



MEETINGS OF THE
Board of Directors

Valley Metro RPTA

METRO Light Rail

MEETING DATE

February 21, 2013

MEETING DATE

February 21, 2013

TIME

12:45 p.m.

TIME

2:00 p.m.

LOCATION

Valley Metro RPTA
Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
Phoenix



February 13, 2013

TO: Members of the Valley Metro RPTA and METRO Light Rail
Boards of Directors

FROM: Steve Banta
Chief Executive Officer

RE: February 21, 2013 Packet Notes

Attached is the February 21, 2013 agendas and supporting information for the Valley Metro RPTA and METRO Light Rail Boards of Directors meetings.

These meetings can be attended via teleconference. Please contact the receptionist at 602-262-7433 for the call-in information.

If you have any questions regarding the information in this packet, please let me know.

Parking is available onsite and parking can be accessed via the entrance on Adams Street. Parking validation will be available at the meeting. Transit tickets are also available to those who attend the meeting using transit. If you need detailed directions, please contact the receptionist at 602-262-7433.

Agenda

February 13, 2013



Board of Directors

Thursday, February 21, 2013

Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
12:45 p.m.

For those participating by telephone, please mute your phone when not speaking.

Members please make sure your microphone is turned on when speaking and turned off when you are not speaking.

Action Recommended

1. Public Comment

1. For information

A 15-minute opportunity will be provided to members of the public at the beginning of the meeting to address the Board on all agenda items. The Chair may recognize members of the public during the meeting at his/her discretion. Up to three minutes will be provided per speaker or a total of 15 minutes total for all speakers.

2. Minutes

2. For action

Minutes from the January 24, 2013 Board meeting are presented for approval.

3. Chief Executive Officer's Report

3. For information

Steve Banta, Chief Executive Officer (CEO) will brief the Board on current issues.

4. APTA President and CEO Presentation

4. For information

Steve Banta, CEO, will introduce Michael Melaniphy, President & CEO of the American Public Transportation Association (APTA), who will provide a briefing to the Board on the state of public transportation in the United States.

CONSENT AGENDA

- 5A. FY 2013 Intergovernmental Agreement (IGA) Amendment with Maricopa County Defining Conditions for the Provision of Public Transportation

5A. For action

Staff will request that the Board of Directors authorize the CEO to execute an amendment to the existing IGA between Maricopa County and the RPTA.

- 5B. Workers' Compensation and Employer's Liability Insurance Coverage Renewal

5B. For action

Staff will request that the Board of Directors authorize the CEO to renew the workers' compensation and employer's liability insurance coverage for a one year period with SCF Western Insurance Company for estimated annual premium of \$185,696.

- 5C. Authorization to Issue a Request for Proposals (RFP) for Vanpool Services

5C. For action

Staff will request that the Board of Directors authorize the CEO to issue a RFP for a Valley Metro Vanpool service contractor.

- 5D. Intergovernmental Agreement with the City of Phoenix for Federal Transit Administration Pass-Through Grant AZ-05-0204

5D. For action

Staff will request that the Board of Directors authorize the CEO to enter into an intergovernmental agreement with City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.

- 5E. FY 2011/12 Comprehensive Annual Financial Report (CAFR) and Single Audit Act Reporting Package

5E. For action

Staff will request that the Metro Board of Directors accept the Comprehensive Annual Financial Report and Single Audit Act Reporting Package for the period ended June 30, 2012.



REGULAR AGENDA

6. RPTA Fiscal Year 2013 Mid-Year Budget Adjustment

6. For action

Steve Banta, CEO, will introduce John McCormack, Chief Financial Officer, who will provide the Mid-Year Budget Adjustment update to the Valley Metro RPTA Operating and Capital Budget for Fiscal Year (FY) 2013 and request that the TMC forward to the Board of Directors for approval.

7. Future Board Agenda Items Request and Report on Current Events

7. For information and discussion

Chair Aames will request future Board agenda items from members and members may provide a report on current events.

8. Next Meeting

8. For information

The next meeting of the Board is scheduled for **Thursday, March 21, 2013 at 12:45 p.m.**

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print, audiocassette, or computer diskette) 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



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 1**SUBJECT**

Public Comment

PURPOSE

An opportunity for general public comment on issues related to Valley Metro RPTA. Up to three (3) minutes or a total of 15 minutes for all speakers, will be provided.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None



Minutes



DATE

February 13, 2013

AGENDA ITEM 2

Minutes of the
Valley Metro RPTA
Board of Directors
Thursday, January 24, 2013
12:45 p.m.

Meeting Participants

Vice Mayor Ron Aames, City of Peoria, Chair
Councilmember Dennis Kavanaugh for Councilmember Scott Somers, City of Mesa, Vice Chair (phone)
Councilmember Trinity Donovan, City of Chandler, Treasurer (phone)
Councilmember Shana Ellis, City of Tempe
Councilmember Jim McDonald, City of Avondale (via phone)
Councilmember Eric Orsborn, Town of Buckeye
Mayor Lana Mook, City of El Mirage (via phone)
Vice Mayor Jenn Daniels, Town of Gilbert (via phone)
Vice Mayor Kathie Farr, City of Tolleson
Supervisor Mary Rose Wilcox, Maricopa County
Councilmember Bob Littlefield, City of Scottsdale
Mayor Sharon Wolcott, City of Surprise (via phone)
Councilmember Sam Crissman, Town of Wickenburg

Not Present

Mayor Greg Stanton, City of Phoenix
Councilmember Gary Sherwood, City of Glendale
Councilmember Joe Pizzillo, City of Goodyear

Chair Aames called the meeting to order at 12:47 p.m.

Chair Aames said I'd like to convene the RPTA Board Meeting for Thursday, January 24, 2013, and I welcome the members who are here and on the phone.

I would like to welcome specifically a new member, Sam Crissman from the town of Wickenburg. It's great to have you here, Sam. And then we got someone sitting in, Dennis Kavanaugh, for City of Mesa for Scott Somers. And the other people we have on the phone: Trinity Donovan, City of Chandler, Lana Mook from the City of El Mirage and Jim McDonald from the City of Avondale.

We have more than a quorum. We're getting started a little late. Some people had some difficulty with the rain.



I have a number of public comment cards. Most of them are for agenda Item 6. I'm going to have those people come up when we get to agenda Item 6, but I have some others that are general and one that's on another item and I do those at the start. So we will begin that way.

The first person who wants to speak generally is Howard May. Would you come up, Howard, and tell us the city where you live.

Mr. May said good afternoon. Members of the board, I was living in the City of Phoenix. I now live in Glendale to be closer to my church. The item I want to present to you today is you guys are having problems with fare revenue. And I know one of the reasons why.

You have fareboxes that are not processing your day passes properly. When you drop them in, it goes up, it goes down, it goes up, it goes down, and it stamps. That is a problem for someone like myself. I know the farebox pretty well. However, there are two instances I know of, one, where I was on a bus where the farebox was not printing properly and so I witnessed a driver handwrite the date on them. And a friend of mine was on a Glendale route where that happened last week. I don't know if he reported it or not. But that's one item.

The other item is a question to you, and I'll let you figure that one out, is how are you going to stop people from sneaking on the light rail when you guys are not doing audits and not paying. Thank you.

Chair Aames said thank you, Mr. May. And our CEO is going to take note of that. The next person is Blue Crowley, you want to speak generally and you have 4B. Could you address both of those in your time period, please.

Mr. Crowley said yes. I found it fascinating and I thought helpful that when I pointed out some mistakes on the bus map I watched staff write them down. I thought it would be interesting that the new bus book has the exact same map with the exact same problem. So I don't know, maybe I was delusional when I saw the staff taking those things down.

I also had stopped in to tell Mr. Banta, hey, when you told me that our transit system runs at 13 miles an hour, I was stupid because I didn't ask a lawyer question. I didn't look in the bus book and find that the 20 miles in the system is covered in an hour. So if those rail are doing 13, our on-time performance is way knocked out and the documents I have doesn't show that, so I don't know why the man would say something like that that it runs at 13 miles an hour because all I was doing was extrapolating this is what you're saying it cost, I'm trying to find out how many miles you're covering. So for him to say 13, I don't know. But then I looked for it in the minutes, that dissertation or exchange, and found it wasn't in there, which also then tweaked my interest when I had stopped by and said, sir, you need to amend those and show what the reality is. He said he didn't care and to bring it on.



I'm not in a fight with you, sir. You're working for me. You are needing to get the job done. If you can't do that, you can join Mr. Bourey and Mr. Edwards and a couple other people who don't get the job done and think that theirs is above and beyond. I'd also like to point out on the bus map, we'll just make a line at 67th Avenue. And if you make that line from 67th Avenue, it goes all the way to the Pinal County line. Everything west of there has what? No north-south service. So we have two-thirds of the county with nothing. Now there is one route that does run kind of north-south in Mary's district, the one that goes to Ajo, but when I look for the rural route that should be in Wickenburg that should have started the Wickenburg connector going from Wickenburg to Aguila back to Wickenburg and down and running to where it could have connected with the Surprise express. But instead you had the bus getting there at eight o'clock in the morning and getting back to Phoenix by 10:00 a.m.

So you need to re-establish that route. You need to start looking at the other part of the county because how many of those people are paying the taxes? Oh, yeah, all of them.

Now do I get 30 more seconds for 4B?

Chair Aames said no.

Mr. Crowley said because all they had was me for three minutes on public comment.

Chair Aames said you get one minute here.

Mr. Crowley said all right. All I need is 30 seconds on that. With 4B, I find that the trip reduction program and your awarding the contracts and saying like how good we're doing, I look back at your awards ceremony. You had it where you couldn't have got there on alternative transportation. That's real smart. That's trip reduction. Thank you.

Chair Aames said the next speaker is AJ Poore and you live in Glendale.

Mr. Poore said good afternoon, ladies and gentlemen. My name is AJ. I am a city bus operator. Regardless of what city I live in, I live here in the Valley. My paychecks come from all my passengers. If you cut my paycheck in half by giving this award to a company that's underbid so much, you're not affecting just me; you're affecting everybody that I shop with Bashas', Circle Ks. And it's like I understand budget cuts. Hell, I'm doing a budget cut with my family. And it's getting to the point where I can't go to Wal-Mart and buy food for the whole week because I've got my other bills I've got to pay.

And then you said that you're going to cut our wages, you're going to drop -- this company is going to drop our paychecks from 40 hours down to 28 hours with no benefits. How do you expect us to live?



We live here in the Valley. This is the greatest valley in the world. And all the other cities and states are going to be looking at what's happening here and we're going to be a mockery.

Please, I implore you, look over this what First Transit has been trying to shove down your throat and, please, think of us operators, the cleaners, the mechanics. They deserve a decent wage and a decent living. I thank you very much.

Chair Aames said thank you, Mr. Poore.

2. Minutes

Now I will move on with the meeting. And the next item is the minutes. These are the minutes from the December 13, 2012 Board meeting. And I request a motion and a second to approve these minutes, although if anyone has any comments before that, please speak up.

IT WAS MOVED BY COUNCILMEMBER ORSBORN, SECONDED BY COUNCILMEMBER DANIELS AND UNANIMOUSLY CARRIED TO APPROVE THE MINUTES FROM DECEMBER 13, 2012.

3. Chief Executive Officer's Report

Chair Aames said next we have a report from our Chief Executive Officer. I believe he's going to speak just a little bit and then later we'll come back to that, but he wants to make an important comment.

Mr. Banta said Mr. Chairman; thank you, and members of the board. I'd like to introduce Marvin Rochelle one of our transit advocates. Jeff Rosen passed away at the end of December, and Marvin wanted to take a moment of silence and say a couple of words on behalf of Jeff Rosen.

Mr. Rochelle said if you will all bow your heads in respect, I will make a very simple prayer for Jeff. Jeff was only 54 years of age. He spent 54 years in wheelchairs. Jeff was one of the hardest workers I have seen in a long time here in the Phoenix area working to help visually impaired and disabled people. May he rest in peace. Amen.

Mr. Banta said thank you, Marvin.

Mr. Chairman, in the interest of time, I will forego my CEO report to the end of the meeting and would suggest we move into the consent agenda items.

Chair Aames said okay. The next item, there are two items, two consent agenda items, and Mr. Banta is going to talk about these later, but if anyone wants to discuss consent agenda item A, they can do that now or make comments about it.

And consent agenda Item 4B, anyone want to discuss those? Does anyone want to take either of these consent agenda items off the agenda that would be for discussion also? No.

So seeing that there's no discussion nor no one wants to remove any of the consent agenda items, I would entertain a motion to accept them.

IT WAS MOVED BY SUPERVISOR WILCOX, SECONDED BY COUNCILMEMBER ORSBORN AND UNANIMOUSLY CARRIED TO APPROVE THE CONSENT AGENDA.

5. Federal Legislative Update

Chair Aames said the next is Federal Legislative Agenda. I think, Mr. Banta, you would like to delay that until after.

Mr. Banta said Mr. Chairman, if I could on the regular agenda if we could move to Item No. 6 in the interest of time and then we will come back to Item No. 5 afterwards. I would like to introduce that subject with your permission.

Chair Aames said okay. We will do that. We will come back to certainly No. 5, and you will give us a little briefing on the consent agenda as well so we hear some of the highlights of those.

6. Contract Award for a Fixed Route Contractor Unifying Valley Metro and City of Tempe Services

Chair Aames said Item No. 6, this is the Contract Award for Fixed Route Contractor Unifying Valley Metro and City of Tempe Services. And we will allow public comments on this, but first I'm going to call on Mr. Banta to provide background information.

Mr. Banta said thank you, Mr. Chairman, members of the board. As an update to the December meeting that we had, we did receive a second protest from Veolia on 12/27/2012. We have reported this matter also to the City of Phoenix, the FTA recipient for the Valley, and also the FTA.

We, Valley Metro staff, have performed a thorough analysis of the grounds for the protest. I issued a final decision on the protest on January 8, 2013. I have denied the protest a second time and no appeal to my decision a second time has been advanced to the FTA.

We have also received confirmation from our contractor First Transit. A lot of issues that you heard previously in the December board meeting about 13(c) compliance, wages and salaries, benefits, contractual requirements, all of those have been



committed to us in writing. You have a copy of the letter that will be respected and honored by the contractor that we're recommending today for approval - First Transit.

With that bit of information, I would like to introduce Jyme Sue McLaren who is going to go through a little more detailed presentation as to our reasons for advancing this for your approval. Thank you.

Ms. McLaren said thank you. Good afternoon, Chairman Aames, and members of the Valley Metro RPTA Board of Directors.

As Steve stated, we're here today to receive approval to award a contract to First Transit for the unified service within the City of Tempe and the RPTA service in the East Valley.

Just to give you an overview of what we're going to cover today, for the benefit of those board members who may not have been here last month, we're going to touch briefly what you heard last month on our procurement process.

We're also going to give you a comparison between the proposals that our panel has reviewed. And then we will turn it over for questions from the Board.

Some time ago, the city of Tempe and the RPTA recognized that there was a potential opportunity for savings with the expiration of two service contracts for the East Valley, one with the RPTA and the other with the City of Tempe.

A team of staff evaluated the opportunities presented to them and determined that a single RFP would be an opportunity to evaluate the potential for saving money for the East Valley services.

We began this process in October 2011. In June of this year we actually issued the RFP and through September and October the proposals were evaluated.

In November, the city of Tempe actually endorsed the staff recommendation to award the contract to First Transit and subsequent to that, the Transit Management Committee at their November meeting also endorsed to move forward with the award of the contract. So we're here today to seek board approval for that action.

Now to get into the procurement process, our RFP actually asked our proposers to provide us with three scenarios: what the proposal would look like if it was just an RPTA service, a city of Tempe service, and then an opportunity to combine both of those into one management team with one service provider.

In each of the service proposals, we did ask for a three-year contract term and then an additional seven years beyond to make it a full 10-year contract.



We received three proposals. And the three proposals that we received were: First Transit, National Express Group, and Veolia Transportation.

The evaluation panel consisted of several of our member cities: The cities of Tempe, Scottsdale, Mesa, the RPTA staff, and a representative from the Regional Transit District in Denver, Colorado.

The evaluation criterion that was used to evaluate the proposals was five categories. The categories were: a comprehensive operations plan, the management team's experience and expertise, continuous improvement, which continuous improvement is really a performance-based management of the contract; employee development, and then the last category, of course, is price.

Initial reviews of the proposals concluded that the unified approach really did achieve lower operating costs. It achieved a reduction in deadhead miles. Those are the miles that a bus takes to get from the maintenance facility to the beginning of their route when they're not actually picking up passengers. And it also received several economies of scale, which are listed up here.

Therefore, the status-quo proposals that we received at that time were not advanced for further consideration. At that time the only proposals that were advanced were the unified service proposals.

Now to take a look at the scoring points for all three proposals, this table really indicates the initial screening for those three proposals for the unified approach.

As a result of the scoring, National was deemed not within a competitive range and therefore not invited back for an oral interview or an opportunity to present a best and final offer. And then in looking at the final evaluation points, after the conclusion of the oral interviews and the best and final offers were presented, this scoring resulted in First Transit receiving the highest points in two categories: the operations plan, as well as the price category.

Those two categories are the highest percentage points awarded through the review and evaluation. That is 70 percent of the total points evaluated.

And just to take a look at how these proposals stacked up against one another, this graph really shows First Transit's ability to recognize where they might achieve efficiencies between a status quo and a unified service contract.

And really what it shows is, the delta between First Transit's status quo and the unified, they recognized a \$12 million savings by combining those two service contracts into one, while the Veolia proposal, as you can see, resulted in a \$7 million difference.



Prior to the issuing of our RFP, we did obtain an independent cost estimate. And this cost estimate was really to provide us with a general realm of reasonability for our proposals during the evaluation process.

As you can see from this chart, First Transit's proposal, which is the middle proposal, the light purple, and Veolia's is the dark purple, and the gray bar is our independent cost estimate.

As you can see First Transit's proposal really closed -- it tracked very closely with our independent cost estimate for both -- this is the first three years of the contract and these are the next seven and this is the total of all three or both of those.

And First Transit's really did track closely with our independent cost estimate. Veolia's was slightly higher for the first three years of the base contract. And then somewhat significantly higher in the seven years out.

Just to give you an understanding for how we have viewed utilization of these facilities and how they might actually save us money in our service operations, the red or the yellow area indicates primarily our service area. We actually go further north into the city of Scottsdale and a little bit further west, but this is generally our service area.

And as you can see, we're talking about two maintenance facilities under this contract: one in the East Valley, which is the RPTA maintenance facility, that facility is at the 202 freeway and Greenfield Road, and then one in central Tempe.

And really what you can see is that by optimizing where your services are delivered and where those facilities are located would help you achieve a reduction in those deadhead miles for the fleet in which you operate.

Now in looking at how our contractors actually viewed this, First Transit's proposal we believe was able to capture these efficiencies we believed could be realized in the contract proposal.

If you look, Veolia's proposal reassigned a total of 25 buses from the Mesa facility to the city of Tempe facility, which is more centrally located in the service area, while Veolia's proposal reassigned a total of sixty vehicles.

So we really have the bulk of our fleet in the First Transit proposal being in the central location of our service area. And I should point out that really what that does, that is a benefit to our contractor. Clearly, they save money by not having that and those costs are passed on to us, but it also puts less miles on the vehicle and less miles on our vehicles really mean an extended life for our fleet as well. So there's benefit to us as well and we also save cost on fuel.



I did want to just bring to the Board's attention that any successful bidder on our proposal would have to adhere to performance and safety standards that we have established.

As you can see, we have a lot of performance and safety standards. I would just bring to your attention, because the question was raised at the previous board meeting, that we do have standards for preventable accidents, maintenance failures, and deferred maintenance, which really lead to the overall safety of our fleet. And we monitor these performance standards regularly with our contractor.

When comparing the two proposals in the area of vehicle maintenance, I think there's just a couple points worth mentioning. The RFP did indicate that the proposers needed to be within an 18-month period of a successful bid to receive -- achieve a ASE blue seal maintenance certification. And really what that is, is an industry standard of excellence for vehicle maintainers.

When looking at First Transit and Veolia's proposal, First Transit indicated that they have received that level of achievement at fifty-eight facilities throughout the United States, while Veolia did not indicate that they had received that certification.

Air-conditioning maintenance, as you would imagine, is a priority for our fleet. Our fleet manufacturers -- our fleet air-conditioning systems are Thermo King.

One of the advantages that the panel saw for the First Transit proposal was there was a commitment to house on site a full-time Thermo King technician to provide the maintenance for our air-conditioning systems. And Veolia did not have a relationship with someone mentioned in the proposals for Thermo King.

And then if you look at the next three categories, really the number of mechanics between the two they pair up pretty even, as well as the budget that each proposer was establishing for parts and inventory and then incentivizing their team to receive technical certification. They're all pretty consistent with one another.

And then at the last board meeting, there was questions raised about the staffing plans, so we wanted to provide the Board with a comparison between First Transit's and Veolia's staffing plans. And when you look at the two, First Transit's proposal has a total of 58 FTEs, this number right down here, 58 FTEs identified as a delta less in their proposal.

And really, the largest number is the twenty-three vehicle operators, which is a 4 percent reduction. And this indicates where the cost savings can be achieved through efficiencies in their operating plan.



And then questions raised specifically by the Board, just to summarize, our contract cost savings of \$5 million dollars, there were questions at the previous meeting where is that \$5 million dollars coming from.

It's really a routing and schedule efficiencies that the First Transit proposal has achieved. That's a reduction in deadhead miles, as well as salary savings. They do have staffing efficiencies. They have less management, as well as administrative staff, and there are fewer vehicle miles, which really reduce the routine preventive maintenance. The less miles you put on the vehicles, the less maintenance that has to take place. So those were generally the areas where the cost savings were identified.

The issue of compliance with 13(c) was raised. I think it's important to recognize that as a recipient for federal funds, we are required to ensure that any contract we issue is also in compliance with 13(c).

First Transit, as Mr. Banta previously stated, has committed to us that they will fully comply with 13(c). They will honor labor, wages, and benefits that are currently in collective bargaining agreements. They will honor seniority levels in those agreements, and they will also offer comparable, if not better, health care plans for their work team.

And in summary, First Transit's proposal really determined to be the most advantageous in realizing cost savings associated with the service unification and they chose to pass those cost savings on to us.

I think it's worth noting that the three-year pricing for the base term of the contract is between 9 and 10 percent below the cost that we're paying today for the comparable service.

So we are here today to seek board approval to execute a contract for the RPTA and city of Tempe bus operations and maintenance with First Transit for a total amount for the three-year period of \$150,885,082. And we are also seeking board authorization to execute a change order for a contingency in the amount of \$12.5 million. That contingency is to allow the agency an opportunity to add additional service where needs arise.

Now if the Board chooses to move forward with this contract today, we are prepared to initiate the service contract on July 1st of this year.

I think it's worth noting that the contract also includes a pricing option for those next seven years of the contract. A decision to exercise those options will be made during the first three years of the base contract. And we will be returning to the Board for your approval to execute that additional seven-year term beyond the three base years.

I believe that concludes my presentation. We have several staff members, as well as myself, and Mr. Banta to answer any questions that the board may have at this time.



Chair Aames said are there any questions or points of discussion from the board?

Supervisor Wilcox said I have a couple and thank you for all of the information you provided us. I got the information and went through it. A couple of things I wanted to ask. The routes were reduced -- were reassigned sixty bus routes by First Transit and 25 by Veolia in the contracts they put in.

On the contracts that First Transit came up with, what does that do to customer service? You know, I am trying to visualize the route that maybe goes from the Capitol to downtown, and by combining routes that will go a longer route. What does that do to customer times?

Ms. McLaren said the reassignment of the fleet really optimized the amount of time that the bus has to take to and from the beginning of its route. So it allows the bus fleet to move to a Tempe location, for example, on a route that might be better served by that facility. That's really the optimizing of the fleet.

Mr. Banta said the current route structure is not changing. It's the start and stop points of that bus for that day of service. We're not recommending at this point in time or talking about eliminating any service in a certain corridor as being more efficient in how we service maintenance the buses.

Supervisor Wilcox said I realize that. I guess the question is if you have a longer route, obviously the bus isn't going to turn around and come back on the route as fast, so does that affect the times typically the customers will get on the buses? Does it lengthen the time?

Mr. Banta said no.

Supervisor Wilcox said and on the independent consultant, when they came up with the figure, were either Veolia or First Transit privy to that figure?

Ms. McLaren said the independent cost estimate was made available to our proposers after the proposals were received by us, so I think it was November of this year, so they had already submitted their proposals before the independent cost estimate was made available to them.

Supervisor Wilcox said the labor portion, which I was real concerned with, I understand from a First Transit letter that came in and was sent to us by your staff, that the collective bargaining agreement is going to be honored?

Ms. McLaren said that is correct.

Supervisor Wilcox said how many people will First Transit have to lay off? Did that come up, or are they committing to keeping all our bus drivers?



Ms. McLaren said well, it's not -- we leave the responsibility of the staffing plan to the contractor or the proposer. So they will have to work within how many staff they have available. It's a very fluid number. Between now and the time in which they take over the service, there could be -- we could be down several employees due to people leaving and not replacing those positions.

So we believe the number is very small and that they will work toward -- they have expressed to us that they will work toward, through an attrition process, to retain as many employees as they can without incurring additional layoffs.

Supervisor Wilcox said my understanding also is that First Transit is committing to seniority?

Ms. McLaren said yes, that's part of the 13(c).

Supervisor Wilcox said okay. The collective bargaining agreement that they're agreeing to, that's already in place?

Ms. McLaren said there is one collective bargaining agreement in place for the City of Tempe's service. The City of Mesa's collective bargaining agreement expired a year ago in July, and we understand that they are negotiating.

Mr. Banta said I believe the deal terms were reached, but I don't know that it's been ratified by membership. Because we're not involved in those negotiations, that is a matter between Veolia and the ATU at this point.

Supervisor Wilcox said I guess the question is if that is close to ratification, is that the contract that First Transit will honor?

Mr. Banta said yes.

Supervisor Wilcox said okay. The new one, let's say if there's a vote within a week or something.

Mr. Banta said yes.

Supervisor Wilcox said okay. I think that's all the questions I had right now. I know there's speakers that might bring up more questions.

Chair Aames said does anyone else on the Board want to say anything or ask a question?

Okay, with that then we will go to public comments, and we have quite a few of them.

The first person is John Hoeft, and I have you down as living in Dallas, Texas.



Chair Aames said okay. And I'm going to give everyone like a minute and a half to two minutes because we have so many that want to speak.

Mr. Hoeft said I'll have to talk fast. Mr. Chairman, members of the board, my name is John Hoeft, I'm general counsel of Veolia's transit division. I reside in Dallas, Texas.

We would like to thank the staff for making available the material that, we believe, was needed by the board and the public. Some of those documents were only received this morning.

You should not award the contract to First Transit, because First's price is unreasonably low, unrealistically low based on labor cost assumptions that aren't achievable.

First Transit asserts it will hold wages and benefits at their current level. But achieve reductions in labor costs through reducing deadhead miles and deadhead hours. Miles translate to hours.

First Transit's proposal reduces deadhead hours by 3,863 more hours than Veolia's proposal. That's per year. The cost of an hour of deadhead is about \$50. So that accounts for a reduction of about \$190,000 per year.

Now contrast that to the \$3.5-million-reduction or shortfall in wages and benefits. I don't have time within two minutes, obviously, to give you the detail, but that was presented in our protest, and we can go over it if you wish.

The process was not equal or fair either, because First Transit requested the option to re-price after the Mesa contract was negotiated. We requested the option to re-price, if necessary, because the impact of the Affordable Care Act. First Transit maintains they're request was granted, ours was denied.

Awarding a contract based on irresponsible pricing will result in an underfunded contract operated by a substitute general manager with a dissatisfied workforce.

If the Board decides to award this contract now, it would be prudent for you to delay, however, because you delayed one time and we got the additional information we needed. It would be prudent to delay.

Chair Aames said you can take another minute. Because I didn't mention it until you got up there.

Mr. Hoeft said it would be prudent for you now to take another minute -- or another month. Sorry. I'll take the minute -- so that staff can prepare and present you with a side-by-side analysis of the pricing.



If you decide to award the contract now, you must hold First Transit to its pricing. They may have a right to be wrong, but they don't have a right to be wrong and be made whole. And they don't have a right to be wrong and put it on the backs of labor.

We appreciate the opportunity to present our views and respectfully request that you examine the costs to be assured that this contract can be performed without harm to service, quality, or labor piece. And we're available to provide whatever assistance you may require. Thank you.

Chair Aames said thank you. The next speaker is Maria Salas. Is that Maria? Maria Salas from Apache Junction.

Ms. Salas said I'm a bus driver. We cannot talk about lower cost compromising the safety on the buses. We already know that less money will mean poor maintenance on the vehicles. It will mean less money for repairs.

We cannot talk about low cost if we compromise or I would say jeopardize the workers' rights and workers' jobs. We already know that less money may bring probably layoffs, time cuts, benefit cuts. And lastly we already know that workers' rights are human rights.

Let's not forget about the people who are the ones we are here for, the passengers. We already know that we are not the best run city running public transportation, but let's please don't make it worse.

I mean, the people rely a lot on the buses. They ride the buses because they need to. Some of them they cannot afford a car. Some of them they can't drive for any reason, but just don't forget about them because they are the ones who vote for you to be here. Thank you.

Chair Aames said thank you. The next speaker is Blue Crowley.

Mr. Crowley said I'd like to point out that this week, when it comes to safety and maintenance, I went and got on a First Transit bus. And the way I was able to get on that First Transit bus is, you know, that strap I have on my bike usually, I had to strap my bike down because it was broken in one of the sections. Now it was a bike rack for two bicycles, but both were broken, so I asked the gentleman from First Transit what level of ineptitude do you have when you put your buses out?

Another example of this is I have been on First Transit buses with broken windows, not acceptable. What I want you to do is when it comes to deadhead, I don't want such a thing to exist. When the bus leaves the yard, whatever road it's on, passengers, because we pay that fifty bucks already. And start functioning the system within itself.



Whenever I'm at a bus stop and I see a bus going by and it says not in service, I'm paying for the fuel, I'm paying for the maintenance, I'm paying for the operator. The only thing that I'm paying most for is not being able to use that bus.

So I hope that you will reconsider. I believe that both of the companies need to be able to show in totality what they're going to be doing, but I just know that with Veolia's union workers there's a standard that wasn't there when First Transit did get an upgrade because of, what, those union members. Thank you.

Chair Aames said thank you. The next speaker is Leo Villalobas. And you live in Phoenix; correct?

Mr. Villalobas said yes, sir. Hello, board of directors. I am not familiar with all of the proceedings, but I am just here in support of First Transit and to assist in any environmental questions that there may be, as well as the proposed environmental director for the Tempe and Mesa contract. Thank you.

Chair Aames said thank you. The next speaker is James Washington. And you live in Buckeye; right?

Mr. Washington said my family's voting citizens for Tempe, everybody, okay, all right, we've already seen this before. History repeating itself. You've seen this with MV. That is one of the reasons why I wished that we could be public servants. That's our work.

Now we're disgusted that every five years that we have to go through this. I've seen that you have experts, you have professionals, but I didn't see any operator input to your stages in ways that you got there. The only thing I seen was salary cuts. We've seen that.

I'm not here to bash First Transit. I'm not here to bash Veolia. I'm here for justice. And with a \$4.5-million deficit from the current contract, that's not justice. That's coming off my family, your economy, and all these innocent people that work there.

Now if First was an even playing field, we wouldn't have to be here, so I ask you all to reconsider. Reconsider because if not, there's going to be some political labor turmoil in this future. And we've seen this with MV. They told you they could run it. They had to give it right back. So take that into consideration. Thank you, Board.

Chair Aames said thank you. Next speaker is Brad Thomas.

Mr. Thomas said I am from Cincinnati, Mr. Chairman, and thank you. Mr. Chairman, and members of the board, my name is Brad Thomas. I'm the president of First Transit. Thank you for allowing me the time to speak today. It is truly an honor to be the



recommended contractor for this work, and I will be brief.

I'd like to get right to the point and allow any concerns that you make that may have been voiced today; the savings demonstrated in First Transit's proposal will not come on the back of the employees.

The wage and benefit levels of the union at the time First Transit submitted its proposal will be honored. There will be no reduction in wages and benefits.

Our demonstrating savings come from a reduction in deadhead miles and overall route efficiencies. That came about when the RPTA combined the services, not a reduction in wages and benefits.

First Transit is one of the largest and most experienced public transit operators in the United States. And we put that experience to work for the RPTA by developing efficiencies that will both improve service and save the RPTA and the tax payers a significant savings it sought when consolidating these services.

I'd like to remind you that First Transit's proposal varies from the RPTA's in the independent cost estimate by only 3 percent, further evidencing the reasonableness of our bid.

We've had labor peace in the Valley with the ATU for more than six years, a fact that we are very proud of.

Our response to the RFP was not conditional, and we are ready to sign the contract today and be in preparations to run the service. Thank you for your time.

Chair Aames said thank you. The next speaker is Nick Promponas, from Chandler; is that right?

Mr. Promponas said Mr. Chairman, members of the board, my name is Nick Promponas. I serve as the senior vice president of First Transit's western U.S. and Alberta, Canada, operations, with our regional office located here locally here in Tempe.

We relocated our office from Los Angeles to Tempe in 2004 to demonstrate our commitment to this community. As a company, we felt that the metro Phoenix area had made a significant commitment to improving the air quality and to mitigate congestion by enhancing the community's public transportation options through Proposition 400.

We have worked hard for the past five years to earn the city of Phoenix's trust through our contract with the transit department operating bus service from the west transit facility.

Having a local operation is proving to be extremely beneficial for First Transit and our experience will serve as a benefit for the RPTA.



We understand the community. We have the industry knowledge and operational expertise to deliver an efficient and quality service to the community.

The RFP that you issued offered a blank slate for companies to design the most efficient way to operate the services from both Mesa and Tempe. We designed a system that minimized deadhead by shifting sixty buses from Mesa to Tempe, as you've already heard.

Our cost savings are predicated on this strategy. Having said that, we were able to eliminate duplication of coverage, primarily from overhead positions, in all 58 positions as you saw earlier in the presentation. Eleven full-time equivalent positions of that 58 are operators and maintenance workers. We expect that these reductions will occur through attrition as opposed to any direct impact on existing employees. This has been our experience in prior contracts and, quite frankly, we see no difference here. That's all I have to say. Thank you very much. We're looking forward to working with you.

Chair Aames said thank you. The next speaker is Tom Secrest, and you're from Cincinnati also; right?

Mr. Secrest said Mr. Chairman, members of the board, thank you for giving me the opportunity to speak to you today. My name is Tom Secrest. I'm the vice president of labor relations for First Transit. I'd like to take this time to address any concerns that have been raised about First Transit's overall labor relations philosophy or relationship with organized labor.

First, I'll let you know that First Transit abides by a self-imposed freedom of association policy whereby all employees are free to join or not join a union without any influence whatsoever from management. This policy is unique in our industry.

This culture is supported by the fact that over 50,000 of our employees in the United States are represented by trade unions. We have over six hundred labor agreements in the United States with more than thirty different trade unions, including the Amalgamated Transit Union and the operating industry.

First Transit, in fact, has over thirty individual labor agreements with ATU locals nationally. And our sister company, Greyhound, has a national agreement with the Amalgamated Transit Union.

Upon invitation from the ATU, I serve as employer trustee on the ATU's national 401K plan. As an organization we pride ourselves on our relationships with trade unions, including the ATU.

Locally First Transit has maintained a contract with Local 1433 for six years without any work stoppages. We're very proud of that.



As you've heard from president Brad Thomas, in operating this contract, we'll preserve all wages and benefits of the existing labor agreements and we would expect to do nothing else.

In closing, I'd like to commit to you and to the Board that we would not adopt a strategy on this contract that would damage our existing relationships with the ATU or any trade union nationally. We have too much at stake to jeopardize it on this contract. Thank you.

Chair Aames said thank you. The next speaker is Edward Michael Lemons, and you're from right here, Phoenix; right?

Mr. Lemons said chairman, members of the board, my name is Edward Lemons and I'm a role supervisor, supervisor of operations for west Phoenix operations facility. I live in west Phoenix, which is also known as District 5. And I am in support of the RPTA Tempe-Mesa contract being awarded to First Transit.

In an effort to conserve time, I would like to speak on behalf of these employees that are sitting here with me today. Whether we are a veteran operator of 25 years like Audrey, or a supervisor like me, or Michael, a mechanic like Gus, or a parts manager like Chuck, or operators like Thelma and Brenda, we enjoy our jobs. We love our jobs.

First Transit is a different type of company. They care about their employees, customer service, and professionalism, safety. I say it again safety, including training that is provided at all levels throughout the community and the commitment to grow and evolve to better serve the community are the top of our motivators.

Today you will have and today you will hear negative remarks about the company from outsiders telling you that First Transit is a bad practice and they treat their employees poorly and therefore they shouldn't have the contract.

Well, I'm here to tell you as a current First Transit employee, that I love my job. I plan to continue my employment with First Transit for the long run. I started as an operator and I'm now a supervisor. Isn't that the type of company that you want in your community? We are professional, loyal, and we are encouraged to give the riders the best experience possible. Thank you for your time.

Chair Aames said thank you. The next speaker is Anna Maria McArthur.

Ms. McArthur said I'm executive director of About Care. About Care is located in Chandler and we serve the homebound elderly and disabled in Chandler and Gilbert.

We're a small nonprofit and the primary focus we do is transportation for medical appointments. The majority of our clients are elderly women that are economically disadvantaged and we provide door-through-door services.



Our typical clients, we have 350 clients, are elderly and disabled. They have no one in their lives. Their families don't live here. They're very poor, they're shuttered in, so we need community support.

First Transit provides us that community support. They have been a loyal community partner with us for the last five years since I've been there. And we couldn't exist without community's support.

So I'm in here recommending First Transit, not only for the services that you want to provide but also for the community. So thank you very much.

Chair Aames said thank you. Next speaker is Andrew Federhar.

Mr. Federhar said I'm an attorney with Fennemore Craig a Phoenix law firm. I'm here today to speak on behalf of First Transit. I want to talk about a couple of issues, a couple of which has been raised today directly, and a couple of which has been raised indirectly.

You heard today comments about how First Transit's documents were just reviewed this morning, just received this morning, and so Veolia asked you to postpone a decision.

The documents were received this morning because they just picked them up today. They were offered the documents more than two weeks ago and chose not to pick them up and not to examine them. Their lack of diligence should not be a reason for you to delay today's decision.

You heard also this morning from a gentleman speaking on behalf of his position as a driver talking about becoming a public servant and that that was the overall goal and direction of the union.

We've heard a lot of that in the last month since the last time we were in front of you and the agenda being having bus drivers become public servants.

That wasn't the policy decision that the RPTA put into place. That wasn't the course and direction you chose. You chose to seek involvement of the private sector and that is not the issue that you have before you today.

What's missing in today's discussion is an examination, not just of what First Transit and Veolia have proposed to you, but what you're doing today. When you look at what you're spending today for two systems that have admitted inefficiencies to them, you're spending between \$53 and \$54 million to run two separate systems.

Under Veolia's proposal to you, their cost actually goes up over the status quo by about \$50,000 a year. Doing away with deadhead miles, improving efficiencies, and their cost went up.



Our cost at First Transit, by contrast, goes down about \$5 million dollars a year because of the inefficiencies that are going to be eliminated. And as you sit here today as a public agency making those decisions, I've sat in your chair. I was the chairman of the State Transportation Board through the 1980s and early '90s. I've had to make the decisions that you're faced with today as well.

Public dollars, \$5 million dollars a year to go to rewarding inefficiency and higher cost is not in the public's best interest. You've had a terrific process. You've had a professional staff. And you've had an outside independent consultant confirm for you the result that you now have before you today.

I urge you to take advantage of the opportunity to save money and improve service, an opportunity you rarely see. I'd be happy to answer any questions. Thank you.

Chair Aames said thank you. The next speaker is Bob Bean. And you live in Phoenix; right?

Mr. Bean said I do. Mr. Chairman, board members, Mr. Banta, my name is Bob Bean. I do live in Phoenix. I'm the president business agent of the ATU. And my agenda has changed since I was here last month. I've been listening to what's been said today and over the last month since we were last here.

I've had a chance to look at both proposals. And what I'm hearing today, I don't buy for one minute. They're contracting out service workers, which on the Mesa property is represented by ATU; on the Tempe property they're in the process of being organized by the operating engineers. That's a major 13(c) violation whether they want to agree to it or not.

Mr. Thomas sent a letter out saying that there's been a great relationship with the ATU for the last six years with no labor disputes. There hasn't been any labor disputes, but we recently signed a contract with them a year ago. They don't even live up to the new contract that we signed with them. So there is no great relationship with the ATU in here with the ATU in Phoenix no matter what they want to tell you.

First Transit's got the Yuma property. The average wage for a Yuma bus driver is \$11.34 an hour. They have to work six days a week to maybe make 36 hours. They can't afford medical, and especially with the new nationwide medical they want to roll out, which makes it even worse for them, the majority of the Yuma operators have to go to Mexico to get medical service.

They want to honor the existing CBAs, well, I believe, Mary Rose brought up the subject that we're taking a new contract to vote tomorrow on the Mesa property for ratification, hopefully. So how can they honor something they've never seen. I mean, that is a crock no matter how you want to spin it.



I would urge that you postpone this another thirty days. Let us bring the contract back. If it's ratified tomorrow, let the board members see the new contract, see the new agreement, see the new numbers that First Transit is saying they're going to live up to blindly, because I don't buy that. I wasn't born yesterday.

Another issue, hear these people here talk about what a good company First Transit is. Their handbook is a handbook from hell. It was written by a dictator, and it's nothing more than an employee recycling program. And the promise that they're going to raffle off a car every year, that's just comical in my eyes. And on the slide it said that Thermo King was only with First Transit. Just to enlighten everybody, Thermo King is on site with Veolia. Thanks for your time.

Chair Aames said thank you. The next speaker is Michael Cornelius.

Mr. Cornelius said I live in the City of Phoenix. As much as I want to say ditto to that, I'll just point out a few things as the union's chief negotiator on the contract, so I can answer a little bit more specific questions.

Number one -- well, actually I'll just take it, as I said, a few times before, I don't care if you give the contract to First Transit. I don't care if you give it to Veolia. You will find nothing but the best in the valley. We really do have good workers and that's who we're here to fight for is the workers.

And Supervisor Wilcox asked, I thought, a brilliant question that was that kind of -- I don't think anybody caught it. And she asked about seniority being protected.

Currently there are two separate seniority rosters. And when you combine the two properties, how do you account for combining those two seniority lists. If you can't answer that question, that's a 13(c) issue, because either there's workers here and there's attorneys here, and there's labor here, but I need answers to the questions.

It's my understanding that 13(c) requires bargaining. That's what we're going to do is bargain. And I want to know how are we going to work the seniority issue out between merging the two different properties. I think that's a perfectly legitimate question.

We do have a contract ratification vote tomorrow in Mesa. There's no guarantee as to whether or not that's going to pass. If it doesn't pass, then we'll take a strike vote and we'll go forward from there.

Certainly as you all are very well aware, we don't have a great relationship with Veolia. We don't have a great relationship with First Transit. And I just arbitrated a case where they fired a 72-year old woman where they said that she stole a bus pass and she didn't. Then two weeks later this company that cares about labor called the police and wanted her arrested but failed to prove their case.



This great company who cares about labor when we tried to organize the mechanics, it was a fight. They threw us off the property. So, you know, this whole freedom of association stuff that is all bull.

Veolia is no good company either. They have their problems. We want to be public sector workers. And I understand the attorney said that, you know, hey, that's not the issue, but it is the issue.

You know, the last time I checked, the unions were here to fight for the workers, not for the companies, not for the Veolia's -- especially these foreign companies that are always fighting over these contracts.

They are both out in Las Vegas. I don't know if you guys know that. Neither one of them are there. It's because of these kinds of public battles, but the people who always suffer are the workers, the people who have to go to work and drive the community.

So I need an answer to my question on the issue of how are we going to negotiate with the Amalgamated Transit Union international office on the impacts of that 13(c)? Because when you have a seniority roster at the Tempe property and a seniority roster at the Mesa property, how do you combine those and not violate the 13(c) agreement when the 13(c) agreement, among other things, protects seniority.

So if I'm number one in Mesa, what happens to my seniority if I go to Tempe? Do I go to the bottom? Am I now number two?

I really think that it's a good idea that you guys hold off on this. We do have a contract vote tomorrow. I think it's very important to know whether or not that contract passes. If it does pass, then, obviously, Veolia and First Transit -- I don't have a problem giving First Transit a copy of the labor agreement so they can review it and cost it out and determine whether or not that contract meets their funding expectations, I have no problem with that.

But I really think that you need to give me time to work with my workers to figure out whether or not there's going to be an impact on their rights and their ability to work. Both companies have their good and bad. Thank you.

Chair Aames said okay. Thank you. Next speaker is Frank Zuckerbrow. And you live in Glendale; right?

Mr. Zuckerbrow said yes, I do. Good afternoon, everybody, and thank you for giving me an opportunity to speak. I've been with Phoenix Transit back on Watkins Road days when people then called me Frank, they called me TICO man because everything was TICO concerning the bus, even the time was TICO time when they would announce it.



And I think that we've really progressed a long way; whereas when I started, the last bus of the night used to leave downtown terminal at 6:15. It went to 7:15 -- Audrey would remember -- 8:15, 9:15, and like, you know, we progressed very, very much so.

But we talk about efficiencies, and I think that Mary Rose said about customer service. You know, right now there's a new policy that was instituted, which is called the closed-door loop, that may be saving like a million some-odd dollars or the companies are losing a million dollars and what happens is, is that if you're doing a 186 on Union Hills and if the bus is terminating over on 51st Avenue and yet the bus is going to continue deadheading to 59th Avenue, how do you tell the people that they got to get off the bus because you're on a closed-door loop. I mean, that's happening over and over and over.

And I see that my light is going to come on. I want to just talk about pullout times over at First Transit. We have a special meeting right now in order to save money to having four people share cards because they didn't want to have to buy cards for the new bid that starts January 28th.

What happens is, is that, and this is an actual scenario, that an operator may check in at 1:10 in the afternoon. That's the time that they start their time. They're going to have to go out in the yard, they're going to share a card with three other people, and to go over - - and I'm going to call it Westridge Mall, Desert Sky Mall, exactly 10 minutes later when they get there, that bus is already due and ready to leave.

That is creating a concern because First Transit keeps on talking about safety, and how could that be safety when you don't even have a chance to walk around the bus to look at it, to examine it, to even speak to the other operators to find out whether or not there's any kind of conditions, you know, relative to safety.

I had a bunch of things but I see my light is flashing, so thank you for giving me the opportunity to speak.

Chair Aames said thank you for bringing that up. The next speaker is David Lefland.

Mr. Lefland said I live in Mesa. First, I'd like to thank the Board for allowing us to speak here today. We had a lot of talk about safety and we've heard a lot about how their buses are being kept up. I hope that the Board had a chance to look at both company's safety record, maintenance record before awarding this contract.

The second thing I want to bring up is the American dream, the dream all of us out here, the workers and the operators, how are we going to, you know, survive. The company wants to cut 4 percent of drivers and operators that they listed up there, but in the second breath, they say, well, we're going to keep as many as we can.



Are you going to keep us, or you going to let us go? Are you going to make us part-time so that you don't have to pay benefits and wages and everything else?

I mean, it's just a fact that this company cannot do it. We have somewhat great relationship with Veolia, the company has not degraded us, has not tried to take away our salary or our benefits. We have a contract coming up tomorrow. So we just want to make sure that we're protected.

In closing here today I'd like to let you know that why fix something that's not broken. You want to change contractors, I mean, what benefit besides your \$5 million are you going to do with that money.

I mean, what it boils down to is, worse-case scenario, we're going to end up like New York City against Mayor Bloomberg here. And in return it's going to be against Mr. Banta there because he's so high on the horse about getting this contract pushed through. What is he getting? What are these employees getting that came up here and said, you know, had said First Transit is such a good company.

Okay. I mean, that's the most important thing. We have almost, I'd say about fifteen hundred employees. What's going to happen with them? I mean, it's a give or take about the fifteen hundred, but what's going to happen to them?

Are we going to go back into a recession, people won't be able to buy from their local stores, the groceries, not being able to travel with their families, take that into consideration.

I mean, I'm sure you guys have great jobs, great salaries coming in, and that's your right. You've worked hard for whatever you earn, what about us that are working hard to take care of this Valley. This Valley means a lot to us and it means a lot to the fact that we work for a good company. We work for a company that cares about us and is willing to work with us. Thank you.

Chair Aames said thank you. The next speaker is Pete Flores. And you're from Mesa; right?

Mr. Flores said yes and I'm here today to speak to you once again about my concern regarding First contract's RFP proposal. My concern is mainly for the employees, you know. Are you absolutely sure without a shadow of a doubt that you guys are not going to mess with our wages, benefits, and everything like that? You know, that's my main concern is for the employees. Okay.

I'm the executive board officer at the Mesa yard, you know. I'm speaking for them for the ones that couldn't come today that are driving the buses right now as we speak to get people back and forth either to the store or to their job wherever it may be.



Safety is my main concern. When you start cutting moneys and stuff like that, it affects the fleet, you know. So once you start affecting the fleet, where are you going to come up with the parts to pay -- I mean, to pay for the parts to fix these buses, you know.

I don't know all -- everything about what the RFP says, but it seems to me like there's going to be cutbacks in the whole general area. So think about what you guys are voting on again and you know, if need be, if you have to push it another thirty days to take your time to really analyze the numbers, do so, please, because it's going to affect everybody. Thank you.

Chair Aames said thank you. The next speaker is Bishop Winston. Donnell Winston.

Mr. Winston said I live in Mesa. I'm here today not to talk about First Transit or Veolia. My concern is that we have not came together as a unit, because one thing is the union has disagreements about how this is going to take place.

The next thing we have talked about is safety. We have talked about the budget. We talked about salaries. We're talking about how the cost containment. We understand that their economy of this state is going down and what we're looking for is more productivity.

And to get the productivity, we have not come together as a unit to come to a settled agreement. We have ups and downs on who's going to take it, why they should take it, and how we're saving money.

But the most concern we're not looking at as far as the employees and how it's going to affect them and it affects the economy for our different stores and things that we used to do.

So I'm asking you if you could hold off with your decision and come together with the union and with these different, First Transit and Veolia, we can come to a settlement agreement. Thank you.

Chair Aames said thank you. Next speaker is David Bodney.

Mr. Bodney said he lives in Phoenix. I'm with the law firm of Steptoe and Johnson and I represent Veolia. I very much appreciate this opportunity to be heard. I hadn't anticipated speaking this afternoon. But I wanted to correct one piece of the record for you because I think it's important to your decision today.

One of the speakers, an attorney for First Transit, said that the reason documents had not been made available was because of a lack of diligence on the part of Veolia for not reviewing them sooner. I must correct the record and make a couple of points that I think are important to your decision.



We have been trying to get public records since November 19 last year, and we had been trying up until yesterday to inspect a good many of these records.

It was not until yesterday at 10:30 in the morning when staff was able to produce for me a wall-size cabinet probably five feet tall, and a box of records and said you can review them. This was the soonest opportunity that we had and I asked to have a copy of records produced for us about this deep by the end of the day.

I received them at 9:30. Suffice it to say we haven't reviewed them all, but we're trying as best we can, but we didn't get them until today. It's not for a lack of asking.

We are still asking for and have asked for, the evaluation committee's scoring sheets and notes that would tell us just exactly how those numbers were arrived. Those haven't been produced to this day.

We've asked for e-mails. We received e-mails for John Medwin who used to work here at RPTA but no others.

So I would just emphasize the point, Mr. Chairman, and members of the committee, we have had cooperation with respect finally to the production of these bids. We finally got to see those this month and we've reviewed some of those documents.

I think it was correct of this board to wait another month before making a decision. Based on what we've seen and what we've not yet seen still, I think it makes sense to kick the tires and explore the numbers so that a mistake isn't made that, we submit, is the responsible thing to do. Thank you very much.

Chair Aames said we have some others that want to be on the record, but did not want to speak, and, Pat, you have those names and if you would read them into the record and indicate if their support or not for one of the parties.

Ms. Dillon said the following people are in support of approving First Transit. Chuck Geary, Gustano Rubalcara, Audrey Favors, Thelma Hanley, and Michael Dunklin support of First Transit.

Chair Aames said thank you. And they've indicated where they live, the city; right? Okay. You have that. Okay. Very good. Is there anyone on the Board who would like to comment?

Supervisor Wilcox said I think it was really good we heard from everybody. There's a couple of questions I'd like to discuss with Mr. Banta. I would ask that we go into E-session for just a few minutes. I need some reassurances on some of the points that were brought up and some clarification, and perhaps we could do it in E-session.

Chair Aames said are you making a motion to go into E-session?

IT WAS MOVED BY SUPERVISOR WILCOX, SECONDED BY MAYOR FARR AND UNANIMOUSLY CARRIED TO ENTER INTO AN EXECUTIVE SESSION.

The Board adjourned to E-session at 2:10 p.m.

The Board reconvened after E-session at 2:35 p.m.

Chair Aames said we are back in session. And is Mr. Brad Thomas here? If you don't mind, sir, I would like you to come up, because there's been some questions, as you have heard, and comments about your intentions with this contract, and you sent a letter that details all of those. If you could go through some of those for the record here of what First Transit intends, if they get this contract.

Mr. Thomas said our letter, I stand by our letter of January 21st. Obviously everything that's in here, all the points, First Transit will preserve the rights and privileges and benefits in the collective bargaining agreement in place at the time of its best and final offer. First Transit will meet whatever Section 13(c) requirements apply.

Chair Aames said and that would be when you -- the contract that's in place when you start July 1, I would think; right?

Mr. Thomas said the collective bargaining agreements that were in place when we submitted our bid.

Chair Aames said not when you start the contract? Because I understand there's some bargaining going on right now.

Mr. Thomas said Mr. Chairman, your RFP said if there was a material change in condition between the time that RPTA issued the RFP and the time that a contract was executed, you would allow the successful proposer to approach you and ask for a modification.

So if there have been material changes, then that would be the grounds upon which we would come and talk to RPTA. If they are nonmaterial changes, then there is no need to.

Chair Aames said okay. Could you continue then?

Mr. Thomas said second point, our response was not conditional. We've said that -- and I reaffirm that -- I stand by everything that we said today. Our experience and expertise will bring the cost savings that we've discussed today.



We will do that through the elimination of duplicative services, duplicative positions, and also a reduction in miles and hours. Our proposal achieves the cost savings that the RPTA sought and they put together when they put out its RFP. We stand by that. We tried to be as clear as possible today. We've tried to make everyone comfortable. I reaffirm everything that was in this letter. I reaffirm everything that we've said today. I'll answer any other questions.

Chair Aames said we don't want to have questions. This is public comment. We just wanted to hear you reconfirm these.

Mr. Thomas said I do.

Chair Aames said and this is the letter of January 21st, '13, that you sent to actually directly to me.

Mr. Thomas said yes, sir.

Chair Aames said and so we can put that letter in the record and that you confirm those points in that letter.

Mr. Thomas said yes, I do.

Chair Aames said thank you very much. Is there any further discussion from anyone on the Board about this?

Supervisor Wilcox said I had one question. The question is seniority and the question of complying with 13(c) agreement. I understand that 13(c) agreement is something that has to be complied with. So I would assume that should this vote take place today, First Transit will comply with that and deal with the issue of seniority through that.

Chair Aames said we're not asking him at this point, but that's what is indicated in the letter.

Mr. Banta said my understanding is absolutely correct.

Chair Aames said and he's confirmed that.

Supervisor Wilcox said Mr. Banta, there's been a lot of concern mainly because of employees, customer service, and safety. I understand in the information you gave us from that First Transit provided showed that the overall cost was obtained through deficiencies in unification and also combining routes and not having dead-end routes, which saved tremendous amounts of money.

The concern of employees, I think have been addressed in the commitment to the collective bargaining agreements, and my understanding, and I didn't quite hear that if



somebody could confirm it, is that should Mesa contract that will be voted on shortly come into being that will be adhered to also; is that correct?

Mr. Banta said that is my understanding as First Transit states in their letter as long as there are no major material changes. And we don't anticipate there to be major material changes. But we aren't the ones sitting at the table negotiating. It is Veolia and ATU.

And I would suggest that we move forward and recognize the fact that First Transit has committed to 13(c) compliance. They've committed to the collective bargaining agreements that are currently in place today. I don't expect the new collective bargaining agreement to be that different than the ones that are in place today. And they've made a commitment, verbally and in testimony today, that said as they transition, they will utilize the function of attrition in transitioning employees to less numbers in certain classifications, which is the human way in which to transition.

Supervisor Wilcox said so should the seniority question come up, that would be worked out with the combination of both workforces and a discussion with them.

Mr. Banta said I believe because First Transit is committing and is required by law to comply with 13(c) that will be collectively bargained with the ATU upon ratification.

Supervisor Wilcox said Mr. Banta, what do we have in our contract that assures us should this go forward that all those things will be done.

Mr. Banta well, I can ask Mr. Ladino to answer the legalities, but all of our contracts have to be federally compliant. And to be federally compliant, we have to recognize the labor agreements that are currently in place; we have to recognize 13(c) requirements; we have to make sure that we don't displace people needlessly.

And Mr. Ladino could potentially answer some of the other questions.

Supervisor Wilcox said maybe he could elaborate because July 1st comes, whoever gets the contract starts. And what benchmarks do we have to assure us that everything is going to take place that has been committed to.

Mr. Banta said according to our documents, we're going to have a transition period. The minute we're able to award a contract, Veolia, First Transit, and ATU will start discussions on this transition together, would be my hope.

One of our first meetings that we have, if we move this forward for approval today, would be to sit down with Veolia senior staff and First Transit senior staff and start talking about how we make this transition smooth, which is why we need the amount of time that we have between now and July 1st to make sure this transition is as smooth as possible and not affect needlessly.

Supervisor Wilcox said depending on how this vote goes, I know as a board member, I would like being kept updated on a monthly basis how everything is going. And you know my concern had always been that the cost savings cannot be on the workers back, cannot be on the customer service, or safety. And I know a lot of material has been provided to us. We've all taken a lot of time to analyze that, but I just want to be assured through a monthly report that all of these things, should this move forward, take place.

Mr. Banta said I would be happy to make that report to you, Supervisor Wilcox.

Chair Aames said does anyone else want to speak? Okay. Is there a motion to accept this contract?

IT WAS MOVED BY COUNCILMEMBER LITTLEFIELD, SECONDED BY COUNCILMEMBER ORSBORN AND UNANIMOUSLY CARRIED TO APPROVE THE CONTRACT AWARD TO FIRST TRANSIT.

5. Federal Legislative Report

Chair Aames said the next item is the Federal Legislative Update.

Mr. Banta said Mr. Chairman, I have our federal lobbyist Tim Lovain from Washington D.C. Here to give an update on the federal landscape.

It's clearly up to you if you want this presentation. He came in town to do that to bring you up to date on what's happening back in Washington. I do recognize the lateness of the day and respect the board members' time. I will also forego my CEO report and present that to you next month. It's up to you if you want a presentation.

Mr. Lovain said Tim Lovain, Denny Miller Associates. Happy to represent Valley Metro there on federal issues for about the last nine years.

The big picture I will skip over it quickly because we passed the fiscal cliff and we're now into the fiscal mountain range of multiple deadlines. The sequestration kicks in March 1. The continuing resolution expires March 27.

It appears that Congress is now in the process of extending the debt ceiling until May 18, so we have several deadlines looming in this context.

The impact on transportation, the sequestration will result in an 8.2 percent reduction in discretionary and domestic spending, a little bit higher in defense discretionary spending. All transit formula funds are exempt as are highway formula funds, but the new starts funds are impacted by this sequestration.



It's quite possible the sequestration will take effect at least in the short term and then perhaps get revisited as part of our grander budget deal, but there could be, at least, a slowdown in federal spending as of March 1.

We have a new authorization bill, MAP-21, as you may know, that was approved last year and provides very small increase to transit funding. It shifts more on the transit program to formula. Very limited discretionary dollars.

The urbanized area formula is the biggest -- there was a new state of good repair program. And for new starts it authorized levels slightly below fiscal '12 funding, but you do have a new public transportation safety program on the books. This affects really on rail.

The planning provisions in MAP-21 require that the transit officials be represented behind MPO boards. And there's a lot of emphasis on performance measures. And, unfortunately, public art is no longer eligible funds for federal funding.

Mr. Farry said Mr. Chairman, one of the results of MAP-21 that affects us here locally is the formulas are based on Census 2010. As a result of the census in 2010, you can see there that the urbanized -- number of urbanized areas in the country changed.

If you look at the far right, you can see that the urbanized areas over a million people went up by four and you can see the corresponding numbers of increases to the other urbanized areas.

That results in -- if we could go to the next slide, please -- that results in formula apportionments that will change. So you can see on this slide in FY2012 what our formula apportionments were for both the Phoenix-Mesa urbanized area, as well as the Avondale-Goodyear urbanized area.

You can see in FY13 how that changed. Actually, the Avondale-Goodyear urbanized area goes up. The Phoenix-Mesa goes down a little bit, but the overall total is actually a decrease of \$5.2 million on an annual basis. So what we'll see going forward is that much of a decrease in our federal formula funding.

So what we will do and provide you information so that when you go back to Washington, is to communicate to our federal delegation what the importance of that federal investment is for transit in this region.

Right now we have either programmed or are spending dollars in these categories at these amounts on buses, bus facilities, on project development, that \$4.7 million amount used to be a -- there were federal dollars eligible for that funding. That does not exist anymore.

And then you can see the major projects, essentially that central Mesa extension for



which we have a project construction grant agreement and a commitment for \$75 million from the federal government. We still have \$19.5 million of that to be spent or to come our way from the federal government.

Supervisor Wilcox said is there anything put aside for the central route that Congressman Pastor has been talking about?

Mr. Farry said the south central route is not in the new starts program as of yet. That's something that would have to be worked on going forward. As many of you probably know, the congressman was just named the ranking minority member of the Transportation Appropriation Subcommittee that, as Tim would tell you, that puts him in a great position to help that corridor out. And, Tim, do you have anything to add to that?

Mr. Lovain said I understand that you said as part of the new starts program, there's going to be less federal investment in the early stages of planning, so once a project is well advanced, then becomes the possibility for federal funding, so it isn't anything against this project in particular, it just needs to get further advanced in its planning before we can start pursuing federal funds.

Supervisor Wilcox said we're going back with NACO, the National Association of Counties and all the cities are going back to the League. Are you going to provide us then sheets like this so that we can?

Mr. Farry said that's exactly where we want to get to. When is the NACO Conference?

Supervisor Wilcox said NACO is March 1st to 7th. And I think League's is either right after it or right before it.

Mr. Farry said at the end of my presentation I'm going to talk about materials that you'll be able to get.

When we go back, we want to from this region, we want to support obviously the maximum amount of transit funding given the current threats to funding that are out there, we want to -- we will also monitor internally MAP-21 implementation, the guidance, and the guidelines that come out from that.

There will be some grant opportunities, discretionary grant opportunities. And when the Federal Transit Administration lets us know about those, we'll look at those to be sure we're taking advantage where we can.

John mentioned that the tax part of the sequestration took place on January 1st. There were two key elements to that tax package. One was it created a tax parity between the parking benefit and the transit user benefit, so now as of now, every individual that uses transit gets a tax benefit of \$240 a year, the same as they do for their parking benefit. That goes back into 2012 and goes through the end of 2013.



The other tax provision that was included in that was the alternative fuels tax credit. That is real money to this region. It's about three to five million dollars a year that we benefit from that, the transit systems in the region do. That's a big one. That's also extended through 2013.

We'd like to, when we go back and talk to our delegation members, we'd like to see those permanently extended so we can manage our books better and determine how to best use that money.

Mr. Lovain said and MAP-21, unfortunately, is very short bill, two-year bill, so a year from September it expires, and then we'll have to do this all over again. So we're going to see hearings this year and then a reauthorization next year. And the critical issue, once again, will be funding. Because they financed MAP-21 with some smoke and mirrors and looking in debt's door for pieces of funding, so now the question is how do we fund surface transportation for the long term.

The slide about highway trust fund, that shows you what the general fund transfers that have been provided over quite a few years now how they've been able to keep things going, but that's what it looks like for gas tax.

But if you're just depending on current gas tax revenues, and the year balance shortfalls will be in the highway trust fund after 2012. So hopefully they'll be people who can get serious about long-term funding for federal surface transportation.

Mr. Farry said our communication strategy when we go back will be to generally talk about the benefits of public transportation in this region, the fact that we provide seventy-one million boardings in 2012, our average weekday boardings are about 235,000. We provide mobility for everyone.

The economic development components of public transportation is important message to send for every one dollar invested in transit, it's about a four dollar benefit in economic returns. That's a number developed by APTA. For our light rail project, that number is \$1.4 billion invested in our light rail system provided about \$7 billion in economic development returns.

We also want to talk about the fact that transit reduces energy consumption and greenhouse gases.

Tim talked about these dates, these are the key dates that he talked about. The congressional city's conferences is also at the beginning of March, so what we will be doing is providing you information as soon as the next board meeting, but certainly before you go to give you the information that you need to carry back there.



We're going to recreate folders like this with basic information about what our system is about, as well as what our federal priorities are and what projects we have. And we hope you take those back there and talk to our delegation about what our needs are.

That being said there's also -- next slide, please. We have established each year RPTA, Valley Metro hosts a congressional staff luncheon. It's both for those people that are attending the NLC conference back there, as well as there's American Public Transportation Association conference at the same time.

We invite congressional delegation and staff to come and hear about what successes we've had with transit here in the region, as well as to communicate to you and to the staff what our wishes are from the federal government. That's going to be on March 11th. We'll be sending out a "save the date" on that soon.

If I could just briefly, there are some state issues out there that as you probably well know, there are bills being introduced at the legislature. There are three that are really critical to us right now, especially the third one that you see up there, the HB2119. It was introduced by Representative Alan. And it has to do with subsidized transit ridership.

Basically the legislation says that if it's a publicly funded, publicly subsidized transit fare, in other words, if you provide some subsidy to your employees to ride transit, that those should not be included in ridership counts.

We don't know exactly what that means. We're trying to determine what that means. We would obviously have to report all ridership to the federal government. They require that. But we are investigating that with the sponsor of the bill as well as with the committees of jurisdiction. So we'll have more on that as we go forward.

The other two bills are really related to political subdivision entities. We don't believe we're -- we believe that RPTA is a political subdivision, not a political subdivision entity, so we don't believe that those apply to us, but our friends at MAG, it does affect our friends at MAG and so we're watching those very closely.

Mr. Banta said Mr. Chairman, that concludes our report and we would be open for any questions.

Chair Aames said does anyone have any questions? Okay. With that then, does anyone have any future agenda items they would like the board to consider? Seeing none, the meeting is adjourned. Our next meeting is on February 21st.

With no further discussion the meeting adjourned at 2:58 p.m.



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 3**SUBJECT**

Chief Executive Officer's Report

PURPOSE

To provide Board members with informational updates on current events.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 4**SUBJECT**

APTA President and CEO Presentation

PURPOSE

Michael Melaniphy, President & CEO of the American Public Transportation Association (APTA), will provide a briefing to the Board on the state of public transportation in the United States.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 5A**SUBJECT**

FY 2013 Intergovernmental Agreement (IGA) Amendment with Maricopa County
Defining Conditions for the Provision of Public Transportation

PURPOSE

To request Board authorization for the Chief Executive Officer (CEO) to execute an IGA amendment with Maricopa County that defines the terms and conditions for the Provision of Public Transportation.

BACKGROUND/DISCUSSION/CONSIDERATION

As approved by the Board of Directors at its June 16, 2011 meeting, RPTA entered into an IGA with Maricopa County to administer public transportation services on behalf of the County effective July 1, 2011. Maricopa County transferred \$604,779 of Local Transportation Assistance Funds to RPTA to provide these services. On behalf of the County, RPTA administers a taxi cab program for seniors and ADA-certified residents in unincorporated Maricopa County. RPTA uses Americans with Disabilities Act (ADA)-Public Transportation Funds, allocated by the RPTA Board, as the matching source of funds. RPTA and Maricopa County desire to amend the existing IGA to define the terms and conditions governing the provisions in providing public transportation services to residents of unincorporated Maricopa County.

This IGA amendment replaces Section III "Work Statement" of the original IGA to introduce the prioritization of fund uses for specific client populations and to add the ADA Platinum Pass as a new mobility option that is eligible for funding. The amendment clarifies that the funds are to be used to benefit unincorporated Maricopa County residents. Finally, it brings efficiencies to the reporting requirements included in the IGA.

COST AND BUDGET

RPTA will provide public transportation services on behalf of Maricopa County using existing and future Local Transportation Assistance Funds (LTAF), Americans with Disabilities Act-Public Transportation Funds (ADA-PTF), and Federal Grant Funds that are allocated to Maricopa County, when applicable. The use of available Federal Grant Funds will be strictly monitored and limited to activities and expenses which are eligible under the programs providing those funds.

The IGA with Maricopa County for which this amendment is proposed has a total term of two years which began on July 1, 2011 and ends on June 30, 2013. This amendment has no financial impact.

**COMMITTEE PROCESS**

RTAG, January 22, 2013 for information
TMC, February 6, 2013 approved
Board of Directors, February 21, 2013 for action

RECOMMENDATION

It is recommended that the Board of Directors authorize the CEO to execute an amendment to the existing IGA between Maricopa County and the RPTA.

CONTACT

Carol Ketcherside
Director, Administration and Organizational Development
602-523-6040
cketcherside@valleymetro.org

ATTACHMENTS

A copy of the IGA amendment referenced in this memorandum is available upon request.

Information Summary



DATE

February 13, 2013

AGENDA ITEM 5B

SUBJECT

Workers' Compensation and Employer's Liability Insurance Coverage Renewal

PURPOSE

Valley Metro currently purchases workers' compensation and employer's liability insurance to cover work-related injuries to all RPTA employees. The current insurance policy will expire on March 1, 2013. Coverage is required by statute.

BACKGROUND/DISCUSSION/CONSIDERATION

The workers' compensation and employer's liability insurance has been covered by SCF Western (a subsidiary of SCF Arizona) for more than 12 years. Past attempts to market this coverage to other carriers have produced no viable results.

This year our insurance broker, A.J. Gallagher, requested quotes on Valley Metro's behalf from both SCF Western and The Hartford. The Hartford declined to quote due to the class of business and its inability to compete with SCF Western. SCF Western quoted a price to renew the coverage. They have been a trusted partner with Valley Metro for more than 12 years.

COST AND BUDGET

The following premium indication was provided by SCF Western Insurance Company:

Line of Coverage	Policy Limit	Expiring Premium	Renewal Premium
Workers' Compensation / Employer's Liability	Statutory / \$1,000,000	\$ 153,010 (unaudited)	\$185,696* (estimated)

* Nationwide, workers' compensation insurance market increases are estimated to go up by as much as 40% for all U.S. companies. This is a 21% increase.

Allocation of this cost to be attributed to the METRO budget will be based on actual payroll allocations between the RPTA and the METRO budgets.

The annual premium is subject to a payroll audit at the end of the policy period which runs March 1, 2013 through March 1, 2014. If the audited payroll differs from the estimated payroll, there will be a premium adjustment.

**COMMITTEE ACTION**

RTAG - January 22, 2013 for information

TMC – February 6, 2013 approved

Board – February 21, 2013 for action

RECOMMENDATION

It is recommended that the Board of Directors authorize the CEO to renew the workers' compensation and employer's liability insurance coverage for a one year period with SCF Western Insurance Company for an estimated annual premium of \$185,696.

CONTACT

Carol Ketcherside

Director of Administration and Organizational Development

602-523-6040

cketcherside@valleymetro.org

ATTACHMENTS

None

Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 5C**SUBJECT**

Authorization to Issue a Request for Proposals (RFP) for Vanpool Services

PURPOSE

To request Board authorization to issue a RFP for a vanpool service contractor. The current contract expires December 31, 2013.

BACKGROUND/DISCUSSION/CONSIDERATION

On January 1, 2004, Valley Metro entered into a contract for vanpool services with Vanpool Services Incorporated (VPSI), now doing business as vRide. The contract is a 10-year, fixed term agreement that expires December 31, 2013.

Vanpooling is a convenient, stress-free, environmentally-friendly alternative to driving alone to work. A group of six to 15 people who live and work near each other form the group. One person volunteers to serve as the driver. Riders pay a monthly fare that covers fuel, vehicle maintenance and insurance. Interest in the program has grown by 11 percent in 2012.

Today, 3,300 Valley residents commute daily via Valley Metro's vanpool program with an average commute distance of more than 35 miles one way, taking literally thousands of vehicles off our roads during rush hour traffic. The more than 380 vanpools typically travel to and from locations where fixed-route bus and light rail are not as available. Valley Metro owns all vanpool vans and maintains and disposes of vehicles according to Federal Transit Administration (FTA) regulations.

Staff is seeking Board authorization to issue a FTA-compliant RFP for a vanpool service contractor. The contract term will be for 10 years with "not-to-exceed pricing" established for each contract year of the 10 year term. The "not-to-exceed price" is determined by projected service levels each year.

It is critical for the solicitation to begin in early 2013 so as to secure the next contractor and operating agreement by January 1, 2014.

The recommended contractor shall be required to offer the following services: provision of staff to administer and market the program; vehicle insurance and indemnification; vehicle maintenance; invoicing riders; report filing with the National Transit Database; monthly reporting; website updates; conducting formation meetings and driver orientations; conducting MVD checks; and more.



The RFP will be based upon the calendar year 2012 service level to provide proposers a basis for proposal development. Staff projects that, pending Board authorization in February 2013, the solicitation and award process will be complete by July 2013. This timeline will allow the successful contractor six months to mobilize and transition, if needed.

COST AND BUDGET

In FY12, the current vanpool contractor was paid \$552,000 for administrative services. Operating costs were almost entirely paid (99%) by rider fares. The proposed new contract will be a 10-year term contract with allowable annual adjustments that must be based upon substantiated cost justification and approved by RPTA management. All adjustments will be reflected in the annual RPTA budget.

COMMITTEE PROCESS

RTAG January 22, 2013 for information

TMC February 6, 2013 approved

Board February 21, 2013 for action

RECOMMENDATION

It is recommended that the Board of Directors authorize the CEO to issue a RFP for a Valley Metro vanpool service contractor.

CONTACT

Hillary Foose

Director, Communication & Marketing

602-322-4468

hfoose@valleymetro.org

ATTACHMENTS

None

Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 5D**SUBJECT**

Intergovernmental Agreement with the City of Phoenix for Federal Transit Administration Pass-Through Grant AZ-05-0204

PURPOSE

To request Board authorization for the Chief Executive Officer (CEO) to enter into an intergovernmental agreement with City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.

BACKGROUND/DISCUSSION/CONSIDERATION

Valley Metro is being provided federal funds through the Federal Transit Administration (FTA) in grant AZ-05-0204 for preventive maintenance in the amount of \$117,745, of which the federal share is \$94,196 and the local share is \$23,549. These funds are provided by FTA through the Section 5309 – Fixed Guideway Modernization formula program.

The City of Phoenix is the designated recipient for all FTA grant funds for the region. Valley Metro undertakes projects approved for FTA grant funding, then submits requests to Phoenix for reimbursement of actual expenses incurred. Phoenix then executes a drawdown of funds from FTA to pass-through the reimbursement to Valley Metro.

The pass-through IGA is required in order for Phoenix to reimburse Valley Metro for eligible expenses.

COST AND BUDGET

The preventive maintenance expenses are in the approved budget. The grant funds will offset expenses, reducing the net cost to the Public Transportation Fund and member agency budgets.

COMMITTEE PROCESS

RTAG January 22, 2013 for information

TMC February 6, 2013 approved

Board February 21, 2013 for action

**RECOMMENDATION**

It is recommended that the Board of Directors authorize the CEO to enter into an intergovernmental agreement with the City of Phoenix for grant AZ-05-0204.

CONTACT

Paul Hodgins

Manager, Revenue Generation and Financial Planning

602-262-7433

phodgins@valleymetro.org

ATTACHMENTS

None

Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 5E**SUBJECT**

FY 2011/12 Comprehensive Annual Financial Report (CAFR) and Single Audit Act Reporting Package

PURPOSE

To request that the Board of Directors accept the Comprehensive Annual Financial Report and Single Audit Act Reporting Package for the period ended June 30, 2012.

BACKGROUND/DISCUSSION/CONSIDERATION

Heinfeld, Meech & Co., P.C., Certified Public Accountants, has completed the FY 2011/12 RPTA audits. Completion of the June 30, 2012, financial statement and Single Audit Act audits indicates Valley Metro's compliance with both state and federal statutory audit requirements as well as adherence to Generally Accepted Accounting Principles in financial reporting. Preparation of a Comprehensive Annual Financial Report demonstrates Valley Metro's commitment to the highest standard of financial reporting for a governmental entity. The accompanying report is submitted for review and acceptance.

In planning and performing the audit of the financial statements, Heinfeld, Meech & Co., P.C. considered RPTA's internal controls in order to determine auditing procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on internal controls.

During the course of the audit there were no findings. Valley Metro's Comprehensive Annual Financial Report for Fiscal Year 2012 received an unqualified opinion and the receipt of the GFOA Certificate of Excellence for the Fiscal Year 2011 CAFR demonstrates the commitment to the highest standard of financial reporting for a government entity. Attached you will find a copy of the Auditor's reports and Management Discussion and Analysis section of the CAFR.

COST AND BUDGET

None

COMMITTEE ACTION

Financial Working Group – February 2013

Regional Transit Advisory Group – January 22, 2013 for information

Transit Management Committee – February 6, 2013 approved

Valley Metro Board – February 21, 2013 for action

**RECOMMENDATION**

It is recommended that the Board of Directors accept the FY 2011/12 Comprehensive Annual Financial Report and Single Audit Act Reporting Package.

CONTACT

John McCormack
Chief Financial Officer
jmccormack@valleymetro.org
602-262-7433

ATTACHMENTS

Independent Auditor's Report
FY 2011/12 Management's Discussion and Analysis
Single Audit Act Reporting Package



10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

INDEPENDENT AUDITORS' REPORT

Chair and Members of the Board of Directors
Valley Metro Regional Public Transportation Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Valley Metro Regional Public Transportation Authority (the Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Valley Metro Regional Public Transportation Authority, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of Valley Metro Regional Public Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying supplementary information such as the Introductory Section, Other Supplementary Information, and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements. The Other Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 18, 2012



10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

January 4, 2013

To the Board of Directors
Valley Metro Regional Public Transportation Authority

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Valley Metro Regional Public Transportation Authority for the year ended June 30, 2012, and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Valley Metro Regional Public Transportation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Valley Metro Regional Public Transportation Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any uncorrected misstatements and/or audit adjustments that we deemed to be material.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



Management Representations

We have requested certain representations from management that are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Valley Metro Regional Public Transportation Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Responsibility for Fraud

It is important for both management and the members of the Board of Directors to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document is provided as a courtesy and provides some basic steps that should be taken to help prevent fraud from occurring in your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the Board of Directors in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

The information in this letter is intended solely for the use of the members of the Board of Directors and management of Valley Metro Regional Public Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

Steps Management Should Take in Preventing the Occurrence of Fraud

First and Foremost, acknowledge that fraud can and does occur – Fraud occurs in organizations often because management provides the perpetrator with a substantial amount of authority and a high degree of trust. Consequently, management performs limited or no review of the individual's work. Recognizing that fraud can occur in any organization, including your own, is the first step in prevention.

Clearly communicate to employees the behavior that is expected of them – Believe it or not, ignorance has been cited as a common cause of fraud. Some employees have been trained to commit fraudulent acts without knowing what they were doing, just assuming that "that's the way it's done".

Take strong action against employees who commit fraud – Call the police or other law enforcement agency and press charges. Failing to do so sends a message to other employees that management doesn't take fraud seriously.

Provide employees an opportunity to report the occurrence of fraud or other abuse anonymously – In a recent survey, one in five employees said they were personally aware of the occurrence of fraud in the workplace. Eighty percent said they would be willing to report fraud if they did not have to identify themselves. Management can establish a fraud hotline, "suggestion boxes," or other means to enable employees to bring the occurrence of fraud to its attention without requiring employees to give their names.

Conduct your own activities on a high ethical level – Employees will follow the lead of the governing body and management, whether that lead is ethical or not. More than what is said or included in a policy manual, the actions of the governing body and management establish behavioral norms.

Be alert to changes in employee attitudes, behavior and lifestyles – Because of day-to-day contact, management is in the best position to observe the unusual – attitudes that are hostile or defensive toward management or the organization in general, changes in behavior that are inconsistent with employees' normal disposition or lifestyles that are not reasonable based on the employees' level of compensation. Matters that may be of particular concern include:

- Indications of dissatisfaction with compensation, or a lack of promotion
- Indications of gambling
- Indications of drug use or excessive use of alcohol
- Indications of financial distress
- Indications of severe stress

Steps Management Should Take in Preventing the Occurrence of Fraud

Perform thorough background checks on all new employees – Call former employers and educational institutions for verification of previous employment and education. Beware of "gaps" in employment or educational history. Consider obtaining a credit report (if authorized by the candidate) before employment.

Require uninterrupted vacations for all employees and establish a schedule of rotation of employee responsibilities – More than just good management, rotation of duties provides a strong disincentive to commit fraud. In addition, it provides an opportunity to discover fraud that has already occurred.

Establish a budget – The governing body/management should establish an operating budget and monitor actual results on a regular basis. Any significant variances should be investigated.

Monitor exception reports – Unprocessed transactions should be carefully examined for propriety. This includes revenues, expenses, purchasing and payroll transactions.

Control the mail – The mail should be picked up by an employee who has no responsibilities related to the handling or recording of deposits, accounts receivable records or revenues. All remittances should be directed to a post office box. Limiting access to the organization's mail is essential in preventing the unauthorized negotiation of cash receipts.

Control the bank statements – Similarly, the bank statements should be picked up by an employee who has no related responsibilities and delivered to the management or other person independent of the reconciliation process. This person should review the contents of the statements before they are reconciled. Specific items to be alert to include:

- Missing checks
- Checks issued out of sequence
- Unknown payees
- Checks that appear to have been altered
- Checks not signed by authorized signatories
- Other unusual items

Account for sequences – Whether it is checks, invoices, credit memoranda, receiving reports, shipping documents, or other pre-numbered items, all sequences should be accounted for. Voided documents should be defaced to prevent unauthorized use and retained to complete sequences.

Steps Management Should Take in Preventing the Occurrence of Fraud

Control general journal entries – Management should either make or personally review and approve all general journal entries. Supporting documentation should be reviewed before approving general journal entries. In particular, the following items should be investigated:

- Entries made to unrelated accounts
- Entries made to receivables or revenues at or near the close of a period
- Entries made by persons whose responsibilities are not consistent with the accounts being adjusted

Obtain reasonable fidelity bond coverage – If the unthinkable occurs, insurance coverage is the most likely means of recovery of amounts misappropriated. The amount of coverage should be reviewed periodically for adequacy.

Evaluate the internal control framework – Lastly, evaluate the internal control framework of your organization. One particular useful evaluation tool is available in the Committee of Sponsoring Organization's (COSO) guidance on internal control over financial reporting for smaller organizations. This guidance may be obtained through the AICPA's website at www.cpa2biz.com (product #990017).

© Audit Litigation, Training and Efficiency Consulting, Inc. 2008



**Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis**

As management of Valley Metro Regional Public Transportation Authority (the Authority), we offer this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the Authority's financial activity, (3) identify changes in the Authority's financial position, (4) identify any material deviations from the financial plan (adopted annual budget) and (5) identify individual fund issues or concerns.

Financial Highlights

- The Authority's total net assets increased \$15.0 million in FY 2012, comprised of a decrease of \$5.1 million in governmental activities and an increase of \$20.1 million in business-type activities. Total net assets of the Authority are \$105.6 million, of which \$97.5 million is unrestricted.
- The governmental activities revenues increased by approximately \$16.4 million (14.9%) over the previous year.
- The business-type activities revenues increased by approximately \$23.8 million (68.8%) from the previous year.
- At June 30, 2012, the Authority's governmental fund balance sheet reported a combined ending fund balance of \$47.4 million, a decrease of \$5.0 million (9.5%) compared to the previous fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

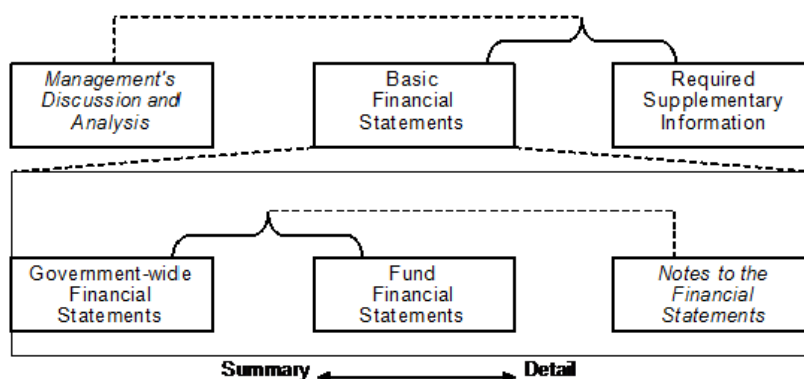
The financial statements are presented as follows:

- Government-wide reporting – presents financial statements on a government-wide basis.
- Fund financial statements – presents governmental, proprietary and fiduciary fund financial statements, with the focus on major funds within each fund type.
- Measurement focus for governmental activities – in the government-wide financial statements all activities, including the governmental activities, are reported using the economic resources measurement focus and accrual basis of accounting. The current financial resources focus and modified accrual basis of accounting are followed for the governmental fund financial statements.
- Budgetary reporting – the display of both the original adopted budget and the revised budget in the budgetary comparison schedules is required by GAAP. These schedules are only required for the general fund and major special revenue funds; these statements are presented as part of the basic financial statements, and the Authority has presented this information for the nonmajor special revenue funds and proprietary funds in the combining and individual fund financial statements and schedules section as additional information.
- Required narrative analysis – the financial statements are required to be accompanied by narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

Valley Metro
Regional Public Transportation Authority
 Management's Discussion and Analysis (Continued)

As presented below, the financial section of the Comprehensive Annual Financial Report (CAFR) for the Authority consists of this discussion and analysis, the basic financial statements and required supplementary information (other than MD&A). There are also additional non-required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund and major special revenue funds, and notes to the financial statements.

Required Components of the Comprehensive Annual Financial Report



Government-wide Financial Statements

The government-wide financial statements (see pages 14 - 16) are designed to provide a broad overview of the Authority's finances in a manner similar to those used by private businesses. All of the activities of the Authority, except those of a fiduciary nature, are included in these statements.

The activities of the Authority are broken down into two columns on these statements – governmental activities and business-type activities. A total column for the Authority is also provided.

- The *governmental activities* include the basic services of the Authority including general government (administration), regional planning, transportation demand management and regional customer services. Grants and general revenues generally support these activities.
- The *business-type activities* include the private sector type activities which are transit service operations and light rail transit. These activities are partially supported by user charges and provide substantial benefits, both direct and indirect, to the public at large.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, both current and noncurrent, with the difference between the two reported as net assets. The focus on net assets is designed to be similar to the emphasis for businesses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. To assess the overall health of the



Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

Authority, other indicators, including non-financial indicators like the Authority's tax base and the condition of its capital assets, should also be considered.

The *statement of activities* presents information showing how the Authority's net assets changed over the most recent fiscal year. Since full accrual accounting is used for the government-wide financial statements, all changes to net assets are reported at the time that the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also focuses on both the gross and net costs of the various functions of the Authority, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions depend on general taxes and revenues for support.

Fund Financial Statements

Also presented are more traditional fund financial statements for governmental funds, proprietary funds and fiduciary funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or conditions. Funds are used to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of the Authority.

Governmental funds – Governmental funds are used to account for most of the Authority's basic services. Unlike the governmental activities column on the government-wide financial statement, these fund financial statements (pages 17 - 22) focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in looking at the Authority's near-term financial requirements. Since the governmental activities on the statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two statements is provided following the fund financial statements and is also provided in Note 2 (pages 36 - 37).

Proprietary funds – Proprietary funds are used to account for business-type activities of the Authority. Enterprise funds are used for activities that primarily serve customers outside the governmental unit. The proprietary fund financial statements (pages 23 - 25) are prepared using the same long-term focus as the government-wide financial statements. The enterprise funds generally provide information similar to the business-type activities column of the government-wide financial statements, but provide more detail and additional information (i.e., cash flows).

Notes to the Financial Statements – The notes to the financial statements (pages 27 – 48) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A – Governments have an option of including the budgetary comparison statements of the general fund and major special revenue funds as either part of the fund financial statements within the basic financial statements or as required supplementary information after the footnotes. The Authority has chosen to present these budgetary statements as part of the basic financial statements.

Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables and analysis discuss the financial position and changes to the financial position for the Authority as a whole as of and for the year ended June 30, 2012, with comparative information for the previous year.

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets as of June 30, 2012 compared to the prior year:

<i>Condensed Statement of Net Assets</i>								
<i>As of June 30</i>								
<i>(in thousands of dollars)</i>								
	Governmental Activities		Business-type Activities		Total Primary Government			
	2012	2011	2012	2011	2012	2011		Percent Change
Current and other assets	\$ 48,029.6	\$ 53,235.3	\$ 75,408.8	\$ 43,424.5	\$ 123,438.4	\$ 96,659.8		27.7%
Noncurrent assets								
Cash and cash equivalents	-	-	23,448.7	33,376.2	23,448.7	33,376.2		-29.7%
Deferred charges	-	-	696.1	756.5	696.1	756.5		-8.0%
Capital assets	1,199.1	1,346.6	85,449.3	93,285.7	86,645.5	94,632.3		-8.4%
Total assets	\$ 49,228.7	\$ 54,581.9	\$ 185,003.0	\$ 170,842.9	\$ 234,231.7	\$ 225,424.8		3.9%
Other liabilities	\$ 1,233.6	\$ 1,486.5	\$ 29,506.3	\$ 29,948.1	\$ 30,739.9	\$ 31,434.6		-2.2%
Long-term liabilities	218.7	247.2	97,686.9	103,161.7	97,905.6	103,408.9		-5.3%
Total liabilities	\$ 1,452.4	\$ 1,733.7	\$ 127,193.1	\$ 133,109.8	\$ 128,645.5	\$ 134,843.5		-4.6%
Net assets:								
Invested in capital assets, net of related debt	\$ 1,199.1	\$ 1,346.6	\$ 6,528.6	\$ 21,322.7	\$ 7,727.8	\$ 22,669.3		-65.9%
Restricted	188.8	178.4	120.7	-	309.4	178.4		73.5%
Unrestricted	46,388.5	51,323.2	51,160.6	16,410.2	97,549.1	67,733.4		44.0%
Total net assets	\$ 47,776.4	\$ 52,848.2	\$ 57,809.9	\$ 37,732.9	\$ 105,586.3	\$ 90,581.1		16.6%

The Authority's total net assets increased \$15.0 million in FY 2012, comprised of a decrease of \$5.1 million in governmental activities and an increase of \$20.1 million in business-type activities. Total net assets of the Authority are \$105.6 million, of which \$97.5 million is unrestricted.

Of the \$105.6 million total net assets, \$7.7 million are the Authority's investment in capital assets net of accumulated depreciation and related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to the region's citizens; consequently, it is not the Authority's intention to sell these assets, and they are therefore not available for future spending. The capital assets are reported net of related debt; as discussed in the Capital Assets and Debt Administration section (pages 10 - 11), the Authority has pledged future transportation excise tax revenues to repay the outstanding debt obligations. The capital assets themselves are not intended to be used to liquidate these liabilities.

Approximately \$97.5 million of the Authority's net assets (92.4% of the total) represents unrestricted resources that may be used to meet the Authority's ongoing obligations to citizens, member agencies, contractors and creditors within the respective governmental and business-type activities. The remaining \$0.3 million reflects resources that are subject to external restrictions.



Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

The governmental activities reported a decrease of \$4.9 million (9.6%) of unrestricted net assets over the prior year largely attributed to a interfund transfers from the Public Transportation Fund to the Transit Service Operations Fund. The Authority purchased bus fleet and bus stop facilities that were funded with a combination of federal and regional PTF funds. During the year, \$28.4 million of the purchased assets were conveyed to Member Cities. The Public Transportation Fund balance was drawn down to cover the local share of the asset purchases.

The significant increase of \$34.8 million of unrestricted net assets over the prior year in business-type activities is due to PTF transfers to the Valley Metro Rail Fund for capital projects to be expended in FY2013 and FY2014.

Changes in Net Assets

The following table compares the revenues and expenses of the Authority for the current and previous fiscal year. The increase (decrease) in net assets for each year represents the extent to which revenues were over (under) expenses during the year.

<u>Changes in Net Assets</u>							
<i>Fiscal year ended June 30</i>							
<i>(in thousands of dollars)</i>							
	Governmental Activities		Business-type Activities		Total Primary Government		Percent Change
	2012	2011	2012	2011	2012	2011	
REVENUES							
Program revenues:							
Charges for services	\$	153.4	\$	189.0	\$	25,712.2	\$ 23,563.8 9.1%
Operating grants and contributions		13,601.9		2,286.9		14,939.0	4,431.4 237.1%
Capital grants and contributions		-		-		31,347.3	8,289.3 278.2%
General revenues:							
Sales taxes		112,353.3		107,111.1		112,353.3	107,111.1 4.9%
Interest earnings		73.1		79.9		182.9	295.7 -38.1%
Other		100.2		233.4		116.7	794.0 -85.3%
Total revenues		126,281.9		109,900.3		184,651.6	144,485.3 27.8%
EXPENSES							
Governmental activities:							
Regional planning		1,287.4		2,274.7		1,287.4	2,274.7 -43.4%
Transportation demand management		1,391.3		1,542.4		1,391.3	1,542.4 -9.8%
Regional customer services		8,044.5		7,995.4		8,044.5	7,995.4 0.6%
Administration		1,820.5		1,966.3		1,820.5	1,966.3 -7.4%
AZ Lottery fund disbursements		10,346.0		-		10,346.0	- N/A
Business-type activities:							
Transit service operations		-		-		113,091.6	90,336.8 25.2%
Light rail transit		-		-		33,665.2	66,140.2 -49.1%
Total expenses		22,889.6		13,778.8		169,646.4	170,255.8 -0.4%
Excess (deficit) before transfers		103,392.3		96,121.5		15,005.1	(25,770.5) -158.2%
Transfers in (out)		(108,464.1)		(89,250.2)		-	- N/A
Increase (decrease) in net assets	\$	(5,071.8)	\$	6,871.3	\$	15,005.1	\$ (25,770.5) -158.2%

The largest sources of revenue for the Authority are sales taxes (60.8%). The major funding sources of governmental activities are sales taxes (89.0%) and federal and state grants (10.8%). The major funding sources for business-type activities are federal grants (53.7%) and charges for services to member cities (43.8%).

The Authority's overall revenues increased by \$40.2 million, or 27.8%, compared to last fiscal year. Total revenues of governmental activities increased by \$16.4 million, (14.9%) over the previous year due to increased sales tax revenues from Public Transportation Fund (\$5.3 million) as well as the incorporation of Arizona Lottery Fund revenues (\$11.7 million) which



**Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)**

were formerly reported as fiduciary funds. All other governmental program revenues decreased by \$0.6 million. Program revenues of business-type activities increased by \$24.4 million, or 72.3%, compared to last fiscal year, which is largely attributable to increases in Federal Transit Administration (FTA) capital grants for bus fleet and facilities.

Spending of the Authority's sales tax revenues is limited to funding those activities necessary to implement the Proposition 400 Transit Life Cycle Program (TLCP). The Public Transportation Fund (PTF) revenues are restricted to the implementation of the transit element of the Regional Transportation Plan (RTP). Regional Area Road Fund (RARF) revenue is limited to fund administration in the General Fund and planning activities.

Business-type activities are the largest users of resources for the Authority with \$146.8 million of expenses (86.5%) which include Transit Service operations and Light Rail Transit lead agency disbursements. Governmental activities expended \$22.9 million, with the largest being AZ Lottery fund disbursements of \$10.3 million and Regional Customer Services of \$8.0 million. Administration, Regional Planning, and Transportation Demand Management activities totaled \$4.5 million for the year.

Total Primary Government expenses decreased by \$0.6 million, or 0.4%, compared to last fiscal year. The governmental expenses increased by \$9.1 million, or 66.1%, over the prior year due to the addition of AZ Lottery fund disbursements \$10.3 million. All other governmental activity expenses were reduced down by \$1.3 million due to conservative spending practices. Business-type activity expenses were decreased by \$9.7 million, or 6.2%, compared to the prior year due to decrease of construction related lead agency disbursements in the Valley Metro Rail Fund, down \$32.5 million, offset by cost increases within the Transit Service Operations Fund, which were up 22.8 million. The increases in business-type activity expenses were primarily due to capital conveyances of bus fleet and bus stop facilities to Member Cities with \$28.4 million expended in FY 2012 versus \$7.7 expended in FY 2011.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As previously mentioned, the Authority maintains fund accounting to demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds

The focus of the governmental funds financial statements (pages 17 – 22) is to provide information on near-term inflows, outflows and balances of spendable resources. The fund balance of the governmental funds is \$47.4 million, a decrease of \$5.0 million, or 9.6%, from the previous year. Of the \$47.4 million total fund balance, the Authority has designated \$0.2 million restricted for special purpose activities the remainder is in unrestricted fund balance in the General Fund (see Note 6 - page 41). Unrestricted fund balance may serve as a useful indicator of a government's net resources available for spending at the end of the year. Of the \$47.4 million fund balance, \$47.2 million is unrestricted.

The General Fund accounts for activities that include regional customer service, financial management and agency administration. In addition to PTF and RARF sales tax revenues of \$112.3 million, in fiscal year 2012, AZ Lottery fund proceeds of \$11.7 million have been added to the General Fund accounts. With the change, General Fund revenues increased \$17.1 million (15.9%) over the previous year, bolstered by the \$5.2 million increase in PTF sales tax



**Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)**

revenues. The \$107.9 million PTF sales tax revenue represents the sixth full year of earned revenue and increased by \$5.2 million over last year. The sales tax revenue increase was due to the improving economy in the region. Regional Area Road Funds (RARF) sales tax revenues increased slightly by \$41 thousand in FY 2012 to \$4.5 million.

The Transit Planning Fund accounts for activities related to the development of strategies to promote social and economic well-being of the community through the provision of an efficient and effective regional transit system. Revenues decreased \$0.5 million (64.7%) due to the reduction of FTA grant awards received and reduction of service charges for planning services. The expenditures decreased from \$2.3 million to \$1.3 million due to reduced planning activities during the year. Prior to 2006, sales taxes allocated to the Transit Planning Fund were shown as revenues. These monies are now shown as transfers in. Total transfers decreased by 31.0% versus the prior year.

The Transportation Demand Management Fund accounts for activities related to the countywide ridesharing program, trip reduction program and clean air campaign. Revenues decreased 8.9% and expenditures decreased 10.0% from the prior year due to decreases in trip reduction program activities.

Proprietary Funds

The proprietary fund financial statements (pages 23 – 25) are prepared on the same accounting basis and measurement focus as the government-wide financial statements, but provide additional detail since each enterprise fund is a major fund and is shown discretely on the fund statements.

The Transit Service Operations Fund accounts for the activities related to the operations of local and express bus, paratransit and vanpool services for the region. Net assets increased slightly by \$0.1 million over the prior year to \$25.9 million.

The Valley Metro Rail Fund accounts for staffing and administrative services that are contractually provided by the Authority to Valley Metro Rail, Inc. (VMR) and the PTF sales tax revenues and expenses of such funds related to the Regional Transportation Plan approved light rail projects. Valley Metro Rail, Inc. is a nonprofit corporation organized for the purpose of planning, designing, constructing and operating the light rail transit project in metropolitan Phoenix (see Note 1(a) on page 27). The Valley Metro Rail Fund has net assets of \$31.9 million as of June 30, 2012 as compared to net assets of \$12.0 million at the end of the previous year. In fiscal year 2012 the Valley Metro Rail Fund received 43.2% of the total PTF sales tax revenues distributed to the Authority from the Arizona Department of Revenue, totaling \$46.7 million and received 11.2% of the \$4.5 million RARF sales tax revenue received by the Authority, totaling \$0.5 million. Additionally, the Valley Metro Rail Fund received \$1.8 million of transfers in of 2009 Bond proceeds from the Transit Service Operations Fund for VMR capital expenditure reimbursements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Authority revised the adopted budget during the fiscal year increasing the General Fund revenues budget from \$108.2 million to \$112.1 million. The primary change was an increase to the Public Transportation Fund revenue from \$103.4 million to \$107.1 million.



Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)

For the year ended June 30, 2012, actual expenditures were over the adopted budget amounts by \$10.0 million. The variance was attributable to the incorporation of AZ Lottery fund disbursements of \$10.3 million as General Fund expenditures which were not included in the annual budget. In prior year financial reporting, the AZ Lottery fund proceeds and disbursements were reported as fiduciary funds and not included in the general fund transactions. The remaining general fund activities were below budget by \$0.3 million for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the Authority had \$86.7 million invested in various capital assets, net of accumulated depreciation, for its governmental and business-type activities. The overall net decrease in the Authority's capital assets for the current fiscal year was 8.4%, a decrease of 10.9% for governmental activities and a decrease of 8.5% for business-type activities for the current year. Major capital asset events in the current year attributing to the decrease included the following:

- Depreciation expense in the current year totaled \$11.5 million, \$11.0 million for business type capital assets and \$0.4 million for governmental activities capital assets. The depreciation expense was the primary reason for the large decrease in governmental activities capital assets.

The following table provides a breakdown of capital assets of the Authority at June 30, 2012 with comparative information for the previous year. Additional information on the Authority's capital assets may be found in Note 7 on pages 42 – 43.

Capital Assets, Net of Accumulated Depreciation
As of June 30
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government		
	2012	2011	2012	2011	2012	2011	Percent Change
Non-depreciable assets:							
Land	\$ -	\$ -	\$ 5,292.0	\$ 5,292.0	5,292.0	5,292.0	0.0%
Work-in-progress	-	-	2,515.4	2,719.1	2,515.4	2,719.1	-7.5%
Depreciable assets:							
Transit fleet	-	-	55,710.4	62,411.0	55,710.4	62,411.0	-10.7%
Building	-	-	12,226.3	12,517.4	12,226.3	12,517.4	-2.3%
Site improvements	300.4	384.5	6,768.1	6,610.4	7,068.5	6,994.9	1.1%
Computers & software	187.6	317.9	44.1	100.6	231.6	418.6	-44.7%
Equipment	572.6	460.1	2,884.3	3,613.4	3,456.9	4,073.5	-15.1%
Furniture & fixtures	138.6	184.0	8.7	21.8	147.3	205.8	-28.4%
Total assets	\$ 1,199.1	\$ 1,346.5	\$ 85,449.3	\$ 93,285.7	\$ 86,648.5	\$ 94,632.3	-8.4%



**Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Continued)**

Debt Administration

At June 30, 2012, the Authority had total bonded debt outstanding (including unamortized premium) of \$102.4 million related to business-type activities. The Authority has pledged future transportation excise tax revenues to repay this outstanding debt.

	Business-type Activities	
	2012	2011
Revenue bonds payable	\$ 97.8	\$ 100.1
Plus unamortized premium: Bond premium payable	4.6	5.0
Total	<u>\$ 102.4</u>	<u>\$ 105.1</u>

The Authority's current bond ratings on transportation excise revenue tax bonds are AA+ from Standard & Poor's and AA from Fitch.

Additional information on the Authority's bonded debt and other long-term liabilities can be found in Note 10 on pages 44 - 45.

ECONOMIC FACTORS

RPTA undertook a number of key projects during FY 2012, as the agency continues the implementation of the TLCP operating and capital projects. Funding for these projects and studies comes from a combination of sales tax revenues (Public Transportation Funds [PTF] and Regional Area Road Funds [RARF]) and federal grants.

The key initiatives for fiscal year 2012 included:

- Successfully completed the first five year performance audit of the Transit Element of the Regional Transportation Plan. The State Auditor General remarked that RPTA had instituted an effective performance management system soon after voter approval of Proposition 400.
- Hired a single Chief Executive Officer to manage an integrated RPTA and METRO staff effective March 1, 2012.
- Completed the installation of approximately 7,500 NextRide signs throughout the region so customers can call or text requests for the next bus and train arrival times.
- Instituted the July 2012 Service Change – New Transit Book and revised system map; and improvements to ValleyMetro.org, Customer Communications, and Signage
- Prepared for a pilot program transition for the East Valley Dial-a-Ride program to a brokerage model as a cost savings measure and to reduce travel times for passengers. Under the new program, a contracted broker will dispatch vehicles which are tailored to the specific customer need. Many Dial-a-Ride trips will be completed in fuel efficient sedans generating substantial savings. The pilot program commenced July 1, 2012.



**Valley Metro
Regional Public Transportation Authority
Management's Discussion and Analysis (Concluded)**

The adopted FY 2013 combined operating and capital budget is \$277.1 million (up approximately 19% from fiscal year 2012). The FY 2013 budget includes the seventh full year of projects funded with Proposition 400 PTF sales tax revenues (\$114.6 million). Of the \$114.6 million PTF revenue budgeted, \$52.2 million is for bus operating and bus capital and \$44.2 million is for light rail/high capacity capital. The total operating budget of \$90.9 million represents a \$6.2 million (7%) increase over the fiscal year 2012 operating budget of \$84.7 million. The primary increases are due to greater PTF disbursements to member cities for ADA transit operations. The total capital budget of \$186.3 million represents an \$37.8 million (25%) increase over the fiscal year 2012 capital budget of \$148.4 million. The major reasons for the increases in the capital budget are increasing bus equipment purchases and increasing lead agency distributions to VMR for capital project expenditures. The increases in capital expenses correspond to projects programmed in the Transit Life Cycle Program (TLCP) for fiscal year 2013. The budget is balanced; decreases in net assets other than depreciation charges to capital assets are not anticipated for fiscal year 2013.

FINANCIAL CONTACT

The financial report is designed to provide a general overview of the Authority's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to the Authority's Chief Financial Officer, Valley Metro RPTA, 101 N. 1st Avenue, Suite 1300, Phoenix, AZ 85003.



10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Chair and Members of the Board of Directors
Valley Metro Regional Public Transportation Authority

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Valley Metro Regional Public Transportation Authority as of and for the year ended June 30, 2012, which collectively comprise Valley Metro Regional Public Transportation Authority's basic financial statements and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Valley Metro Regional Public Transportation Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Valley Metro Regional Public Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Metro Regional Public Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Valley Metro Regional Public Transportation Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Metro Regional Public Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 18, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Chair and Members of the Board of Directors
Valley Metro Regional Public Transportation Authority

Compliance

We have audited Valley Metro Regional Public Transportation Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Valley Metro Regional Public Transportation Authority's major federal programs for the year ended June 30, 2012. Valley Metro Regional Public Transportation Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Valley Metro Regional Public Transportation Authority's management. Our responsibility is to express an opinion on Valley Metro Regional Public Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Metro Regional Public Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valley Metro Regional Public Transportation Authority's compliance with those requirements.

In our opinion, Valley Metro Regional Public Transportation Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Valley Metro Regional Public Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valley Metro Regional Public Transportation Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Metro Regional Public Transportation Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Valley Metro Regional Public Transportation Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated December 18, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.



This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 18, 2012



Valley Metro
Regional Public Transportation Authority
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2012

Federal Grantor Agency and Program Title	CFDA Number	Pass-Through Grantor	Pass-Through Identifying Number	Awards Expended	Awards Expended
Department of Transportation					
Federal Transit Administration					
Federal Transit Cluster:					
Federal Transit - Capital Investment Grants	20.500	City of Phoenix	AZ-05-0203	\$	\$ 114,912
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-90-X074	548,525	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-90-X103	19,244,582	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-90-X109	2,709,679	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-96-X002	714,388	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-95-0004	397,143	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-95-X006	1,327,283	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-95-X013	2,596,455	
Federal Transit - Formula Grants	20.507	City of Phoenix	AZ-95-X009	614,074	
Federal Transit - Formula Grants Subtotal				28,152,129	
Total Federal Transit Cluster					28,267,041
Transit Services Programs Cluster:					
Job Access - Reverse Commute	20.516	City of Phoenix	AZ-37-X011	115,484	
Job Access - Reverse Commute	20.516	City of Phoenix	AZ-37-X017	353,630	
Job Access - Reverse Commute Subtotal				469,114	
New Freedom Program	20.521	City of Phoenix	AZ-57-X001	127,005	
New Freedom Program	20.521	City of Phoenix	AZ-57-X008	12,605	
New Freedom Program	20.521	City of Phoenix	AZ-57-X009	276,032	
New Freedom Program	20.521	City of Phoenix	AZ-57-X012	188,190	
New Freedom Program	20.521	City of Phoenix	AZ-57-X013	239,243	
New Freedom Program Subtotal				843,075	
Total Transit Services Programs Cluster					1,312,189
Clean Fuels	20.519	City of Phoenix	AZ-58-0003		2,539,340
Formula Grants for Other Than Urbanized Areas	20.509	ADOT	AZ-18-0041	68,734	
Formula Grants for Other Than Urbanized Areas	20.509	ADOT	AZ-18-0045	238,069	
Formula Grants for Other Than Urbanized Areas Subtotal					306,803
Total Federal Transit Administration					32,425,373
Federal Highway Administration					
Highway Planning and Construction	20.205	MAG	413	208,022	
Highway Planning and Construction	20.205	MAG	413	363,162	
Highway Planning and Construction	20.205	Maricopa County	C85-11-006-3-00	126,222	
Highway Planning and Construction	20.205	Maricopa County	C85-12-005-3-00-		
			2012-TM12	249,236	
Highway Planning and Construction	20.205	Maricopa County	C-85-11-004-3-00	250,000	
Highway Planning and Construction Subtotal					1,196,642
Highway and Research Development Program	20.200	ADOT	JPA 08-083-1	79,372	
Highway and Research Development Program	20.200	ADOT	JPA 10-0421	70,829	
Highway and Research Development Program Subtotal					150,201
Total Federal Highway Administration					1,346,843
Total Expenditures of Federal Awards				\$	33,772,216

See accompanying notes to the Schedule of Expenditures of Federal Awards.



**VALLEY METRO REGIONAL PUBLIC TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

1. General

The Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Regional Public Transportation Authority (the "Authority"). All federal awards received are passed through the City of Phoenix, Arizona Department of Transportation, Maricopa County and Maricopa Association of Governments. Federal financial award activities are reported in the special revenue and enterprise funds in the Authority's fund financial statements.

2. Basis of Accounting and Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards is presented using a basis of accounting that is consistent with the basic financial statements, as is described in Note 1 of the Authority's basic financial statements.

The Authority, for purposes of the Schedule of Expenditures of Federal Awards, includes all funds of the primary government as defined by Governmental Accounting Standards Board Statement.

3. Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2012 Catalog of Federal Domestic Assistance.

4. Pass-Through Grantors Reference

The Authority receives all federal awards as pass-through from other governmental and nonprofit agencies. Abbreviations are as follows:

ADOT	Arizona Department of Transportation
MAG	Maricopa Association of Governments

5. Period of Award

There is no specified time period in which the grant award must be spent.

6. Federal Assistance not included

Expenditures related to assistance not considered federal awards in accordance with OMB Circular A-133 have not been presented in this schedule as follows:

Build America Bond Subsidies	\$589,923
------------------------------	-----------



**VALLEY METRO REGIONAL PUBLIC TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.500, 20.507	Federal Transit Cluster
20.519	Clean Fuels

Dollar threshold used to distinguish between Type A and Type B programs: \$1,013,166

Auditee qualified as low-risk auditee? yes X no



**VALLEY METRO REGIONAL PUBLIC TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None reported.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.



**VALLEY METRO REGIONAL PUBLIC TRANSPORTATION AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

Status of Federal Award Findings and Questioned Costs

The Authority had no findings or questioned costs related to federal awards noted in prior audits that require a status.



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 6**SUBJECT**

RPTA Fiscal Year 2013 Mid-Year Budget Adjustment

PURPOSE

To request that the Board of Directors authorize the Mid-Year Budget Adjustment update to the Valley Metro RPTA Operating and Capital Budget for Fiscal Year (FY) 2013.

BACKGROUND/DISCUSSION/CONSIDERATION

In May 2012, the Transportation Management Committee (TMC) recommended and the Board approved the FY2013 Operating and Capital Budget. The cost factors used to develop the budget have changed and adjustments are warranted to update the expenditures planned for the remainder of the fiscal year. The major changes include:

RPTA FY13 Mid-Year Budget Adjustments

Board Approval	Budget	Description	Amount
Sep12, Agenda 4J,	2015 - RPTA Fixed Route Service (Veolia)	Pilot Program - East Mesa Seasonal Service. Funded by Mesa.	\$ 365,000
Nov12, Agenda 4G	2015 - RPTA Fixed Route Service (Veolia)	Route 96, 112, and 542 changes in the City of Chandler. Funded by Chandler.	\$ 97,600
	2015 - RPTA Fixed Route Service (Veolia)	Recognize additional PM Funding.	\$ 3,600,000
	2015 - RPTA Fixed Route Service (Veolia)	Recognize IRS Fuel Tax Credit Funding.	\$ 1,300,000
	2015 - RPTA Fixed Route Service (Veolia)	Actual fuel and contractor costs have trended below original FY13 assumptions. Actual Fare Revenue higher than budgeted.	\$ (2,541,328)
Nov12, Agenda 4G	2017 - RPTA Fixed Route Service (ValuTrans)	Extension of service for Route 251 with ValuTrans. Funded by Gila River Indian Community.	\$ 131,000



RPTA FY13 Mid-Year Budget Adjustments

Board Approval	Budget	Description	Amount
	2017 - RPTA Fixed Route Service (ValuTrans)	Recognize additional PM Funding.	\$ 217,000
	2017 - RPTA Fixed Route Service (ValuTrans)	Increased service levels and related costs. Funded by Member Cities.	\$ 62,800
	2030 - East Valley Dial-a-Ride	Increased service levels and related costs. Funded by PTF.	\$ 200,000
Sep12, Agenda 4D	2046 - Other ADA	City of Goodyear reimbursement of eligible ADA expenses incurred by the city. Funded by PTF.	\$ 20,580
Sep12, Agenda 4G	2048 - Valley Metro Mobility Services	Dial-a-Ride Service throughout the City of Surprise. Funded by the City of Surprise.	\$ 300,000
	2048 - Valley Metro Mobility Services	Increased service levels and related costs. Funded by Member Cities and FTA 5317.	\$ 332,777
Nov12, Agenda 4J	3353 - Bus Operations Planning	Project Definition Study for Scottsdale/Rural LINK. Funded by RARF.	\$ 86,976
Dec12, Agenda 4C	3353 - Bus Operations Planning	Transit Planning Study for the Town of Queen Creek. Funded by Queen Creek.	\$ 145,000
Dec12, Agenda 4D	3353 - Bus Operations Planning	Transit Planning Study for the Town of Fountain Hills. Funded by Fountain Hills.	\$ 60,000

The above changes have been incorporated into the Mid-Year Budget Adjustments presented within the Cost and Budget portion of this Agenda Item.

COST AND BUDGET

Changes proposed are as follows:

Revenue Changes:

- Decrease PTF funding by \$2.201M
- Decrease Transit Service Agreement funding by \$869,000
- Increase Federal Grant Funding by \$3.958M
- Increase RARF funding by \$87,000
- Increase IRS Fuel Tax Credit to \$1.3M
- Decrease Undesignated Fund Balance by \$3.015M

Expenditure Changes:

- Increase Lead Agency PTF disbursement by \$21,000
- Reduce Transit Service Contracts by \$1.243M
- Increase Capital Outlay by \$191,000
- Increase Consultants and Contracts by \$292,000

Valley Metro
Regional Public Transportation Authority
FY 2012/13 Revised Operating & Capital Budget
Comparison to FY 2012/13 Adopted Budget
(In thousands)

	2012/13 Revised Budget	2012/13 Adopted Budget	Amount Increase/ (Decrease)
Sources of funds			
Revenues:			
Public transportation funds (PTF)	112,399	\$ 114,600	\$ (2,201)
Transit service agreements	15,790	16,659	(869)
Federal grants	36,904	32,946	3,958
VMR staff & administration reimbursement	14,028	14,028	-
Regional area road funds (RARF)	4,605	4,518	87
Interest & other revenues	2,494	1,194	1,300
Local participation	536	536	-
State & local grants	641	641	-
Total revenues	187,397	185,122	2,275
Bond proceeds	70,000	70,000	-
Carryforwards & reserves	18,973	21,988	(3,015)
Total revenues & other sources of funds	\$ 276,370	\$ 277,110	\$ (740)
Uses of funds by category			
Expenses:			
Lead agency PTF disbursements	\$ 69,269	\$ 69,248	\$ 21
Transit service contracts	52,837	54,080	(1,243)
Capital outlay	35,086	34,895	191
Salary & fringe benefits	22,960	22,960	-
Bond principal & interest expense	10,741	10,741	-
Consultants & contracts	3,786	3,494	292
Contingency	2,066	2,066	-
Rent & facility costs	2,813	2,813	-
Advertising	427	427	-
Transit book, outreach mat. & online serv.	573	573	-
Insurance & risk management	257	257	-
Safety & security	284	284	-
Lead agency RARF disbursements	500	500	-
Other administrative costs	1,771	1,772	(1)
Lead agency bond disbursement	22,500	22,500	-
Total expenses	225,870	226,610	(740)
Carryforwards & contributions to reserves	50,500	50,500	-
Total expenses & other uses of funds	\$ 276,370	\$ 277,110	\$ (740)



Valley Metro
Regional Public Transportation Authority
Comparative Operating and Capital Budget Summary by Project

Proj. No.	Project Description	2012/13 Revised	2012/13 Adopted	Change
Operating Projects				
1005	Finance and Administration Support	\$ 428,584	428,584	-
1020	Administrative Capital Outlay	415,000	415,000	-
2005	Operations Administration	950,000	950,000	-
2006	Safety and Security	475,000	475,000	-
2010	Phoenix Fixed Route	5,574,926	5,574,926	-
2012	Fare Vending Machine Service and Maint.	247,700	247,700	-
2015	RPTA Fixed Route Service (Veolia)	25,801,890	27,880,618	(2,078,728)
2017	RPTA Fixed Route Service (ValuTrans)	3,324,603	3,130,803	193,800
2018	Avondale Circulator	-	-	-
2026	Tempe Fixed Route	11,822,837	11,822,837	-
2027	Ajo / Gila Bend Connector	809,601	809,601	-
2029	Wickenburg Connector	-	-	-
2030	East Valley Dial-a-Ride	6,268,790	6,068,790	200,000
2040	Sun Cities Area Transit	-	-	-
2046	Other ADA	16,827,170	16,806,590	20,580
2047	Alternative Transportation Program	1,432,417	1,432,417	-
2048	Valley Metro Mobility Services	1,326,985	694,208	632,777
2050	Regional Vanpool Service	847,163	847,163	-
3205	Regional Rideshare	594,000	594,000	-
3215	Trip Reduction Program/Clean Air Campaign	250,000	250,000	-
3220	Trip Reduction Program/Expansion	370,000	370,000	-
3255	Bike Safety	-	-	-
3260	Safe Routes	-	-	-
3265	Regional Bike Ped, Safety Education	140,934	140,934	-
3275	Statewide Bicycle/Pedestrian Education	315,217	315,217	-
3305	Planning Administration	144,053	144,053	-
3310	Long Range Planning	74,820	74,820	-
3315	Short Range Planning	304,219	304,219	-
3330	Transit Modeling	37,122	37,122	-
3335	Transit Research and Survey	143,563	143,563	-
3345	Capital Planning	275,749	275,749	-
3353	Bus Operations Planning	843,883	551,907	291,976
3354	Capital Management Program Consultant	50,696	50,696	-
3359	Transit Life Cycle Program	283,868	283,868	-
3405	Misc. Public Transportation Fund	-	-	-
4000	Valley Metro Rail	14,527,959	14,527,959	-
5005	Chief Executive Officer's Department	1,130,639	1,130,639	-
6005	Regional Services Administration	419,096	419,096	-

(Continued)

(Continued)



Proj. No.	Project Description	2012/13 Revised	2012/13 Adopted	Change
Operating Projects (continued)				
6015	Regional Ridership Reporting	125,206	125,206	-
6020	Community Outreach	402,470	402,470	-
6025	Regional Marketing	2,324,224	2,324,224	-
6035	Regional Call Center	3,737,802	3,737,802	-
6040	Regional ADA Compliance	1,590,882	1,590,882	-
	<i>Total Operating Projects</i>	<u>104,639,068</u>	<u>105,378,663</u>	<u>(739,595)</u>
Capital Projects				
4000	Valley Metro Rail	66,688,513	66,688,513	-
7000	Public Transportation Debt Service	61,241,318	61,241,318	-
9010	Standard Bus - Replacement	20,641,940	20,641,940	-
9020	Express/BRT - Replacement	12,240,000	12,240,000	-
9021	Express/BRT - Expansion	-	-	-
9030	Rural Fleet - Replacement	174,770	174,770	-
9031	Rural Fleet - Expansion	397,800	397,800	-
9040	Paratransit Fleet - Replacement	680,095	680,095	-
9041	Paratransit Fleet - Expansion	19,319	19,319	-
9050	Vanpool Fleet - Replacement	2,840,049	2,840,049	-
9051	Vanpool Fleet - Expansion	350,000	350,000	-
9090	Fleet - Other	1,753,944	1,753,944	-
9110	O/M Facilities - Bus/Paratransit	350,000	350,000	-
9211	Transit Centers (6-Bay)	305,948	305,948	-
9213	Pass. Facilities - Bus Stop Pass. Amenities	1,699,239	1,699,239	-
9220	Pass. Facilities - Park & Rides	1,501,052	1,501,052	-
9390	Vehicle Management/Communications	550,000	550,000	-
9391	Fare Collection Systems	55,000	55,000	-
9420	Dedicated BRT Right-of-Way and Impr.	241,959	241,959	-
	<i>Total Capital Projects</i>	<u>171,730,946</u>	<u>171,730,946</u>	<u>-</u>
	<i>Total Operating & Capital Projects</i>	<u>\$ 276,370,014</u>	<u>277,109,609</u>	<u>(739,595)</u>

COMMITTEE PROCESS

Financial Working Group – January 22, 2013 for information

RTAG – January 22, 2013 for information

Transit Management Committee – February 6, 2013 approved

Board of Directors – February 21, 2013 for action

RECOMMENDATION

It is recommended that the Board of Directors approve the Mid-Year Budget Adjustment update to the Valley Metro RPTA Operating and Capital Budget for Fiscal Year (FY) 2013.

**CONTACT**

John P. McCormack
Chief Financial Officer
602-495-8239
jmccormack@valleymetro.org

ATTACHMENTS

None



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 7**SUBJECT**

Future Agenda Items Request and Report on Current Events

PURPOSE

Chair Aames will request future agenda items from members and members may provide a report on current events.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None







Agenda



February 13, 2013

Board of Directors

Thursday, February 21, 2013

Lake Powell Conference Room
101 N. 1st Avenue, 10th Floor
2:00 p.m.

For those participating by telephone, please mute your phone when not speaking.

Members please make sure your microphone is turned on when speaking and turned off when you are not speaking.

Action Recommended

1. Public Comment

A 15-minute opportunity will be provided to members of the public at the beginning of the meeting to address the Board on all agenda items. The Chair may recognize members of the public during the meeting at his/her discretion.

1. For information

2. Minutes

Minutes from the January 24, 2013 Board meeting are presented for approval.

2. For action

3. Chief Executive Officer's Report

Steve Banta, Chief Executive Officer, will brief the Board on current issues.

3. For information



CONSENT AGENDA

- 4A. Intergovernmental Agreement with the City of Phoenix for Federal Transit Administration Pass-Through Grant AZ-05-0204

4A. For action

Staff will request that the Board of Directors authorize the Chief Executive Officer to enter into an intergovernmental agreement with City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.

- 4B. Valley Metro Rail, Inc., Fiscal Year 2012 Comprehensive Annual Financial Report and Single Audit Act Report

4B. For action

Staff will request that the Board of Directors accept the Comprehensive Annual Financial Report and Single Audit Act Report for the period ended June 30, 2012.

REGULAR AGENDA

5. METRO Fiscal Year 2013 Mid-Year Budget Adjustment

5. For action

Steve Banta, CEO, will introduce John McCormack, Chief Financial Officer, who will provide the Mid-Year Budget Adjustment update to the Valley Metro Rail Operating and Capital Budget for Fiscal Year (FY) 2013 and request that the RMC forward to the Board of Directors for approval.

6. Central Mesa Light Rail Extension Project Update

6. For information

Steve Banta, Chief Executive Officer, will introduce Rick Brown, Director, Design and Construction, who will provide the Board with an informational update on the project progress and financial status.



7. Future Board Agenda Items Request and Report on Current Events

7. For information and discussion

Chair Stanton will request future Board agenda items from members and members may provide a report on current events.

8. Next Meeting

8. For information

The next meeting of the Board is scheduled for **Thursday, March 21, 2013 at 2:00 p.m.**

Qualified sign language interpreters are available with 72 hours notice. Materials in alternative formats (large print, audiocassette, or computer diskette) 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



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 1**SUBJECT**

Public Comment

PURPOSE

A 15-minute opportunity will be provided to members of the public at the beginning of the meeting to address the Board on all agenda items. The Chair may recognize members of the public during the meeting at his/her discretion.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None



Minutes



February 13, 2013

AGENDA ITEM 2

Minutes of the
METRO
Board of Directors
Thursday, January 24, 2013
2:00 p.m.

Meeting Participants

Councilmember Michael Johnson for Mayor Greg Stanton, City of Phoenix, Chair
Councilmember Shana Ellis, City of Tempe, Vice Chair (via phone)
Dan Cook for Councilmember Rick Heumann, City of Chandler
Jamsheed Mehta, City of Glendale
Councilmember Dennis Kavanaugh, City of Mesa (via phone)

Chair Johnson called the meeting to order at 3:07 p.m.

Chair Johnson said I'm going to go ahead and call the meeting to order noting that Councilmember Shana Ellis is actually on the phone along with Councilman Dennis Kavanaugh, they are both on the phone.

1. Public Comment

Chair Johnson said the first thing on the agenda is going to be public comment. Those who are commenting, I have two cards here for public comment. I have one card by Penny Hamilton Posedly, so if you would just go to the podium now.

Ms. Posedly said I'm a resident of Phoenix. I got here on the light rail. I'm an architect, worked on the light rail system, and also I'm the board chair for Valley Center of the Deaf, one of the almost thirty organizations serving people with disabilities that are housed in the Disability Empowerment Center.

I was very pleased by the enthusiasm of the mayor and council of Phoenix to get this thing moving and get a stop put up there and also some discussion at a church -- and I don't know anything about that part. But the staff was extremely concerned and said three times, but we've never done this before. We've never put a new station in the line of existing track.

And you've got people here in the city, not necessarily government people, but the folks that put in the tracks the first time, the engineers, the architects, they can run a study for you lickety-split and figure out how to put that in. We don't have to stop while our staff learns all the things that are available in the general community knowledge base in



order to do this.

So I would encourage you to go with the pattern that you originally stated of six months from December to get your feasibility study, price dollar amount on one or two stations, and let's just do it.

Chair Johnson said thank you. Blue.

Mr. Crowley said what it is, one is public comment, the 4B I can cover that also since it is for consent. I look at that 16th Street stop and I look a half mile down the road, there's a 12th Street stop. What's wrong with that 12th Street stop, and are you going to fix the problems at 12th Street and 16th as in where is the bus that goes to the 12th Street stop? It stops at Van Buren. We need to get to the 12th Street bus connecting, and we need the 16th Street bus to have an interrelationship with the bus system. With you people being -- this is now general on public comment -- with this Board and others stating that the heavy rail eventually should be done in fifty years, I think that's wrong.

I look at the members of the Board and all three of you have, what, going through your communities, heavy rail. I know its last century technology, but it does move people down the road and we're not looking at it sufficiently.

I'd also like it taken out of this committee's hands and put into the hands of the county. Because, unfortunately, good men that you are, each of you has an agenda for the city you represent, which then doesn't cause you to represent the region in the way that it's necessitated.

When I look at the equation for Glendale and the passage of Prop 400, that original alignment was to have the rail going into Metrocenter where we had a transit center. Instead, Glendale was played out of position and we're still not going across that freeway. Now I know the AC-DC is there. Why aren't we putting it in that hole and only during floods not run the rail there, you know. There are ways that it can be done and achieved.

I need you to look at it more than myopically as you have done already. It's not Phoenix. It's not Glendale. It's not Chandler or Goodyear. It's the whole region. Get back and use that 18th century technology, the heavy rail that's there. It connects almost every single one of the segments of our community from Aguila all the way to Rittenhouse Road going through Queen Creek.

So with that I'll give you back 30 seconds and wait to speak to you again when you get to Item 6.



2. Minutes

Chair Johnson said that now takes us to Item No. 2, which is the minutes. We need a motion to approve the minutes from December 13th, 2012 Board meeting.

IT WAS MOVED BY JAMSHEED MEHTA, SECONDED BY DAN COOK AND UNANIMOUSLY CARRIED TO APPROVE THE MINUTES FROM DECEMBER 13, 2012.

3. Chief Executive Officer's Report

Chair Johnson said that takes us to Item 3, Chief Executive Officer's report.

Mr. Banta said Mr. Chairman, members of the board, I would like to take a moment and remember Mr. Jeff Rosen. Jeff Rosen passed away last month. Jeff was an avid attendee at all of our board meetings, challenging myself and our staff to do better for persons with disabilities on a day-to day-basis. I do know that he also spent a lot of time over at Phoenix City Hall. We will miss Jeff. But we appreciate all his contributions as it relates to how we advance transit and opportunities for mobility impaired here in the Valley.

Chair Johnson said I would like to take a quick moment of silence for Jeff. I think that would be appropriate for the time that he committed here throughout the city for those who he represented in his public service.

Mr. Banta said Mr. Chairman, in the interest of time, I will forego the rest of my CEO report and allow you to move into the consent agenda.

4. Consent Agenda

If there are no questions, then we'll go into the consent agenda. We need a motion for approval of the consent agenda, which is Item 4A, METRO Safety and Security Audit Program Contract Extension. And 4B, Light Rail Transit Station Feasibility Study and the Phoenix Funding Agreement.

IT WAS MOVED BY JAMSHEED MEHTA, SECONDED BY COUNCILMEMBER ELLIS AND UNANIMOUSLY CARRIED TO APPROVE THE CONSENT AGENDA.

5. Federal Legislative Agenda

Chair Johnson said we will move on to the regular agenda item which is Item 5, our Federal Legislative Agenda.



Mr. Banta said Mr. Chairman and members of the board, I'd like to transition to Item No. 6. It is an action item. Item No. 5 is information only. And Item No. 7 is information only and that way our participants on the phone can move forward and we can have the presentations here in the office if that's to your pleasure.

Chair Johnson said I just need a board -- a motion by a board member to take Item No. 6 out of order.

IT WAS MOVED BY DAN COOK, SECONDED BY JAMSHEED MEHTA AND UNANIMOUSLY CARRIED TO TAKE ITEM 6 OUT OF ORDER.

6. Consultant Contract Amendment for the Planning, Conceptual Engineering and Environmental Studies for the I-10 West and Glendale High Capacity/Light Rail Transit Corridors

Chair Johnson we're now going to take Item No. 6. This is the only action item that we have remaining at this point in time. Mr. Crowley, I see you do have a card on Item No. 6, so I'll allow you to speak at this time.

Mr. Crowley said it looks like you are going to try to get into Glendale with that, but I also note that where you're putting your stop up there at Rose Mofford instead of it connecting there, you're saying northern down to Bethany.

I also then look at your briefing packet, and it says: The Regional Transportation Plan for the metropolitan area extends high capacity light rail transit system to fifty-seven miles by 2032.

That's amazing, Mr. Banta. What are you doing '20 to '32 with no money? How is that going to do that? Because there is no funding after 2026.

Chair Johnson said sir, I'm only going to ask you though, if you do have a question to address that question to the Board.

Mr. Crowley said I'm addressing the action that you're proposing to take that when you're expressing it that high capacity system to be 57 miles by 2032 and there is no money, no plan past 2026, how is this being accomplished and done?

Because if you are able to do that kind of funding and project it to that point, why aren't we doing the same for the bus and getting it to the -- pass 67th Avenue, because there are no north-south buses -- you weren't here for the bus part.

There are no north-south buses west of 67th Avenue. 67th Avenue is the eastern border of Maricopa County running from Lake Pleasant all the way to Pinal County.



Chair Johnson said I understand that.

Mr. Crowley said so if you can be doing rail until '32 with no money there, no dedicated funding, how is that possible and if it is possible, then why aren't you also doing the same for the bus.

Chair Johnson said the only response that I can give you to that is that this Board here is the Valley Metro Board. We can't direct, dictate, or say what the RPTA Board -- .

Mr. Crowley said I understand that. That's why you have a chairman that works us both; right? Because both the committees can't communicate, no, that's not the way it's supposed to be.

Chair Johnson said you're asking a question that this board cannot answer, so what I'm saying is that that would be better directed when you are at the RPTA Board meeting and that can be directed at that board meeting so those members could do that. Now we know that those studies and those plans are done year out. But you're asking how can one for Valley Metro be done compared to RPTA. And all I'm saying is that I hear what you're saying.

Mr. Crowley said it's the same pot of money you take from. And when you take from that same pot, both sides are supposed to be able to communicate and I don't need the bus to be the stepchild as it always has been. And when I've asked this gentleman in the past who are you serving, which master. And according to you he can't communicate with you about the other part of his existence.

Chair Johnson said no, that's not what I'm saying. What I'm simply saying to you, is that we have an agenda item here that's dealing with Valley Metro.

Mr. Crowley said I'm saying where's the bus connection -- when you build this station, are you making it bus sensitive to where they can get the bus there.

Chair Johnson said but what I'm saying to you is that some of the questions that you're asking are dealing directly with RPTA. And those things have to be addressed there. This board does not have the authority.

Mr. Crowley said construction of the station is you though; right? Are you making it bus sensitive?

Chair Johnson said I think all our stations, depending on how they are, are bus sensitive.



Mr. Crowley said the 12th Street doesn't have the bus going there. There is no bus to the 12th Street station.

Chair Johnson said okay. I see. Is there any more questions? Okay. Now we do have an item. We are on Item No. 6, Consultant Contract Amendment for the Planning, Conceptual Engineering and Environmental Studies for the I-10 West and Glendale High Capacity Light Rail Transit Corridors.

Mr. Banta said Mr. Chairman, members of the board, I'd ask your authorization for me to amend a contract with URS, our planning and support services contractor, to study from a project planning conceptual engineering and environmental studies for the I-10 West and Glendale high capacity light rail transit corridor in the amount not to exceed \$1.3 million dollars and to also authorize a contingency not to exceed \$130,000 for that study, which is equal to 10 percent. That studied corridor will go from Camelback Road to Northern west to the 101.

And in that study, I will guarantee you, we will ensure that the correct rubber tire service interfaces with our planned station platforms.

Mr. Chairman, I ask for your permission, or we could have a detailed presentation. Your choice.

Chair Johnson said it's up to the board. Do you need a presentation, or can we get a motion?

IT WAS MOVED BY JAMSHEED MEHTA, SECONDED BY DAN COOK AND UNANIMOUSLY CARRIED TO RECOMMEND THE APPROVAL OF URS CORPORATION FOR THIS PARTICULAR CONTRACT.

5. Federal Legislative Agenda

Chair Johnson said that takes us to our next information item back to our Federal Legislative Agenda, Item No. 5, Mr. Banta.

Mr. Banta said Mr. Chairman, members of the board, the individuals on the phone can move on. This is for information only. I'd like to introduce John Farry and Mr. Tim Lovain. Mr. Lovain is our federal lobbyist from Denny Miller Associates gives us an update on what's happening back in DC and some of our funding priorities here in the Valley.

Mr. Lovain said let me begin by saying it's a pleasure for me to be here and to represent Valley Metro for the federal government. I've been doing it for about nine years. It's been good times and some good successes and we will try to be brief in the interest of time.



The big picture, as you know, involves the fiscal cliff that we survived on January 1st that dealt largely with taxes, personal taxes, tax rates, and postponed the automatic spending cuts called sequestration for two months.

So we are now encountering what some people call the fiscal mountain range of multiple deadlines coming up.

The first sequestration is now to be triggered on March 1. This would result in cuts of about 8.2 percent in domestic accounts like new starts. It does not affect formula funds.

Transit formula funds and highway formula funds are exempt, but new starts, because it comes from the general fund would be subject to this. And if nothing is done, that sequestration will kick in on March 1 and it will result in an 8.2 percent reduction in fiscal '13 funding overall.

I think most people expected if sequestration happens, it will be a gradual thing. A lot of agencies will slow down their spending, but then eventually, perhaps as part of a budget deal, the whole question of sequestration might be revisited. But that's the first thing that's going to happen if nothing else is done on March 1.

Then on March 17th, the current continuing resolution expires. The continuing resolution funds all discretionary spending of the federal government. It basically continues funding at last year's levels. If that goes through March 27th, if nothing is done, then that expires, and that's a traditional, good old-fashioned government shutdown like we've seen several times before starting in the Clinton administration where nonessential employees stay home and so forth. So that happens on March 27th if nothing is done.

The third trigger is the debt ceiling. The House this week passed a revision to not enforce the debt ceiling until May 18th, and the Senate is likely to approve that provision next week, but that will be looming as well, the debt ceiling.

So all of those things are out there and bringing a lot of uncertainty about federal funding including funding for transit.

Meanwhile on the authorization side, MAP-21 was passed this last summer. It provided for a small increase in funding over current levels. It pushed the bulk of highway and transit spending into formula programs, very few -- little in the way of discretionary spending.

For transit, the largest program continues to be the urbanized area formula program. We also have a new state of good repair program.



On new starts, the authorization level is actually slightly below fiscal 2012 levels, although Congress can go over that and has in this case.

It also has a new public transportation safety program that will be focused initially on rail safety first. There's also a provision that requires MPOs to include transit officials on all MPO boards.

There's a lot of focus on performance measures. And, unfortunately, public art is no longer eligible for new starts funding.

The new starts level, as I mentioned, is slightly less than fiscal '12, but it will be -- the current idea is for fiscal '13 are in the range of two to 2.1 billion.

There's a streamlined new starts process, which is welcome. Hopefully, new starts decisions will be made more easily. And the evaluation criteria have been changed to emphasize things like economic development and land use, which is welcome.

In addition, there's more flexibility given to bus rapid transit projects. There are two different definitions of BRT, one for new starts, one for small starts. We also have a new program called core capacity for the old subway systems.

We have -- something we've sought for a long time is to restore what once existed, the program of interrelated projects, where a project sponsor can take a series of projects and say here's a whole system of projects, some of which we'll pay for ourselves and some of which we'd like federal participation, and you can use maybe that -- self-funded projects as a soft match for others, and so that is now a part of the authorization as well if all that gets implemented.

Mr. Farry said for instance, related to that, the northwest extension that just started construction that's going up from Bethany Home up to Dunlap is going to be an entirely locally funded project. That could be a candidate and we will make the argument that it should be a candidate for a local match for a program of projects that would be developed.

Mr. Lovain said we do have a couple new discretionary programs that come small, but one is on project delivery and the other is on transit oriented development. And we'll certainly look at those programs to see if they can be of benefit to Valley Metro.

Mr. Farry said Mr. Chairman, members of the board, what we'll do, what we'd like to do and you to do when you go back to visit The Hill, is to talk about the importance of that federal investment in transit funding that exists here in the region.

In the coming year, these are either programmed funds or funds that we could use, and we will ask you then to go back and talk to them about the importance of transit funding.



What we're going to do is provide you, provide board members before the National League of Cities and actually -- if you could go to the final slide here, the last slide -- when you go back to the National League of Cities and we're back there for APTA we have scheduled, as we usually do, the congressional staff luncheon for March 11, 2013.

We will be providing either at that event or beforehand folders that basically layout what our agenda is and the importance of communicating transit funding for this region. And if there are cuts that we should maintain our level of transit funding as well as other issues, and those will be developed for your information and to talk to your delegation members about.

Chair Johnson said that's a report for information. Any questions? If there are no questions, we will move on to our next item, which will be Item No. 7, Central Mesa Light Rail Extension Project Update.

7. Central Mesa Light Rail Extension Project Update

Mr. Banta said Mr. Chairman, members of the board, in the interest of time, we can forego this operational update presentation if you choose or we could go through it. The Councilmember from Mesa is no longer with us, so it's up to you if you want to see the presentation, or we can do it next month.

Chair Johnson said Next month is fine. So if someone would just make a motion to continue Item No. 7, the Central Mesa Light Rail Extension Project, to the next meeting of the METRO Board.

IT WAS MOVED BY JAMSHEED MEHTA, SECONDED BY DAN COOK AND UNANIMOUSLY CARRIED TO TABLE THIS ITEM UNTIL THE FEBRUARY BOARD MEETING.

8. Future Agenda Items and Request and Reports of Current Event

Chair Johnson said if there's no future agenda items, then our next meeting of the board is scheduled for Thursday, February 21st, 2013, at 2:00 p.m. Everyone can put that their calendar.

With no more agenda items, I now adjourn the meeting at 3:32 p.m.



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 3**SUBJECT**

Chief Executive Officer Report

PURPOSE

Steve Banta, Chief Executive Officer, will brief the Board on current issues.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 4**SUBJECT**

Intergovernmental Agreement with the City of Phoenix for Federal Transit Administration Pass-Through Grant AZ-05-0204

PURPOSE

To request Board authorization for the Chief Executive Officer (CEO) to enter into an intergovernmental agreement with City of Phoenix to allow Valley Metro to be reimbursed for eligible activities.

BACKGROUND/DISCUSSION/CONSIDERATION

Valley Metro is being provided federal funds through the Federal Transit Administration (FTA) in grant AZ-05-0204 for preventive maintenance in the amount of \$1,098,031, of which the federal share is \$878,425 and the local share is \$219,606. These funds are provided by FTA through the Section 5309 – Fixed Guideway Modernization formula program.

The City of Phoenix is the designated recipient for all FTA grant funds for the region. Valley Metro undertakes projects approved for FTA grant funding, then submits requests to Phoenix for reimbursement of actual expenses incurred. Phoenix then executes a drawdown of funds from FTA to pass-through the reimbursement to Valley Metro.

The pass-through IGA is required in order for Phoenix to reimburse Valley Metro for eligible expenses.

COST AND BUDGET

The preventive maintenance expenses are in the approved budget. The grant funds will offset expenses, reducing the net cost to the member agency budgets.

COMMITTEE PROCESS

RTAG January 22, 2013 for information
RMC February 6, 2013 for approved
Board of Directors February 21, 2013 for action

RECOMMENDATION

It is recommended that the Board of Directors authorize the CEO to enter into an intergovernmental agreement with the City of Phoenix for grant AZ-05-0204.

**CONTACT**

Paul Hodgins
Manager, Revenue Generation and Financial Planning
602-262-7433
phodgins@valleymetro.org

ATTACHMENTS

None

Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 4B**SUBJECT**

METRO Fiscal Year 2013 Mid-Year Budget Adjustment

PURPOSE

To request that the Board of Directors authorize the Chief Executive Officer (CEO) to update to the Valley Metro Rail Operating and Capital Budget for Fiscal Year (FY) 2013.

BACKGROUND/DISCUSSION/CONSIDERATION

In May 2012, the Rail Management Committee (RMC) recommended and the Board approved the FY2013 Operating and Capital Budget. The cost factors used to develop the budget have changed and adjustments are warranted to update the expenditures planned for the remainder of the fiscal year. The major changes include:

Board Approval	Budget	Description	Increase Amt	Funding Source
	Future Project Development	Gilbert Road Bridging Documents - Pending City Council Approval	\$ 400,000	City of Mesa
Jan13, Agenda 4B	Future Project Development	Station Feasibility Study	\$ 60,000	City of Phoenix
	Northwest Extension	Project Costs in FY2013 higher than budget based on the updated schedule of expenditures by year.	\$ 8,323,000	Phx NW Extension Advance, to be reimbursed by PTF
	Central Mesa Extension	Project Costs in FY2013 higher than budget based on the updated schedule of expenditures by year.	\$ 1,837,347	56% Fed 5309 44% PTF

The above changes have been incorporated into the Mid-Year Budget Adjustments presented within the Cost and Budget portion of this Agenda Item.

COST AND BUDGET

Changes proposed are as follows:

Revenue Changes:

- Increase Member City Contributions by \$460,000
 - City of Mesa \$400,000 funding is pending City Council approval

VALLEY METRO • 101 N 1ST AVE • STE 1300 • PHOENIX AZ • 602-262-7433



- Increase City of Phoenix NW Extension Advance by \$8.3M
- Increase PTF Bond Revenue (Local Match)

Expenditure Changes:

- Increase the Operating Budget by \$0.460M for Future Project Development
- Increase the Capital Budget by \$10.160M (NW Extension \$8.323M, CME \$1.837M)

Sources of Funds	(\$,000)		
	FY 2013 Amended	FY 2013 Adopted	Change
Operating Activities:			
Fare Revenue	11,256	11,256	-
Advertising Revenue	500	500	-
Federal 5307 PM	783	783	-
Federal FG PM	-	-	-
Federal 5339	1,044	1,044	-
Federal CMAQ	-	-	-
Member Cities	25,379	24,919	460
MAG / RPTA (RARF)	1,382	1,382	-
PTF Sales Tax Revenue	6,569	6,569	-
	46,913	46,453	460
Capital Projects:			
FTA - Section 5309	23,629	22,600	1,029
Federal CMAQ	21,659	21,659	-
TIGGER Federal Grant	2,700	2,700	-
TIGGER Private Match	3,300	3,300	-
Member Cities	33,089	24,766	8,323
PTF Bond Revenue	19,461	18,653	808
PTF Sales Tax Revenue	28,059	28,059	-
	131,897	121,737	10,160
Total Sources of Funds	178,810	168,190	10,620



Uses of Funds	(\$,000)		
	FY 2013 Amended	FY 2013 Adopted	Change
Operating Activities:			
Revenue Operations	35,293	35,293	-
Future Project Development	10,610	10,150	460
Agency Operating Budget	1,010	1,010	-
	46,913	46,453	460
Capital Projects:			
20-Mile METRO Initial Segment	2,550	2,550	-
Northwest Extension	37,003	28,680	8,323
Non-Prior Rights Utilities Relocations	10,813	10,813	-
Other Capital Projects:			
Central Mesa Extension	51,425	49,588	1,837
Tempe Streetcar Extension	13,324	13,324	-
CNPAs - Mesa Extension	2,526	2,526	-
Systemwide Improvements	8,892	8,892	-
Subtotal Capital before Debt Service	126,533	116,373	10,160
Capital Project Debt Service:			
Debt Service - Interest	2,594	2,594	-
Debt Service - Principal	2,771	2,771	-
Total Uses of Funds	178,811	168,190	10,620

COMMITTEE PROCESS

Financial Working Group – January 22, 2013 for information

RTAG – January 22, 2013 for information

RMC – February 6, 2013 approved

Board of Directors – February 21, 2013 for action

RECOMMENDATION

It is recommended that the RMC forward to the Board of Directors authorization for the CEO to update to the Valley Metro Rail Operating and Capital Budget for Fiscal Year (FY) 2013.

CONTACT

John P. McCormack
Chief Financial Officer
602-495-8239
jmccormack@valleymetro.org

ATTACHMENTS

None



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 5**SUBJECT**

Valley Metro Rail, Inc., Fiscal Year 2012 Comprehensive Annual Financial Report and Single Audit Act Report

PURPOSE

The Rail Management Committee (RMC) is being requested to recommend that the METRO Board (Board) accept the Comprehensive Annual Financial Report and Single Audit Act Report for the period ended June 30, 2012.

BACKGROUND/DISCUSSION/CONSIDERATION

In October 2002, the cities of Glendale, Mesa, Phoenix, and Tempe formed Valley Metro Rail, Inc. (METRO), an Arizona public nonprofit corporation. METRO is responsible for the planning, designing, construction, and operation of the Light Rail Transit (LRT) System in the region. The fiscal year ended June 30, 2012 is the ninth full year of operation as a separate entity.

The By-Laws of the Corporation require an annual audit to be performed of the financial records by a certified public accountant. In addition, all recipients of federal grant funds are required to have an audit performed in compliance with the Single Audit Act provisions. The reports contained in the attached Comprehensive Annual Financial Report meet these requirements for the period ended June 30, 2012. All reports are prepared in conformity with generally accepted accounting principles.

METRO is required to have an independent audit of expenditures of federal awards received (Single Audit) directly from federal agencies or passed through by other governmental entities during the period. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the internal control over compliance and other matters having a direct and material impact on major programs, with special emphasis on internal controls and compliance requirements involving the administration of major federal awards.

Heinfeld, Meech & Co., P.C. has completed the METRO audits for the period ended June 30, 2012. Completion of the June 30, 2012 financial statement and Single Audit Act audits produced no findings.

METRO's Comprehensive Annual Financial Report for Fiscal Year 2012 received an unqualified opinion and the receipt of the GFOA Certificate of Excellence for the Fiscal Year 2011 CAFR demonstrates the commitment to the highest standard of financial reporting for a government entity. Attached you will find a copy of the Auditor's reports and Management Discussion and Analysis section of the CAFR.



COST AND BUDGET

None

COMMITTEE PROCESS

RTAG - January 22, 2013 for information

RMC - February 6, 2013 approved

Board of Directors - February 21, 2013 for action

RECOMMENDATION

It is recommended that the Board accept the Comprehensive Annual Financial Report and Single Audit Act Report for the period ended June 30, 2012.

CONTACT

John P. McCormack

Chief Financial Officer

602-262-7433

jmccormack@valleymetro.org

ATTACHMENTS

Auditors Opinion –CAFR Fiscal Year 2012

Management Discussion and Analysis –CAFR Fiscal Year 2012

Auditors Opinion –Single Act Audit Reports Fiscal Year 2012



10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Metro Rail, Inc.

We have audited the accompanying financial statements of the business-type activities of Valley Metro Rail, Inc. (METRO), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the METRO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Valley Metro Rail, Inc., as of June 30, 2012, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of Valley Metro Rail, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise METRO's financial statements as a whole. The accompanying supplementary information such as the introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 15, 2012



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

November 20, 2012

To the Board of Directors
Valley Metro Rail, Inc.

We have audited the financial statements of the business-type activities of Valley Metro Rail, Inc. for the year ended June 30, 2012, and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Valley Metro Rail, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Valley Metro Rail, Inc. during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any uncorrected misstatements and/or audit adjustments that we deemed to be material.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Valley Metro Rail, Inc.’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Responsibility for Fraud

It is important for both management and the members of the Board to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document is provided as a courtesy and provides some basic steps that should be taken to help prevent fraud from occurring in your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the Board in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

The information in this letter is intended solely for the use of the members of the Board and management of Valley Metro Rail, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



Steps Management Should Take in Preventing the Occurrence of Fraud

First and Foremost, acknowledge that fraud can and does occur – Fraud occurs in organizations often because management provides the perpetrator with a substantial amount of authority and a high degree of trust. Consequently, management performs limited or no review of the individual's work. Recognizing that fraud can occur in any organization, including your own, is the first step in prevention.

Clearly communicate to employees the behavior that is expected of them – Believe it or not, ignorance has been cited as a common cause of fraud. Some employees have been trained to commit fraudulent acts without knowing what they were doing, just assuming that "that's the way it's done".

Take strong action against employees who commit fraud – Call the police or other law enforcement agency and press charges. Failing to do so sends a message to other employees that management doesn't take fraud seriously.

Provide employees an opportunity to report the occurrence of fraud or other abuse anonymously – In a recent survey, one in five employees said they were personally aware of the occurrence of fraud in the workplace. Eighty percent said they would be willing to report fraud if they did not have to identify themselves. Management can establish a fraud hotline, "suggestion boxes," or other means to enable employees to bring the occurrence of fraud to its attention without requiring employees to give their names.

Conduct your own activities on a high ethical level – Employees will follow the lead of the governing body and management, whether that lead is ethical or not. More than what is said or included in a policy manual, the actions of the governing body and management establish behavioral norms.

Be alert to changes in employee attitudes, behavior and lifestyles – Because of day-to-day contact, management is in the best position to observe the unusual – attitudes that are hostile or defensive toward management or the organization in general, changes in behavior that are inconsistent with employees' normal disposition or lifestyles that are not reasonable based on the employees' level of compensation. Matters that may be of particular concern include:

- Indications of dissatisfaction with compensation, or a lack of promotion
- Indications of gambling
- Indications of drug use or excessive use of alcohol
- Indications of financial distress
- Indications of severe stress



Steps Management Should Take in Preventing the Occurrence of Fraud

Perform thorough background checks on all new employees – Call former employers and educational institutions for verification of previous employment and education. Beware of "gaps" in employment or educational history. Consider obtaining a credit report (if authorized by the candidate) before employment.

Require uninterrupted vacations for all employees and establish a schedule of rotation of employee responsibilities – More than just good management, rotation of duties provides a strong disincentive to commit fraud. In addition, it provides an opportunity to discover fraud that has already occurred.

Establish a budget – The governing body/management should establish an operating budget and monitor actual results on a regular basis. Any significant variances should be investigated.

Monitor exception reports – Unprocessed transactions should be carefully examined for propriety. This includes revenues, expenses, purchasing and payroll transactions.

Control the mail –The mail should be picked up by an employee who has no responsibilities related to the handling or recording of deposits, accounts receivable records or revenues. All remittances should be directed to a post office box. Limiting access to the organization's mail is essential in preventing the unauthorized negotiation of cash receipts.

Control the bank statements – Similarly, the bank statements should be picked up by an employee who has no related responsibilities and delivered to the management or other person independent of the reconciliation process. This person should review the contents of the statements before they are reconciled. Specific items to be alert to include:

- Missing checks
- Checks issued out of sequence
- Unknown payees
- Checks that appear to have been altered
- Checks not signed by authorized signatories
- Other unusual items

Account for sequences – Whether it is checks, invoices, credit memoranda, receiving reports, shipping documents, or other pre-numbered items, all sequences should be accounted for. Voided documents should be defaced to prevent unauthorized use and retained to complete sequences.



Steps Management Should Take in Preventing the Occurrence of Fraud

Control general journal entries – Management should either make or personally review and approve all general journal entries. Supporting documentation should be reviewed before approving general journal entries. In particular, the following items should be investigated:

- Entries made to unrelated accounts
- Entries made to receivables or revenues at or near the close of a period
- Entries made by persons whose responsibilities are not consistent with the accounts being adjusted

Obtain reasonable fidelity bond coverage – If the unthinkable occurs, insurance coverage is the most likely means of recovery of amounts misappropriated. The amount of coverage should be reviewed periodically for adequacy.

Evaluate the internal control framework – Lastly, evaluate the internal control framework of your organization. One particular useful evaluation tool is available in the Committee of Sponsoring Organization's (COSO) guidance on internal control over financial reporting for smaller organizations. This guidance may be obtained through the AICPA's website at www.cpa2biz.com (product #990017).

© Audit Litigation, Training and Efficiency Consulting, Inc. 2008



Valley Metro Rail, Inc.
Management's Discussion and Analysis

As management of Valley Metro Rail, Inc. (METRO), we offer this narrative overview and analysis of the financial activities of METRO for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii – ix of this report. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of METRO's financial activity, (3) identify changes in METRO's financial position, (4) identify any material deviations from the financial plan (adopted annual budget), and (5) identify other issues or concerns.

Financial Highlights

- METRO's total net assets decreased \$19.5 million in FY 2012. The decrease was caused by scheduled depreciation charges, which exceeded new capital asset growth. Total net assets for METRO were \$1.139 billion at June 30, 2012.
- METRO's operating revenues for FY 2012 were \$31.0 million, an increase of approximately \$0.2 million from the prior period. Operating revenues consisted of contributions from METRO member cities (\$14.3 million), passenger fares (\$11.9 million), FTA operating grants (\$3.6 million) and other revenues (\$1.2 million). Passenger operating costs were reduced by \$2.1 million and fare revenues were increased by \$1.7 million. The combination of cost savings measures, increased ridership (fare revenue) and utilization of federal grant funding resulted in reduced contributions from Member Cities by \$5.2 million.
- Capital contributions totaled \$27.7 million consisting of Member City Contributions of \$0.3 million, Public Transportation Funds of \$18.3 million and Federal Transit Administration Capital Grants totaling \$9.1 million. Capital projects funded include the remaining \$5.2 million of reimbursements to member cities for the CPEV 20 mile light rail system, \$11.0 million for the Central Mesa 3.1 mile LRT extension and a \$10.0 million capital lease payment for 14 light rail vehicles.

OVERVIEW OF THE FINANCIAL STATEMENTS

METRO's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires that the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). The financial section of the Comprehensive Annual Financial Report (CAFR) for METRO consists of this discussion and analysis and the basic financial statements. This report also contains other supplementary schedules presented after the basic financial statements. METRO's basic financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and the notes to the financial statements. METRO's financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB).

Fund Financial Statements – METRO is presented as an enterprise fund. Enterprise funds are used for activities that primarily serve customers outside the governmental unit. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or conditions. Funds are used to ensure and demonstrate



Valley Metro Rail, Inc.
Management's Discussion and Analysis (Continued)

compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of METRO.

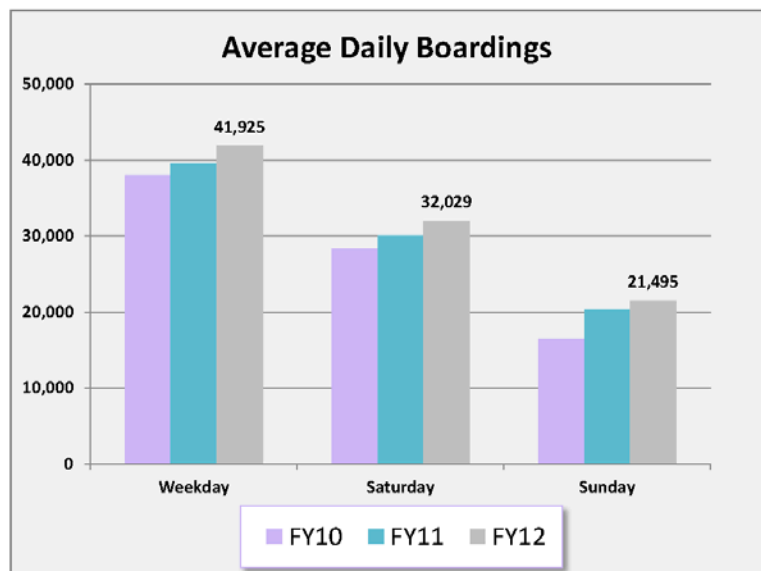
The *statement of net assets* presents information on all of METRO's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of METRO is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected grant revenues).

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read with the financial statements. The notes can be found beginning on page 12.

Enterprise Operations – METRO was formed in October 2002 by the cities of Glendale, Mesa, Phoenix and Tempe as a public nonprofit corporation to manage design, construction and operation of the Light Rail Transit (LRT) System within the Metropolitan Area. The city of Chandler became the fifth contributing member in April of 2007. The member cities pay for their share of METRO's operating expenses based on expense allocation methods approved in the by-laws of METRO. See Note 1 for a summary of METRO's significant accounting policies.

Light Rail Ridership Comparison 2010 / 2011 / 2012





Valley Metro Rail, Inc.
Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS OF METRO

The following tables and analysis discuss the financial position and changes to the financial position for METRO as a whole as of and for the year ended June 30, 2012, with comparative information for the previous period.

Net Assets – Net assets may serve over time as a useful indicator of METRO's financial position. The following table reflects the condensed Statement of Net Assets as of June 30, 2012, compared to the prior period.

**VMR's Condensed Statement of Net Assets
As of June 30, 2012 and 2011**

	2012	2011	Change	Percent Change
Current assets	\$ 40,472,072	\$ 40,821,064	\$ (348,992)	-0.9%
Noncurrent assets	1,158,677,475	1,185,084,002	(26,406,527)	-2.2%
Total assets	1,199,149,547	1,225,905,066	(26,755,519)	-2.2%
Current Liabilities	36,581,615	36,612,801	(31,186)	-0.1%
Noncurrent Liabilities	23,701,501	30,919,628	(7,218,127)	-23.3%
Total liabilities	60,283,116	67,532,429	(7,249,313)	-10.7%
Invested in Capital Assets, net of related debt	1,136,804,227	1,153,352,954	(16,548,727)	-1.4%
Unrestricted	2,062,204	5,019,683	(2,957,479)	-58.9%
Total Net Assets	\$ 1,138,866,431	\$ 1,158,372,637	\$ (19,506,206)	-1.7%

Total net assets represent the sum of METRO's unrestricted net position plus investment in capital assets, net of related debt. The largest portions of the investment are capital assets for the Central Phoenix /East Valley Light Rail Transit Project (CP/EV LRT). In December 2008, METRO placed these capital assets into service for operation of the light rail transit system and in day-to-day operations of METRO. It is not METRO's intention to sell these assets and they are therefore not available for future spending. Net position decreased \$19.5 million largely due to the annual charge for depreciation on the completed 20 mile system.



Valley Metro Rail, Inc.
Management's Discussion and Analysis (Continued)

CHANGES IN NET ASSETS

Total operating revenues, which consist of Contributions from Member Cities, Passenger Fares, and Other Revenues (advertising and MAG planning funds), increased by \$0.2 million. Member City contributions decreased \$5.2 million and were favorably impacted by increases in Passenger Fares, advertising revenues and federal operating grants. In addition, METRO's initiatives to reduce operating costs reduced funding requirements from member cities.

Operating expenses decreased by \$1.2 million to \$76.2 million: Administrative expenditures increased by \$1.0 million due to the increase of planning activities for the Tempe Streetcar and Phoenix West Light Rail Extension. Passenger Operations Service expenses were reduced by \$2.1 million due to cost savings initiatives adopted in response to current economic conditions. Depreciation expense reduced slightly from \$39.2 million to \$39.1 million for the year.

Non-Operating expenses: This year's non-operating revenue and expense activities report a net \$2.0 million decrease in net assets, composed of distributions to Member Cities to reimburse construction and planning expenditures, accrued interest on the capital lease obligation offset by regional Public Transportation Funds and federal planning grants.

Capital contributions totaling \$27.7 million consist of Member City Contributions (\$0.3 million), FTA capital grants (\$9.1 million) and Public Transportation Funds (\$18.3 million). With the completion of the CPEV 20 mile project being the largest factor, Member City Contributions decreased by \$2.3 million, PTF funding decreased by \$31.3 million. Federal Capital Grants increased by \$1.9 million with the commencement of the Central Mesa Extension project design and real estate acquisition.

The following table compares the revenues and expenses of METRO for the current fiscal year and the previous period

VMR's Changes in Net Assets
Fiscal year ended June 30, 2012 and 2011

	2012	2011	Change	Percent Change
Operating revenues:				
Contributions from Member Cities	\$ 14,274,817	\$ 19,430,008	\$ (5,155,191)	-26.5%
Passenger Fares	11,889,930	10,238,281	1,651,649	16.1%
FTA Operating Grants	3,614,541	240,000	3,374,541	1406.1%
Other Revenues	1,225,206	908,728	316,478	34.8%
Operating revenues	31,004,494	30,817,017	187,477	0.6%
Operating expenses:				
Administrative	8,201,127	7,213,806	987,321	13.7%
Passenger Operations Service	28,909,661	31,020,111	(2,110,450)	-6.8%
Depreciation	39,115,165	39,176,737	(61,572)	-0.2%
Operating expenses	76,225,953	77,410,654	(1,184,701)	-1.5%
Operating income (loss)	(45,221,459)	(46,593,637)	1,372,178	-2.9%
Non-operating revenues (expense)	(1,995,774)	(33,259,151)	31,263,376	-94.0%
Deficiency before Capital Contributions	(47,217,233)	(79,852,787)	32,635,553	-40.9%
Capital Contributions	27,711,027	59,492,897	(31,781,869)	-53.4%
Increase (Decrease) in Net Assets	(19,506,206)	(20,359,891)	853,685	-4.2%
Net Assets, July 1	1,158,372,637	1,178,732,528	(20,359,891)	-1.7%
Net Assets, June 30	<u>\$ 1,138,866,431</u>	<u>\$ 1,158,372,637</u>	<u>\$ (19,506,206)</u>	<u>-1.7%</u>



Valley Metro Rail, Inc.
Management's Discussion and Analysis (Continued)

CAPITAL ASSETS AND LONG TERM DEBT

Capital Assets:

The following table provides a breakdown of capital assets of METRO at June 30, 2012, with comparative information for the previous period. Additional information on METRO's capital assets may be found in Note 6.

VMR's Capital Assets, Net of Depreciation
As of June 30, 2012 and 2011

	2012	2011	Change	Percent Change
Buildings	\$ 89,921,241	\$ 92,484,544	\$ (2,563,303)	-2.8%
Guideway	525,957,875	537,014,911	(11,057,035)	-2.1%
Bridges	54,339,476	56,390,023	(2,050,546)	-3.6%
Operation Control Center	10,363,064	10,754,123	(391,059)	-3.6%
Passenger Stations and Facilities	90,055,799	93,454,131	(3,398,332)	-3.6%
Park and Ride Facilities	31,242,220	33,909,949	(2,667,729)	-7.9%
Electric Power Substations	76,309,385	79,858,902	(3,549,517)	-4.4%
Signal and Communication System	40,015,959	42,495,843	(2,479,884)	-5.8%
Computers and Software	174,758	-	174,758	100.0%
Furniture and Fixtures	74,243	209,121	(134,878)	-64.5%
Revenue Vehicles	186,620,009	195,412,137	(8,792,128)	-4.5%
Non-Revenue Vehicles	731,731	1,056,448	(324,717)	-30.7%
Equipment	8,461,421	9,131,945	(670,524)	-7.3%
Construction in Progress	44,410,295	32,911,926	11,498,369	34.9%
Net Capital Assets	\$ 1,158,677,475	\$ 1,185,084,002	\$ (26,406,527)	-2.2%

As of June 30, 2012, METRO had \$1,159 million net invested in capital assets, net of accumulated depreciation. There was a net decrease in capital assets, net of accumulated depreciation, of \$26.4 million from June 30, 2011; primarily resulting from a depreciation charge of \$39.1 million for the Light Rail System infrastructure offset primarily by capital expenditures for Construction in Progress design and real estate acquisition expenses for the Central Mesa Extension LRT Project.

Long Term Debt:

During fiscal year 2009, METRO (as Lessee) completed the process of formally accepting 14 Light Rail Vehicles (LRV's) under the terms of a Master Lease/Purchase Financing Agreement dated March 3, 2006, with the City of Phoenix (as Lessor). Under the agreement, the City financed the purchase of the vehicles with the payments due from METRO commencing in 2011. In June of 2012, METRO made the second \$10.0 million scheduled payment under the lease. The capital lease obligation at June 30, 2012 includes \$22,186,000 of remaining principal and \$11,161,889 accrued interest totaling \$33,347,889. Refer to Note 9 on page 19 for more information regarding the lease.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

METRO's adopted fiscal year 2013 total operating and capital budget is \$168.2 million, up \$80.1 million from fiscal year 2012's amended Budget. The primary cause for the increase is within the capital budget; with increases to the Central Mesa LRT (\$33.1M), Northwest Extension LRT (\$20.1M), Tempe Streetcar (\$9.1M), and System-wide Improvements (\$8.2M).



Valley Metro Rail, Inc.
Management's Discussion and Analysis (Concluded)

On the operating side, METRO's FY13 budget is \$46.5 million, up \$1.8 million versus fiscal year 2012. Future project development costs are increasing by \$2.0 million with the commencement of planning work for the Glendale LRT corridor, an extension eastward to Gilbert Road in the City of Mesa and the South Central corridor in the City of Phoenix.

Comparison of Annual Expenditure Budgets
Fiscal Year 2013 vs. 2012

	FY 2013	FY 2012	
	Adopted	Amended	Change
Uses of Funds	(\$,000)	(\$,000)	(\$,000)
Operating Activities:			
Revenue Operations	35,293	35,432	(139)
Future Project Development	10,150	8,146	2,004
Agency Operating Budget	1,010	1,084	(74)
	<u>46,453</u>	<u>44,662</u>	<u>1,791</u>
Capital Projects:			
20-Mile METRO Initial Segment	2,550	5,301	(2,751)
Northwest Extension	28,680	8,573	20,107
Non-Prior Rights Utilities Relocations	10,813	2,638	8,175
Other Capital Projects:			-
Central Mesa Extension	49,588	16,525	33,063
South Tempe Streetcar	13,324	4,262	9,062
CNPAs - Mesa Extension	2,526	-	2,526
Systemwide Improvements	8,892	675	8,217
Subtotal Capital before Debt Service	<u>116,373</u>	<u>37,974</u>	<u>78,399</u>
Capital Project Debt Service:			
Debt Service - Interest	2,594	2,750	(156)
Debt Service - Principal	2,771	2,664	107
Total Uses of Funds	<u>168,191</u>	<u>88,050</u>	<u>80,141</u>

In fiscal year 2013 METRO will commence design work on the Tempe Streetcar Extension. Expenses during the year are anticipated to reach \$13.3 million pending necessary approvals from federal funding sources to enter preliminary engineering activities.

FINANCIAL CONTACT

The financial report is designed to provide a general overview of METRO's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to METRO's Chief Financial Officer, Valley Metro Rail, 101 North 1st Avenue, Suite 1300, Phoenix, Arizona 85003.



10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Valley Metro Rail, Inc.

We have audited the financial statements of the Valley Metro Rail, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Valley Metro Rail, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Valley Metro Rail, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Metro Rail, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Valley Metro Rail, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Metro Rail, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 15, 2012



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Board of Directors
Valley Metro Rail, Inc.

Compliance

We have audited Valley Metro Rail, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Valley Metro Rail, Inc.'s major federal programs for the year ended June 30, 2012. Valley Metro Rail, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Valley Metro Rail, Inc.'s management. Our responsibility is to express an opinion on Valley Metro Rail, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Metro Rail, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valley Metro Rail, Inc.'s compliance with those requirements.

In our opinion, Valley Metro Rail, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.



Internal Control Over Compliance

Management of Valley Metro Rail, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valley Metro Rail, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Metro Rail, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Valley Metro Rail, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.



This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 15, 2012



Valley Metro Rail, Inc.
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2012

Federal Grantor Agency and Program Title	CFDA Number	Pass-Through Grantor	Pass-Through Identifying Number	Awards Expended	Awards Expended
Department of Transportation:					
Federal Transit Administration:					
Federal Transit Cluster:					
Federal Transit-Capital Investment Grants	20.500	City of Phoenix	AZ-05-0203	\$ 2,817,567	\$
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	City of Phoenix	AZ-95-X006-01	357,271	
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	City of Phoenix	AZ-95-X009	231,262	
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	City of Phoenix	AZ-90-X109	565,712	
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	City of Phoenix	AZ-95-X013	8,802,180	
Total Federal Transit Cluster					12,773,992
Alternatives Analysis	20.522	City of Phoenix	AZ-39-0003-00		1,025,487
Total Federal Transit Administration					13,799,479
Total Expenditures of Federal Awards				\$	13,799,479

See accompanying notes to the Schedule of Expenditures of Federal Awards.



**VALLEY METRO RAIL, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Valley Metro Rail, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2012 *Catalog of Federal Domestic Assistance*.



**VALLEY METRO RAIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.500, 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$413,984

Auditee qualified as low-risk auditee? X yes no



**VALLEY METRO RAIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None reported.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 6**SUBJECT**

Central Mesa Light Rail Extension Project Update

PURPOSE

To provide an informational update of project progress and the financial status of the Central Mesa LRT Extension Project.

BACKGROUND/DISCUSSION/CONSIDERATION

Following the March 2012 approval of the Valley Transit Constructors (VTC) design-build contract, staff committed to providing the Board a quarterly project update of project progress. This report is the second quarterly report on project progress through November 2012.

The Federal Transit Administration (FTA) awarded a Project Construction Grant Agreement (PCGA) on October 12, 2012. The PCGA gives METRO the authority to proceed with construction of all facilities on the project.

The forecasted Project Budget is \$199,010,443. Through November 2012, \$18,884,654 has been expended equaling 9.5% of the Project Budget. The Project Budget includes \$15,574,277 of allocated contingency and \$16,913,496 of unallocated contingency or Project Reserve. To date, \$348,226.00 of the allocated contingency has been committed.

GENERAL ADMINISTRATION

VTC has moved all construction staff into the VTC field office.

VTC has leased private commercial property at Main Street and Lesueur for staging purposes.

REAL ESTATE

Offers have been made on 90% of the necessary parcels for the project. The City of Mesa (COM) has requested an additional appraisal on all park-and-ride parcel acquisitions due to a significant difference in appraised value of adjacent properties. All but one of the re-appraisals has been completed and offers have been made to two of the five property owners. The remaining re-appraisal will be completed in early December and sent to FTA for approval prior to making any offer. COM has not yet approved discussions with the remaining two property owners.



DESIGN STATUS

A total of 19 categories have been identified for design packages. In total, VTC's design scope of work is approximately 70% complete. Design Task Force meetings are being held on a bi-weekly basis to discuss and resolve design issues.

Potholing investigations necessary to complete the utility designs are complete.

Other key design developments:

- Artwork concepts for all stations have been approved by METRO and the COM, with the exception of Center Street which was just recently approved by the Regional Rail Arts Committee, pending review by the COM City Manager
- METRO has requested pricing from VTC for 10 Concurrent Non-Project Activities
- During the month of November, VTC submitted 75% design for site layouts for the traction power sub-stations and signal building sites.

CONSTRUCTION STATUS

- Completed the installation of sanitary sewer manholes at Robson and Center Streets
- Installed 5511' of cured-in-place pipe in existing sanitary sewer line from Dobson to east of Alma School Road
- Installed 250' of sanitary sewer line and 3 manholes from Date Street to 250' east of Date Street
- Completed the installation of all offset storm drain manholes
- Began Boring 416' new street light conduits between Stuart and Pew Streets
- Installed 2325' of new water main on the south side of Main Street from Sycamore to Rogers Road

SCHEDULE

The Project Master Schedule Substantial Completion Date is November 2015 with the Revenue Service Completion Date of March 31, 2016.



COST AND BUDGET (through November 2012)

Description	Project Budget	Expenditures To Date	Forecast Cost to Complete	Forecast At Completion
Program Management & Administration	\$10,559,933	\$5,385,428	\$5,174,505	\$10,559,933
Program Management Consultant	\$8,994,749	\$2,163,447	\$6,831,302	\$8,994,749
City Administration	\$3,200,000	\$498,973	\$2,701,027	\$3,200,000
Right of Way Acquisition	\$12,956,462	\$1,893,284	\$11,063,178	\$12,956,462
PE/FEIS Engineering	\$5,389,049	\$5,389,049	\$0	\$5,389,049
Engineering	\$2,576,397	\$2,576,397	\$0	\$2,576,397
Facilities	\$87,358,710	\$630,504	\$86,728,206	\$87,358,710
Systems	\$25,605,000	\$265,073	\$25,339,927	\$25,605,000
Testing & Startup	\$500,000	\$0	\$500,000	\$500,000
Art Program	\$1,174,370	\$82,500	\$1,091,870	\$1,174,370
Allocated Contingency	\$15,574,277	\$348,226	\$15,226,051	\$15,574,277
Unallocated Contingency	\$16,913,496	\$0	\$16,913,496	\$16,913,496
Financing Costs	\$8,208,000	\$0	\$8,208,000	\$8,208,000
Total Project:	\$199,010,443	\$18,884,654	\$180,125,789	\$199,010,443

COMMITTEE ACTION

RTAG December 18, 2012 for information

RMC January 9, 2013 for information

Board of Directors, January 24, 2013 for information

RECOMMENDATION

For information only

CONTACT

Rick Brown

Chief Engineer

602-744-5556

rbrown@valleymetro.org

ATTACHMENTS

None



Information Summary

**DATE**

February 13, 2013

AGENDA ITEM 7**SUBJECT**

Future Board Agenda Items Request and Report on Current Events

PURPOSE

Chair Stanton will request future Board agenda items from members and members may provide a report on current events.

BACKGROUND/DISCUSSION/CONSIDERATION

None

COST AND BUDGET

None

COMMITTEE PROCESS

None

RECOMMENDATION

For information only

CONTACT

Steve Banta
Chief Executive Officer
602-262-7433
sbanta@valleymetro.org

ATTACHMENTS

None





