

## THE MTA HAS YET TO ISSUE A LONG-TERM DEBT POLICY

*Although it drafted a long-term debt policy in fiscal year 1996-97, the MTA still has not implemented it.*

In August 1996, the MTA informed us that it planned to implement a formal long-term debt policy during fiscal year 1996-97 that would identify its financial standards for debt service. According to a draft of the policy provided to us at that time, the standards would ensure that the MTA's assumptions are consistent with or more conservative than the requirements placed on it by the financial markets. In addition, the financial policy would ensure that the MTA's management will be able to effectively monitor its debt program.

As of August 1998, the MTA had still not issued a formal long-term debt policy. According to a senior financial analyst in the treasury department, the policy has been delayed because key parties responsible for its development either have left the MTA or no longer render financial advisory services to the MTA. For example, the treasurer who prepared the draft policy left the MTA in December 1996. In addition, in October 1996, the MTA discontinued the services of its financial adviser, who was jointly responsible for developing the policy. However, the MTA did not immediately transfer this responsibility to its newly appointed acting treasurer and financial adviser. Nevertheless, the analyst informed us that, as of August 1998, the MTA and its current financial adviser were jointly working on developing a formal policy and hope to have it approved by the board in the near future. The analyst further stated that the policy's objectives would be consistent with the draft discussed previously while providing the MTA with the flexibility to make financially viable debt-related decisions in its best interest.

## CONCLUSION

As of June 30, 1998, the MTA's long-term debt was approximately $3.2 billion with aggregate future interest payments totaling $2.8 billion. The MTA's strategy for funding its transportation activities includes issuing new debt and refunding existing debt when it is economically viable. In pursuing this strategy, the MTA ensures that it meets prescribed limits for managing its debt service. Further, the MTA is projecting local sales tax receipts, a primary source of debt repayment, using a more conservative estimate than in past years. In addition, the Federal Transit Administration and other federal agencies reviewed the MTA's revenue and expenditure projections and concluded that the MTA's recent efforts should assist in improving its financial condition but emphasize that it must continue to monitor its projections to ensure its overall viability and solvency. Finally, although the MTA has made substantial efforts to manage its debt, it does not prepare written analyses justifying the type and composition of new debt issues, and it has yet to issue a formal long-term debt policy.

## RECOMMENDATIONS

To continue its efforts to maintain future financial viability and solvency, the MTA should do the following:

- Clarify its objectives and strategies by formalizing its long-term debt policy. This policy should reflect its recent focus on using conservative revenue projections.

- Prepare written analyses to justify its decisions on future debt structure. Because of recent criticism of its debt structure and financial condition, the MTA should include reasons for choosing a particular debt issue based on financial viability. The analysis should also show how the type and composition of the debt are consistent with the MTA's long-term debt policy, particularly if the debt issue it chooses appears unusual or questionable.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: October 20, 1998

Staff: Doug Cordiner, Audit Principal
Linus Li, CPA, CMA
Christiana Mbome, CPA
Jian Wang

# APPENDIX A

## *MTA Long-Term Debt Service Schedule as of June 30, 1998*

**Summary of Principal and Interest[1]**
**Fiscal Years 1998-99 Through 2010-11**

| Transactions | Funding Source | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 |
|---|---|---|---|---|---|---|
| **Proposition A** | | | | | | |
| 1988-A Refunding | Proposition A | $ 3,458,730 | $ 0 | $ 0 | $ 0 | $ 0 |
| 1989-A Refunding | Proposition A | 14,634,244 | 14,638,740 | 11,969,162 | 11,795,928 | 11,632,532 |
| 1991-A New Money | Proposition A | 6,084,200 | 5,884,648 | 6,058,258 | 6,073,874 | 175,140 |
| 1991-B Refunding | Proposition A | 17,653,270 | 17,651,573 | 17,651,663 | 17,648,308 | 17,646,708 |
| 1992-A Refunding | Proposition A | 5,783,820 | 5,783,820 | 5,783,820 | 5,783,820 | 5,783,820 |
| 1992-B Refunding | Proposition A | 16,224,759 | 16,192,884 | 19,885,959 | 19,852,456 | 19,809,647 |
| 1993-A Refunding | Proposition A | 31,668,644 | 31,664,791 | 31,660,009 | 31,654,766 | 31,651,141 |
| 1996-A New Money | Proposition A | 6,382,766 | 8,118,716 | 8,117,001 | 8,113,261 | 8,107,451 |
| 1997-A Refunding | Proposition A | 14,278,200 | 14,453,250 | 17,146,900 | 17,152,375 | 22,891,388 |
| 1990-A Lease Revenue | Proposition A | 3,131,612 | 3,142,832 | 3,143,514 | 1,965,898 | 1,725,108 |
| 1990-A Yen Obligation | Proposition A | 39,347 | 24,548 | 23,649 | 1,576,848 | 1,894,435 |
| 1993-A Housing | Proposition A | 550,130 | 550,130 | 550,130 | 550,130 | 722,805 |
| 1993-A Redevelopment | Proposition A | 1,278,235 | 1,278,235 | 1,278,235 | 1,278,235 | 1,661,583 |
| 1996 Refunding | Proposition A | 7,459,538 | 7,454,288 | 7,454,363 | 7,449,488 | 7,449,388 |
| **Subtotal** | | **128,627,494** | **126,838,454** | **130,722,661** | **130,895,387** | **131,151,144** |
| **Proposition C** | | | | | | |
| 1992-A New Money | Proposition C | 16,649,436 | 14,099,559 | 14,078,724 | 14,054,119 | 14,027,642 |
| 1993-A Refunding | Proposition C | 11,227,100 | 11,228,180 | 11,227,198 | 11,233,896 | 11,233,145 |
| 1993-B New Money | Proposition C | 21,525,003 | 21,521,003 | 21,522,203 | 21,520,603 | 21,523,003 |
| 1995-A New Money | Proposition C | 13,256,250 | 13,256,250 | 17,725,710 | 17,720,230 | 17,678,380 |
| 1998-A Refunding | Proposition C | 9,362,396 | 11,234,875 | 11,234,875 | 11,234,875 | 11,234,875 |
| **Subtotal** | | **72,020,185** | **71,339,866** | **75,788,709** | **75,763,722** | **75,697,045** |
| **Total Proposition A and Proposition C** | | **200,647,679** | **198,178,320** | **206,511,370** | **206,659,109** | **206,848,189** |
| **Other Sources** | | | | | | |
| 1996-A Refunding | General[2] | 10,739,734 | 10,739,734 | 10,739,734 | 10,739,734 | 10,739,734 |
| 1992-A COP | General[2] | 16,375,275 | 16,272,075 | 16,167,038 | 16,011,800 | 15,981,600 |
| 1992-B COP | Special[3] | 13,702,173 | 13,149,733 | 12,577,563 | 11,990,595 | 11,393,763 |
| **Subtotal** | | **40,817,181** | **40,161,541** | **39,484,334** | **38,742,129** | **38,115,096** |
| **Total Long-Term Debt** | | **$241,464,860** | **$238,339,862** | **$245,995,704** | **$245,401,237** | **$244,963,285** |
| | **Principal** | 60,576,347 | 61,950,548 | 73,610,230 | 77,401,196 | 81,729,173 |
| | **Interest** | 180,888,513 | 176,389,314 | 172,385,473 | 168,000,042 | 163,234,112 |
| | **Total** | **$241,464,860** | **$238,339,862** | **$245,995,704** | **$245,401,237** | **$244,963,285** |

Note: Differences in totals and subtotals are due to rounding.

[1]The amounts in this schedule are shown on a cash basis. They represent the principal and interest the MTA will pay in these fiscal years.

[2]The 1996-A refunding bonds for the Union Station Gateway Project and the 1992-A COP (certificates of participation) for the Workers' Compensation Funding Program are funded by general revenues, such as fare box revenues and fees, advertising revenues, and interest income derived from the facilities and properties maintained and operated by the MTA.

[3]The 1992-B certificates of participation for the California Transit Finance Corporation are funded by the Federal Transportation Administration's (FTA) project grants and other revenues received through a Memorandum of Understanding.

| 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| 11,490,871 | 11,358,266 | 14,634,435 | 14,638,530 | 14,637,470 | 14,639,035 | 14,635,820 | 14,635,235 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 17,646,488 | 21,609,778 | 21,595,588 | 17,620,000 | 27,935,938 | 27,915,200 | 32,862,813 | 32,824,475 |
| 5,783,820 | 5,783,820 | 21,509,160 | 25,510,410 | 15,137,650 | 15,216,870 | 10,201,570 | 10,297,610 |
| 19,777,600 | 15,764,150 | 0 | 0 | 0 | 0 | 0 | 0 |
| 31,643,544 | 38,165,511 | 37,958,616 | 37,923,306 | 37,887,081 | 37,847,806 | 37,818,744 | 37,777,969 |
| 8,104,466 | 8,099,224 | 8,096,131 | 8,089,576 | 8,088,786 | 8,082,964 | 8,081,276 | 8,067,245 |
| 22,727,756 | 16,346,844 | 16,266,025 | 16,253,250 | 16,231,500 | 16,316,850 | 16,306,938 | 16,299,938 |
| 2,667,456 | 2,529,516 | 2,842,356 | 2,417,998 | 0 | 0 | 0 | 0 |
| 651,539 | 833,473 | 420,857 | 3,248,174 | 0 | 0 | 0 | 0 |
| 722,860 | 722,307 | 721,146 | 721,432 | 720,987 | 719,813 | 719,963 | 719,262 |
| 1,662,540 | 1,662,023 | 1,660,030 | 1,661,415 | 1,661,030 | 1,658,875 | 1,659,803 | 1,658,665 |
| 7,443,788 | 7,442,413 | 7,439,850 | 7,435,825 | 7,434,925 | 7,426,875 | 7,426,263 | 7,420,744 |
| **130,322,727** | **130,317,323** | **133,144,194** | **135,519,917** | **129,735,367** | **129,824,288** | **129,713,188** | **129,701,142** |
| | | | | | | | |
| 13,998,145 | 13,974,325 | 13,947,745 | 13,918,730 | 13,887,125 | 0 | 0 | 0 |
| 11,230,075 | 11,234,427 | 11,231,073 | 11,239,754 | 11,240,214 | 11,247,323 | 11,245,953 | 11,255,845 |
| 21,521,003 | 21,521,303 | 21,523,683 | 21,523,763 | 21,523,388 | 21,524,563 | 21,522,425 | 21,524,350 |
| 17,666,005 | 17,660,783 | 17,651,533 | 17,637,370 | 17,627,115 | 17,619,293 | 17,621,310 | 17,609,965 |
| 11,234,875 | 11,234,875 | 11,234,875 | 11,234,875 | 11,234,875 | 26,517,713 | 26,538,363 | 26,508,963 |
| **75,650,102** | **75,625,712** | **75,588,908** | **75,554,492** | **75,512,717** | **76,908,891** | **76,928,050** | **76,899,122** |
| | | | | | | | |
| **205,972,830** | **205,943,035** | **208,733,102** | **211,074,409** | **205,248,084** | **206,733,178** | **206,641,238** | **206,600,264** |
| | | | | | | | |
| 10,739,734 | 10,739,734 | 10,739,734 | 11,500,234 | 12,762,859 | 11,984,359 | 12,946,609 | 13,396,071 |
| 15,878,350 | 15,830,500 | 15,774,500 | 15,667,750 | 15,571,500 | 15,560,000 | 15,532,000 | 15,553,000 |
| 10,787,065 | 10,168,125 | 0 | 0 | 0 | 0 | 0 | 0 |
| **37,405,149** | **36,738,359** | **26,514,234** | **27,167,984** | **28,334,359** | **27,544,359** | **28,478,609** | **28,949,071** |
| | | | | | | | |
| **$243,377,978** | **$242,681,394** | **$235,247,335** | **$238,242,392** | **$233,582,443** | **$234,277,537** | **$235,119,847** | **$235,549,336** |
| | | | | | | | |
| 85,334,198 | 89,909,109 | 87,805,390 | 96,432,407 | 97,649,932 | 104,402,631 | 111,527,446 | 118,667,262 |
| 158,043,780 | 152,772,285 | 147,441,945 | 141,809,985 | 135,932,511 | 129,874,907 | 123,592,401 | 116,882,074 |
| **$243,377,978** | **$242,681,394** | **$235,247,335** | **$238,242,392** | **$233,582,443** | **$234,277,537** | **$235,119,847** | **$235,549,336** |

**Summary of Principal and Interest[1]**
**Fiscal Years 2011-12 Through 2023-24**

| Transactions | Funding Source | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|
| **Proposition A** | | | | | | |
| 1988-A Refunding | Proposition A | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| 1989-A Refunding | Proposition A | 14,639,135 | 14,634,560 | 14,638,180 | 14,636,295 | 14,635,205 |
| 1991-A New Money | Proposition A | 0 | 0 | 0 | 0 | 0 |
| 1991-B Refunding | Proposition A | 32,781,963 | 32,734,913 | 32,687,475 | 28,603,838 | 28,561,113 |
| 1992-A Refunding | Proposition A | 10,261,420 | 10,293,000 | 0 | 0 | 0 |
| 1992-B Refunding | Proposition A | 0 | 0 | 0 | 0 | 0 |
| 1993-A Refunding | Proposition A | 37,733,831 | 37,694,131 | 37,641,806 | 41,641,891 | 41,569,469 |
| 1996-A New Money | Proposition A | 8,066,408 | 8,060,076 | 8,050,561 | 8,046,385 | 8,036,750 |
| 1997-A Refunding | Proposition A | 16,289,431 | 16,284,194 | 26,666,675 | 26,641,388 | 26,621,881 |
| 1990-A Lease Revenue | Proposition A | 0 | 0 | 0 | 0 | 0 |
| 1990-A Yen Obligation | Proposition A | 0 | 0 | 0 | 0 | 0 |
| 1993-A Housing | Proposition A | 719,765 | 719,294 | 717,850 | 717,314 | 717,554 |
| 1993-A Redevelopment | Proposition A | 1,655,463 | 1,655,048 | 1,657,125 | 1,656,548 | 1,658,168 |
| 1996 Refunding | Proposition A | 7,414,806 | 7,409,588 | 7,404,525 | 7,399,056 | 7,397,478 |
| **Subtotal** | | **129,562,221** | **129,484,803** | **129,464,196** | **129,342,713** | **129,197,617** |
| **Proposition C** | | | | | | |
| 1992-A New Money | Proposition C | 0 | 0 | 0 | 0 | 0 |
| 1993-A Refunding | Proposition C | 11,237,257 | 11,240,190 | 11,248,741 | 31,482,434 | 31,526,758 |
| 1993-B New Money | Proposition C | 21,523,213 | 21,522,150 | 21,523,025 | 21,522,675 | 21,522,163 |
| 1995-A New Money | Proposition C | 17,592,805 | 17,577,298 | 17,569,525 | 17,557,850 | 17,542,438 |
| 1998-A Refunding | Proposition C | 26,534,125 | 26,505,875 | 26,485,250 | 6,228,500 | 6,224,250 |
| **Subtotal** | | **76,887,399** | **76,845,512** | **76,826,541** | **76,791,459** | **76,815,608** |
| **Total Proposition A and Proposition C** | | **206,449,621** | **206,330,315** | **206,290,737** | **206,134,172** | **206,013,225** |
| **Other Sources** | | | | | | |
| 1996-A Refunding | General[2] | 13,920,924 | 14,456,540 | 15,018,584 | 15,718,548 | 16,135,598 |
| 1992-A COP | General[2] | 0 | 0 | 0 | 0 | 0 |
| 1992-B COP | Special[3] | 0 | 0 | 0 | 0 | 0 |
| **Subtotal** | | **13,920,924** | **14,456,540** | **15,018,584** | **15,718,548** | **16,135,598** |
| **Total Long-Term Debt** | | **$220,370,545** | **$220,786,855** | **$221,309,321** | **$221,852,720** | **$222,148,823** |
| | **Principal** | 110,119,194 | 117,076,126 | 124,488,058 | 132,312,106 | 140,373,271 |
| | **Interest** | 110,251,352 | 103,710,730 | 96,821,263 | 89,540,614 | 81,775,552 |
| | **Total** | **$220,370,545** | **$220,786,855** | **$221,309,321** | **$221,852,720** | **$222,148,823** |

Note: Differences in totals and subtotals are due to rounding.

[1]The amounts in this schedule are shown on a cash basis. They represent the principal and interest the MTA will pay in these fiscal years.

[2]The 1996-A refunding bonds for the Union Station Gateway Project and the 1992-A COP (certificates of participation) for the Workers' Compensation Funding Program are funded by general revenues, such as fare box revenues and fees, advertising revenues, and interest income derived from the facilities and properties maintained and operated by the MTA.

[3]The 1992-B certificates of participation for the California Transit Finance Corporation are funded by the Federal Transportation Administration's (FTA) project grants and other revenues received through a Memorandum of Understanding.

| 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|---|---|---|---|---|---|---|---|
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| 14,634,500 | 14,638,075 | 14,636,275 | 14,634,900 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 33,190,125 | 33,143,406 | 9,978,875 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 36,953,422 | 50,104,906 | 73,155,203 | 83,263,875 | 97,923,250 | 97,810,625 | 0 | 0 |
| 8,026,250 | 8,020,750 | 8,014,200 | 8,005,700 | 7,994,350 | 7,984,100 | 7,973,750 | 7,962,100 |
| 26,590,663 | 13,317,238 | 13,307,356 | 13,295,688 | 13,286,050 | 13,272,263 | 13,258,144 | 13,247,250 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 716,556 | 716,374 | 714,831 | 713,980 | 713,698 | 713,861 | 712,291 | 711,041 |
| 1,656,838 | 1,652,558 | 1,655,033 | 1,653,968 | 1,649,363 | 1,650,923 | 1,648,353 | 1,646,505 |
| 7,389,228 | 7,381,113 | 7,372,138 | 7,358,050 | 7,352,200 | 7,338,950 | 7,332,250 | 7,320,900 |
| **129,157,581** | **128,974,419** | **128,833,910** | **128,926,160** | **128,918,911** | **128,770,721** | **30,924,787** | **30,887,796** |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 31,580,485 | 31,634,876 | 31,686,325 | 31,745,835 | 31,804,154 | 0 | 0 | 0 |
| 21,524,944 | 21,524,475 | 21,524,213 | 21,523,925 | 21,522,406 | 21,521,538 | 21,523,563 | 21,525,594 |
| 17,526,775 | 17,509,213 | 17,523,125 | 17,504,875 | 17,490,750 | 17,474,125 | 17,458,375 | 17,436,875 |
| 6,223,375 | 6,225,625 | 6,225,875 | 6,224,125 | 6,220,375 | 38,106,875 | 38,062,625 | 38,017,250 |
| **76,855,578** | **76,894,189** | **76,959,537** | **76,998,760** | **77,037,685** | **77,102,538** | **77,044,563** | **76,979,719** |
| **206,013,159** | **205,868,608** | **205,793,448** | **205,924,920** | **205,956,596** | **205,873,259** | **107,969,349** | **107,867,515** |
| 16,806,678 | 17,452,943 | 18,124,715 | 18,824,084 | 19,549,734 | 20,300,056 | 21,075,888 | 21,869,655 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **16,806,678** | **17,452,943** | **18,124,715** | **18,824,084** | **19,549,734** | **20,300,056** | **21,075,888** | **21,869,655** |
| **$222,819,837** | **$223,321,551** | **$223,918,163** | **$224,749,004** | **$225,506,329** | **$226,173,314** | **$129,045,237** | **$129,737,170** |
| 149,184,436 | 158,252,718 | 167,930,999 | 178,176,397 | 188,583,912 | 199,288,543 | 110,243,174 | 116,989,921 |
| 73,635,401 | 65,068,834 | 55,987,164 | 46,572,607 | 36,922,418 | 26,884,772 | 18,802,063 | 12,747,249 |
| **$222,819,837** | **$223,321,551** | **$223,918,163** | **$224,749,004** | **$225,506,329** | **$226,173,314** | **$129,045,237** | **$129,737,170** |

**Summary of Principal and Interest[1]**
**Fiscal Years 2024-25 Through 2027-28**

| Transaction | Funding Source | 2024-25 | 2025-26 | 2026-27 | 2027-28 | Total |
|---|---|---|---|---|---|---|
| **Proposition A** | | | | | | |
| 1988-A Refunding | Proposition A | $ 0 | $ 0 | $ 0 | $ 0 | $ 3,458,730 |
| 1989-A Refunding | Proposition A | 0 | 0 | 0 | 0 | 307,067,392 |
| 1991-A New Money | Proposition A | 0 | 0 | 0 | 0 | 24,276,119 |
| 1991-B Refunding | Proposition A | 0 | 0 | 0 | 0 | 519,943,504 |
| 1992-A Refunding | Proposition A | 0 | 0 | 0 | 0 | 158,914,430 |
| 1992-B Refunding | Proposition A | 0 | 0 | 0 | 0 | 127,507,454 |
| 1993-A Refunding | Proposition A | 0 | 0 | 0 | 0 | 1,090,814,338 |
| 1996-A New Money | Proposition A | 7,952,800 | 7,939,500 | 7,925,850 | 0 | 231,608,395 |
| 1997-A Refunding | Proposition A | 13,233,138 | 13,214,494 | 13,199,744 | 13,182,181 | 507,578,988 |
| 1990-A Lease Revenue | Proposition A | 0 | 0 | 0 | 0 | 23,566,290 |
| 1990-A Yen Obligation | Proposition A | 0 | 0 | 0 | 0 | 8,712,869 |
| 1993-A Housing | Proposition A | 709,989 | 709,011 | 707,982 | 0 | 20,122,489 |
| 1993-A Redevelopment | Proposition A | 1,645,085 | 1,643,798 | 1,647,200 | 0 | 46,490,873 |
| 1996 Refunding | Proposition A | 7,308,850 | 7,299,750 | 7,287,250 | 0 | 214,503,875 |
| **Subtotal** | | **30,849,862** | **30,806,552** | **30,768,026** | **13,182,181** | **3,284,565,744** |
| **Proposition C** | | | | | | |
| 1992-A New Money | Proposition C | 0 | 0 | 0 | 0 | 142,635,549 |
| 1993-A Refunding | Proposition C | 0 | 0 | 0 | 0 | 401,261,237 |
| 1993-B New Money | Proposition C | 0 | 0 | 0 | 0 | 559,600,169 |
| 1995-A New Money | Proposition C | 17,417,875 | 17,399,375 | 0 | 0 | 483,311,470 |
| 1998-A Refunding | Proposition C | 0 | 0 | 0 | 0 | 427,325,433 |
| **Subtotal** | | **17,417,875** | **17,399,375** | **0** | **0** | **2,014,133,858** |
| **Total Proposition A and Proposition C** | | **48,267,737** | **48,205,927** | **30,768,026** | **13,182,181** | **5,298,699,602** |
| **Other Sources** | | | | | | |
| 1996-A Refunding | General[2] | 22,724,405 | 23,590,993 | 0 | 0 | 424,077,343 |
| 1992-A COP | General[2] | 0 | 0 | 0 | 0 | 206,175,388 |
| 1992-B COP | Special[3] | 0 | 0 | 0 | 0 | 83,769,015 |
| **Subtotal** | | **22,724,405** | **23,590,993** | **0** | **0** | **714,021,746** |
| **Total Long-Term Debt** | | **$70,992,142** | **$71,796,920** | **$30,768,026** | **$13,182,181** | **$6,012,721,348** |
| | **Principal** | 63,123,785 | 67,574,766 | 29,262,863 | 12,845,000 | 3,212,821,132 |
| | **Interest** | 7,868,357 | 4,222,154 | 1,505,164 | 337,181 | 2,799,900,216 |
| | **Total** | **$70,992,142** | **$71,796,920** | **$30,768,026** | **$13,182,181** | **$6,012,721,348** |

Note: Differences in totals and subtotals are due to rounding.

[1]The amounts in this schedule are shown on a cash basis. They represent the principal and interest the MTA will pay in these fiscal years.

[2]The 1996-A refunding bonds for the Union Station Gateway Project and the 1992-A COP (certificates of participation) for the Workers' Compensation Funding Program are funded by general revenues, such as fare box revenues and fees, advertising revenues, and interest income derived from the facilities and properties maintained and operated by the MTA.

[3]The 1992-B certificates of participation for the California Transit Finance Corporation are funded by the Federal Transportation Administration's (FTA) project grants and other revenues received through a Memorandum of Understanding.

# APPENDIX B

## *Summary Statistics of Major Transit Authorities in the United States for Fiscal Year 1996-97*

| | Los Angeles County Metropolitan Transportation Authority | Metropolitan Transportation Authority, New York | Metropolitan Atlanta Rapid Transit Authority | Washington Metropolitan Area Transit Authority | Southeastern Pennsylvania Transportation Authority |
|---|---|---|---|---|---|
| Miles of rail line | 47.2 | 2,038 | 45 | 92.3 | [a] |
| Number of buses | 2,200 | 4,184 | 782 | 1,299 | 400 |
| Service area in square miles | 1,433 | 4,000 | 805 | 1,486 | 2,200 |
| Average weekday paid rail ridership | 110,000 | 4,271,670 | [a] | 528,000 | [a] |
| Average weekday paid bus ridership | 1,200,000 | 1,450,164 | [a] | 361,000 | [a] |
| Average total weekday paid ridership | 1,310,000 | 5,721,834 | [a] | 736,000[b] | 678,000[c] |
| Operating expenses (Including debt service) | $1,062,658,209 | $1,783,220,000 | $457,430,000 | $638,483,000 | $751,391,000 |
| Debt service[d] | $258,116,209 | $428,091,000 | $78,982,000 | $15,496,000 | $41,443,000[e] |
| Debt service as a percentage of combined operating expenses and debt service | 24% | 24% | 17% | 2% | 6% |
| Debt outstanding | $3,395,523,000 | $5,936,064,000 | [a] | $296,196,000 | $326,736,000 |

Source: We obtained information for the authorities in Los Angeles, Atlanta, Washington D.C., and Southeastern Pennsylvania from their comprehensive annual financial reports (CAFR) and budget reports for fiscal year 1996-97 (July 1, 1996, through June 30, 1997). Information for the Metropolitan Transportation Authority, New York, came from its CAFR and budget reports for calendar year 1997 (January 1 through December 31, 1997).

Note: Direct comparison is difficult because of unavailable data.

[a]Not available.

[b]To avoid duplication, total ridership excludes combined trips.

[c]Combined average weekday rail and bus ridership.

[d]Transit equipment debt may have been issued at different times, which would affect future debt-service costs.

[e]Combined lease cost/debt service only available as amount forecasted for fiscal year 1997-98.

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*Agency's response to the report provided as text only:*

Metropolitan Transportation Authority
One Gateway Plaza
Los Angeles, CA 90012-2932
(213) 922-2000

October 2, 1998

Kurt R. Sjoberg, State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

We have read your draft report titled "Los Angeles Metropolitan Transportation Authority: Its Plan for Managing Debt is Reasonable" and agree with your overall findings.

With respect to your recommendations:

> <u>Debt Policy</u> - We agree that the MTA should adopt a formal debt policy. Management has completed a recommended debt policy that will be presented to the Board for adoption in October 1998. We believe that the policy establishes conservative maximums to control the issuance and management of debt. A copy of management's proposal will be forwarded to you as soon as it is circulated to the Board next week.
>
> <u>Documentation</u> - We agree that written analyses describing decisions on the type and composition of each debt transaction be maintained. The proposed debt policy requires documentation of these decisions.

Thank you for the opportunity to comment on your report. I would like to commend Linus Li and his staff for their patience and professionalism in the conduct of this review.

Very truly yours,

*Signature of Terry Matsumoto*

Terry Matsumoto
Executive Officer, Finance

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps