

## San Gabriel Valley Council of Governments

1000 S. Fremont Ave., Unit 42, Alhambra, CA 91803 Phone: (626) 457-1800 FAX: (626) 457-1285 E-Mail SGV@sgvcog.org

## **City Managers' Steering Committee**

February 8<sup>th</sup>, 2012 11:00 a.m.

El Monte City Hall City Managers' Conference Room 11333 Valley Boulevard El Monte, CA

- 1.0 Preliminary Business
- 2.0 Public Comment
- 3.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items
- 4.0 Consent Items
  - 4.1 Revised Minutes from December 7<sup>th</sup>, 2011 meeting Page 1
  - 4.2 Minutes from January 4th, 2012 meeting Page 3
- **5.0 Regular Business Items** (It is anticipated that the Committee may take action on the following items)
  - 5.1 Clarification of City Managers' Steering Committee Recommendation Regarding ACE Phase II

    Confirm City Managers' Steering Committee action regarding ACE Phase II that occurred at the December 2011
  - 5.2 Role of City Managers' Steering Committee in Providing Financial Oversight to SGVCOG and ACE Page 5
    Discuss role of City Managers' Steering Committee relative to providing financial oversight to SGVCOG and ACE activities, as identified in the SGVCOG bylaws
  - 5.3 Role of SGVCOG's Accountant/Auditor in Providing Financial Oversight to SGVCOG and ACE Discuss role of the SGVCOG's Accountant/Auditor relative to providing financial oversight to SGVCOG and ACE activities, as identified in the SGVCOG bylaws
  - 5.4 ACE 2<sup>nd</sup> Quarter Financial Report / Mid-Year Budget Revision *Page 7*Review draft ACE Mid-Year Budget Report and recommend approval to SGVCOG Governing Board
  - 5.5 ACE FY 2010-2011 Financial Audit Report and Management Letter Page 17 Review the draft FY 2010-2011 financial audit and recommend approval to the Governing Board.
  - 5.6 SGVCOG 2<sup>nd</sup> Quarter Report / Mid-Year Budget Revision Page 50
    Review draft SGVCOG Mid-Year Revision and recommend approval to SGVCOG Governing Board
  - 5.7 SGVCOG FY 2010-2011 Financial Audit Report and Management Letter Page 55 Review the draft FY 2010-2011 financial audit and recommend approval to the Governing Board.
  - 5.8 Draft SGVCOG Organization and Operation Review
    - Discuss draft SGVCOG Organization and Operation review and possible recommendation to Governing Board ACE Financial Advisor Services Contract
  - Discuss recommendation to SGVCOG Governing Board regarding ACE Financial Advisor Services Contract
    - Coltrons Audit Anneal Page 110
  - 5.10 Caltrans Audit Appeal Page 110
    - Discuss recommendation to SGVCOG Governing Board regarding Caltrans settlement
  - 5.11 SGVCOG Strategic Plan Update Page 112
    - Discuss updated SGVCOG Strategic Plan for January July 2012
  - 5.12 Ontario Airport *Page 120* 
    - Discuss City of Ontario's proposal regarding future management of Ontario Airport and a possible position by the SGVCOG
- 6.0 New Business items for Next Regular Meeting
- 7.0 Announcements
- 8.0 Next Meeting
- 9.0 Adjourn

Please RSVP at mcreter@sgvcog.org or at (626) 457-1800 For TAC Meeting Notice and Minutes, Please access www.sgvcog.org

**NOTICE:** City Clerks please post this notice (agenda)

Written materials relating to an item on any Regular Meeting Agenda of the this Committee of the San Gabriel Valley Council of Governments that are distributed to the Committee within 72 hours of the Meeting will be available for public inspection at the San Gabriel Valley Council of Governments, 1000 S. Fremont Ave., Unit 42, Bldg. A10, Suite 210, Alhambra, CA 91803 during normal business hours.



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## City Managers' Steering Committee Minutes

Date: December 7<sup>th</sup>, 2011 Time: 12:00 noon Location: El Monte City Hall

## 1.0 Preliminary Business

The meeting was called to order at 12:05 p.m.

Members Present:
Alhambra
J. Fuentes
Diamond Bar
Coving

CovinaD. ParrishSan DimasGlendoraC. JeffersSan GabrielLa Canada FlintridgeM. AlexanderSan MarinoRosemeadJ. AllredWest Covina

Walnut R. Wishner

## **COG Staff:**

N. Conway, Executive Director

M. Creter, Staff

## Public:

J. Ballas, Industry

R. Bates, Pico Rivera

A. Cervantes, Pico Rivera

A. Eskandari, Pomona

L. Lowry, Pomona

R. Richmond, ACE

P. Hubler, ACE

C. Sutton, Excalibur Property Holdings

## 2.0 Preliminary Business

## 3.0 Public Comment

There were no comments from the public.

## 4.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items

There were no changes to the agenda order.

## 5.0 Consent Items

5.1 Minutes from November 2<sup>nd</sup>, 2011 meeting
There was a motion to approve the consent calendar (M/S/C: R. Bobadilla / R. Wishner / Unanimous).

## 6.0 Regular Business Items

6.1 ACE Phase II

There was extended discussion on this item.

There was a motion recommend to the Transportation Committee funding of the top eight projects – after removing project alternatives for the same grade crossing – (Fullerton Road, Montebello-Greenwood, Hamilton Boulevard, Fairway Drive (Alh), Turnbull Cyn Road (LA), Fairway Drive (LA), Puente Ave. (Alh), and Durfee Ave. (LA) ) as ranked by the SGVCOG's ACE Phase II Subcommittee; should additional funds be available, from State, Federal or local sources, additional projects should be funded according to the rank order as developed by the Subcommittee (M/S/C: R. Wishner / J. Fuentes / Ayes: Covina, Glendora, Rosemead; Noes: La Canada Flintridge).

There was a motion to recommend to the Transportation Committee that ACE submit project schedules and budgets for all active Phase II projects prior to commencing further work (M/S/C: J. Fuentes / R. Wishner / Unanimous / Abstain: La Canada Flintridge).

The Committee also requested that ACE work with the impacted cities to revisit potential pedestrian safety improvements for all 34 grade crossings.

There was discussion regarding the staff recommendation to require that jurisdictions share in the funding of any cost overruns. No action was taken and this item was tabled.

## 6.2 Los Angeles Regional Water Quality Control Board (LARWQCB) Staff Assistance

The Executive Director provided an update on efforts to secure funding to continue providing technical staff assistance to Mayor Mary Ann Lutz, Vice-Chair and Municipal Government Representative on LARWQCB. He indicated that he would be bringing a recommendation to the Governing Board to contribute \$7,500 in funding towards this position.

## 6.3 San Gabriel Valley NPDES/Stormwater MS-4 Permit Coordination

The Executive Director gave a brief update on the status of the MS-4 LA Permit Group Technical Assistance RFP and funding commitments from cities.

## 6.4 SGVCOG Organization and Operation Review

The Executive Director indicated that staff, Governing Board and Committee Chair interviews had been completed in November and that a draft report is anticipated in January.

## 7.0 New Business items for Next Regular Meeting

## 8.0 Announcements

There were no announcements.

## 9.0 Next Meeting

The next meeting is scheduled for January 4<sup>th</sup>.

## 10.0 Adjourn

The meeting was adjourned at 1:30 p.m.



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## City Managers' Steering Committee Minutes

Date: January 4<sup>th</sup>, 2011 Time: 12:00 noon Location: El Monte City Hall

## 1.0 Preliminary Business

The meeting was called to order at 12:05 p.m.

Members Present: Members Absent:

Alhambra J. Keating Rosemead
Covina D. Parrish San Dimas
Diamond Bar J. DeStefano San Gabriel
El Monte J. Enriquez San Marino
Glendora C. Jeffers West Covina

La Canada Flintridge M. Alexander Walnut R. Wishner

## **COG Staff:**

N. Conway, Executive Director

M. Creter, Staff

### **Public:**

R. Richmond, ACE H. Choy, LA County

## 2.0 Public Comment

There were no comments from the public.

## 3.0 Changes to Agenda Order; Identify Subsequent Need or Emergency Items

There were no changes to the agenda.

## 4.0 Consent Items

4.1 Minutes from December 7<sup>th</sup>, 2011 meeting

There was a request to revise the minutes:

The sentence was "There was a motion to recommend to the Transportation Committee that ACE submit full project schedules and budgets for all Phase II projects prior to commencing further work (M/S/C: J. Fuentes / R. Wishner / Unanimous / Abstain: La Canada Flintridge)." changed to read "There was a motion to recommend to the Transportation Committee that ACE submit project schedules and budgets for all active Phase II projects prior to commencing further work (M/S/C: J. Fuentes / R. Wishner / Unanimous / Abstain: La Canada Flintridge)."

The sentences "There was discussion regarding the staff recommendation to require that jurisdictions share in the funding of any cost overruns. This item was tabled for later discussion." were changed to read, "There was discussion regarding the staff recommendation to require that jurisdictions share in the funding of any cost overruns. No action was taken, and this item was tabled."

There was a motion to approve the minutes as amended (M/S/C: C. Jeffers / R. Wishner / Unanimous).

## 5.0 Regular Business Items

5.1 Local Government Sustainable Energy Coalition

H. Choy (LA County) provided a brief presentation on the LGSEC and the benefits of membership.

The City Managers' Steering Committee recommended to the Governing Board submitting a membership application to the Local Government Sustainable Energy Coalition (LGSEC) and authorizing the expenditure

of \$10,000 that is currently budgeted for Federal Advisory services for annual membership fees (M/S/C: C. Jeffers / J. Keating / Unanimous).

## 5.2 SGVCOG and ACE FY 2010-2011 Financial Audit Reports

The Executive Director indicated that this item had been pulled from agenda, as the SGVCOG's financial auditor has not completed all of the necessary work.

## 5.3 Status of Caltrans Audit

The Executive Director gave a brief overview of the correspondence from Caltrans regarding status of audit, including outstanding reimbursement still being requested.

## 5.4 ACE IRS Audit Report

R. Richmond provided an update on IRS ACE Audit. He indicated that ACE had received a "not action" letter from the IRS.

The Committee members requested that a discussion on ACE's contract for financial advisory services be agendized for a future meeting.

## 5.5 San Gabriel Valley NPDES/Stormwater MS-4 Permit Coordination

The Executive Director provided an update on the effort to assist LA Permit Group cities in securing technical assistance for the negotiation of the new MS-4 permit.

## 5.6 Los Angeles Regional Water Quality Control Board (LARWQCB) Staff Assistance

The Executive Director provided information on the staff recommendation to the Governing Board to authorize an expenditure of \$7,500 to continue providing technical staff assistance to Mayor Mary Ann Lutz, Vice-Chair and Municipal Government Representative on LARWQCB.

## 5.7 Status of SGVCOG Organization and Operation Review

D. Parrish update on the SGVCOG's Organization and Operation review.

## 6.0 New Business items for Next Regular Meeting

The Executive Director indicated that he would be bringing a proposal to re-instate small business services in the San Gabriel Valley at a future meeting.

The Committee members requested that an action item regarding ACE's financial services be agendized for the next week as well as discussion on the Steering Committee's role related to financial oversight of ACE.

## 7.0 Announcements

## 8.0 Next Meeting

## 9.0 Adjourn

The meeting was adjourned at 1:10 p.m.



## San Gabriel Valley Council of Governments

Date: January 24, 2012

To: City Managers' Steering Committee

From: Nicholas T. Conway, Executive Director

Re: Legal Clarification of Financial Oversight Duties and Responsibilities

At your January 4<sup>th</sup> committee meeting, several members asked, once again, for clarification from the COG General Counsel regarding the Steering Committee's role and responsibilities with respect to oversight of financial matters involving the COG's Alameda Corridor-East Construction Authority. The COG Attorney will be in attendance to discuss the four citations listed below and answer any additional questions from the committee members relating to this matter.

## **Background**

Article VI, Section B, of the San Gabriel Valley Council of Governments' Bylaws sets forth the duties and responsibilities of the City Managers' Committee, along with the COG Treasurer/Auditor, regarding both ACE and the COG financial matters.

B. Steering Committee. There shall be a Steering Committee of the CMTAC, designated by the CMTAC, to provide assistance and support to the full CMTAC, the Governing Board and/or the Executive Committee and to oversee certain policy and financial matters for the Council. The Chair of the CMTAC shall also chair the Steering Committee.

The Steering Committee shall meet at least quarterly. A quorum of the Steering Committee shall be forty percent (40%) of its membership and all actions will be by a majority of those members present with a quorum in attendance. All meetings of the Steering Committee shall be held in accordance with the Ralph M. Brown Act. (Government Code Section 54950 et seq.)

The Steering Committee shall: together with the Treasurer/Auditor and with the assistance of the ACE Construction Authority, recommend the independent auditor for the annual audit of the Council and the ACE Construction Authority, develop the scope of work for the audit, and review and comment on the preliminary and final audit reports prior to their presentation to the ACE Construction Authority and the Governing Board; oversee the investment of Council funds in accordance with the Council's investment policy; review and modify the Council's investment policy when required; review, as necessary, those insurance policies purchased for the benefit of the Council including policies purchased by consultants working for the Council; monitor compliance of the

Council with applicable federal, state and locals laws, ordinances, statutes, codes and regulations; and undertake those additional assignments as directed by the Governing Board. The Steering Committee shall also review and monitor all matters related to the Council's and the ACE Construction Authority's financial affairs including reviewing quarterly financial reports, audits conducted by external auditors and agencies, grant compliance and bond issuance as well as any matters related to best management practices or state/federal requirements.

At the January 18<sup>th</sup> meeting of the Finance Directors subcommittee, there was, again, questions raised regarding the role and responsibilities of the SCVCOG Treasurer/Auditor.

## Bylaws

- "G. Treasurer and Auditor. Pursuant to Government Code Section 6505.6, the Treasurer of the Council and the Auditor of the Council shall be the same person and shall be a contract employee of the Council. The Treasurer/Auditor shall not be an officer of the Council. The duties and responsibilities of the Treasurer/Auditor are:
- 1. The Treasurer/Auditor shall possess the powers described in, and shall perform those functions required by: Government Code Sections 6505, 6505.5 and 6505.6; all other applicable laws and regulations, including any subsequent amendments thereto; the Agreement; these Bylaws; and/or the direction of the Governing Board.
- 2. The Treasurer/Auditor shall have custody of all Council and ACE Construction Authority funds and shall provide for strict accountability thereof in accordance with Government Code Section 6505.5 and other applicable laws.
- 3. The Treasurer/Auditor shall annually cause an independent audit to be made of the Council and of the ACE Construction Authority by a single certified public accountant or by separate certified public accountants, in accordance with Government Code Sections 6505 and 6505.6.

## Council Treasurer (JPA)

Section 14. Council Treasurer. The person holding the position of Treasurer of the Council shall have charge of the depositing and custody of all funds held by the Council. The Treasurer shall perform such other duties as may be imposed by provisions of applicable law, including those duties described in Section 6505.5 of the Government Code, and such duties as may be required by the Governing board. The Council's Auditor shall perform such functions as may be required by provisions of applicable law, this Agreement, the Bylaws and by the director of the Governing Board.

The COG's Accountant/Auditor directs the external audits of both COG and ACE. In that capacity, he should be provided the drafts and final audit reports along with any management letters prior to distribution to COG Governing Board and ACE Construction Authority.

Draft

## ACE Construction Authority FY 2012 Second Quarter Project Reports

As of December 31, 2011

## EXHIBIT I - ACE REVENUE BY SOURCE As of December 31, 2011

Grant		A			Net	Allocated	
Federal		Authorized	AdJustments	Note	Authorized	To Projects	Surplus
TEA - 21	Sect 1017	2,205,000	(136,333)	b	2,068,667	2,063,683	4,98
TEA - 21	Sect 1138	17,250,000	•		17,250,000	17,250,000	
TEA - 21	Sect 1533	100,000,000	•		100,000,000	100,000,000	
TEA - 21 TEA - 21	Sect 198	9,562,500	(572,760)		8,989,740	8,989,740	
· ·	5ect 0491	6,500,000	[402,000]	a	6,098,000	6,098,000	_
Hiway Fund FY 01		1,500,000	(3,300)	b	1,496,700	1,496,700	
NCPD FY 2000		1,240,000	. •		1,240,000	1,240,000	
NCPD FY 2001		2,400,000	(2,565)	ь	2,397,435	2,397,435	-
NCPD FY 2002		4,000,000	(116,000)	b	3,884,000	3,884,000	-
NCPD FY 2003		1,495,000	(10,000)	b	1,485,000	1,485,000	-
NCPD FY 2004		2,000,000	(119,163)	b	1,880,837	1,880,837	
STP FY 2006 STP FY 2009		4,200,000	(42,000)	ь	4,158,000	4,158,000	_
SAFETEA-LU FY 05	Coat 1701	570,000	•		570,000	570,000	-
SAFETEA-LU FY 06	Sect 1701	2,528,000	(378,937)	c	2,149,063	2,149,063	
SAFETEA-LU FY 07	Sect 1701	2,528,000	(378,635)	C	2,149,365	2,149,365	-
	Sect 1701	2,528,000	(375,781)	C	2,152,219	2,152,219	-
SAFETEA-LU FY 08 SAFETEA-LU FY 09	Sect 1701	2,528,000	(375,781)	c	2,152,219	2,152,219	-
SAFETEA-LU FY 05	Sect 1701	2,528,000	(374,889)	C	2,153,111	2,153,11 <u>1</u>	-
	Sect 1934	3,000,000	(450,000)	c	2,550,000	2,550,000	-
SAFETEA-LU FY 06	Sect 1934	6,000,000	(900,000)	C	5,100,000	5,100,000	_
SAFETEA-LU FY 07	Sect 1934	7,500,000	(1,125,000)	c	6,375,000	6,375,000	
SAFETEA-LU FY 08	Sect 1934	7,500,000	(1,125,000)	C	6,375,000	6,375,000	_
SAFETEA-LU FY 09	5ect 1934	6,000,000	(900,000)	C	5,100,000	5,100,000	_
SAFETEA-LU FY OS	Sect 1301	<b>3,1</b> 25,00 <b>0</b>	(247,763)	С	2,877,237	2,877,237	
SAFETEA-LU FY 06	Sect 1301	6,250,000	(495,526)	c	5,754,474	5,754,474	_
SAFETEA-LU FY 07	Sect 1301	7,812,500	(619,407)	C	7,193,093	7,193,093	-
SAFETEA-LU FY 08	Sect 1301	7,812,500	(619,407)	C	7,193,093	7,193,093	
SAFETEA-LU FY 09 FRA	Sect 1301	6,250,000	(495,526)	C	5,754,474	5,754,474	_
		2,544,100	•		2,544,100	2,185,000	359,100
ISTEA (Nogales-LA) CMAQ (Nogales-LA)		6,936,147	•		6,936,147	6,936,147	•
CIMAL (NOBBIES-LA)		6,347,000	<u> </u>	_	6,347,000	6,347,000	_
Ctata	Subtotal	242,639,747	(10,265,773)		232,373,974	232,009,890	364,084
State							
ITIP		39,000,000	(18,426)	d	38,981,574	38,981,574	_
PUC (Brea Canyon)		5,000,000	-		5,000,000	5,000,000	_
TCRP		150,000,000	(19,700,000)	e	130,300,000	130,300,000	-
Prop 1B - HRCSA (Nog	ales-LA)	25,600,000	•		25,600,000	25,600,000	
TCIF (SG Trench)		336,600,000			336,600,000	336,600,000	-
	Subtotal	556,200,000	(19,718,426)		536,481,574	536,481,574	<del></del>
.ocal						330,431,374	
MTA 1 (FY 98-02)	C 25%	37,500,000	(23,360,000)	f	14 140 000	44440 400	
MTA 2 (FY 03-05)	C 10%	1,857,000	(22,500,000)	•	14,140,000	14,140,000	•
MTA 2 (FY 03-05)	C 25%	13,178,000	-		1,857,000	1,857,000	•
MTA 2 (FY 03-05)	AB 3090	9,308,000	-		13,178,000	13,178,000	-
MTA 2 (FY 03-05)	5TIP-RIP	5,496,000	-		9,308,000	9,308,000	-
MTA 3 (FY 06-09)	C 25%	85,000,000	-		5,496,000	5,496,000	-
MTA 4 (FY 09-15)	C 25%-Remaining		-		85,000,000	85,000,000	-
MTA 5 (FY 09-15)	C 25%-Supplemental	28,565,800			28,566,800	28,566,800	-
MTA 6 (Nogales-LA)	C 25%	112,323,000	(9,978,000)	g	102,345,000	29,138,250	73,206,750
MTA 7 (SG Trench)		28,849,000	•		28,849,000	28,849,000	
WIA / (30 Herch)	Measure R	42,000,000	-	h	42,000,000	42,000,000	
M	Subtotal	364,077,800	(33,338,000)		330,739,800	257,533,050	73,206,750
ther Sources							
Rallroad (UPRR/Metro	link)	31,921,000	-	i	31,921,000	17,500,000	14,421,000
Cities (Nogales-LA)		9,600,000	-		9,600,000	9,600,000	11,721,000
Betterments (Citles/M	etralink)	17,773,575	-		17,773,575	17,084,825	CDD TEA
MW0 (Brea Canyon)	•	2,207,402			2,207,402	2,207,402	688,750
	Subtotal	61,501,977		. —	61,501,977	46,392,227	15 100 750
DTAL GRANTS		1,224,419,524	(63,322,199)		1,161,097,325	1,072,416,741	15,109,750 88,680,584
ther Income					<del></del>		30,000,384
Property Rental Income	<u>.</u>	100 kg			_		
Net investment income		34,291	-		34,291	-	34,291
	, Subtotal	34,291		_		<u> </u>	
OTAL ACE Constructio		1,224,453,815	(63,322,199)		34,291 1,161,131,616	1,072,416,741	34,291 88,714,875

- a) Transferred by LA County to ACE for the Nogales-LA project.
- b) Federal budgetary reduction.
- c) Appropriations reduced by 15%.

- c) Appropriations reduced by 15%.
  d) \$18K for Ramona lapsed in June 2008 prior to project closeout.
  e) \$19.7 million programmed to other entitles (yet to be allocated by State).
  f) Allocated to City of LA.
  g) Adjustment made by MTA based on 17% of total project cost.
  h) An additional \$358M for the ACE Project is included in the voter approved Measure R program and is expected to be available between Fiscal Years 2011 and 2019 per Metro Board action of March 2010.

  | Based on individual projects, UPRR paid 1/2 before and 1/2 after construction phase.
- \$30,921M committed by UPRR but due to phasing of construction, only \$13,458M has been received.

				1000	Section Constitution	0.60%	Section 1	100 mm	75)	(5,000 \$)										
Project	Task	Fed #	Total	TEA-31	THE CASE OF THE PROPERTY OF VARIOUS AND THE PARTY OF THE		d,	をするグラスと	学生の学生の		3,0			は 一日 日本		· · · · · · · · · · · · · · · · · · ·		THE PROPERTY OF THE PARTY OF TH	A Comment	了。 一人
						5	1	SIEWUM	- KA/PUC	2	Prop 18	MTA 1	MTA 2	MTA3	MTA 4	MTAS	MTA6	MTA 7	Railroad Ct	Cities/Bother
Brea Canyon	Design	(019)	4,556	1,191			410			004.0								1	1	
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Jump Start Sub-Total			11 639	8 0 3 8			.			'	,	612	239	(134)		,		)	•	
IC Adjuster		į	200/	oreće		į	597	ı	r	•		2,153	239	45						
UDISTINI - Cr	Design (	(006)	242	240	ı	•	•		,		,	,	,					1	,	ı
		(90) (90)	37	160	•					1	,	4	, 5	ı					ı	ì
nossin http://doi.org/10.1003/	_	, (cto)	2,270	1,578		'	'	٠	,	,		715	<u> </u>	. 5		ı				
			7,6/0	1,978			•		,	,	1	517	26	5	,	•		,		
JS - Quad Gates	Constr	(010)	4,832	3,863	,		1		•	ı		1 6	<b>.</b>	ď	,			1		1
IRRiS - Train	Constr (	(2007)	2,936	2,164	,			1			,	900	Ř	£		1	•			,
JS - Phase 1	Constr	(800)	3,553	2,845		1			•		ı	374	167	231		,	,			ı
J5 - Phase 2	Constr	(014)	4,991	3.992	,	•		İ	•		1	95	615	2		,	•	,	1	
IRRIS - Traffic		(1.60)	0000	100			,				1		1,000	3			,	ı	,	
JS/Safety/IRRIS Total		-	חאביב	7057		,		,	,				7.07	790						
	i >	1	757,447	787-07	•	'	265					4,028	2,880	3 88		, , ,	· .	·		,
Total Projects		1	1,062,429	135,898	15,615	65,028	38,982	13,283	7,185	130,300	362 200	8.414	92.80	ĺ		ı	1		  - 	
Start-up/Misc	MTA	e/u	886'6		4	,				ł	1		2170	Ann'co		851,13	28,849	42,000	17,500	28,892
Total ACE		r H	1,072,417	135,898	15,615	65,028	38,982	13.283	7.185	130 300	267 200	5,726	1,261	- }	1,000	2,000			1	1
									ł	ı			23,039	000,60	28,567	-	28,849	42,000	17,500	28,892

MTA 1: MOU P0004367 MTA 2: MOU 8002 MTA 3-5: AMENDMENTS TO MOU 8002

MTA 6: MOU PODGF1159 (Nogales-LA) MTA 7: MOU 8002R (San Gabriel Trench)

29,581 28,892 689

31,921 17,500 14,421

42,000

28,849 28,849

102,345 29,138 73,207

28,567 28,567

85,000 85,000

29,839 29,839

14,140 14,140

362,200 362,200

7,544 130,300 7,185 130,300 359 -

13,283 13,283

38,982 38,982

65,028 65,028

15,615 15,615

135,904 135,898

1,151,098 1,072,417 88,681 34 88,715

Aduthorized
Casted to Projects
Cauplus / (Shortfail)
O'Chier Income
Total Surplus / (Shortfail)

Page 2 of 2

ige 1 of 2

EXHIBIT II - ACE PROJECTS FUNDING BY SOURCE
As of December 31, 2011
(\$ 000's)

			新されている。 の の の の の の の の の の の の の	Service Co.	化二十二十二十二十二十二十二十二十二十二十二十二十二十二十二十二十二十二十二十	のないないのである。	The state of the s	で 教育などの かんかん ある 大学	2	(s nnn e)	,				:					
Project	Task	Fed #	Total	TEA-21	NCPD/STP	SAFETEA	a E	ISTE A CIMO	EDA/DIIC	1000	疆	经国际	· · · · · · · · · · · · · · · · · · ·	地が開発	· · · · · · · · · · · · · · · · · · ·	<b>建</b>				200
								7		ונאל	Prop 16	MIAI	MTA 2	MTA 3	MTA4	MTA 5	MTA6	MTA7	Raikoad Cities/Better	úes/Better
Baldwin	Desígn	(017)	5,209	3,013	٠	•	753													
	ROW	(028)	40,942	. '	•	24,890		, ,	' '	1		1	,	495	989	251	•		,	,
1		n/a	26,857	2,373	570	20,186		,	: 1	' '	•		į	9,382	2,500	4,170	•	•	,	
Baidwin lotal	ē		73,008	5,386	570	45,076	1,797		'			. ] .		0		2,685			,	
Puente	Design	(034)	5.186	٠		ָ ר							·	1/0/1	3,190	7,106				
	ROW	n/a	,		•	9		. ,		ř			•	•	25	4,886	1		,	,
,	Constr	n/a	-	•	,	,			. ,	1 1	•			1			,	1	,	, ,
Puente Total	-Fe		5,186	•		216	,	,	,	.   .	.   ,	. .				'		•	r	•
Fairway	Design	(036)	5,875		•	טענ							-		22	4,886	'	1		•
	ROW	n/a	. '	•	,	ζ,	, ,	r a	, ,	1	,				38	5,575	1	1		ì
	Constr	-⁄a		j	1	,		•	, ,	. ,	ι		•			ı	•		•	•
Fairway Total	<u></u>		5,875		<b>,</b>	240	4		,     	. ,	·  			-			,	1		
East End	Design	(003)	4.295	1 957	1 240		[					·			8	5,575		'		.
	ROW	(603)	4,478	3,131	7	. ,	1267						46	7,	•		ŀ		,	,
Reservoir	Design	(010)	3,620	2,896	ı	•	9	) (				. ;			1		,			•
	ROW	(010)	9,431	5,718	1	•	2,255	•				2	700	. ;		1	•		1	1
	Constr	TGR <sub>P</sub>	57,376		1 !	,	407	ı	•	45.780	۱ ۱		9	916	ដូ	,	,	Ť	1	,
EL/ Neservoir 10tal			79,200	13,697	1,240	\   	5,561	Ţ		46,780	<b> </b> .	122	2 ×	יבייני מבי מו	, [2			'		
Sunset	Design	(020)	4,739	1										200	ĝ					-
	ROW	(026)	3,146	100	1	2.063		, ,	,	9,400				933	,	,	,	1	,	,
,	Constr	٠ گ	80,043	-	1	ļ '	,	•		9 6		1		593		318			•	
Sunset Sub-Total	Total		87,928	100		2.063				02/,/4	,	ŧ		14,607	16,691	1,025	,	•	•	,
	Better	•	6,434	1	1	•	•	1	۱ ۱	07775	•			15,511	16,691	1,343	,			,
Sunset lotal	_	•	94,362	300		2,063				52,220				15 644	- 00	,		1	٠	6,434
Temple	Design	(600)	7,265	4,680	•	,								7	10,01	1,143	•	,		6,434
	ROW	(600)	12,367	7,768	,		•	. ,	, ,		,	1,168	151	826	788	•	•	,	,	,
Temple Total	Constr	(600)	71,948	33,700	3,884	•	·	1	. ,	1387	, ,	66 K	1,370	2,260	, ,	ŧ	,	,	ı	•
and admir		•	91,580	46,149	3,884					1,387		2,169	9,110	16.743	4 738		-		7,900	.
Nogales-LA	Design	(032)	3,725	932			,	,		,					2016				nns'/	
	ROW	(550)	36,899	5,166	,			6.936	2.185	, ,		ı	ı			ı	28			2,008
Nogotae 1 v Total	1 2 2		51,034	,		-	,	6,347	,		25,600		' 1		r		17,205			5,407
	į.	٠	37,058	86779		•		13,283	2,185		25,600					8,778	28 940			
SG Trench	Design	(030)	34,214	120	1,881	11,913	•	ı			!	,					1	-	-	7,415
	ROW	(030)	28,285	1	1	. *	,	,	ı			n	/7	3,006	1,365		•	15,900		1
Const.	Constr	., e/u	345,200			•	'	1	ı	,	336,600		, ,			,		26,100		2,185
	Better		2.925	S .	1,881	11,913	r	ı	1		336,600	m	172	3,006	1365	·  	·	42.000	8,600	100
SG Trench Total	<u>12</u>	1	410,624	170	1887	11 072		,	•			,	۱ ا	•		ı		· ·	o,	2,4XL 2,97
<b>'</b> C		•			*****	245,443		<u> </u>	•	•	336,600	æ	7.7	3,006	1,365		'	42,000	002.8	1 5

## Exhibit III

# ACE Projects Allocation vs. Actual Summary

As of December 31, 2011

(\$,000 \$)

Status	tive only ive ive ive ive sed sed
Variance (Allocated vs. Estimate at Completion)	(12, 199) Active - PE only (5,400) Active (689) PE only (90,786) Active 36 Active (540) Active - Closed 188 Closed - Closed - Closed - Closed - Closed
Estimate at ** (A) Completion E Exhibit IV G	85,207 \$ (12,195 5,875 97,058 (5,400 5,875 (688 498,485 (90,786 87,892 36 92,120 (540 67,396 79,012 188 34,142 (1 49,698 51,350
ITD Expenditures (Exhibit V) \$ 7,814	73,008 73,008 1,374 91,658 19,694 5,186 1,776 410,624 44,142 94,362 86,607 91,580 88,191 73,903 67,394 79,200 78,960 34,141 34,142 49,798 53,091 51,350
Tota! Alfocated \$ 9,988	\$ 73,008 5,875 91,658 5,186 410,624 94,362 91,580 73,903 79,200 79,200 79,200 79,200 79,200 79,200 79,200 79,700 70,700 70,700 70,700 70,700 70,70
Railroad	7,900
Betterments /Other	\$ - \$ 2,925 6,434 6,507 100 1,741 1,707 \$
Allocated (Exhibit II) \$ 9,988	64,765 \$ 73,008 \$ N/A 5,875 N/A 91,658 N/A 407,699 70,502 87,928 80,272 91,580 64,401 67,396 69,180 79,200 35,200 34,141 54,599 49,698 47,102 51,350
Cost Estimate (2006)	1 !!
Cost Estimate (1997)	23,994 \$
Cost E	м
Project Start-up/Misc Active Projects	1 Baldwin Avenue 2 Fairway Drive (LA) 3 Nogales South (LA) 4 Puente Avenue 5 San Gabriel Trench 6 Sunset Avenue 7 Temple Avenue 8 Brea Canyon 9 East End/Reservoir 10 Jump Start/Crossing Safety/IRRIS 11 Nogales North (Alh) 12 Ramona Blvd. 5ubtotal

13 Montebello Blvd.

14 'Rose Hills Road

15 Turnbull Canyon Road16 Fairway Drive (Alh)

950,000 \$ 1,400,000 1,072,416,741 1,161,097,325 Estimated Total Project Cost \$ Net Authorized Allocated Available

\*\* Excludes Start-up/Misc of \$9,988M to agree with Exhibit-IV EAC.

## **Expenditure Forecast** (Active Projects) Exhibit IV

As of December 31, 2011 (\$ millions)

_	200	Q2 FY12		85.2	6,5	97.1	י י י	498.5	87.9	92.1	i i	67.4	34.1	79.0	49.7	51.3	<b>!</b> 		
E C	Change	cnange			0.0	0.4 6	0.0		-0.9 °										
	01 FY12	771117	(	85.2	5.9	96.7	5.9	498.5	88.8	92.1		67.4	34.1	79.0	49.7	51.3			
-	2015			1.7		13.3		139.0											
Forecast	2014		23.3	7.77		29.9		180.5											
	2013		77 9	ָ , ,	7.7	59.6	3.1	109.9		3.9									
stimate <sup>A</sup>			1.6	ď	י ר סיי		2.2	5.77	1.9										
Budget Estimate <sup>A</sup>	2012		9.3	2.6	17.4	† C	2.3 2.1	1.55	0.3 0.3										
Actual	2011		1.2	0.7	12.6	9 0	5.0.5	C. D. D	ל ה ה	5:3		3	0.0	;	0	)			
OTI	2010		34.3		4.7		25.4	76.6	85.9	)	67.4	34.1	78.9	49.7	51.3				
	Active Projects		BaldWIn	rairway Urive (LA)	Nogales (LA)	Puente Ave	San Gabriel Trench	Sunset	Temple	Completed Projects	Brea Cyn	Crossing Safety/IRRIS	East End/Reservoir	Nogales (Alh)	Ramona	Inactive Projects	Fairway Drive (Alh)	Montebello Blvd	

Note: Project forecasts include indirect cost. 508.5

Turnbull Canyon Rd

Total

Rose Hills Rd

2012 estimate includes mid-year adjustments
 EAC includes 2012 estimate
 \$400k utility relocations

<sup>o</sup> (\$900k) construction savings

154.2

9.79

43.1

Exhibit V

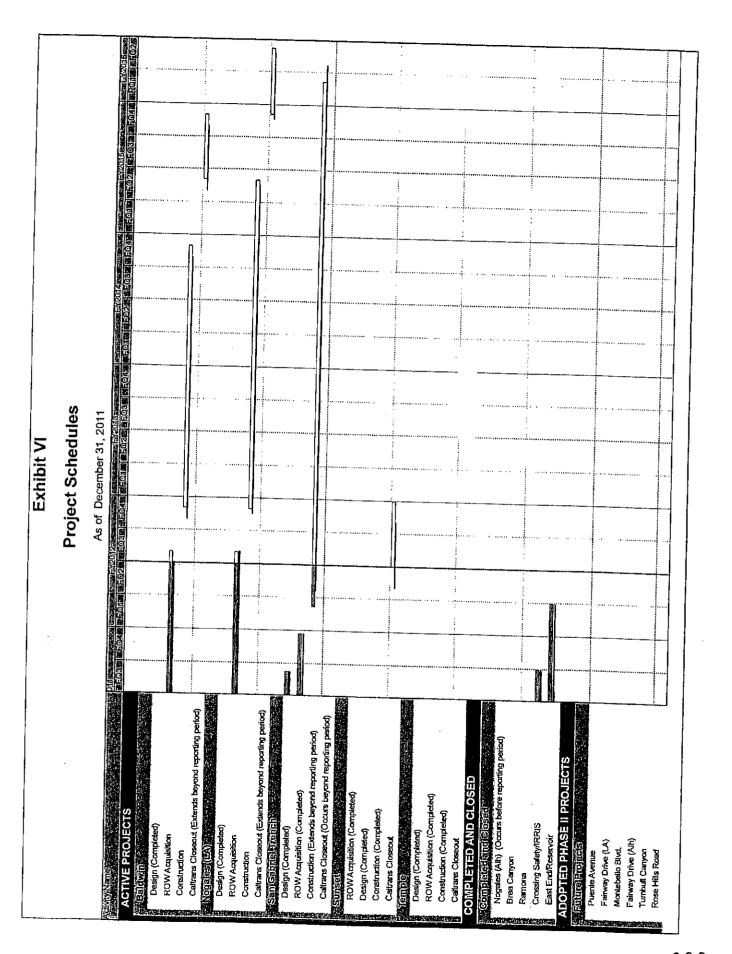
# ACE Expenditures vs. Reimbursements

As of December 31, 2011

		·			Reimbursement Status (\$ 000)	Status (\$ 000)		
		E		Billed/Not	To Be	AT	Indirect Costs Requiring Caltrans	-
Projects	Exp	Expenditures	Received	Received	Billed	Retention	Approval	bureashle
Baldwin	⋄	36,291	\$ 35,418	\$ 291	\$ 239	\$ 343		- Canada
Fairway Drive		1,374	287		Ţ			ı
Nogales (LA)		19,694	17,828	1,940	(130)	55	,	ı
Puente Ave.		1,776	286	•	1,486	4		
SG Trench		44,142	41,247	2,278	443	175	,	ı
Sunset		86,607	84,387	1,456	618	146	ı	
Temple		88,191	87,529		9	625	•	I
Brea Canyon		67,394	67,401	28	(324)	289	,	
Crossing Safety / IRRIS		34,142	33,788				ı	1
EE/Reservoir		78,960	78,711	14	ı	735		1
Nogales (AH)		49,698	49,640	m	,	55.	1	
Ramona		51,350	51,374	94	(293)	174		ı
Uncollected Indirect Exp. '08-'11			1	-	ſ	1	1.335	,
Sub-total Projects		559,618	547,897	6,151	3,129	2,441	1,335	
Project Administration		7,814	7,706	I	108	· · · · · · · · · · · · · · · · · · ·	'	(191)
Total ACE	·^	567,432	\$ 555,602	\$ 6,151	\$ 3,237	\$ 2,441	\$ 1,335	\$ (191)

1 - Represents carriedforward amounts from '08 and '09 that will be applied to indirect cost plans for Fiscal Years '12 and '13.

Notes:



## Exhibit VII

# Treasury / Banking Investments As of December 31, 2011

Operating Account Money Market Account Money Market (UPRR Contributions)  Total cash on hand	\$ 225,640 * 91,779 * 2,423,430
Investments	640,047,2
CBB - US Treasuries <b>Total investments</b>	1,561,670 10,340,336 11,902,006
Billed / Not Received  To Be Billed  MTA Retention Indirect Expenses ('08 - '09)  Total Cash & Receivables	6,151,014 3,237,493 2,441,482 1,334,784 27,807,630
Outstanding Debt (Commercial Paper) Resources In Excess of Debt	20,000,000

 $<sup>^</sup>st$  Note: Excludes \$2,283,000 of recovered project costs and advanced construction funds

# Compliance with Banking / Investment Policy **Exhibit VII**

As of December 31, 2011

		_		Percent of I	y Portiolio One Issuer	はのはのはのないとうでは、日本ないないのでは、日本はは、日本ないのでは、日本なりのでは、日本のでは、日本なりのでは、日本なりのでは、日本のでは、		d None Stated None Stated	None Stated None Stated None Stated	
				Maximum	Matury	· · · · · · · · · · · · · · · · · · ·		None State	None State	A CONTRACTOR OF THE PARTY OF TH
				Bank Deposits	Ace deposits are held by Citizens Business Bank (CBB) under a deposit agreement in amounts not to exceed \$50 million. Under the agreement, CBB maintains collateral deposits of at least 110% of the value of all ACE deposits at Bank of the West - Los Angeles in eligible securities. The CBB deposits accounts are:	4.798.209 Money Market Accounts (2) *	5023.849 Total Deposits Permitted Investments	10340,336 U.S. Treasux Objections	1.561.670 State's Local Agency Investment Fund None Stated None Stated None Stated	The state of the s
	Deposit/	Investment	Amount	12-31-11		\$. 225,640 4,798,209	5,023,849	10,340,336	1,561.670	\$ 16,925,855
Bayerische	SGVCOG Landdesbank	Permitted	Investment	Ref:#						The second secon
	SGVCOG	Authorized	Investments	Ref.#					5	

# SGVCOG and Bayerische Landdesbank

United States Treasury notes, bonds, bills, or certificate of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest

## SGVCOG

Notwithstanding any other provision of law, and local government official, with the consent of needs, may remit the money to the Treasure of the State of California for deposit in the Local the governing body of that agency, having money in its treasury not required for immediate Agency Investment Fund for the purpose of investment.

11. State's Local Agency Investment Fund.

<sup>\*</sup> Note: Includes \$2,283,000 of grant reimbursement for close out projects



## San Gabriel Valley Council of Governments

3452 East Foothill Blvd. Suite 810, Pasadena, California 91107 Phone: (626) 564-9702 FAX: (626) 564-1116 E-Mail SGV@sgvcog.org

Date: February 8, 2012

To: City Managers' Steering Committee

From: Chip Conway, SGVCOG Accountant/Treasurer

Re: FY 2010-2011 Audited Financial Statements

Attached please find the above-mentioned financial report.

## **Recommended Action:**

Receive and File

## **Background:**

Article VII, Section 5 of the SGVCOG's JPA Agreement stipulates that the records and accounts of the SGVCOG shall be audited annually by an independent certified public accountant and in compliance with Government Code Sections 6505.5 and 6505.6. Furthermore, said report shall be presented to our member agencies within 15 days after receipt of said audit.

Vasquez & Company, LLP, located in Los Angeles, was hired in 2009 through a competitive procurement to perform the independent audit for both SGVCOG and ACE for the fiscal years beginning in FY 2009 through 2013. This is their third audit.

In 2003, the Board decided to consolidate ACE and the SGVCOG financial statements for public presentation since ACE is a component unit of the SGVCOG. However, the scope and magnitude of these two organizations are entirely different and, for Board discussion purposes, they have been separated. See the following attachments for the audited financial statements:

- A) SGVCOG
- B) ACE
- C) Combined SGVCOG/ACE

## **Summary - SGVCOG**

Significant legal and audit assistance expenses associated with the Caltrans audit, public records requests and definition of responsibilities between ACE and COG (approximately \$59,921) were offset by lower than budgeted expenses in federal/state advisory services, federal/state advocacy travel, and printing/publication. The net impact was an increase in Net Assets of \$34,491 vs. a budgeted amount of \$35,400.

Last year, as part of the FY 2009-10 audit, the COG did not receive a Management Letter or any comments for improvements from the auditors.

This year's audit was accompanied by a Management Letter that mentioned two items: 1) Lack of initials and review on bank reconciliations and 2) delays in depositing checks. Management has responded that it

is now initialing all reconciliations. Due to the small number of employees, COG had been waiting for the accountant to input the checks and having the Office Manager deposit the checks when she had time. Management has revised the procedure so that all checks are logged by the Office Manager, input and deposited by the Accountant on a weekly basis.

## **Summary -ACE**

The FY 2010-11 audit shows a fund balance decrease of \$4.3 million as a direct result of the arbitrage rebate payments that were made in connection with the IRS examination of 2007, \$20 million GANS issue. Payments were covered with net investment income generated from investing commercials paper proceeds.

Last year. as part of the FY 2009-10 audit, the auditor's Management Letter raised two issues: 1) In FY 2008 and FY 2009 ACE deferred a combined total of \$583,950 in unallowed indirect expense that was billable to Metro. It was expensed to and reimbursed by Metro in FY 2010. 2) Concern was raised over ACE's FY 2010's budget being unduly optimistic. ACE has under-run its budget for three years in a row. In FY 2010, actual revenues and expenditures for ACE were \$22.4 million, or 22% below the original budget. Under-running a budget negatively impacts reimbursement of indirect expense because the state approved indirect rate is based on the original budget and used by both Caltrans and Metro in reimbursing ACE for indirect expense. The current balance of deferred indirect expense is now \$2,033,076.

The Management Letter that accompanies the FY 2010-11 is not being released until the ACE Board receives it along with the audited financial statements.

## **DRAFT**

Audited Financial Statements and Supplementary Information Alameda Corridor – East Construction Authority (A Component Unit of San Gabriel Valley Council of Governments) Year ended June 30, 2011 with Report of Independent Auditors

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GOVERNMENT AUDITING STANDARDS	28

## **Report of Independent Auditors**

## **Board of Directors Alameda Corridor – East Construction Authority**

We have audited the accompanying basic financial statements of Alameda Corridor - East (ACE) Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of ACE Construction Authority'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACE Construction Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 component unit financial statements referred to above present fairly, in all material respects, the financial position of ACE Construction Authority as of June 30, 2011, and the changes in its financial position 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 5, 2011, on our consideration of ACE Construction 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 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.

## DRAFT

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

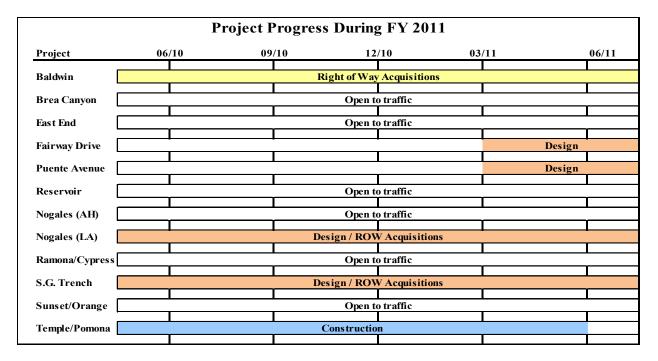
Los Angeles, California December 5, 2011 The following discussion and analysis of the financial performance and activity of the Alameda Corridor – East (ACE) Construction Authority provides an overview of ACE Construction Authority financial statements for the year ended June 30, 2011. This discussion was prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

## **Background**

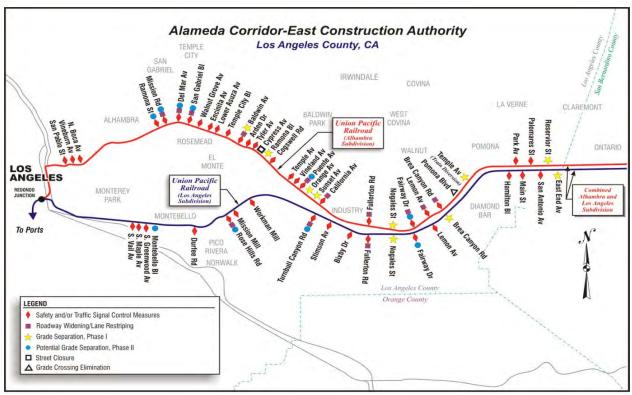
The San Gabriel Valley Council of Governments (SGVCOG) created the ACE Construction Authority in 1998 to mitigate the effects of increasing Union Pacific Railroad (UPRR) train traffic in the San Gabriel Valley. There were 55 "at-grade" crossings in the Valley where vehicular and pedestrian traffic cross directly over railroad tracks and must stop while trains pass by. This creates congestion, degrades the local environment, and compromises safety. The ACE Project will separate 20 crossings at the busiest intersections — by either raising or lowering the crossing street or the railroad — along the 35-mile freight rail corridor from East Los Angeles to Pomona.

The original budget for the project was \$950 million in 1998 dollars. The project was broken out into two phases. Phase I included a test deployment of a modernized traffic control system, safety improvements at 39 grade crossings, and 10 grade separations, two of which were assigned to other agencies. Phase II included the remaining 10 grade separations. Since then, all but one of the 10 Phase I grade separations are completed or in construction. The current cost estimates for all active or completed projects consisting of the safety improvements and 14 grade separations is \$1.143 billion. The remaining six grade separations in the overall adopted project are the subject of an update study. Their updated definition and cost estimates should be available by the end of calendar year 2011.

The Nogales Street project in West Covina/Industry was completed in 2005, the Reservoir Street project in Pomona was opened to traffic in 2005, Ramona Boulevard in El Monte, East End Avenue in Pomona, and Brea Canyon Road in Industry/Diamond Bar opened in 2008, and Sunset Avenue in City of Industry opened in 2010. The Temple Avenue Train Diversion in Pomona construction is complete, though we must await Union Pacific/Kinder Morgan agreement on relocating two Kinder Morgan pipelines in order divert the train traffic away from two crossings. The last piece of property needed for the remaining Phase I project, Baldwin Avenue in El Monte is in litigation and we anticipate construction starting in early 2012. In addition, property acquisition for the southern Nogales Street grade separation is nearing completion and construction should begin in early 2012. The San Gabriel Trench project has completed design and property acquisition and can go into construction as soon as approved State funding is available. Finally, design has begun on two of the remaining Phase II projects – Puente Avenue and Fairway Drive (LA subdivision).



## **Project Map**





ALAMEDA CORRIDOR-EAST PROJECT AREA

REVISED DATE 3/08

As of June 30, 2011 the following funding had been committed to the ACE project:

		Committ		•
<u>Federal</u>			illion	s)
TEA-21 Earmark	\$	134.4		
Annual Appropriations (FY 2000-09)		19.7		
SAFETEA-LU Earmark		65.0		
ISTEA (Nogales LA)		6.9		
CMAQ (Nogales LA)		6.3		
	Total Federal		\$	232.4
<u>State</u>				
Trans. Imp. Program (FY 2000-04)		39.0		
PUC Grade Separation Fund		5.0		
Trans. Cong. Relief Prog. (TCRP)		130.3		
Trade Corr. Infr. Fund (TCIF)		336.6		
Hwy. Rail Crossing Safety Act (HRCSA)	_	25.6	_	
	Total State		='	536.5
Los Angeles County Metropolitan				
Transportation Authority (Metro)				
17% - Match		259.9		
FY 2007 Call-for-projects		28.8		
Measure R		42.0		
	Total Metro		-	330.7
City/County Funds				29.6
Railroad Contributions				20.5
Total ACE Project Funding			\$	1,149.7

The Committed/Pledged amounts may differ slightly from authorized funding due to budgetary holdbacks on multi-year grants, and reflect management's best estimate as to the amount that will be available. In addition to the committed funds shown above, we expect to receive an additional \$358 million in Metro Measure R funds through fiscal year 2019. Railroad contributions reflect a regulatory ceiling of 5% of construction cost pro-rated over the construction phase of the various projects.

ACE Construction Authority manages its projects to avoid risk wherever possible. All projects are designed to be within the scope allowed by federal, state and local guidelines. The project host city is responsible for paying for any "betterments" not needed for the basic grade separation. In addition, each phase - design, right-of-way acquisition and utility relocation, and construction - must be approved for reimbursement in advance by Caltrans.

ACE Construction Authority must pay contractors and vendors first before invoicing grantors for reimbursement. Reimbursements are currently running between two to six weeks for Caltrans (Federal and State funding) and Metro (local funding). Working capital therefore remains a major consideration. The ACE Construction Authority's parent organization, the San Gabriel Valley Council of Governments (SGVCOG), authorized the issuance of up to \$100 million in grant anticipation notes (GAN) to satisfy working capital requirements. \$27.350 million in GANs are outstanding at June 30, 2011.

## **Financial Highlights**

For the fiscal year ended June 30, 2011:

- Net assets decreased \$4.3 million, a decrease of 42.19% primarily as a result of arbitrage rebate payments on net interest generated by net proceeds from the investment of commercial paper.
- Construction in progress decreased \$47.5 million, a decrease of 20.5%.
- Total revenue decreased \$31.3 million, a decrease of 41.2%.
- Total project expense decreased \$34.8 million, a decrease of 43.8%.

## **Overview of Basic Financial Statements**

ACE Construction Authority's basic financial statements consist of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Basic Financial Statements.

## Government-wide Financial Statements

The government-wide financial statements found on pages 11 and 12 are designed to give readers a broad overview of the Authority's financial position. These include all of the Authority's assets and liabilities, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where the Authority's revenues and expenses are reported as the causal event occurs, instead of when the revenue was received or expense paid.

The "Statement of Net Assets" presents all of the Authority's assets and liabilities, with the difference reported as net assets (or equity in the private sector). While large net assets might indicate that a governmental agency has not spent all available revenues and other resources, negative net assets indicates that the agency has overspent. It is management's position to maintain sufficient net assets to compensate for any disallowed costs, but to allocate any surplus to construction activities.

The "Statement of Activities" presents the Authority's revenues and expenses for the fiscal year ended on June 30, 2011. The statement has four primary areas: Operating Expenditures, Operating Revenues, Nonoperating Income (Expenses) and Change in Net Assets. Expenses are broken out into Direct (those expenses that can be identified directly to individual projects) and Indirect, while Financing Income is the interest earned on cash balances less interest and fees paid on the corresponding debt.

## **Fund Financial Statements**

The fund financial statements can be found on pages 11 and 12 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

ACE Construction Authority, unlike cities, county or State governments, has one activity – construction. All of ACE Construction Authority's activities are classified as a Construction (Capital Projects) Fund with the exception of the amount invested in a deferred compensation plan funded solely by staff.

Differences between the two sets of financial statements are normally determined by the complexity of the reporting agency and usually revolve around different treatments for capital assets and depreciation, and debt issuance and repayment. The Authority's focus on a single activity results in the two statements being very similar.

## Notes to the Basic Financial Statements

This report includes notes to the basic financial statements. They provide additional information that is important to a complete understanding of the data contained in the government-wide and fund financial statements. The notes can be found on pages 13 through 26 of this report.

## Statements of Net Assets

The following table shows the condensed statements of net assets for the past two years:

	_	Jui	ne 3	30
		2011		2010
Current and other assets	\$	45,329,675	\$	123,817,067
Capital assets		23,160		43,208
Construction in progress		183,999,655		231,505,012
Less due to member cities and				
Union Pacific Railroad		(183,999,655)		(231,505,012)
Total assets	-	45,352,835	_	123,860,275
Current liabilities	_	39,431,887	_	113,617,868
Net assets	\$	5,920,948	\$	10,242,407

All organizations are required to report construction in progress (that is, the sum of prior and current year's construction expense) on the Statement of Net Assets as an asset. This would normally be done by treating each year's construction as a capital expense which would be excluded from the Statement of Activities. However, the grant reimbursements generated by construction would be included in the Statement of Activities as revenue. The ACE Construction Authority is obligated to transfer components of completed projects to the UPRR and the cities so that they can be included in their financial statements. The resulting reduction in assets would flow through the Statement of

## Alameda Corridor - East Construction Authority (A Component Unit of San Gabriel Valley Council of Governments) Management's Discussion and Analysis Year ended June 30, 2011

Activities as a loss. The net effect would be to produce widely fluctuating Net Assets and Fund Balances depending on whether ACE Construction Authority was constructing (Surplus) or transferring assets to member cities (Deficit).

Therefore, the ACE Construction Authority elected to treat construction in progress as a matching asset and liability. This shows the total cost of ACE Construction Authority's projects and the resulting liability to transfer the assets upon completion while not unduly impacting the Statement of Activities.

Assets decreased by 63.4% to \$45.4 million (see condensed Statements of Net Assets, page 7) mainly due to reducing the amount held in investments to pay down outstanding GANs to match lower levels of project activity, lower grants and unbilled receivables as a result of lower grant reimbursable incurred expenditures.

Construction in progress decreased 21% to \$184 million (see condensed Statements of Net Assets, page 7) primarily as a result of the completion of the Sunset project without offsetting construction.

Deferred revenue (unearned and unavailable) increased 22.9% to \$5.6 million (see Statement of Net Assets, page 11) primarily due to having to recognize \$1.8 million of surplus rental property generating revenue after project was closed. Sale of this property is expected to take place within the next fiscal year.

The SGVCOG, on behalf of the Authority, had \$27.35 million (see Statement of Net Assets, page 11) in variable rate, tax-exempt commercial paper outstanding as of June 2011. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

Grants and unbilled receivables decreased 48.6% to \$4 million and 56.19% to \$7.6 million (see Statement of Net Assets, page 11) respectively due to lower reimbursable grant expenditures.

The FY2011 revised Budget for operating expenditures was \$82.7 million compared to \$97.5 million in FY2010. Actual total operating expenditures are \$44.2 million compared to \$78.5 million in FY2010. (See Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual, page 27).

Project revenues continue to closely track expenditures. ACE Construction Authority's policy is to avoid where possible costs not reimbursable under State and Federal guidelines; Metro also provides project funds and, under separate agreement, continues to fund certain administrative expenses not reimbursable under federal and state regulations; Cities requesting work in excess of Caltrans guidelines (referred to as betterments) are paid for by the requesting city.

## **Statement of Activities**

The following table shows the condensed statements of activities for the past two years:

	Years end	led	June 30
	2011		2010
Project expenses			
Direct (construction)	\$ 40,879,495	\$	74,840,690
Indirect expenses charged to operations	3,735,496		4,554,512
Total project expenses	44,614,991		79,395,202
Revenues			
Grant reimbursements	44,181,756		74,623,951
Other operating revenues	475,871		1,359,697
Total revenues	44,657,627		75,983,648
Income/(loss) from operations	42,636		(3,411,554)
Nonoperating income (expense)			
Financing income	543,560		692,556
Financing expense	(4,907,655)		(624,971)
Net financing income (expense)	(4,364,095)		67,585
Change in net assets	(4,321,459)		(3,343,969)
Net assets at beginning of year	10,242,407		13,586,376
Net assets at end of year	\$ 5,920,948	\$	10,242,407

The ACE Construction Authority is reimbursed for indirect expenses based on Caltrans approved Indirect Cost Allocation Plan (ICAP) rate. The reimbursement is added to all Caltrans and Metro invoices and is calculated by applying the ICAP rate to direct salaries and wages and fringe benefits. The applied indirect expense to projects was lower than the actual indirect expense incurred, resulting in a deferral of \$298,293 to future years.

## **Capital Assets**

ACE Construction Authority had \$23,160 and \$43,208 invested in capital assets, net of depreciation, as of June 30, 2011 and 2010, respectively.

ACE Construction Authority's capital assets consist of leasehold improvement and office equipment only.

## **Economic Factors and Next Year's Budget**

Sufficient funds were available at the close of FY 2011 to continue with remaining active grade separation projects.

Los Angeles County voters approved Measure R in November 2008. ACE Project is included for \$400 million in local funds over the life of the sales tax. Metro has approved an initial drawdown of \$42 million for the ACE Project and projects that the full \$400 million will be available between now and FY 2019.

ACE Construction Authority Board approved suspension of the Integrated Rail Roadway System (IRRIS), a traffic signal system demonstration project, in June 2009. A total of \$6.4 million has been spent on the project since inception. Caltrans and the Federal Highway Administration have approved the closeout of the project.

With less than a quarter of expenditure activity in FY 2012, it is challenging to estimate that actual expenditures will be consistent with levels assumed in the FY 2012 budget. However, using recent expenditure trends it appears the ACE Construction Authority will be within 20% of the FY 2012 Approved Budget of \$72 million.

## Requests for Information

These financial statements are designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to demonstrate accountability for the money it receives. If there are any questions about this report or a need for additional information, please contact The ACE Construction Authority, 4900 Rivergrade Road, Suite Al20, Irwindale, CA 91706, or call (626) 962-9292.

## Alameda Corridor - East Construction Authority (A Component Unit of San Gabriel Valley Council of Governments) Statement of Net Assets June 30, 2011

	Capital Project			Government-	
100570	Fund	_	Adjustment	-	wide
ASSETS					
Current assets Cash and investments \$	24 279 470			\$	24 279 470
	5 24,378,470 4,032,710		-	Ф	24,378,470
Grants receivable Unbilled receivables	7,617,163		-		4,032,710
Interest receivable			-		7,617,163
Retention receivable	16,430		-		16,430
Receivable - other	4,960,642		-		4,960,642
Deferred cost incurred	120,656 2,331,369		-		120,656 2,331,369
	2,331,309	'	-		2,331,309
Prepaid expenses	24 602				24 602
Insurance	34,693		-		34,693
Cost of issuance, commercial paper	74,351		-		74,351
Property held for sale	1,763,191	_		-	1,763,191
Noncurrent accets	45,329,675	_		-	45,329,675
Noncurrent assets			22 160		22 160
Leasehold improvements and equipment, net	-		23,160		23,160
Construction in progress	_		183,999,655		183,999,655
Less due to member cities and Union Pacific Railroad			(183,999,655)		(183,999,655)
Total assets	45,329,675	_	23,160	-	45,352,835
iotai assets	45,529,075	<u> </u>	23,100	-	40,002,000
LIABILITIES					
Current liabilities					
Accounts payable and accrued expense	5,456,811		_		5,456,811
Accrued retention payable	895,520		_		895,520
Deferred revenue	5,622,131		_		5,622,131
Compensated absences	107,425		_		107,425
Commercial paper	27,350,000		_		27,350,000
Total liabilities	39,431,887	_		-	39,431,887
		_		-	
FUND BALANCES/NET ASSETS					
Fund balance					
Nonspendable for:					
Deferred cost incurred	2,331,369	)			
Prepaid expenses	109,044				
Assigned:					
Capital project fund	3,457,375	;			
Total fund balance \$		_			
		_			
Net assets					
Invested in capital assets			23,160		23,160
Unrestricted				_	5,897,788
Total net assets		\$	23,160	\$	5,920,948
				=	

## Alameda Corridor - East Construction Authority (A Component Unit of San Gabriel Valley Council of Governments) Statement of Activities Year ended June 30, 2011

	Capital Projec	ct	Adjustment		Government- wide
Project expenses					
Direct (construction)	\$ 40,879,49	5 \$	-	\$	40,879,495
Indirect expenses charged to operations	3,715,44	8	20,048		3,735,496
Total project expenses	44,594,94	3	20,048	_	44,614,991
Revenues					
Grant reimbursements	44,181,75	6	-		44,181,756
Other operating revenues	475,87	<u>1</u> _	-		475,871
Total revenues	44,657,62	<u>7</u> .	<del>-</del>	_	44,657,627
Income from operations	62,68	4	(20,048)		42,636
Nonoperating income (expense)					
Financing income	543,56	0	=		543,560
Financing expense	(4,907,65	5)	= _		(4,907,655)
Net nonoperating income (expense)	(4,364,09	5)	-	_	(4,364,095)
Deficiency of revenues over					
expenditures/Change in net assets	(4,301,41	1)	(20,048)		(4,321,459)
Fund balance/Net Assets at beginning of year	10,199,19	9	43,208		10,242,407
Fund balance/Net Assets at end of year	\$ 5,897,78	8 \$	23,160	\$_	5,920,948

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## The Reporting Entity

ACE Construction Authority is a component unit of the San Gabriel Valley Council of Governments, (SGVCOG).

## **Basis of Accounting**

Government-wide reporting uses the full accrual basis of accounting. The Statement of Activities presents changes in Net Assets. (This is equivalent to an Income and Changes in Equity Statement in private sector companies.) Revenues are recorded when earned and expenses are recognized at the time of the causal event.

ACE Construction Authority recognizes reimbursements from grants as revenues to the extent reimbursing obligations are earned on or before June 30, 2011 and are therefore the same under both modified accrual and full accrual basis. Major interest bearing debt is short-term in nature so there is no difference relating to accrued interest owed.

## **Description of Funds**

ACE Construction Authority uses funds and account groups to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

## Governmental Fund

Capital Project Fund - Accounts for the activity of obtaining support from governmental groups, determining funding and specifications for structures needed and to fund the contracts for the grade crossing improvements. This fund accounts for most of the activities of the Authority.

## **Fund Balance Reporting**

During the fiscal year ended June 30, 2011, ACE Construction Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement establishes the following fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds:

Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples are inventories, prepaid expenses, long-term receivables, or non-financial assets held for resale.

<u>Restricted fund balance</u> includes resources that are subject to externally enforceable legal restrictions. It includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Fund Balance Reporting (continued)

<u>Committed fund balance</u> includes amounts that can be used only for the specific purposes determined by a formal action of ACE Construction Authority's highest level of decision-making authority (Board of Directors).

Assigned fund balance consists of funds that are set aside for specific purposes by ACE Construction Authority's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

<u>Unassigned fund balance</u> - is the residual classification for ACE Construction Authority's general fund and includes all spendable amounts not contained in the other classifications. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The Board of Directors, as ACE Construction Authority's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specific use through the same type of formal action taken to establish the commitment. ACE Construction Authority does not have any fund balance that meet this classification as of June 30, 2011.

The Board of Directors delegates the authority to assign fund balance to the Chief Executive Officer for purposes of reporting in the annual financial statements.

ACE Construction Authority considers the restricted fund balances to have been spent when expenditure is incurred for purposes for which both unrestricted and restricted fund balance is available. ACE Construction Authority considers unrestricted fund balances to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of ACE Construction Authority to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

## **Budgetary Reporting**

The Board approved the FY 2011 budget in July 2010.

The budget was based on estimated expenditures over the operating period. Significant under-runs were initially encountered as the Authority experienced delays in obtaining various Caltrans' required approvals for major design contracts from Federal and State grantors.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## **Budgetary Reporting (continued)**

It is the Authority's policy not to start any phase of a project (i.e., design, right-of-way acquisition, or construction), unless there are sufficient funds to complete that phase. All project related expenses are reimbursable from existing grants and, as such, budgeted revenues were not budgeted separately, but derived from budgeted expenditures.

## **Cash Equivalents**

Cash equivalents are those short-term investments readily converted into cash. Deposits with the State of California's Local Agency Investment Fund (LAIF) Operating Fund and the bond portfolio managed by Citizens' Business Bank meet that description.

## **Grant Revenues and Expenditures**

All grants are between the SGVCOG and the granting authority. ACE Construction Authority has been given authority to obtain and administer funding in the name of SGVCOG. The MTA grant was in existence when ACE Construction Authority was created and all subsequent grants therefore are administered by ACE Construction Authority.

To-date, all grants with the exception of the UPRR contributions are, and are anticipated to be in the future, cost reimbursable. That is, the Authority must first expend the money and then bill for reimbursement from the grantors.

## **Short-term Notes (Commercial Paper)**

In March 2001, SGVCOG authorized the issuance of up to \$100,000,000 in short-term variable rate tax-exempt grant anticipation notes. The notes are backed by a letter of credit from Bayern LB.

As of June 30, 2011, \$27.35 million in variable rate, tax-exempt commercial paper is outstanding. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

ACE Construction Authority management and financial advisors review on a periodic basis the current and prospective cash requirements in determining the amount of commercial paper to be issued.

Arbitrage has been earned on the differential between interest earned on investment with the State Treasurer's Local Agency Fund (LAIF) and a local bank, and to holders of the commercial paper. Arbitrage earned may be required to be refunded unless certain specific Internal Revenue Code requirements are met. Specific provisions of the borrowing are described in Note 4 (Advances by the San Gabriel Valley Council of Governments).

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Leasehold Improvements and Equipment**

Phases of equipment and other improvements that can be capitalized are recorded as expenditures in the capital projects fund. The threshold for capitalization has been \$5,000 since FY 2005 in accordance with Federal guidelines. On the government-wide financial statements such items are recorded as capital assets and are depreciated based upon their estimated useful lives on a straight-line basis. Useful lives of assets categories are as follows:

Leasehold improvements 10 years
Office furniture 10 years
Computer, office and telephone equipment 5 years

#### **Use of Estimates**

The process of presenting financial information requires the use of estimates and assumptions regarding certain assets and liabilities and their related income and expense items. Grant reimbursements and construction costs are especially vulnerable to such assumptions and accordingly actual results may differ from estimated amounts.

### **Property Held for Sale**

The property held for sale is recorded at the lower of acquisition cost or estimated net realizable value.

### NOTE 2 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

The leasehold improvement and equipment are recorded at cost and consist of the following:

	Balance			Balance
	July 1, 2010	Additions	Deletions	June 30, 2011
Cost:				
Leasehold improvements	19,762 \$	- \$	- \$	19,762
Computer equipment				
Hardware	159,992	-	-	159,992
Software	105,692	-	-	105,692
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972	-	-	31,972
Total cost	332,897			332,897
Less accumulated depreciation for:				
Leasehold improvements	18,774	988	-	19,762
Computer equipment				
Hardware	142,968	9,259	-	152,227
Software	83,186	8,376	-	91,562
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	29,282	1,425	-	30,707
Total accumulated depreciation	289,689	20,048		309,737
Leasehold improvements and equipment, net	43,208	(20,048) \$	\$	23,160

Depreciation expense included in indirect expenses for the year ended June 30, 2011 amounted to \$20,048.

### NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2011 as classified in the accompanying financial statements are composed of:

Cash in bank \$	7,577,692
Pooled funds	1,543,746
Money market funds	2,202,259
Medium-Term Notes	2,438,260
US Treasury obligations	10,616,513
Total cash and investments \$	24,378,470

### Investments Authorized by the California Government Code and ACE Construction Authority's Investment Policy

The table below identifies the investment types that are authorized for ACE Construction Authority by the California Government Code (or ACE Construction Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or ACE Construction Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of ACE Construction Authority, rather than the general provisions of the California Government Code or ACE Construction Authority's investment policy.

		Maximum	Maximum
	Maximum	Percentage	Investment
	Maturity	of Portfolio	in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	15%	5%
Commercial Paper	180 days	15%	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	5%	None
Medium-Term Notes	5 years	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	0%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

### NOTE 3 CASH AND INVESTMENTS (CONTINUED)

### **Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or ACE Construction Authority's investment policy.

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed in	Maximum Investment One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

#### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that ACE Construction Authority manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of ACE Construction Authority's investments (including investments held by trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of ACE Construction Authority's investment by maturity:

	_		Remainin	g maturity in mont	hs	
Investment Type		Total	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 months
LAIF Held by trustee:	\$	1,543,746 \$	1,469,646 \$	44,769 \$	29,331 \$	-
Money market funds		2,202,259	2,202,259	-	-	-
Investment contracts		13,054,773	<u>-</u>	13,054,773	<u>-</u>	
Tota	al \$ _	16,800,778 \$	3,671,905 \$	13,099,542 \$	29,331 \$	-

### NOTE 3 CASH AND INVESTMENTS (CONTINUED)

### Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

ACE Construction Authority has no investments (including investments held by trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

### **Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, ACE Construction Authority's investment policy, or debt agreements, and the actual rating at the end of the year for each investment type.

		Minimum		Exempt	Rating as of year end			
Investment Type		Legal Rating	_	from Disclosure	AAA	Aa		Not rated
LAIF \$ Held by trustee:	1,543,746	N/A	\$	- \$	- ;	\$	- \$	1,543,746
Money market funds	2,202,259	Α		-	2,202,259		-	-
Investment contracts	13,054,773	N/A		-	13,054,773		-	-
Total \$	16,800,778		\$	\$	15,257,032	\$	- \$	1,543,746

### **Concentration of Credit Risk**

ACE Construction Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2011, ACE Construction Authority had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total ACE Construction Authority investments other than funds held by the trustee.

ACE Construction Authority does not have any investments in any one issuer that represents 5% or more of total investments.

### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

### NOTE 3 CASH AND INVESTMENTS (CONTINUED)

The California Government Code and ACE Construction Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, the Authority's deposit of \$7,743,269 with financial institutions is in excess of Federal depository insurance limits but are held in collateralized accounts.

As of June 30, 2011, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE Construction Authority to buy the securities:

Investment Type		Reported Amount
Money market funds	<del></del>	\$2,209,259

### **Investments in State Investment Pool**

ACE Construction Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2011, the total market value of LAIF, including accrued interest was approximately \$66.52 billion. The fair value of ACE Construction Authority's investment in this pool is \$1,543,746 at June 30, 2011 based upon ACE Construction Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and ACE Construction Authority's) exposure to risk (credit, market or legal) is not currently available.

### NOTE 4 ADVANCES BY THE SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS

### **Short-term Notes Payable (Commercial Paper)**

In the Spring of 2001 the SGVCOG entered into an agreement to borrow up to \$100,000,000 in short-term debt guaranteed by a letter of credit and collateralized by the pledge of grant revenues. The securities issue is tax exempt. Notes outstanding at June 30, 2011, amounted to \$27,350,000. Interest rates vary according to market conditions and have ranged from 0.38% and 0.24% in FY 2011. Proceeds of the borrowings have been used to pay for construction activities and also to provide a revenue source on the differential between interest earned and interest paid. The Commercial Paper is currently guaranteed by Bayern LB.

### NOTE 5 GRANT ACCOUNTING

In the year ended June 30, 2011, ACE Construction Authority was the recipient, primarily from the Federal Department of Transportation through the California Department of Transportation (Caltrans), of cost reimbursement type grants. There was also California transportation programs paid through Caltrans. Local share was received from Metro. All of these grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and some costs incurred are subject to disallowance.

Receivable amounts at June 30, 2011, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 397.1% of total direct salaries and fringe benefit costs. Indirect costs incurred in fiscal year ended June 30, 2011 were \$3,608,604 and previously deferred indirect expense was increased by \$298,293.

### NOTE 6 EMPLOYEE BENEFIT PLAN

### **Defined Benefit Pension Plan**

Effective June 17, 2002 contributions and earnings of continuing employees previously contributed to CalPars, were transferred to CalPERS.

CalPERS is an agent, multiple employer defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the State of California; State statutes within the Public Employees Retirement Law establish menus of benefit provisions as well as other requirements. CalPERS issues separate comprehensive annual financial reports. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office - 400 P Street, Sacramento, CA 95814. Since the plan had less than 100 active members and at least one valuation since June 30, 2003, CalPERS requires the Authority's Plan to participate in a risk pool. Mandated pooling was effective with the June 20, 2003 valuation.

### NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

### **Funding Policy**

Active plan members as defined by the above statutes are required to contribute 7% of their annual covered salary. The Authority has elected to contribute this amount to CalPERS on behalf of eligible employees. The authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate to CalPERS for the year ended June 30, 2011 is 8.475%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

### Annual Pension Cost (APC)

For fiscal year 2011, the Authority's annual pension cost and actual contribution was \$331,340. For the year ended June 30, 2011, the actuarial funding method used by the CalPERS is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a matter that produces level annual cost as the percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

The actuarial assumptions included (a) 2% at 55 as the benefit formula; (b) 7.75% investment rate of return compounded annually (net of expenses); (c) projected payroll growth rate of 3.25% and inflation of 3.0% compounded annually; and (d) 2% cost-of-living adjustment.

The actuarial funding process calculates a regular contribution schedule of employee contributions and employer contributions (normal costs) which are designed to accumulate with interest to equal the total present value of benefits by the time every member has left employment. As of each June 30, the actuary calculated the desirable level of plan assets as of that point in time by subtracting the present value of scheduled future employee contributions and future employer normal costs from the total present value of benefits.

Three-Year Trend Information for CalPERS

		APC		
Year	 (APC)	Contributed	_	Obligation
6/30/2009	\$ 207,868	100%	\$	-
6/30/2010	353,248	100%		-
6/30/2011	331,340	100%		-

### **Postemployment Benefits**

ACE Construction Authority did not incur any other liabilities during fiscal year 2011 related to postemployment benefits.

### NOTE 6 EMPLOYEE BENEFIT PLAN (CONTINUED)

### **Deferred Compensation Plan**

The Authority has entered into a salary reduction deferred compensation plan for its employees. Securities held by the plan are valued at market. The plan allows employees to defer a portion of their current income from state and federal taxation. Employees may withdraw their participation at any time by giving written notice at least a week in advance prior to the effective date of the withdrawal. At June 30, 2011, plan assets totaling \$1,162,063 were held by independent trustees and, as such, are not reflected in the accompanying basic financial statements.

Balance at June 30, 2010	\$	806,716
Add employee contribution		160,881
Add net realized and unrealized appreciation		
in fair value of investments		196,968
Less distributions		(2,500)
Less fees charged	-	(2)
Balance at June 30, 2011	\$	1,162,063

All amounts of compensation deferred under the plans are solely the property and rights of each beneficiary (pursuant to legislative changes effective 1998 to the Internal Revenue Code Section 457, this includes all property and rights purchased and income attributable to these amounts until paid or made available to the employee or other beneficiary).

### NOTE 7 COMMITMENTS AND CONTINGENCIES

As mentioned in Note 5, the Authority receives reimbursement type grants from Federal, State and local sources. Certain expenditures are not allowable and not subject to reimbursement. Also, there may be disallowed costs. Management's experience in this regard indicates disallowances, if any, will not be material.

In June 2009, ACE Construction Authority Board approved suspension of the Integrated Rail Roadway System (IRRIS), a traffic signal system demonstration project. A total of \$6.4 million has been spent on the project since inception. The ACE Construction Authority staff has received a project close out from Caltrans. Management believes that no funds will be returned as a result of the suspension.

Earnings from arbitrage may be subject to rebate under certain provisions of the Internal Revenue Service Code unless certain specific conditions are met. Management is committed to meeting those conditions.

In the ordinary course of its operations, ACE Construction Authority is the subject of claims and litigations from outside parties. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect ACE Construction Authority's financial position.

### NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Authority occupies its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2016. Monthly rent and a pro-rata share of facility maintenance and utilities are as follow:

Period from/to	_	Monthly Rent	_	Annual Amount
May 1, 2011 to April 30, 2012	\$	17,448	\$	209,376
May 1, 2012 to April 30, 2013		17,972		215,664
May 1, 2013 to April 30, 2014		18,511		222,132
May 1, 2014 to April 30, 2015		19,066		228,792
May 1, 2015 to April 30, 2016		19,638		235,656
Total lea	se (	commitment	s \$	1,111,620

Escrow Agreements for Contract Retention - The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling \$3,763,151. Funds are deposited in several escrow accounts until release to the Contractor is authorized.

### NOTE 8 ACCOUNTING FOR CONSTRUCTION IN PROGRESS AND EVENTUAL DISPOSAL OF PROJECTS

Except for minor acquisitions that may be sold by the ACE Construction Authority when no longer needed, all of the construction projects when completed, will be deeded to the Union Pacific Railroad and the cities in which they are located at no cost to the acquirer. At June 30, 2011, \$574,432,135 of costs was accumulated on projects in process and \$390,432,480 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting \$44,189,806 in FY 2011 project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions presents a challenge. Accumulating those costs as construction in progress (i.e., treated as a cash flow expenditure and not a current year expense) would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations. In both cases, net assets would fluctuate wildly, depending on the timing of construction and disposal.

### NOTE 8 ACCOUNTING FOR CONSTRUCTION IN PROGRESS AND EVENTUAL DISPOSAL OF PROJECTS (CONTINUED)

To alleviate this situation, management has elected to record a liability (same amount as the construction in progress) to UPRR and governments likely to be the eventual owner of the improvements/grade separations. This approach will minimize the effects of both on the acquisition of property for construction and the accumulation of construction costs and their eventual disposal.

#### NOTE 9 ACCOUNTING FOR ARBITRAGE

In February of 2011 ACE received an Information Data Request from the Internal Revenue Service ("IRS") related to arbitrage rebate compliance on its 2005 Series commercial paper draw. Based upon this request, it was discovered that the Series 2005 draw, and the previous three draws, had not met spending exceptions that would avoid the payment of any excess profits made on investing the tax-exempt commercial paper draws in taxable investments prior to these amounts being spent.

ACE contracted with First Southwest Company to perform rebate calculations on all of its outstanding commercial paper draws. Based upon these calculations, as of June 30, 2011, ACE has made payments to the IRS in the amount of \$2,465,791, consisting of \$2,214,731 of rebate liability, and \$251,060 in late interest for required filings prior to June 30, 2011.

As of June 30, 2011, the estimated liability payment on three outstanding commercial paper draws is \$1,836,253. Of this total, \$598,286 was paid on July 5, 2011, \$717,422 was paid on July 29, 2011, and \$412,716 was paid on October 27, 2011, leaving an estimated liability of \$107,829 as of December 5, 2011.

On October 28, 2011, ACE received a notice from the IRS which states that the IRS have made a determination to close the examination of ACE's 2005 Series commercial paper draw with no change to the position that interest received by the beneficial owners of the Bonds is excludable from the gross income under section 103 of the Internal Revenue Code. However, the IRS' examination revealed that rebate payments were required and that ACE had no system to monitor the compliance with arbitrage and yield restriction regulations. Future noncompliance could result in penalties and/or the taxability of interest received by the beneficial owners of the Bonds. The accrued liability as of June 30, 2011 covers the rebate payments required and ACE is committed to having a system to monitor the compliance with arbitrage and yield restriction regulations.

### NOTE 10 SUBSEQUENT EVENTS

ACE Construction Authority has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 5, 2011, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

# Alameda Corridor - East Construction Authority (A Component Unit of San Gabriel Valley Council of Governments) Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual Year ended June 30, 2011

	Budgeted Amounts			Variance	
	_	Duageteu	Amended	Actual	Positive
		Original	Final	Amounts	(Negative)
Revenues	_	Original		Amounts	(Negative)
Reimbursements					
	\$	14,631,000	\$ 11,064,657 \$	4,985,702 \$	(6,078,955)
State grants	Ψ	26,808,000	20,273,482	- · · · · · · · · · · · · · · · · · · ·	(20,273,482)
Local grants		67,941,000	51,380,209	39,196,054	(12,184,155)
Other revenue		1,333,000	-	332	332
Total revenues	_	110,713,000	82,718,348	44,182,088	(38,536,260)
	_				(00,000,000,
Operating expenditures					
Construction					
Design		7,698,000	7,389,951	7,375,691	14,260
Right-of-Way acquisition		43,677,000	49,437,809	21,472,099	27,965,710
Construction management		1,198,000	1,339,913	1,060,283	279,630
Construction		51,726,000	19,368,157	9,665,665	9,702,492
Betterments		970,000	1,336,518	1,305,757	30,761
Total construction	_	105,269,000	78,872,348	40,879,495	37,992,853
	_	, , , , , , , , , , , , , , , , , , ,		· · · · · ·	
Indirect					
Personnel					
Salaries and wages		1,625,000	1,654,000	1,571,525	82,475
Fringe benefits		467,000	477,000	480,984	(3,984)
Employee related expenses		35,000	33,000	36,976	(3,976)
Professional services		,	,	,	· · /
Auditing/accounting		35,000	35,000	41,314	(6,314)
Disadvantaged business/labor compliance		161,000	161,000	90,681	70,319
Legal		55,000	55,000	63,022	(8,022)
Other		-	· -	225,426	(225,426)
Program management		923,000	952,000	654,870	297,130
Brokerage		65,000	65,000	59,346	5,654
Insurance		166,000	131,000	98,624	32,376
Equipment expense		48,000	37,000	40,642	(3,642)
Office rental expense		203,000	203,000	187,356	15,644
Office operations		38,000	38,000	57,838	(19,838)
Other		5,000	5,000	-	5,000
Deferred indirect expense		-	-	(298,293)	298,293
Total indirect		3,826,000	3,846,000	3,310,311	535,689
Total operating expenditures	_	109,095,000	82,718,348	44,189,806	38,528,542
Excess (deficiency) of revenues over expenditures		1,618,000	-	(7,718)	(7,718)
Other financing sources (uses)					
Investment revenue		638,000	638,000	543,560	(94,440)
Interest and related expenses		(562,000)	(562,000)	(4,907,655)	(4,345,655)
Non-project reimburseable funds		285,000	285,000	312,798	27,798
Non-project reimburseable expense		(285,000)	(285,000)	(312,798)	(27,798)
Rental revenue		-	-	162,741	162,741
Rental expense	_			(92,339)	(92,339)
Net other financing sources (uses)	_	76,000	76,000	(4,293,693)	(4,369,693)
Change in fund balance		1,694,000	76,000	(4,301,411)	(4,377,411)
	_				<u></u> _
Fund balance at beginning of year	_	10,199,199	10,199,199	10,199,199	
	\$_	11,893,199 \$		5,897,788 \$	(4,377,411)
	-				

## Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards

### Board of Directors Alameda Corridor – East Construction Authority

We have audited the financial statements of Alameda Corridor – East (ACE) Construction Authority, a component unit of San Gabriel Valley Council of Governments, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 5, 2011. 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 ACE Construction Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ACE Construction Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACE Construction Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ACE Construction 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 above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACE Construction 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 the governing board, management, 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.

Los Angeles, California December 5, 2011



### San Gabriel Valley Council of Governments

Date: February 8, 2012

To: City Managers' Steering Committee

From: Nicholas T. Conway, Executive Director

Re: FY 2011-12 Mid-Year Budget Review and Revision

### **Recommended Action:**

Receive and file second quarter financial report and approve FY 2011-2012 mid-year budget revision.

### **Background:**

Attached please find FY 2011-12 mid-year report regarding budget to actual. Below is an overview of the proposed changes. As shown in Exhibit 1, revenues have increased slightly due to additional work activities approved by the Steering Committee and COG Governing Board. The increased revenue will be offset by increased expenditures directly related to those specific activities (LA River 2 Metals TMDL and LA Permit Group). Overall, the mid-year analysis indicates the COG will end the year with a small surplus (\$4,266), which is within \$1,000 of that which was estimated in June 2011.

### Revenues

*General* – Dues from the majority of our member agencies are billed during the first quarter of the fiscal year and all have been paid. Los Angeles County Districts 1 and 5 and SGV Water District are billed on a mid-year cycle.

*Grants* – Grant income is received on a reimbursement basis and is shown when collected. Based on the current status of the COG's grants, the following budget revisions, indicated in parentheses, are being recommended:

• San Gabriel Valley Energy Wise Partnership (SGVEWP) (\$160,000): Since 2009, the SGVCOG has been in local government partnership with Southern California Edison (SCE) to increase energy-efficiency through the San Gabriel Valley. This effort, known as the San Gabriel Valley Energy Wise Partnership (SGVEWP), is funded by the California Public Utilities Commissions (CPUC) and has a number of specific objectives including: 1) assisting local governments in identifying and implementing energy efficiency projects in their municipal facilities; 2) providing training to city staff on energy efficiency issues and initiatives including Title 24, AB 32 and Demand Response; and 3) educating and outreaching to the public to increase knowledge of energy-efficiency in their homes and business and provide information on SCE's residential programs and rebates.

The adopted FY 2011-12 budget anticipated revenues of \$178,965 for this grant program. It is being recommended that this revenue be reduced to \$160,000. SGVEWP budgets are based on a calendar rather than a fiscal year, and staff anticipates that, based on the workplan that has been developed, there will be higher expenditures in the latter half of 2012, particularly during the summer months when workshops and other events tend to occur. Therefore, it is staff's

recommendation that approximately \$18,000 in revenues from this grant be carried forward to FY 2012-13.

- Watershed Coordinator (\$50,995): This grant was completed and closed out in January 2012. Therefore, actual final revenue and expenditures were included in the mid-year budget revision.
- LA Rivers Reach 2 Metals TMDL Contract (\$52,070): In 2009, on behalf of several of our member agencies, the City of Monrovia requested the COG's assistance in implementing mitigation strategies to meet the total maximum daily load (TMDL) requirements set forth by the Los Angeles Regional Water Quality Control Board (LARWCQB). In order to meet these requirements, the cities must participate in a monitoring program. However, in order to do so, the participating cities must be a part of a joint powers authority (JPA) to contractually engage a consultant. These cities have requested that the SGVCOG serve as this JPA, rather than have the cities create a separate JPA specifically for this purpose.

While the majority of work for this program was completed during FY 2009-10, the final completion of this project was on hold pending clarification and direction from the LARWQCB and final confirmation of the participating cities. While awaiting this information, the contract between COG and the selected firm, CDM, expired. However, a contract extension was approved at the November Governing Board meeting. All remaining funds for this project have been kept in a separate savings account while work was on hold.

• LA Permit Group Technical Assistance (\$107,888): The Los Angeles Regional Water Quality Control Board (LARWQCB) is currently developing a new National Pollutant Discharge Elimination System Municipal Separate Sanitary Storm Sewer (MS4 NPDES Permit). This permit establishes regulations related to stormwater discharges. As the potential costs and the legal implications of the new permit are high, the municipalities in Los Angeles County formed the LA Permit Group to develop a unified voice to participate in a collaborative negotiating process. To prepare for negotiations for the new permit, the LA Permit Group is seeking technical consulting services to assist in the negotiations for the new permit.

In October 2011, the LA Permit Group asked the San Gabriel Valley Council of Governments to assist in developing a public procurement process to attain a technical consultant and to collect the funds necessary to support the contract. At the November Governing Board meeting, staff was directed to assess each SGVCOG jurisdiction a flat-fee not to exceed \$5,000 for these services as well as undertake an extensive outreach effort to collect a fee of \$5,000 from those jurisdictions that are outside of the San Gabriel Valley that are also co-permittees on the new permit.

The fee collected will only be used to cover the cost of this contract, which is \$107,888 and the SGVCOG will not receive any portion of the collected funds. If the amount of money collected exceeds the amount of the contract, each jurisdiction will be reimbursed a pro-rata share of the cost. The LA Permit Group selected Larry Walker Associates and work began in late December.

Currently, 31 cities have submitted letters of participation. Because that exceeds the amount needed to fund the contract, each city will be receiving a reimbursement.

### **Expenditures**

*General:* Since the majority of the COG's operating expenditures are tied to fixed fee not to exceed contracts, the second quarter expenditures were as planned. The following adjustments are being recommended:

- **Financial Audit Services** (\$13,500): The adopted budget allocated \$15,000 for this item. The multi-year contract with the SGVCOG financial auditing firm, Vasquez and Company, for this service provides for a maximum payment of \$13,500 for FY 2011-12.
- **Bookkeeping/Accounting (\$12,000):** The adopted budget allocated \$12,500 for this item. This was to allow for a possible cost-of-living adjustment. The payments for this position have retained at the FY 2010-11 levels.
- **Federal Advisory Services** (\$5,000): The adopted budget allocated \$25,000 for this budget item. To date, the SGVCOG has not undertaken any public procurement process to secure a firm to provide Federal Advisory Services. The City Managers' Steering Committee and the Executive Committee are evaluating the value-added of having this service being provided on an ongoing basis. It is anticipated that a recommendation for moving forward will be made as part of the FY 2012-13 budget.
- **Printing** (\$14,000): The adopted budget allocated \$20,000 for this budget item, which includes reproduction equipment lease costs, per copy costs, and supplies. At mid-year, current expenditures are approximately \$6,000, therefore staff is recommending that the budget item be reduced by \$6,000.
- SGVCOG Organization and Operation Review (\$19,949): In July 2011, the SGVCOG Governing Board authorized undertaking a public procurement process to hire a firm to conduct an organization and operation review of the SGVCOG. However, at the time that the budget was adopted, an exact budget for this item had not been identified. In October, the Governing Board authorized entering into a contract for an amount not to exceed \$19,949 with City Gate Associates to conduct this study. It is anticipated that work on this study will be completed in February 2012.
- Los Angeles Regional Water Quality Control Board (LARWQCB) Municipal Representative Technical Assistance (\$7,500): In January 2012, the SGVCOG Governing Board authorized an expenditure of \$7,500 to provide partial funding for a staff assistant to Mayor Mary Ann Lutz (Monrovia), who serves as the municipal representative on the LARWQCB. Previously this position was funded by the League of Cities, Los Angeles Division. The SGVCOG is working with other regional entities, including Gateway COG, to fund the full cost (\$30,000) of this part-time position.
- Local Government Sustainable Energy Coalition (LGSEC) (\$10,000): In January 2012, the SGVCOG Governing Board authorized an expenditure of \$10,000 for one year in membership dues to join the LGSEC. This group represents local governments at California Public Utilities Commission (CPUC) and California Energy Commission (CEC) hearings. In the coming year, the CPUC will be ruling on the upcoming 2013-14 cycle of energy efficiency funding. Participation in this group will ensure that the San Gabriel Valley will receive its fair share of funding.

*Grants:* Based on workflow and other issues discussed above, the following revisions to grant-related expenses are being recommended:

• Miscellaneous Grant Expenses (\$5,000): The adopted budget allocated \$10,000 for this budget item, which includes costs that are related to the administration of grants but which cannot be charged to individual grants. These costs include publishing request for proposals in newspapers and journals, legal fees associated with reviewing and developing contracts, and grants research forum memberships. To date, actual expenditures are only \$500. Therefore it is recommended that the budget for this item be reduced by \$5,000.

- Grants & Policy Committee Support (\$20,000): These funds are intended to support part-time staff assisting in the implementation of grants as well as management of policy committee related activities. SGVCOG staff has not recruited for this position and intend to delay recruitment until completion of the organizational study.
- Caltrans Audit Expenses (\$2,400): In September 2011, the Governing Board confirmed approval of a contract with Lopez and Company for an amount of up to \$26,500. The purpose of this contract was to prepare a response to the draft audit from Caltrans for the Community-Based Transportation Planning Grant. The majority of the work for this contract was completed in FY 2010-11, and this budget item reflects a final payment.
- Contract Administrator (\$20,000): As part of the FY 2011-12 budget, the Governing Board directed staff to include a line item for a "contract administrator." At that time the exact cost, contractual relationship, and workplan were not defined. Subsequent to adoption of the budget, the Governing Board took action to undertake an organization and operations review prior to taking action on the contract administrator position. As discussed above, that study is currently underway, and the funds originally allocated for the contract administrator were used to fund the study.
- Management Services Amendment #2 (\$160,000): The adopted budget allocated \$200,000 for this budget item, which includes staff charges for work associated with the SCE CEESP grant. All funds associated with this budget are expended on a reimbursement basis to Arroyo Associates, based on actual manhour charges. Staff is estimating that manhour charges will be approximately 20% lower than originally anticipated and is therefore recommending a revision to this budget item. This revision is being recommended due to a reallocation of manhours to other projects and grants, which has lowered the manhours available to work on this project. However, this project still remains on schedule for completion in October 2012. Because the SGVCOG is fully reimbursed for all costs associated with this grant, this reduction in expenses has no net impact on the budget.
- Watershed Coordinator Expenses (\$44,344): See explanation above under "Revenue."
- SCE Local Government Partnership Expenses (\$30,000): The adopted budget allocated \$20,000 for this item. Due to events, such as city recognition events, that are scheduled for Spring 2012, staff is recommending that this budget item be increased by \$10,000.
- SCE CEESP Expenses (\$2,200,000): The adopted budget allocated \$2,160,000 for this budget item, which represents consultant fees and city reimbursement costs associated with implementation of the SCE CEESP grant. The expenses for this project are being increased by \$40,000 to reflect reimbursements to cities for energy efficiency audits of municipal facilities. This work was originally anticipated to occur in FY 2011-12, but has been accelerated due to coincide with other work efforts on the grant. Because the SGVCOG is fully reimbursed for all costs associated with this grant, this increase in expenses has no net impact on the budget.
- LA Rivers Reach 2 Metals TMDL Contract (\$52,070): See explanation above under "Revenue."
- LA Permit Group Technical Assistance (\$107,888): See explanation above under "Revenue."

Budget Item	Adopted Budget FY 2010-11	Actual FY 2010-11	Adopted FY 2011-12	Mid-Year Actual	Proposed Mid-Year Revision
General Operating Income					
Member Dues	\$719,800	\$719,540	\$701,211	\$701,211	\$701,211
Interest	\$1,000	\$1,000	\$1,000		\$1,000
Total General Operating Income	<u>\$720,800</u>	<u>\$720,540</u>	<u>\$702,211</u>	<u>\$701,211</u>	\$702,211
Grants & Special Project Income					
SCE Local Government Partnership	\$126,343	\$102,878	\$178,965	\$73,299	\$160,000
Watershed Coordinator Grant	\$68,000	\$84,022	\$34,000	\$50,995	\$50,995
CalRecycle Grant	\$167,023	\$123,375	\$186,000	\$57,623	\$186,000
SCE CEESP Grant	\$1,650,433	\$28,077	\$2,360,000	\$365,323	\$2,360,000
Energy Upgrade California	Φ2 011 <b>5</b> 00	\$21,573	\$55,000	\$24,850	\$55,000
Total Grants & Special Project Income	\$2,011,799	\$359,925	\$2,813,965	\$572,090	\$2,811,995
Total Income	<u>\$2,732,599</u>	<u>\$1,080,465</u>	<u>\$3,516,176</u>	<u>\$1,273,301</u>	<u>\$3,514,206</u>
Consuel On susting Frances					
General Operating Expenses Ongoing Management and Operational Contracts					
	0400 154	¢416.070	6400 174	\$214.017	¢400.000
Management Services Contract (MSC) MTA Board Support	\$422,154 \$50,000	\$416,279 \$50,000	\$422,154 \$50,000	\$214,017 \$25,000	\$428,033 \$50,000
Legal Services	\$25,600	\$64,000	\$66,214	\$47,261	\$66,214
Financial Audit Services	\$13,000	\$13,000	\$15,000	\$13,500	\$13,500
Bookkeeping / Accounting	\$12,000	\$13,000	\$12,500	\$6,000	\$12,000
Consultant Services	\$12,000	\$13,000	\$12,500	\$0,000	\$12,000
Federal Advisory Services	\$25,000	\$0	\$25,000	\$0	\$5,000
Strategic Planning	\$16,000	\$10,147	\$16,000	\$4,667	\$16,000
Media/Public Relations	\$10,000	\$240	\$10,000	\$715	\$10,000
Annual Evaluation	\$4,500	\$3,930	\$4,500	\$0	\$4,500
SGVCOG Organization and Operation Review	Ψ+,500	ψ3,730	TBD	\$19.949	\$19,949
LARWQCB Technical Support			IDD	ψ17,747	\$7,500
Memberships					ψ1,500
Local Government Sustainable Energy Coalition					\$10,000
Special Events and Advocacy Travel					Ψ10,000
Annual Federal Advocacy Delegation	\$17,000	\$11,265	\$17,000	\$0	\$17,000
Annual State Advocacy Delegation	\$5,000	\$0	\$5,000	\$0	\$5,000
Local Receptions	\$5,000	\$3,606	\$5,000	\$3,067	\$5,000
Governing Board and Committee Meetings	\$7,500	\$6,632	\$7,500	\$3,665	\$7,500
Direct Expenses	. ,		. ,		
Board Stipends	\$11,000	\$11,650	\$11,000	\$4,850	\$11,000
Insurance	\$6,000	\$5,612	\$6,000	\$4,863	\$6,000
Printing / Publication	\$20,000	\$4,842	\$20,000	\$5,973	\$14,000
Miscellaneous	\$20,000	\$5,974	\$20,000	\$3,685	\$20,000
Total Operating Expenditures	\$669,754	\$620,177	\$712,869	\$337,262	\$728,197
Grants & Special Projects Expenses					
Grants & Special Projects Staff					
MSC - Amendment #1 (Energy Wise, CalRecycle, Watershed)	\$105,000	\$105,000	\$105,000	\$52,500	\$105,000
MSC - Amendment #2 (SCE CEESP)	\$55,428	\$21,896	\$200,000	\$57,147	\$160,000
MSC - Amendment #3 (Energy Upgrade)		\$21,573	\$55,000	\$24,850	\$55,000
Grants & Policy Committee Support	\$45,000	\$40,000	\$20,000	\$0	\$0
California Redistricting Commission Technical Assistance		\$20,000			
Caltrans Audit Response Expenses		\$21,437		\$2,400	\$2,400
Contract Administrator			\$20,000	\$0	\$0
Consultant Services and Other Direct Grant Expenses					
Miscellaneous Grant Expenses	\$10,000	\$1,962	\$10,000	\$500	\$5,000
Information Technology	\$5,000	\$669	\$5,000	\$0	\$5,000
Watershed Coordinator Grant	\$60,000	\$73,237	\$30,000	\$44,344	\$44,344
SCE Local Government Partnership Expenses	\$10,000	\$13,198	\$20,000	\$20,104	\$30,000
CalRecycle Grant Expenses	\$143,372	\$100,000	\$175,000	\$20,189	\$175,000
SCE CEESP Expenses	\$1,593,645	\$6,181	\$2,160,000	\$308,176	\$2,200,000
Total Grant & Special Project Expenses	\$2,027,445	\$425,153	\$2,800,000	\$530,209	\$2,781,744
Total Expenditures	\$2,697,199	<u>\$1,045,331</u>	\$3,512,869	<u>\$867,471</u>	\$3,509,940
Surplus	\$35,400	\$35,135	\$3,307		\$4,266

### **DRAFT**

Audited Financial Statements
San Gabriel Valley Council of Governments
(Primary Government)
Year ended June 30, 2011
with Report of Independent Auditors

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### **Report of Independent Auditors**

### Members of the Governing Board San Gabriel Valley Council of Governments

We have audited the accompanying financial statements of San Gabriel Valley Council of Governments (the "COG") as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the COG's primary government as listed in the table of contents. These financial statements are the responsibility of the COG'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the COG's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

The financial statements referred to previously include only the primary government of the San Gabriel Valley Council of Governments, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the COG's legal entity. The financial statements do not include financial data for the COG's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the COG's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly, the financial position of the reporting entity of San Gabriel Valley Council of Governments, as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States, the San Gabriel Valley Council of Governments, has issued separate reporting entity financial statements, for which we have issued our report dated January 17, 2012.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the primary government of San Gabriel Valley Council of Governments, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **DRAFT**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of San Gabriel Valley Council of Governments' 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries with management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Los Angeles, California January 17, 2012 Our discussion and analysis of the San Gabriel Valley Council of Governments (the "COG") financial performance presents an overview of the COG's financial activities during the fiscal year ended June 30, 2011. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 7). The financial statements, notes and this discussion and analysis were prepared by the management and are the responsibility of management.

### **Background**

The COG was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments.

In 1998, the COG created the Alameda Corridor - East (ACE) Construction Authority to mitigate the effects of increasing Union Pacific Railroad (UPRR) train traffic in the San Gabriel Valley. There were 55 "at-grade" crossings in the Valley where vehicular and pedestrian traffic cross directly over railroad tracks and must stop while trains pass by. This creates congestion, degrades the local environment, and compromises safety. The ACE Project will separate 20 crossings at the busiest intersections – by either raising or lowering the railroad or the intersecting street – along the 35-mile freight rail corridor from East Los Angeles to Pomona.

### **Financial Highlights**

FY 2010-11 marks the end of the second year of the COG's three-year strategic planning cycle. One of the major focuses of the current Strategic Plan is the implementation of the San Gabriel Valley's Energywise Partnership Program. This is a contractual relationship with Southern California Edison (SCE) focused on increasing energy-efficiency throughout the San Gabriel Valley. This effort has a number of specific objectives including: 1) assisting local governments in identifying and implementing energy-efficiency projects in their municipal facilities; 2) providing training to city staff on energy efficiency issues and initiatives including Title 24, AB 811, AB 32 and Demand Response; and 3) educating and outreaching to the public to increase knowledge of energy-efficiency in their homes and businesses and provide information on SCE's residential programs and rebates. While a third party implementer and qualified technical consultants are utilized to manage and implement specific energy-efficiency retrofit projects, the COG, as the local government partner, is primarily responsible for administration, marketing and outreach for the Partnership.

### **Overview of Financial Statements**

In FY 2010-11 income from dues decreased slightly from the previous year. This was due to changes in population figures associated with 2010 census and reconciliation of those numbers with State Department of Finance. FY 2010-11 marks the 5<sup>th</sup> consecutive year the COG has not increased dues for member agencies. Revenues from grants increased slightly due to the increased activity associated with the various programs using grant funds.

The financial statements present the financial picture of the COG from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable assets of the COG as well as all liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of cash flows provides information about the COG's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related investing activities during the reporting period.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the COG's net assets and related changes in them. Net assets are the difference between the recorded assets and liabilities. The recorded activities include all revenues from dues and operating expenses related to the operation of the COG. In addition, all of the COG's revenues and expenses related to its other programs and services are reflected in the statements.

Various disclosures accompany the financial statements in order to provide a full picture of the COG's finances. The notes to the financial statements are on pages 10-16.

### **Financial Analysis**

### Statements of Net Assets

The following table summarizes the assets, liabilities and net assets of the COG as of June 30, 2011 and 2010:

		_	2011	-	2010
Current assets Capital assets, net	\$	\$	775,491 -	\$	765,331 -
	Total assets	_	775,491		765,331
Current liabilities	Total liabilities	_	190,500 190,500	-	214,831 214,831
Net assets Invested in capital assets Restricted Unrestricted	Total not accete \$	_	15,922 569,069	e ·	550,500
	Total net assets \$	_	584,991	\$	550,500

Current assets increased this year by \$10,160 or 1% primarily because of higher cash balance and increased receivables from cost reimbursable grants.

Current liabilities decreased this year by \$24,331 or 11% primarily because of decreased project work being done by COG.

As mentioned earlier, net assets can serve as an indicator of financial health. The COG's assets exceeded liabilities by \$584,991 and \$550,500 as of June 30, 2011 and 2010, respectively.

### Statements of Revenues, Expenses and Changes in Net Assets

The following table presents the COG's revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010:

	_	2011	-	2010
Revenues:				
Dues				
Air Quality	\$	50,060	\$	143,687
Transportation	•	279,719	•	242,905
General fund		381,428		333,207
Grants and matches from other governments				
County of Los Angeles - Energy Upgrade		21,993		-
Water Quality Improvement		31,582		223,451
Southern California Edison - California Energy Efficiency				
Strategic Plan Implementation		33,024		-
Southern California Edison - Energywise		102,878		99,588
California Department of Resources - CalRecycle		133,216		98,847
California Department of Conservation - Watershed				
Coordinator Program		79,320		59,006
County of Los Angeles - Homeless Services		-		15,682
County of Los Angeles - Arrow Highway	-	-		12,000
Total revenues	-	1,113,220	-	1,228,373
Expenses:				
Administrative		349,288		170,199
Air Quality		50,502		143,687
Transportation		280,007		242,905
Energy Upgrade		21,993		-
Water Quality Improvement		15,660		223,494
California Energy Efficiency Strategic Plan Implementation		33,261		-
Energywise		112,208		99,588
CalRecycle		137,431		101,583
Watershed Coordinator Program		80,449		60,122
Homeless Services		1,210		17,437
Arrow Highway	_	-	_	12,000
Total expenses	-	1,082,009	_	1,071,015
Operating income		31,211		157,358
Nonoperating income	-	3,280	_	4,056
Change in net assets		34,491		161,414
Net assets - beginning of year	-	550,500	-	389,086
Net assets - end of year	\$	584,991	\$	550,500

Revenues for COG consist primarily of dues from each member city, water districts and county, which comprised 64% of total operating revenue in FY 2011 compared to 59% of total operating revenue in FY 2010. Dues decreased \$8,592 or 1% over the prior year primarily because of the cancellation of the dues from Three Valleys Municipal Water District. Grants and matches from other governments were \$402,013 in FY2011 compared to \$508,574 in FY 2010, a decrease of \$106,561 or 21%. This decrease was due to the substantial completion of the Water Quality Improvement project. The revenues earned by the COG during the year would have been sufficient to cover its current obligations, including operating expenses.

Operating expenses were \$1,082,009 in FY1011 compared to \$1,071,015 in FY 2010, an increase of \$10,994 or 1%. Administrative expenses increased by \$179,089 or 105% because of one-time legal and audit expenses related to the Caltrans audit and litigation mentioned under Note 3 and 7.

Nonoperating income consists of investment income of \$3,280 in FY 2011 compared to \$4,056 for FY 2010, a decrease of \$766 or 19%. The decrease is directly attributed to lower rates paid by Local Agency Investment Fund (LAIF) in 2011.

### **Capital Assets**

The COG had \$0 invested in capital assets, net of depreciation, as of June 30, 2011 and 2010. The capital assets are fully depreciated as of June 30, 2011.

The COG's capital assets consist of office equipment only. Capital assets are purchased with governmental resources.

### **Economic Factors and Next Year's Budget**

The budget for fiscal year 2012 assumes that all on-hand net assets as of June 30, 2011 will be required and available to fulfill the program and administrative expense requirements.

### **Further Information**

This report has been designed to provide a general overview to our stakeholders of the COG's financial condition and related issues. Inquires should be directed to Mr. Nicholas T. Conway, Executive Director.

		Business-type activities
ASSETS		
Current assets		
Cash and cash equivalents	\$	591,923
Grants receivable		140,098
Other receivable		5,751
Interest receivable		586
Prepaid expenses - administration		37,133
	Total current assets	775,491
Capital assets		
Office equipment		8,645
Less accumulated depreciation		(8,645)
Prop	erty and equipment, net	
	Total assets	775,491
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses		67,808
Due to government agency		42,687
Unearned revenue		80,005
	Total current liabilities	190,500
NET ACCETO		
NET ASSETS		
Invested in capital assets		- 15,922
Restricted for Water Quality Improvement Unrestricted		,
Onestricted	Not cosets of	569,069
	Net assets \$	584,991

# San Gabriel Valley Council of Governments (Primary Government) Statement of Revenues, Expenses and Changes in Net Assets Year ended June 30, 2011

Operating revenues		
Dues:		
Air Quality	\$	,
Transportation		279,719
General Fund		381,428
Grants and matches from other government	nents:	
County of Los Angeles - Energy Upg	yrade	21,993
Water Quality Improvement		31,582
Southern California Edison - Californ	nia Energy Efficiency	
Strategic Plan Implementation		33,024
Southern California Edison - Energy		102,878
California Department of Resources		133,216
California Department of Conservati	on - Watershed	
Coordinator Program		79,320
Total operat	ing revenues	1,113,220
Operating expenses  Administrative  Air Quality  Transportation  Energy Upgrade  Water Quality Improvement  California Energy Efficiency Strategic Planergywise  CalRecycle  Watershed Coordinator Program  Homeless Services	an Implementation	349,288 50,502 280,007 21,993 15,660 33,261 112,208 137,431 80,449 1,210
	ting expenses	1,082,009
Operating in		31,211
Nonoperating income Interest income		3,280
Change in n	et assets	34,491
Not accote -	beginning of year	550,500
	end of year	
Not 433613 -	ond or your	

Cash flows from operating activities		
Cash receipts from cities	\$	718,327
Cash receipts from all others		374,779
Cash paid for operating expenses		(1,103,239)
Net cash used in operating activities		(10,133)
Cook flows from investing positivities		
Cash flows from investing activities  Cash receipts from interest		3,404
•		3,404
Cash provided by investing activitites	•	3,404
Net decrease in cash and cash equivalents		(6,729)
Cash and cash equivalents - beginning of year		598,652
Cash and cash equivalents - end of year	\$	591,923
	'	
Reconciliation of operating loss to net cash used in		
operating activities:		
Operating income	\$	31,211
Adjustment to reconcile operating income to net cash		
used in operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable		10,000
Grants receivable		(27,234)
Other receivable		(5,751)
Prepaid expenses - administration		5,972
Accounts payable and accrued expenses		(64,138)
Due to government agencies		42,687
Unearned revenue		(2,880)
Net cash used in operating activities	\$	(10,133)

### NOTE 1 SUMMARY OF SIGNIFICANT POLICIES

### **Organization and Activities**

The San Gabriel Valley Council of Governments (the "COG") was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments. It is the immediate successor to the San Gabriel Valley Association of Cities, an unincorporated association. Its members organized the COG because they recognized a need for a more permanent and formalized structure.

The COG is supported by contributions from its members and also receives grant funds to conduct regional studies on Transportation, Air Quality, Environmental Matters, as a sub-grantee of other governmental entities. The COG is a non-profit California Public Agency and it is tax exempt.

### The Reporting Entity

These financial statements do not include funds of a component unit, the Alameda Corridor - East (ACE) Construction Authority.

### **Basis of Accounting**

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. As provided in GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, COG does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

The following are revenue components of the COG's proprietary funds:

<u>Air Quality (AB 2766), Transportation (Proposition A&C) & Other</u> - Funds to foster consensus among cities in the San Gabriel Valley regarding policies and programs that address issues relating to land use, air quality, transportation, solid waste and other matters deemed essential.

<u>County of Los Angeles - Energy Upgrade</u> - Funds that enables single-family homeowners to make upgrades to reduce energy use, conserve resources and create more comfortable and efficient homes.

<u>Water Quality Improvement</u> - Funds to prepare and implement a Coordinated Implementation Plan (CIP) to reduce the amount of metal pollutants in the Los Angeles River and its Tributaries.

Southern California Edison - California Energy Efficiency Strategic Plan Implementation - Funds for the implementation of certain energy efficiency programs under the Decision 09-09-47 of the California Public Utilities Commission including the Energy Leader Partnership Program.

### NOTE 1 SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

### **Basis of Accounting (Continued)**

<u>Southern California Edison – Energywise</u> - Funds to implement a program to reduce energy usage in the region by providing enhanced rebates for installing energy efficiency measures in municipal facilities, technical assistance, and various training and educational opportunities.

<u>California Department of Resources – CalRecycle</u> – Funds to improve the management of household hazardous waste.

<u>California Department of Conservation – Watershed Coordinator Program</u> - Funds to finance a Watershed Coordinator position for the COG. The watershed that is intended to benefit from the activities of COG's Watershed Coordinator is the San Gabriel Valley Watershed.

### **Cash and Cash Equivalents**

The COG considers money market funds and all equivalent liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

#### **Grants Receivable**

Grants receivable relate to expense reimbursement from governmental agencies and are expected to be fully collectible. Accordingly, an allowance for doubtful accounts is not provided.

### **Office Equipment**

Office equipment is carried on historical cost. Depreciation is provided using the straight-line method over the individual assets' estimated useful life, usually five years for computers, copiers and other electronic equipment, ten years for cabinets, desks and furniture.

### **Unearned Revenue**

Some members pay their dues in advance. These amounts are reported in unearned revenue in the financial statements.

### **Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of estimates in many areas. Estimates used in these financial statements relate primarily to fixing estimated useful lives to depreciable assets. Based upon the preceding information, estimates may not have a material effect on these financial statements.

### NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and cash equivalents	\$ 591,923
Total cash and cash equivalents	\$ 591,923

Cash and cash equivalents as of June 30, 2011 consist of the following:

Deposits with financial institution	\$ 170,978
Investments	420,945
Total cash and cash equivalents	\$ 591,923

### Investments Authorized by the California Government Code and San Gabriel Valley Council of Governments' Investment Policy

The table below identifies the investment types that are authorized for COG by the California Government Code (or COG's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or COG's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

		Maximum	Maximum
	Maximum	Percentage	Investment in
Authorized Investment Type	<u>Maturity</u>	of Portfolio	One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	15%	5%
Commercial Paper	180 days	15%	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	5%	None
Medium-Term Notes	5 years	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	0%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

### NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the COG manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming due over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of COG's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the COG's investments by maturity.

Investment Type		Total	12 Months or less		13-24 Months	 25-60 Months		More than 60 Months
LAIF Tota	\$_ al.\$	420,945 \$ 420,945 \$	-,	• ' -	<u>-</u>	\$ <u>-</u>	\$ \$	<u>-</u>

### Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

The COG has no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

#### **Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, COG's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

			Minimum	Е	xempt	_	Rating as of Year End			End	
			Legal		from						Not
Investment <sup>-</sup>	Гуре		Rating	Dis	sclosu	re _	AAA		AA		Rated
LAIF	\$_	420,945 \$	-	\$	-	_\$_	-	_\$_	-	_\$	420,945
	Total \$	420,945 \$	-	\$	-	\$	-	_\$	-	_\$	420,945

### **Concentrations of Credit Risk**

The investment policy of the COG contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2011, the COG had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total COG investments.

The COG does not have any investments in any one issuer that represent 5% or more of total investments.

### NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and COG's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure local government units' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, none of COG's deposits with financial institutions in excess of Federal depository insurance limits were held in uncollateralized accounts.

The COG is a voluntary participant in the Local Agency Investment Fund (LA IF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2011, the total market value of LAIF, including accrued interest was approximately \$66.49 billion. The fair value of the COG's investment in this pool is \$420,945 at June 30, 2011 based upon the COG's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and the COG's) exposure to risk (credit, market or legal) is not currently available.

#### NOTE 3 DUE TO GOVERNMENT AGENCY

The California Department of Transportation Audits and Investigation (A& I) audited the costs claimed by COG totaling \$245,130 for work performed under Agreement 74A0238 (Agreement) with California Department of Transportation (Caltrans). The Agreement period was March 1, 2006 through March 31, 2008. Based on the results of the audit, A & I determined that the COG owed \$89,262 of reimbursed costs not adequately supported and not in compliance with the Agreement provisions, and the State and federal regulations.

On December 12, 2011, Caltrans issued a letter to the COG reducing the liability from \$89,262 to \$42,687, provided COG implement certain action plans.

Of the total \$42,687 due to Caltrans, \$5,751 will be collected from the City of Irwindale.

### NOTE 4 ADMINISTRATIVE EXPENSES

The following were the administrative expenses for the year ended June 30, 2011:

Consultant fee	\$	124,949
Insurance		4,662
Legal fees		60,070
Accounting and audit fees		48,387
Stipends		11,500
Dues and subscriptions		514
Meetings		29,350
Committee support		19,328
Printing/publications		5,803
Annual evaluation		3,930
Information technology		669
Unreimbursable grant expenses		1,732
Disallowed costs, net (see Note 3)		36,936
Miscellaneous		1,458
	Total \$	349,288

### NOTE 5 ACE CONSTRUCTION AUTHORITY (COMPONENT UNIT)

Because of the size and scope of activities involving the Alameda Corridor - East project, a separate entity (ACE Construction Authority) was set up for this purpose. While affiliated, ACE Construction Authority acts separately from the COG. ACE Construction Authority began operations in October 1998, and is empowered to conduct business, hire the necessary consultants and contractors, enter into contracts and agreements, and to issue debt instruments as needed.

The COG entered into an agreement to borrow up to \$100,000,000 by issuance of grant anticipation notes, guaranteed by a letter of credit, and collateralized by the pledge of grant revenues. Balances outstanding have been as high as \$100,000,000. At report date June 30, 2011, balances owed amount to \$27,350,000, and are reflected on the financial statements of ACE Construction Authority. All of the proceeds of the issue have been received by the ACE Construction Authority and its attendant interest, costs and fees have been paid by ACE Construction Authority.

Management has elected not to report the above transaction on these financial statements primarily because of its size, and the fact that the transaction amounts to conduit financing, which is similar to a municipality issuing bonds for a hospital located within its boundaries or of mortgage revenue bonds to be paid by homeowners in an Affordable Housing project.

#### NOTE 6 RELATED PARTY TRANSACTION

The COG has an agreement with Arroyo Associates, Inc. (AAI) to conduct COG's day-to-day administration, management and operating activities. As part of the Agreement, the President of AAI assumes the role of the Executive Director for COG.

For the fiscal year ended June 30, 2011, the total payments to AAI were \$556,443, in accordance with the contract.

#### NOTE 7 CONTINGENCIES

The COG is currently a party in a legal proceeding. After consultation with legal counsel, management estimates that the matter will be resolved without material effect on the COG's financial position.

#### NOTE 8 SUBSEQUENT EVENTS

The COG has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 17, 2012, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

## Report of Independent Auditors 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

#### Members of the Governing Board San Gabriel Valley Council of Governments

We have audited the financial statements of San Gabriel Valley Council of Governments (the "COG") as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the COG's primary government and have issued our report thereon dated January 17, 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the COG'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 the governing board, management, 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.

Los Angeles, California January 17, 2012

## **DRAFT**

Audited Financial Statements and Supplementary Information San Gabriel Valley Council of Governments Year ended June 30, 2011 with Report of Independent Auditors

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#### **Report of Independent Auditors**

## **Board of Directors San Gabriel Valley Council of Governments**

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of San Gabriel Valley Council of Governments (the "COG"), as of and for the year ended June 30, 2011, which collectively comprise the COG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the COG'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the COG's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the San Gabriel Valley Council of Governments as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows 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 January 17, 2012, on our consideration of San Gabriel Valley Council of Governments' 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.

### DRAFT

The management's discussion and analysis on pages 3 through 9 and budgetary comparison information on page 31 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries with management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Los Angeles, California January 17, 2012 Our discussion and analysis of the San Gabriel Valley Council of Governments (the "COG") financial performance presents an overview of the COG's financial activities during the fiscal year ended June 30, 2011. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 10). The financial statements, notes and this discussion and analysis were prepared by the management and are the responsibility of management.

#### **Background**

The COG was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments.

In 1998, the COG created the Alameda Corridor-East (ACE) Construction Authority to mitigate the effects of increasing Union Pacific Railroad (UPRR) train traffic in the San Gabriel Valley. There were 55 "at-grade" crossings in the Valley where vehicular and pedestrian traffic cross directly over railroad tracks and must stop while trains pass by. This creates congestion, degrades the local environment, and compromises safety. The ACE Project will separate 20 crossings at the busiest intersections – by either raising or lowering the railroad or the intersecting street – along the 35-mile freight rail corridor from East Los Angeles to Pomona.

#### **Financial Highlights**

FY 2010-11 marks the end of the second year of the COG's three-year strategic planning cycle. One of the major focuses of the current Strategic Plan is the implementation of the San Gabriel Valley's Energywise Partnership Program. This is a contractual relationship with Southern California Edison (SCE) focused on increasing energy-efficiency throughout the San Gabriel Valley. This effort has a number of specific objectives including: 1) assisting local governments in identifying and implementing energy-efficiency projects in their municipal facilities; 2) providing training to city staff on energy efficiency issues and initiatives including Title 24, AB 811, AB 32 and Demand Response; and 3) educating and outreaching to the public to increase knowledge of energy-efficiency in their homes and businesses and provide information on SCE's residential programs and rebates. While a third party implementer and qualified technical consultants are utilized to manage and implement specific energy-efficiency retrofit projects, the COG, as the local government partner, is primarily responsible for administration, marketing and outreach for the Partnership.

#### **Overview of Financial Statements**

In FY 2010-11 income from dues decreased slightly from the previous year. This was due to changes in population figures associated with 2010 census and reconciliation of those numbers with State Department of Finance. FY 2010-11 marks the  $5^{th}$  consecutive year the COG has not increased dues for member agencies. Revenues from grants increased slightly due to the increased activity associated with the various programs using grant funds.

The financial statements present the financial picture of the COG from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable assets of the COG as well as all liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of cash flows provides information about the COG's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related investing activities during the reporting period.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the COG's net assets and related changes in them. Net assets are the difference between the recorded assets and liabilities. The recorded activities include all revenues from dues and operating expenses related to the operation of the COG. In addition, all of the COG's revenues and expenses related to its other programs and services are reflected in the statements.

Various disclosures accompany the financial statements in order to provide a full picture of the COG's finances. The notes to the financial statements are on pages 13 - 30.

#### **Financial Analysis**

#### Statements of Net Assets

The following table summarizes the assets, liabilities, and net assets of COG's primary government as of June 30, 2011 and 2010:

	2011		2010
\$	775,491 -	\$	765,331 -
Total assets	775,491		765,331
Total liabilities	190,500 190,500		214,831 214,831
	- 15,922 569,069 584 991	<u> </u>	- - 550,500 550,500
	Total assets	* 775,491 - 775,491 - 775,491 - 775,491 - 190,500  Total liabilities 190,500 - 15,922 569,069	\$ 775,491 \$ Total assets 775,491  Total liabilities 190,500  15,922 569,069

Current assets increased this year by \$10,160 or 1% primarily because of higher cash balance and increased receivables from cost reimbursable grants.

Current liabilities decreased this year by \$24,331 or 11% primarily because of decreased project work being done by COG.

As mentioned earlier, net assets can serve as an indicator of financial health. The COG's assets exceeded liabilities by \$584,991 and \$550,500 as of June 30, 2011 and 2010, respectively.

#### Statement of Activities

The following table presents the COG's revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010:

	2011	2010
Revenues:		
Dues		
Air Quality \$	50,060	\$ 143,68
Transportation	279,719	242,90
General fund	381,428	333,20
Grants and matches from other governments		
County of Los Angeles - Energy Upgrade	21,993	-
Water Quality Improvement	31,582	223,45
Southern California Edison - California Energy Efficiency		
Strategic Plan Implementation	33,024	-
Southern California Edison - Energywise	102,878	99,58
California Department of Resources - CalRecycle	133,216	98,84
California Department of Conservation - Watershed		
Coordinator Program	79,320	59,00
County of Los Angeles - Homeless Services	-	15,68
County of Los Angeles - Arrow Highway	-	12,00
Total revenues	1,113,220	1,228,37
Expenses:		
Administrative	349,288	170,19
Air Quality	50,502	143,68
Transportation	280,007	242,90
Energy Upgrade	21,993	-
Water Quality Improvement	15,660	223,49
California Energy Efficiency Strategic Plan Implementation	33,261	- 00.50
Energywise	112,208	99,58
CalRecycle	137,431	101,58
Watershed Coordinator Program	80,449	60,12
Homeless Services	1,210	17,43
Arrow Highway  Total expenses	1,082,009	12,00 1,071,01
·		
Operating income	31,211	157,35
Nonoperating income	3,280	4,05
Change in net assets	34,491	161,41
Net assets - beginning of year	550,500	389,08
Net assets - end of year \$	584,991	\$ 550,50

Revenues for COG consist primarily of dues from each member city, water districts and county, which comprised 64% of total operating revenue in FY 2011 compared to 59% of total operating revenue in FY 2010. Dues decreased \$8,592 or 1% over the prior year primarily because of the cancellation of the dues from Three Valleys Municipal Water District. Grants and matches from other governments were \$402,013 in FY2011 compared to \$508,574 in FY 2010, a decrease of \$106,561 or 21%. This decrease was due to the substantial completion of the Water Quality Improvement project. The revenues earned by the COG during the year would have been sufficient to cover its current obligations, including operating expenses.

Operating expenses were \$1,082,009 in FY1011 compared to \$1,071,015 in FY 2010, an increase of \$10,994 or 1%. Administrative expenses increased by \$179,089 or 105% because of one-time legal and audit expenses related to the Caltrans audit and litigation mentioned under Notes 7 and 11.

Nonoperating income consists of investment income of \$3,280 in FY 2011 compared to \$4,056 for FY 2010, a decrease of \$766 or 19%. The decrease is directly attributed to lower rates paid by Local Agency Investment Fund (LAIF) in 2011.

#### **Capital Assets**

The COG had \$0 invested in capital assets, net of depreciation, as of June 30, 2011 and 2010. The capital assets are fully depreciated as of June 30, 2011.

The COG's capital assets consist of office equipment only. Capital assets are purchased with governmental resources.

#### **Component Unit**

#### Financial Highlights

ACE Construction Authority's financial highlights for the fiscal year ended June 30, 2011:

- Net assets decreased \$4.3 million, a decrease of 42.19% primarily as a result of arbitrage rebate payments on net interest generated by net proceeds from the investment of commercial paper.
- Construction in progress decreased \$47.5 million, a decrease of 20.5%.
- Total revenue decreased \$31.3 million, a decrease of 41.2%.
- Total project expense decreased \$34.8 million, a decrease of 43.8%.

#### Statements of Net Assets

	_	June 30			
		2011		2010	
Current and other assets	\$	45,329,675	\$	123,817,067	
Capital assets		23,160		43,208	
Construction in progress		183,999,655		231,505,012	
Less due to member cities and					
Union Pacific Railroad	_	(183,999,655)	_	(231,505,012)	
Total assets		45,352,835		123,860,275	
Current liabilities	_	39,431,887		113,617,868	
Net assets	\$	5,920,948	\$	10,242,407	

All organizations are required to report construction in progress (that is, the sum of prior and current year's construction expense) on the Statement of Net Assets as an asset. This would normally be done by treating each year's construction as a capital expense which would be excluded from the Statement of Activities. However, the grant reimbursements generated by construction would be included in the Statement of Activities as revenue. The ACE Construction Authority is obligated to transfer components of completed projects to the UPRR and the cities so that they can be included in their financial statements. The resulting reduction in assets would flow through the Statement of Activities as a loss. The net effect would be to produce widely fluctuating Net Assets and Fund Balances depending on whether ACE Construction Authority was constructing (Surplus) or transferring assets to member cities (Deficit).

Therefore, the ACE Construction Authority elected to treat construction in progress as a matching asset and liability. This shows the total cost of ACE Construction Authority's projects and the resulting liability to transfer the assets upon completion while not unduly impacting the Statement of Activities.

Assets decreased by 63.4% to \$45.4 million mainly due to reducing the amount held in investments to pay down outstanding GANs to match lower levels of project activity, lower grants and unbilled receivables as a result of lower grant reimbursable incurred expenditures.

Construction in progress decreased 21% to \$184 million primarily as a result of the completion of the Sunset project without offsetting construction.

Deferred revenue (unearned and unavailable) increased 22.9% to \$5.6 million primarily due to having to recognize \$1.8 million of surplus rental property generating revenue after project was closed. Sale of this property is expected to take place within the next fiscal year.

COG, on behalf of the Authority, had \$27.35 million in variable rate, tax-exempt commercial paper outstanding as of June 2011. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

Grants and unbilled receivables decreased 48.6% to \$4 million and 56.19% to \$7.6 million respectively due to lower reimbursable grant expenditures.

The FY2011 revised Budget for operating expenditures was \$82.7 million compared to \$97.5 million in FY2010. Actual total operating expenditures are \$44.2 million compared to \$78.5 million in FY2010.

Project revenues continue to closely track expenditures. ACE Construction Authority's policy is to avoid where possible costs not reimbursable under State and Federal guidelines; the Los Angeles County Metropolitan Transportation Authority (Metro) also provides project funds and, under separate agreement, continues to fund certain administrative expenses not reimbursable under federal and state regulations; Cities requesting work in excess of Caltrans guidelines (referred to as betterments) are paid for by the requesting city.

#### Statements of Activities

	Years ended June 30				
	2011		2010		
Project expenses					
Direct (construction)	\$ 40,879,495	\$	74,840,690		
Indirect expenses charged to operations	3,735,496		4,554,512		
Total project expenses	44,614,991		79,395,202		
Revenues					
Grant reimbursements	44,181,756		74,623,951		
Other operating revenues	475,871		1,359,697		
Total revenues	44,657,627		75,983,648		
Income/(loss) from operations	42,636		(3,411,554)		
Nonoperating income (expense)					
Financing income	543,560		692,556		
Financing expense	(4,907,655)		(624,971)		
Net financing income (expense)	(4,364,095)		67,585		
Change in net assets	(4,321,459)		(3,343,969)		
Net assets at beginning of year	10,242,407		13,586,376		
Net assets at end of year	\$ 5,920,948	\$	10,242,407		

The ACE Construction Authority is reimbursed for indirect expenses based on Caltrans approved Indirect Cost Allocation Plan (ICAP) rate. The reimbursement is added to all Caltrans and Metro invoices and is calculated by applying the ICAP rate to direct salaries and wages and fringe benefits. The applied indirect expense to projects was lower than the actual indirect expense incurred, resulting in a deferral of \$298,293 to future years.

#### **Economic Factors and Next Year's Budget**

The primary government's budget for fiscal year 2012 assumes that all on-hand net assets as of June 30, 2011 will be required and available to fulfill the program and administrative expense requirements.

#### **Further Information**

This report has been designed to provide a general overview to our stakeholders of the COG's financial condition and related issues. Inquires should be directed to Mr. Nicholas T. Conway, Executive Director.

		Primary			_	) 4	•4	
		Government Business-type	-	Capital Project		omponent Un		Government-
		Activities		Fund		Adjustment		wide
	•		-				_	
Current assets								
Cash and cash equivalents	\$	591,923	\$	24,378,470	\$	-	\$	24,378,470
Grants receivable		140,098		4,032,710		-		4,032,710
Unbilled receivables		-		7,617,163		-		7,617,163
Interest receivable		586		16,430		-		16,430
Retention receivable		-		4,960,642		-		4,960,642
Receivable - other		5,751		120,656		-		120,656
Deferred cost incurred		-		2,331,369		-		2,331,369
Prepaid expenses:								
Administration		37,133				-		<u>-</u>
Insurance		-		34,693		-		34,693
Cost of issuance, commercial paper		-		74,351		-		74,351
Property held for sale		-	_	1,763,191		-	_	1,763,191
Total current as	sets	775,491		45,329,675		-		45,329,675
Noncurrent assets								
Leasehold improvements and equipment		8,645		-		332,897		332,897
Less accumulated depreciation and amortization	l	(8,645)		-		(309,737)		(309,737)
Construction in progress		-		-		183,999,655		183,999,655
Less due to member cities and Union Pacific Rai						(183,999,655)		(183,999,655)
Total as	sets	775,491	- \$	45,329,675	\$.	23,160		45,352,835
Current liabilities Accounts payable and accrued expense Accrued retention payable Due to government agencies Deferred revenue Compensated absences Commercial paper Total current liability	ities	67,808 - 42,687 80,005 - - 190,500	\$ - -	5,456,811 895,520 - 5,622,131 107,425 27,350,000 39,431,887	\$	- - - - - -		5,456,811 895,520 5,622,131 107,425 27,350,000 39,431,887
FUND BALANCES/NET ASSETS Fund balance Nonspendable for: Deferred cost incurred Prepaid expenses Assigned: Capital project fund Total fund balance	ance			2,331,369 109,044 3,457,375 5,897,788		- - - -	-	
Net assets								
Invested in capital assets		-			\$	23,160	_	23,160
Restricted		15,922			=		•	-
Unrestricted		569,069						5,897,788
Total net as	sets \$	584,991	-				\$	5,920,948
			•				-	
Total liabilities and fund bal	ance		\$	45,329,675	•			

								Compone	nt Unit
				Program Revenu	es	Primary Government	Deficiency of		
		Indirect		Operating	Capital	Business-type Activities	Revenues		
		Expense	Charges for	Grants and	Grants and	Net (Expense) Revenue	over		Net (Expense) Revenue
Functions/Programs	Expenses	Allocation	Services	Contributions	Contributions	and Changes in Net Assets	Expenditures	Adjustments	and Changes in Net Assets
Primary government:									
Business-type activities:									
General government \$	349,288 \$	-	\$ 381,428	\$ -	\$ -	\$ 32,140			
Air Quality	50,502	-	50,060	-	-	(442)			
Transportation	280,007	-	279,719	-	-	(288)			
Energy Upgrade	21,993	-	-	21,993	-	-			
Water Quality Improvement	15,660	-	-	31,582	-	15,922			
California Energy Efficiency Strategic Plan Implementation	33,261	-	-	33,024	-	(237)			
Energywise	112,208	-	-	102,878	-	(9,330)			
Calrecyle	137,431	-	-	133,216	-	(4,215)			
Watershed Coordinator Program	80,449	-	-	79,320	-	(1,129)			
Homeless services	1,210	-	-	-	-	(1,210)			
Total business-type activities \$	1,082,009 \$		\$ 711,207	\$ 402,013	\$	31,211			
Component unit:									
Project expenses \$	40,879,495 \$	3,715,448	\$ -	\$ -	\$ 44,657,627	- {	62,684	\$ (20,048) \$	42,636
Financing expense	4,907,655	-	-	-	-	-	(4,907,655)	-	(4,907,655)
Total component unit \$	45,787,150 \$	3,715,448	\$	\$	\$ 44,657,627	-	(4,844,971)	(20,048)	(4,865,019)
General revenues: Interest income/ financing income						3,280	543,560	-	543,560
-									
Change in net assets						34,491	(4,301,411)	(20,048)	(4,321,459)
Fund balance/Net assets, beginn	ing of year					550,500	10,199,199	43,208	10,242,407
Fund balance/Net assets, end of	year					\$ 584,991	5,897,788	23,160 \$	5,920,948

Cash flows from operating activities		
Cash receipts from cities	\$	718,327
Cash receipts from all others		374,779
Cash paid for operating expenses	_	(1,103,239)
Net cash used in operating activities		(10,133)
Cook flows from investing activities		
Cash flows from investing activities  Cash receipts from interest		3,404
Cash provided by investing activitites	-	3,404
Cash provided by investing activities	-	3,404
Net decrease in cash and cash equivalents		(6,729)
Cash and cash equivalents - beginning of year		598,652
Cash and cash equivalents - end of year	\$	591,923
	•	
Reconciliation of operating income to net cash		
used in operating activities:	_	
Operating income	\$	31,211
Adjustment to reconcile operating income to net cash		
used in operating activities:		
Changes in operating assets and liabilities:		40.000
Accounts receivable Grants receivable		10,000
Other receivable		(27,234) (5,751)
Prepaid expenses		(5,751) 5,972
Accounts payable and accrued expenses		(64,138)
Deferred revenue		(2,880)
Due to government agencies		42,687
Net cash used in operating activities	\$	(10,133)
		( , )

#### NOTE 1 SUMMARY OF SIGNIFICANT POLICIES

#### Organization and activities

The San Gabriel Valley Council of Governments (the "COG") was created effective March 17, 1994 by a Joint Powers Agreement (JPA) among various member San Gabriel Valley Cities to promote cooperation, exchange ideas, coordinate regional government programs and to provide recommendations and solutions to common problems and to general concern of member governments. It is the immediate successor to the San Gabriel Valley Association of Cities, an unincorporated association. Its members organized the COG because they recognized a need for a more permanent and formalized structure.

The COG is supported by contributions from its members and also receives grant funds to conduct regional studies on Transportation, Air Quality, Environmental Matters, as a sub-grantee of other governmental entities. The COG is a non-profit California Public Agency and it is tax exempt.

#### Reporting entity

The accompanying financial statements present the COG (the primary government) and its component unit, the Alameda Corridor-East Construction Authority (ACE Construction Authority). As defined by GASB Statement No. 14, component units are legally separate entities that are included in the primary government's reporting entity because of the significance of their operating or financial relationships with the primary government. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the COG. The COG and its component unit are together referred to herein as the *reporting entity*.

The ACE Construction Authority is a single purpose construction authority created by the COG in 1998 to mitigate the effects of increasing Union Pacific Railroad train traffic in the San Gabriel Valley. Separate financial statements for the ACE Construction Authority are issued.

#### Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the primary government (the COG) and its component unit (ACE Construction Authority). The financial statements are prepared using the accrual basis of accounting.

**Measurement focus, basis of accounting and financial statement presentation**The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Statement of Activities presents changes in Net Assets. (This is equivalent to an Income and Changes in Equity Statement in private sector companies.) Revenues are recorded when earned and expenses are recognized at the time of the causal event.

As provided in GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, COG does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Governmental fund financial statements are reported using the *current financial* resources measurement focus and the modified accrual basis of accounting. ACE Construction Authority recognizes reimbursements from grants as revenues to the extent reimbursing obligations are earned on or before June 30, 2011 and are therefore the same under both modified accrual and full accrual basis. Major interest bearing debt is short-term in nature so there is no difference relating to accrued interest owed.

Based upon the nature of the operations of ACE Construction Authority, only a capital projects fund is utilized (a governmental fund type). Amounts reflected in the adjustment column in the financial statements of ACE Construction Authority represents capital assets and construction in progress (less due to member cities and Union Pacific Railroad) used on governmental activities that are not current financial resources and therefore are not reported as assets in the governmental fund balance and the related depreciation expense on the capital assets reported in the government-wide statement of activities do not require the use of current financial resources and therefore not reported as an expenditure in the governmental funds.

#### **Description of funds**

#### **Proprietary Funds**

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following are revenue components of the COG's proprietary funds:

<u>Air Quality (AB 2766), Transportation (Proposition A&C) & Other</u> - Funds to foster consensus among cities in the San Gabriel Valley regarding policies and programs that address issues relating to land use, air quality, transportation, solid waste and other matters deemed essential.

<u>County of Los Angeles - Energy Upgrade</u> - Funds that enables single-family homeowners to make upgrades to reduce energy use, conserve resources and create more comfortable and efficient homes.

#### **Description of funds (continued)**

Proprietary Funds (continued)

<u>Water Quality Improvement</u> - Funds to prepare and implement a Coordinated Implementation Plan (CIP) to reduce the amount of metal pollutants in the Los Angeles River and its Tributaries.

Southern California Edison - California Energy Efficiency Strategic Plan Implementation - Funds for the implementation of certain energy efficiency programs under the Decision 09-09-47 of the California Public Utilities Commission including the Energy Leader Partnership Program.

<u>Southern California Edison – Energywise</u> - Funds to implement a program to reduce energy usage in the region by providing enhanced rebates for installing energy efficiency measures in municipal facilities, technical assistance, and various training and educational opportunities.

<u>California Department of Resources – CalRecycle</u> – Funds to improve the management of household hazardous waste.

<u>California Department of Conservation – Watershed Coordinator Program</u> - Funds to finance a Watershed Coordinator position for the COG. The watershed that is intended to benefit from the activities of COG's Watershed Coordinator is the San Gabriel Valley Watershed.

#### Governmental Fund

Capital Projects Fund - Accounts for the activity of obtaining support from governmental groups, determining funding and specifications for structures needed and to fund the contracts for the grade crossing improvements. This fund accounts for most of the activities of ACE Construction Authority.

#### Fund balance reporting

During the fiscal year ended June 30, 2011, ACE Construction Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement establishes the following fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds:

Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples are inventories, prepaid expenses, long-term receivables, or non-financial assets held for resale.

Restricted fund balance includes resources that are subject to externally enforceable legal restrictions. It includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

#### Fund balance reporting (continued)

<u>Committed fund balance</u> includes amounts that can be used only for the specific purposes determined by a formal action of ACE Construction Authority's highest level of decision-making authority (Board of Directors).

Assigned fund balance consists of funds that are set aside for specific purposes by ACE Construction Authority's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

<u>Unassigned fund balance</u> - is the residual classification for ACE Construction Authority's general fund and includes all spendable amounts not contained in the other classifications. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The Board of Directors, as ACE Construction Authority's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specific use through the same type of formal action taken to establish the commitment. ACE Construction Authority does not have any fund balance that meet this classification as of June 30, 2011.

The Board of Directors delegates the authority to assign fund balance to the Chief Executive Officer for purposes of reporting in the annual financial statements.

ACE Construction Authority considers the restricted fund balances to have been spent when expenditure is incurred for purposes for which both unrestricted and restricted fund balance is available. ACE Construction Authority considers unrestricted fund balances to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of ACE Construction Authority to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

#### **Budgetary reporting**

ACE Construction Authority's Board approved the FY 2011 budget in July 2010.

The budget was based on estimated expenditures over the operating period. Significant under-runs were initially encountered as the Authority experienced delays in obtaining various Caltrans' required approvals for major design contracts from Federal and State grantors.

#### **Budgetary reporting (continued)**

It is the ACE Construction Authority's policy not to start any phase of a project (i.e., design, right-of-way acquisition, or construction), unless there are sufficient funds to complete that phase. All project related expenses are reimbursable from existing grants and, as such, budgeted revenues were not budgeted separately, but derived from budgeted expenditures.

#### Cash and investments

The COG considers money market funds and all equivalent liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

#### **Grants receivable**

Grants receivable relate to expense reimbursement from governmental agencies and are expected to be fully collectible. Accordingly, an allowance for doubtful accounts is not provided.

#### **Grant revenues and expenditures**

All grants are between the COG and the granting authority. ACE Construction Authority has been given authority to obtain and administer funding in the name of COG. The MTA grant was in existence when ACE Construction Authority was created and all subsequent grants therefore are administered by ACE Construction Authority.

To-date, all grants with the exception of the UPRR contributions are, and are anticipated to be in the future, cost reimbursable. That is, ACE Construction Authority must first expend the money and then bill for reimbursement from the grantors.

#### Leasehold improvements and equipment

Phases of equipment and other improvements that can be capitalized are recorded as expenditures in the capital projects fund. The threshold for capitalization has been \$5,000 since FY 2005 in accordance with Federal guidelines. On the government-wide financial statements such items are recorded as capital assets and are depreciated based upon their estimated useful lives on a straight-line basis. Useful lives of assets categories are as follows:

Leasehold improvements 10 years
Office furniture 10 years
Computer, office and telephone equipment 5 years

#### **Unearned revenue**

Some members pay their dues in advance. These amounts are reported in unearned revenue in the basic financial statements.

#### **Short-term notes (Commercial paper)**

In March 2001, SGVCOG authorized the issuance of up to \$100,000,000 in short-term variable rate tax-exempt grant anticipation notes. The notes are backed by a letter of credit from Bayern LB.

As of June 30, 2011, \$27.35 million in variable rate, tax-exempt commercial paper is outstanding. The decision as to how much to issue is made periodically by the ACE Construction Authority management in consultation with its financial advisors taking into account current and prospective cash flow needs.

ACE Construction Authority management and financial advisors review on a periodic basis the current and prospective cash requirements in determining the amount of commercial paper to be issued.

Arbitrage has been earned on the differential between interest earned on investment with the State Treasurer's Local Agency Fund (LAIF) and a local bank, and to holders of the commercial paper. Arbitrage earned may be required to be refunded unless certain specific Internal Revenue Code requirements are met. Specific provisions of the borrowing are described in Note 5.

#### **Use of estimates**

The process of presenting financial information requires the use of estimates and assumptions regarding certain assets and liabilities and their related income and expense items. Grant reimbursements and construction costs are especially vulnerable to such assumptions and accordingly actual results may differ from estimated amounts.

#### Property held for sale

The property held for sale is recorded at the lower of acquisition cost or estimated net realizable value.

#### NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2011 are as follows:

#### **Primary government:**

Deposits with financial institution	\$ 170,978
Investments	 420,945
Total cash and cash equivalents	\$ 591,923

#### Component unit:

Cash in bank	\$	7,577,692
Pooled funds		1,543,746
Money market funds		2,202,259
Medium-term notes		2,438,260
US Treasury obligations	_	10,616,513
Total cash and investments	\$	24,378,470

## Investments Authorized by the California Government Code and San Gabriel Valley Council of Governments' Investment Policy

The table below identifies the investment types that are authorized for COG by the California Government Code (or COG's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or COG's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

#### Primary government and component unit:

		Maximum	Maximum
	Maximum	Percentage	Investment in
Authorized Investment Type	<u>Maturity</u>	of Portfolio	One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	15%	5%
Commercial Paper	180 days	15%	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	92 days	5%	None
Medium-Term Notes	5 years	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	0%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

#### **Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or ACE Construction Authority's investment policy.

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed in	Maximum Investment One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	ΝΆ	None	None
Investment Contracts	30 years	None	None

#### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the COG manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming due over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of COG's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the COG's investments by maturity.

#### Primary government:

	_	Remaining maturity in months									
	_			12 Months		13-24		25-60		More than	
Investment Type		Total		or less		Months		Months		60 Months	
LAIF	\$_	420,945	\$	420,945	\$	-	\$	-	\$		
	Total \$	420,945	\$	420,945	\$	-	\$	-	\$	-	

#### Component unit:

	Remaining maturity in months							
lavo atma at Toma	T. 4.1	12 Months	13 to 24	25 to 60	More than			
Investment Type	<u>Total</u>	or less	Months	Months	60 months			
LAIF \$	1,543,746 \$	1,469,646 \$	44,769 \$	29,331 \$	-			
Held by trustee:  Money market funds	2,202,259	2,202,259	_	_	_			
Investment contracts	13,054,773	-	13,054,773	-	-			
Total \$	16,800,778 \$	3,671,905 \$	13,099,542 \$	29,331 \$				

#### Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

The COG and its component unit have no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

#### **Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, COG's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

#### Primary government:

Legal from Investment Type Rating Disclosure	AAA	AA	Not Rated	
			Not Rated	
LAIF \$ 420,945 N/A \$ - \$ Total \$ 420,945 \$ - \$	<u>-</u> \$	\$	420,945 420,945	

#### Component unit:

		Minimum		Exempt	empt Ratin		ng as of year end		
Investment Type			Legal Rating	_	from Disclosure	AAA		Aa	Not rated
LAIF Held by trustee:	\$	1,543,746	N/A	\$	- \$		- \$	- \$	1,543,746
Money market funds		2,202,259	Α		-	2,202,259	)	-	-
Investment contracts		13,054,773	N/A		-	13,054,773	3	-	-
Total	\$	16,800,778		\$	\$	15,257,032	\$	- \$	1,543,746

#### **Concentrations of Credit Risk**

The investment policy of the COG contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2011, the COG had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total COG investments.

The COG does not have any investments in any one issuer that represent 5% or more of total investments.

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction. a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and COG's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure local government units' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, none of COG's deposits with financial institutions in excess of Federal depository insurance limits were held in uncollateralized accounts.

The COG is a voluntary participant in the Local Agency Investment Fund (LA IF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2011, the total market value of LAIF, including accrued interest was approximately \$66.49 billion. The fair value of the COG's investment in this pool is \$420,945 at June 30, 2011 based upon the COG's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and the COG's) exposure to risk (credit, market or legal) is not currently available.

#### **Custodial Credit Risk (Continued)**

As of June 30, 2011, the following investment types were held by the same broker-dealer (counterparty) that was used by ACE Construction Authority to buy the securities:

	Reported
Investment Type	Amount
Money market funds	\$ 2,202,259

ACE Construction Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2011, the total market value of LAIF, including accrued interest was approximately \$66.52 billion. The fair value of ACE Construction Authority's investment in this pool is \$1,543,746 at June 30, 2011 based upon ACE Construction Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio). LAIF's (and ACE Construction Authority's) exposure to risk (credit, market or legal) is not currently available.

#### NOTE 3 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

The leasehold improvement and equipment of the component unit are recorded at cost and consist of the following:

	Balances at July 1, 2010	Additions	Deletions	Balances at June 30, 2011
Cost:				
Leasehold improvements	19,762	\$ - \$	\$ - \$	19,762
Computer equipment				
Hardware	159,992	-	-	159,992
Software	105,692	-	-	105,692
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	31,972			31,972
Total cost	332,897			332,897
Less accumulated depreciation for:				
Leasehold improvements	18,774	988	-	19,762
Computer equipment				
Hardware	142,968	9,259	-	152,227
Software	83,186	8,376	-	91,562
Website	3,393	-	-	3,393
Telephone equipment	12,086	-	-	12,086
Office furniture	29,282	1,425		30,707
Total accumulated depreciation	289,689	20,048	-	309,737
Leasehold improvements and equipment, net \$	43,208	\$ (20,048)	\$ <u> </u>	23,160

#### NOTE 3 LEASEHOLD IMPROVEMENTS AND EQUIPMENT (CONTINUED)

Depreciation expense included in indirect expenses for the year ended June 30, 2011 amounted to \$20,048.

#### NOTE 4 RECEIVABLES

Receivables of the component unit as of June 30, 2011, as shown in the government-wide financial statements, in the aggregate, including retention, are as follows:

Receivables	_	Amount
Grants	\$	4,032,710
Unbilled		7,617,163
Retention		4,960,642
Interest		16,430
Other		120,656
	\$	16,747,601

#### NOTE 5 SHORT-TERM NOTES PAYABLE (COMMERCIAL PAPER)

In the Spring of 2001 the SGVCOG entered into an agreement to borrow up to \$100,000,000 in short-term debt guaranteed by a letter of credit and collateralized by the pledge of grant revenues. The securities issue is tax exempt. Notes outstanding at June 30, 2011, amounted to \$27,350,000. Interest rates vary according to market conditions and have ranged from 0.38% and 0.24% in FY 2011. Proceeds of the borrowings have been used to pay for construction activities and also to provide a revenue source on the differential between interest earned and interest paid. The Commercial Paper is currently guaranteed by Bayern LB.

#### NOTE 6 GRANT ACCOUNTING

In the year ended June 30, 2011, ACE Construction Authority was the recipient, primarily from the Federal Department of Transportation through the California Department of Transportation (Caltrans), of cost reimbursement type grants. There were also California transportation programs paid through Caltrans. Local share was received from Metro. All of these grants are expenditure driven; funds must be expended before reimbursement is received. Certain amounts have been held back by the grantor agency pending completion of certain phases of contracted work and some costs incurred are subject to disallowance.

#### NOTE 6 GRANT ACCOUNTING (CONTINUED)

Receivable amounts at June 30, 2011, are shown net of disallowed costs. Caltrans approved, under Office of Management and Budget (OMB) Circular A-87, an indirect overhead allocation formula of 397.1% of total direct salaries and fringe benefit costs. Indirect costs incurred in fiscal year ended June 30, 2011 were \$3,608,604 and previously deferred indirect expense was increased by \$298,293.

#### NOTE 7 DUE TO GOVERNMENT AGENCY

The California Department of Transportation Audits and Investigation (A& I) audited the costs claimed by COG totaling \$245,130 for work performed under Agreement 74A0238 (Agreement) with California Department of Transportation (Caltrans). The Agreement period was March 1, 2006 through March 31, 2008. Based on the results of the audit, A & I determined that the COG owed \$89,262 of reimbursed costs not adequately supported and not in compliance with the Agreement provisions, and the State and federal regulations.

On December 12, 2011, Caltrans issued a letter to the COG reducing the liability from \$89,262 to \$42,687, provided COG implement certain action plans.

Of the total \$42,687 due to Caltrans, \$5,751 will be collected from the City of Irwindale.

#### NOTE 8 ADMINISTRATIVE EXPENSES

The following were the administrative expenses of the primary government for the year ended June 30, 2011:

Consultant fee	\$	124,949
Insurance		4,662
Legal fees		60,070
Accounting and audit fees		48,387
Stipends		11,500
Dues and subscriptions		514
Meetings		29,350
Committee support		19,328
Printing/publications		5,803
Annual evaluation		3,930
Information technology		669
Unreimbursable grant expenses		1,732
Disallowed costs, net (see Note 7)		36,936
Miscellaneous		1,458
	Total \$	349,288

#### NOTE 9 RELATED PARTY TRANSACTION

The COG has an agreement with Arroyo Associates, Inc. (AAI) to conduct COG's day-to-day administration, management and operating activities. As part of the Agreement, the President of AAI assumes the role of the Executive Director for COG.

For the fiscal year ended June 30, 2011, the total payments to AAI were \$556,443, in accordance with the contract.

#### NOTE 10 EMPLOYEE BENEFIT PLAN

#### **Defined Benefit Pension Plan**

Effective June 17, 2002 contributions and earnings of continuing employees of the ACE Construction Authority previously contributed to CalPars, were transferred to CalPERS.

CalPERS is an agent, multiple employer defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the State of California; State statutes within the Public Employees Retirement Law establish menus of benefit provisions as well as other requirements. CalPERS issues separate comprehensive annual financial reports. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office - 400 P Street, Sacramento, CA 95814. Since the plan had less than 100 active members and at least one valuation since June 30, 2003, CalPERS requires the Authority's Plan to participate in a risk pool. Mandated pooling was effective with the June 20, 2003 valuation.

#### **Funding Policy**

Active plan members as defined by the above statutes are required to contribute 7% of their annual covered salary. The Authority has elected to contribute this amount to CalPERS on behalf of eligible employees. The authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate to CalPERS for the year ended June 30, 2011 is 8.475%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

#### Annual Pension Cost (APC)

For fiscal year 2011, the Authority's annual pension cost and actual contribution was \$331,340. For the year ended June 30, 2011, the actuarial funding method used by the CalPERS is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a matter that produces level annual cost as the percentage of pay in each year from the age of hire (entry age) to the assumed retirement age.

#### NOTE 10 EMPLOYEE BENEFIT PLAN (CONTINUED)

The actuarial assumptions included (a) 2% at 55 as the benefit formula; (b) 7.75% investment rate of return compounded annually (net of expenses); (c) projected payroll growth rate of 3.25% and inflation of 3.0% compounded annually; and (d) 2% cost-of-living adjustment.

The actuarial funding process calculates a regular contribution schedule of employee contributions and employer contributions (normal costs) which are designed to accumulate with interest to equal the total present value of benefits by the time every member has left employment. As of each June 30, the actuary calculated the desirable level of plan assets as of that point in time by subtracting the present value of scheduled future employee contributions and future employer normal costs from the total present value of benefits.

Three-Year Trend Information for CalPERS

			APC	
Year		(APC)	Contributed	Obligation
6/30/2009	-\$	207,868	100%	\$ -
6/30/2010		353,248	100%	-
6/30/2011		331,340	100%	-

#### Postemployment benefits

The ACE Construction Authority did not incur any other liabilities during fiscal year 2011 related to postemployment benefits.

#### Deferred compensation plan

The Authority has entered into a salary reduction deferred compensation plan for its employees. Securities held by the plan are valued at market. The plan allows employees to defer a portion of their current income from state and federal taxation. Employees may withdraw their participation at any time by giving written notice at least a week in advance prior to the effective date of the withdrawal. At June 30, 2011, plan assets totaling \$1,162,063 were held by independent trustees and, as such, are not reflected in the accompanying basic financial statements.

Balance at June 30, 2010	\$ 806,716
Add employee contribution	160,881
Add net realized and unrealized appreciation	
in fair value of investments	196,968
Less distributions	(2,500)
Less fees charged	 (2)
Balance at June 30, 2011	\$ 1,162,063

#### NOTE 10 EMPLOYEE BENEFIT PLAN (CONTINUED)

#### **Deferred compensation plan (continued)**

All amounts of compensation deferred under the plans are solely the property and rights of each beneficiary (pursuant to legislative changes effective 1998 to the Internal Revenue Code Section 457, this includes all property and rights purchased and income attributable to these amounts until paid or made available to the employee or other beneficiary).

#### NOTE 11 COMMITMENTS AND CONTINGENCIES

#### Primary government:

The COG is currently a party in a legal proceeding. After consultation with legal counsel, management estimates that the matter will be resolved without material effect on the COG's financial position.

#### Component unit:

As mentioned in Note 6, the Authority receives reimbursement type grants from Federal, State and local sources. Certain expenditures are not allowable and not subject to reimbursement. Also, there may be disallowed costs. Management's experience in this regard indicates disallowances, if any, will not be material.

In June 2009, ACE Construction Authority Board approved suspension of the Integrated Rail Roadway System (IRRIS), a traffic signal system demonstration project. A total of \$6.4 million has been spent on the project since inception. The ACE Construction Authority staff has received a project close out from Caltrans. Management believes that no funds will be returned as a result of the suspension.

Earnings from arbitrage may be subject to rebate under certain provisions of the Internal Revenue Service Code unless certain specific conditions are met. Management is committed to meeting those conditions.

In the ordinary course of its operations, ACE Construction Authority is the subject of claims and litigations from outside parties. In the opinion of management, there is no pending litigation or unasserted claims, the outcome of which would materially affect ACE Construction Authority's financial position.

The ACE Construction Authority rents its office from Metropolitan Life Insurance Company subject to a lease expiring April 30, 2016. Monthly rent and a pro-rata share of facility maintenance and utilities are as follow:

#### NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Period from/to	 Monthly Rent		Annual Amount
May 1, 2011 to April 30, 2012	\$ 17,448	\$	209,376
May 1, 2012 to April 30, 2013 May 1, 2013 to April 30, 2014	17,972 18,511		215,664 222,132
May 1, 2014 to April 30, 2015 May 1, 2015 to April 30, 2016	19,066 19,638	_	228,792 235,656
Total	ts \$ _	1,111,620	

Escrow Agreements for Contract Retention - The Escrow Agent, Contractor or Owner may terminate this Escrow Agreement, with or without cause, by providing 30 days prior written notice to the other parties. In the event of termination of this Escrow Agreement, all the funds on deposit shall be paid to the Owner and any accrued interest less escrow fees shall be paid to the Contractor. The Authority has recognized as expenditure retention payments totaling \$3,763,151. Funds are deposited in several escrow accounts until release to the Contractor is authorized.

## NOTE 12 ACCOUNTING FOR CONSTRUCTION IN PROGRESS AND EVENTUAL DISPOSAL OF PROJECTS

Except for minor acquisitions that may be sold by the ACE Construction Authority when no longer needed, all of the construction projects when completed, will be deeded to the Union Pacific Railroad and the cities in which they are located at no cost to the acquirer. At June 30, 2011, \$574,432,135 of costs was accumulated on projects in process and \$390,432,480 had been transferred to the railroad and impacted cities.

Under the government funds and modified accrual basis of accounting \$44,189,806 in FY 2011 project expenditures would be reported as expenditures in the year incurred. On the government-wide financial statements conforming to GASB 34 reporting on these transactions presents a challenge. Accumulating those costs as construction in progress (i.e., treated as a cash flow expenditure and not a current year expense) would substantially overstate income while reporting the disposal and expensing the accumulated costs would distort the cost of operations. In both cases, net assets would fluctuate wildly, depending on the timing of construction and disposal.

To alleviate this situation, management has elected to record a liability (same amount as the construction in progress) to UPRR and governments likely to be the eventual owner of the improvements/grade separations. This approach will minimize the effects of both on the acquisition of property for construction and the accumulation of construction costs and their eventual disposal.

#### NOTE 13 ACCOUNTING FOR ARBITRAGE

In February of 2011 ACE received an Information Data Request from the Internal Revenue Service ("IRS") related to arbitrage rebate compliance on ACE Construction Authority's 2005 Series commercial paper draw. Based upon this request, it was discovered that the Series 2005 draw, and the previous three draws, had not met spending exceptions that would avoid the payment of any excess profits made on investing the tax-exempt commercial paper draws in taxable investments prior to these amounts being spent.

ACE Construction Authority contracted with First Southwest Company to perform rebate calculations on all of its outstanding commercial paper draws. Based upon these calculations, as of June 30, 2011, ACE Construction Authority has made payments to the IRS in the amount of \$2,465,791, consisting of \$2,214,731 of rebate liability, and \$251,060 in late interest for required filings prior to June 30, 2011.

As of June 30, 2011, the estimated liability payment on three outstanding commercial paper draws is \$1,836,253. Of this total, \$598,286 was paid on July 5, 2011, \$717,422 was paid on July 29, 2011, and \$412,716 was paid on October 27, 2011, leaving an estimated liability of \$107,829 as of December 5, 2011.

On October 28, 2011, ACE Construction Authority received a notice from the IRS which states that the IRS made a determination to close the examination of ACE Construction Authority's 2005 Series commercial paper draw with no change to the position that interest received by the beneficial owners of the Bonds is excludable from the gross income under section 103 of the Internal Revenue Code. However, the IRS' examination revealed that rebate payments were required and that ACE Construction Authority had no system to monitor the compliance with arbitrage and yield restriction regulations. Future noncompliance could result in penalties and/or the taxability of interest received by the beneficial owners of the Bonds. The accrued liability as of June 30, 2011 covers the rebate payments required and ACE Construction Authority is committed to having a system to monitor the compliance with arbitrage and yield restriction regulations.

#### NOTE 14 SUBSEQUENT EVENTS

COG has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 17, 2012, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

# San Gabriel Valley Council of Governments Statement of Revenues, Expenditures, and Changes in Fund Balances – Component Unit Budget to Actual Year ended June 30, 2011

	Budgeted	Amounts		Variance	
		Amended	Actual	Positive	
	Original	Final	Amounts	(Negative)	
Revenues					
Reimbursements				(	
•	\$ 14,631,000	\$ 11,064,657 \$	4,985,702 \$	(6,078,955)	
State grants	26,808,000	20,273,482	-	(20,273,482)	
Local grants	67,941,000	51,380,209	39,196,054	(12,184,155) 332	
Other revenue Total revenues	1,333,000 110,713,000	82,718,348	332 44,182,088	(38,536,260)	
Total levellues	110,710,000	02,710,040	44,102,000	(50,550,200)	
Operating expenditures					
Construction					
Design	7,698,000	7,389,951	7,375,691	14,260	
Right-of-Way acquisition	43,677,000	49,437,809	21,472,099	27,965,710	
Construction management	1,198,000	1,339,913	1,060,283	279,630	
Construction	51,726,000	19,368,157	9,665,665	9,702,492	
Betterments	970,000	1,336,518	1,305,757	30,761	
Total construction	105,269,000	78,872,348	40,879,495	37,992,853	
Indirect					
Personnel					
Salaries and wages	1,625,000	1,654,000	1,571,525	82,475	
Fringe benefits	467,000	477,000	480,984	(3,984)	
Employee related expenses	35,000	33,000	36,976	(3,976)	
Professional services	33,000	33,000	30,970	(3,970)	
Auditing/accounting	35,000	35,000	41,314	(6,314)	
Disadvantaged business/labor compliance	161,000	161,000	90,681	70,319	
Legal	55,000	55,000	63,022	(8,022)	
Other	-	-	225,426	(225,426)	
Program management	923,000	952,000	654,870	297,130	
Brokerage	65,000	65,000	59,346	5,654	
Insurance	166,000	131,000	98,624	32,376	
Equipment expense	48,000	37,000	40,642	(3,642)	
Office rental expense	203,000	203,000	187,356	15,644	
Office operations	38,000	38,000	57,838	(19,838)	
Other	5,000	5,000	-	5,000	
Deferred indirect expense	-	-	(298,293)	298,293	
Total indirect	3,826,000	3,846,000	3,310,311	535,689	
Total operating expenditures	109,095,000	82,718,348	44,189,806	38,528,542	
Excess (deficiency) of revenues over expenditures	1,618,000	-	(7,718)	(7,718)	
Other financing sources (uses)	202.222	200 200	540.500	(04.440)	
Investment revenue	638,000	638,000	543,560	(94,440)	
Interest and related expenses	(562,000)	(562,000)	(4,907,655)	(4,345,655)	
Non-project reimburseable funds	285,000	285,000	312,798	27,798	
Non-project reimburseable expense Rental revenue	(285,000)	(285,000)	(312,798)	(27,798)	
	-	-	162,741	162,741	
Rental expense	76 000	76,000	(92,339)	(92,339)	
Net other financing sources (uses)	76,000 1,694,000	76,000	(4,293,693)	(4,369,693)	
Change in fund balance	1,094,000	76,000	(4,301,411)	(4,377,411)	
Fund balance at beginning of year	10,199,199	10,199,199	10,199,199	_	
	\$ 11,893,199 \$		5,897,788 \$	(4,377,411)	
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# Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards

# Board of Directors San Gabriel Valley Council of Governments

We have audited the financial statements of San Gabriel Valley Council of Governments (the "COG") as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the COG and have issued our report thereon dated January 17, 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the COG'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 the governing board, management, 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.

Los Angeles, California January 17, 2012



# San Gabriel Valley Council of Governments

1000 S. Fremont Ave., Unit 42, Bldg Room 10210, Alhambra, CA 91803, Phone: (626) 457-1800 FAX: (626) 457-1285 E-Mail SGV@sqvcoq.org

DATE: February 8, 2012

TO: City Managers' Steering Committee

FROM: Nicholas T. Conway, Executive Director

**RE:** Caltrans Audit Appeal

#### **Recommended Action**

Recommend to the Governing Board authorizing the Executive Director to issue payment to Caltrans (\$42,688) for disallowed prior grant reimbursement expenditures:

- √ \$36,937 will be allocated from the COG General Fund unallocated balance. These funds were previously paid to the COG by Caltrans for administrative expenses related to the planning grant. While these costs were incurred by Arroyo, the monies were never billed or expended by the COG. Thus, the funds remain available in unallocated fund balance and available for return to Caltrans without any negative impact to the COG.
- ✓ \$5,751 will be paid to the COG by the City of Irwindale for discrepancies in the City's Consultant billings. The City recognizes this internal error and has agreed to pay the requested amount needed to correct that mistake.

### **Background**

We have concluded our negotiations with Caltrans regarding the appeal of their final report related to Caltrans Audit #1530-0009. You will recall in September 2009, Caltrans conducted an audit of a Caltrans Planning Grant that was awarded to the COG in March 2006. All planning work related to site location for transit oriented development in three member agencies: Duarte, Irwindale and LaVerne. All work was completed on time and on budget. The grant was administered and approved at every step by Caltrans District 7 staff. Caltrans authorized the issuance of final payment and approval to close out the grant in June 2008.

In April 3, 2011, eighteen months after completing their field work, Caltrans Audit and Investigating Unit issued a draft audit report to the then COG President that had a number of findings relating to alleged violations of Federal and State rules and regulations. As a result, Caltrans demanded the return of \$245,130, which was the full amount of the grant in question.

In May 2011, the COG engaged Lopez & Company, LLP, the Agency's former auditors during the grant period. Lopez & Company, LLP currently serve as the compliance auditor for the Inspector General's offices at several Federal government agencies. The firm was engaged to review Caltrans' draft audit report and help prepare the COG's response, where appropriate. In January 2012, the COG and Lopez & Company, LLP submitted a 403 page response to Caltrans draft audit citing numerous errors in citations of Federal statutes and other policies and procedures used in administering the grant. In addition, Lopez & Company noted the extensive partnership and approval process used by the COG and Caltrans District 7 executives and

contract management staff administering the very grant that Caltrans A&I found to be so deficient in its administration.

In September 2011, Caltrans issued their final audit report and reduced their demand for repayment to \$89,262. The repayment focused on three outstanding areas:

- ➤ \$5,751 City of Irwindale for discrepancies between consultant invoices and supporting documentation.
- ➤ \$46, 575-City of La Verne consultant contract illegally procured under this grant.
- ➤ \$36,937 paid to the COG for administrative expenses permitted under the contract.

In September 2011, the COG Board directed staff to appeal Caltrans' final audit recommendations with respect to one area - the City of LaVerne contract. After further discussion and review, Caltrans has decided to waive repayment of that previous demand with regard to LaVerne provided all other corrective actions regarding the perceived Conflict of Interest and grant administration policies and procedures are implemented by June 2012.

The COG's organizational study initiated by the Governing Board this last summer will address the over-arching and fundamental issue of this audit relating to the continued "appearance of a conflict of interest" and the COG's compliance with Federal CFR 49. In addition, staff has already prepared the desired grant and financial management policies and procedures that are intended to be in place by June 2012. That had been done prior to the audit, but the auditor deemed to be outside the scope and timeframe of the audit in question and therefore was not eligible for review. Implementation of those recommendations is now dependent upon the organization's study recommendations.

Finally, during the course of this discussion with Caltrans, I became aware that a member of the COG Governing Board was in contact with Caltrans Executive staff and attempted to undermine my efforts to achieve the Governing Board's desired outcome. That unanimous direction was provided to General Counsel and Executive Director by the Governing Board and was judged to be in the best interest of both the COG and the City of LaVerne. Fortunately, Caltrans executives supported my efforts to resolve this matter and their belief that it was in the best interest of both Caltrans and the COG. I am appreciative for their support and trust.



# San Gabriel Valley Council of Governments

1000 S. Fremont Ave., Unit 42, Bldg. A6, Suite 6425, Alhambra, CA 91803 Phone: (626) 457-1800 FAX: (626) 564-1116 E-Mail SGV@sgvcog.org

Date: February 1, 2012

To: City Managers' Steering Committee

From: Nicholas T. Conway, Executive Director

Re: Strategic Plan Update January – July 2012

### **Recommended Action:**

Adopt updated SGVCOG Strategic Plan Goals and Objectives.

### **Background:**

On Saturday, January 28<sup>th</sup>, the COG hosted its eleventh semi-annual strategic planning session at La Casita del Arroyo in Pasadena. Approximately 26 attendees representing 17 member agencies were represented as follows:

- Alhambra
- Arcadia
- Azusa
- Covina
- Duarte
- Glendora
- Industry
- Irwindale
- La Canada Flintridge
- Monrovia

- Pomona
- San Dimas
- San Marino
- Sierra Madre
- South El Monte
- South Pasadena
- Temple City
- Walnut
- LA County Supervisorial District 5

Additionally, there was participation from ACE and the San Gabriel Valley Housing and Homeless Services Coordinating Council.

The COG's strategic planning process began by giving us the opportunity to reflect on our many accomplishments. In total, participants identified 44 major achievements that had occurred over the past three years, and specifically the last six months. Highlights of these accomplishments include the following:

- ✓ Successfully supported the appointment of two San Gabriel Valley residents on the 14 member California Statewide Redistricting Committee
- ✓ Secured California Transportation Commission (CTC) allocation of \$336 million for the ACE project

- ✓ Completed the first phase of MTA's Pilot Study for Congestion Mitigation Fee Feasibility project
- ✓ Negotiated a settlement with Caltrans regarding to their most recent audit
- ✓ Successfully supported State legislation to restrict truck movement on State Route 2
- ✓ Launched Energy Upgrade California in collaboration with Los Angeles County
- ✓ Secured representation from the San Gabriel Valley on the SCAG's Regional Housing Allocation Committee
- ✓ Addressed environmental issues through innovative partnerships and forums with both public and private entities focused on energy, stormwater and solid waste management

See Exhibit 1 for a full list of accomplishments identified at the meeting.

Participants then had the opportunity to review our Agency's mission statement, vision statement and core values. The SGVCOG's mission statement, which was revisited and revised in 2006, is as follows:

"The San Gabriel Valley Council of Governments is a unified voice to maximize resources and advocate for regional and member interests to improve the quality of life in the San Gabriel Valley."

In 2007, the SGVCOG developed their vision statement and is intended to provide guidance in the development of long-term goals. The vision statement is as follows:

"By 2012, the San Gabriel Valley Council of Governments will be recognized as the leader in advocating and achieving sustainable solutions for transportation, housing, economic growth and the environment."

The SGVCOG further expanded upon its mission statement in 2007 by developing the following set of Core Values:

The San Gabriel Valley Council of Governments values:

- Reflecting the diversity of our member communities
- Accountability
- Mutual respect
- Integrity
- Unity of common goals and objectives
- Focus on the greater good
- Collaboration
- Fiscal responsibility

The key focus of these Strategic Planning Sessions is to have attendees develop a new set of long-term goals that are to be achieved over the next three years (2012-2015). This revision would make the long-term goals more reflective of the SGVCOG's existing committee structure. If approved by the Governing Board, the revised long-term goals would be as follows:

✓ Take the leading role in redefining and revitalizing economic development, affordable housing, and homeless services

- ✓ Advocate for and secure funding for prioritized COG transportation projects
- ✓ Advocate for and secure funding for prioritized Energy, Environmental, and Natural Resources (EENR) projects.
- ✓ Strengthen internal and external relationships and communication

Finally, attendees developed new six-month objectives to achieve these new goals. These goals and objectives, which are included in the attached matrix (Exhibit 2), will be discussed and presented for adoption at the February Governing Board. Once the revised strategic plan is adopted by the Governing Board, this matrix will be updated monthly to indicate progress in achieving the identified objectives.

As always, the Strategic Planning Session was extremely useful and provided an excellent opportunity for all of the SGVCOG's stakeholders to come together to reflect on our accomplishments and develop a plan of action for the coming months.

# WHAT ARE THE STRENGTHS AND ACCOMPLISHMENTS OF THE SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS IN THE PAST THREE YEARS AS WELL AS SINCE THE JULY 2011 STRATEGIC PLANNING RETREAT?

Brainstormed Perceptions

- Saving Mary Ann Lutz's Water staff person
- Received an allocation of \$336 million from the CTC for the ACE Project
- Our partnership with Edison on energy has been very successful
- Secured \$1.9 million in targeted housing homeless services funds
- Energy, Environment and Natural Resources (EENR) Committee has developed white papers for water, open space, energy and waste management
- Entered EIR process for Gold Line East Side extension
- Ensured communication with cities on high speed rail
- Conducted Solid Waste Forum
- Did an Open Space Forum
- Continued strong ties with federal legislators
- Continued corridor planning efforts with Rosemead, Valley Boulevard, Arrow Highway and Ramona Badillo
- Received a \$4.7 million grant from SCE (Edison) for an energy upgrade for greenhouse gas inventory
- Initiated first Metro Link express train in the San Gabriel Valley
- Hosted a public forum with Edison regarding windstorm management
- Hosted a Gang Summit with LA County officers and then-Attorney General Jerry Brown
- Initiated discussion with local colleges to bring back Small Business Development Centers (SBDC) to the San Gabriel Valley
- Organized our cities to participate in redistricting
- COG Board adoption of four white papers concerning COG-ACE relationship
- Secured commitment from MTA to conduct first strategic plan for Metro Link improvements in the San Gabriel Valley
- Restarted recycling centers for batteries with the Stewardship Council
- Introduced the Rivers and Mountains Conservancy's new CEO to the San Gabriel Valley
- Successfully supported State legislation to restrict truck movement on State Route 2
- Made presentations to the Board on LA County's initiative for stormwater runoff
- Through our efforts, obtained safeguards for our cities regarding the high speed rail
- ACE moved two projects into design (i.e., grade separations)
- Supported federal legislation for protection of our forests
- Initiated planning for Phase II of the grade separation projects
- ACE has begun and will be making quarterly presentations to the COG on the grade separation projects
- Secured representation from the San Gabriel Valley on the Statewide Redistricting Committee
- Negotiating a settlement with CalTrans over their audit
- Launched Energy Upgrade Program with the County
- We continue to receive unanimous support from our member agencies when issues require additional financial support
- Completion of the first phase of the Congestion Mitigation Fee Project with the County
- Congestion Mitigation Fee Project was successful because of the hard work of the COG staff
- Secured funding for the Gold Line Foothill extension
- We are in the EIR phase of the 710 gap completion
- Work underway on Highway 10 express lanes
- Coordinating Council for Homeless Services
- Secured the positions with the Gold Line Board
- We did a Water Working Forum
- Organized the cities to work together for a MS4 permit
- Secured representation from the SGV on the SCAG's Regional Housing Allocation Committee
- COG is the organization that keeps cities informed and aware of what cities need to do
- We have had a quorum at all SGVCOG scheduled Board meetings

# SAN GABRIEL VALLEY COUNCIL OF GOVERNMENTS SIX-MONTH STRATEGIC OBJECTIVES January 28, 2012 - July 15, 2012

# THREE-YEAR GOAL: Take the leading role in redefining and revitalizing economic development, affordable housing and homeless services

WHEN	WHO	WHAT	STATUS		s	COMMENTS	
			DONE	ON TARGET	REVISED		
1. Beginning at the February 17, 2012 Board meeting and at least monthly thereafter	Housing, Community and Economic Development (HCED) Committee	Report to the Governing Board on legislation and court cases regarding redevelopment and economic development.					
2. By February 29, 2012	Executive Director	Plan and hold a forum of COG members to share information and develop at least three strategies related to redefinition and revitalization of economic development and affordable housing in the San Gabriel Valley.					
3. By March 15, 2012	Governing Board (Joe Gonzales and Gene Murabito – co-leads)	Get each SGVCOG member jurisdiction to contribute at least \$2500 to keep viable the Housing Homeless Coordinating Council and services it provides to the homeless.					
4. By July 15, 2012	HCED Committee (Gene Murabito and Gino Sund-co-leads), in partnership with local educational institutions	Develop and present to the Governing Board Regional Small Business Development Centers in the San Gabriel Valley to provide additional services for San Gabriel Valley businesses.					

# THREE-YEAR GOAL: Advocate for and secure funding for prioritized COG transportation projects

WHEN	WHO	WHAT		STATU	S	COMMENTS
			DONE	ON TARGET	REVISED	
1. By April 15, 2012	Executive Director and the Transportation Committee Chair	Recommend to the Governing Board for action an updated COG Transportation Priority List and create a matrix listing key milestones or status and timelines.				
2. By May 15, 2012	Transportation Committee (John Fasana-lead)	Develop a white paper outlining policy principles related to Transportation Priority List and present it to the Governing Board for action.				
3. By July 15, 2012	Transportation Committee Chair, working with the incoming Chair of the MTA (Supervisor Antonovich) and County/State/ Federal representatives	Coordinate and convene a Transportation Summit.				

# THREE-YEAR GOAL: Advocate for and secure funding for prioritized energy, environmental and natural resources projects

WHEN	WHO	WHAT		STATU	S	COMMENTS
WHEN			DONE	ON TARGET	REVISED	
1. Beginning in February 2012 and at least monthly thereafter	Water Resources Working Group (Mary Ann Lutz-lead)	Provide continued support and updates to the Governing Board and member agencies on the National Pollutant Discharge Elimination System Municipal Separate Sanitary Storm Sewer (MS4NPDES) permit.		WW.		
2. Beginning in February 2012 and at least monthly thereafter	Executive Director	Oversee and provide updates to the Governing Board on grants (e.g., SCE, CEESP and the San Gabriel Valley Energy Wise Partnership).				
3. By March 31, 2012 and quarterly thereafter	Open Space Working Group (Denis Bertone- lead)	Update the Governing Board on the ongoing advocacy efforts for San Gabriel Valley's fair share in regard to environmental funding initiatives.				
4. By March 31, 2012 and quarterly thereafter	Executive Director and Energy, Environmental and Natural Resources (EENR) Chair Sam Pedioza	Provide updates to the Governing Board on the EENR Committee's monitoring of implementation of SB375, AB32 and AB341.				
5. By June 30, 2012	Michael Cacciotti	Report to the Governing Board on the resources and funding available to assist cities in coordinating alternative fuel vehicle readiness.				

# THREE-YEAR GOAL: Strengthen internal and external relationships and communication

WHEN	wно	WHAT	STATUS		COMMENTS	
	<u> </u>		DONE	ON TARGET	REVISED	
1. Within 72 hours following a Governing Board meeting	Executive Director	Provide a summary of talking points to all Board members about the SGVCOG Board meeting.				
2. At the February 16, 2012 Board meeting	President Angel Carrillo (lead), Vice President Barbara Messina and the Executive Director	Call for the development of an ad hoc Legislative Committee of COG Board Members to meet on a regular basis with federal and State legislative representatives.				
3. By March 1, 2012	COG Officers (Angel Carrillo and Barbara Messina-co-leads), with the Executive Director	Develop and present to the Governing Board for action a Communication Plan to communicate externally what the COG does.				
4. By May 1, 2012	Executive Committee (Barbara Messina- lead), working with the Executive Director	Recommend to the Governing Board for action a SGVCOG Code of Conduct for the members and staff, including review of the COG Core Values.				
5. At or before the June 21, 2012 Board meeting	Executive Committee (Angel Carrillo-lead) and full Governing Board	Take action on the fifth white paper on the COG-ACE relationship and the City Gate Organization's Audit Report.				



### **FACTS AT A GLANCE**

Airport Code: ONT

**Location:** 35 miles east of downtown Los Angeles in the Inland Empire and the center of Southern California

Access: Well-located within the regional ground transportation system, lying between I-10 Freeway on the north and the SR-60 Pomona Freeway on the south; also accessible via a well-developed system of arterial and local roadways

Airport Sponsor: ONT is currently operated by Los Angeles World Airports under a joint powers agreement signed in 1967 when ONT was frequently used as a diversion airport for fogged-in LAX

Market: ONT's service area includes a population of six million in San Bernardino and Riverside Counties, and portions of north Orange County and east Los Angeles County

Airport Size: 1,700 acres

Runways: Runway 26R/8L: 12,200 feet long, 150 feet wide Runway 26L/8R: 10, 200 feet long, 150 feet wide

**Capacity:** Current facilities supports 10 million annual passengers; ultimate capacity of 31 million through expansion and surface transportation infrastructure development (SCAG analysis)

Passenger Airlines: Alaska/Horizon, American, Continental, Delta, Southwest, United/United Express and US Airways

Cargo Airlines: FedEx, UPS

Passengers Served: 4,808,241 (2010)

Cargo Tons Handled: 392,427 (2010)

Flight Departures per Day: 70 (Summer 2011)

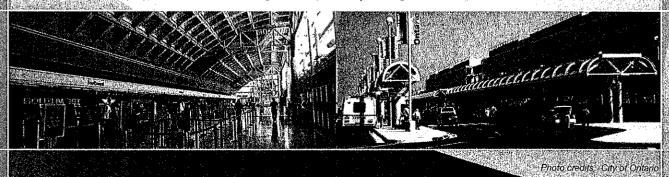
**Terminals:** 570,500 square feet with 35 gates in two domestic terminals and an International Arrivals Terminal.

Hangar Space: 350,000 square feet

Parking: Lot 2 (1,601 spaces), Lot 4 (1,790), Lot 5 (2,200)

Hours of Operation: 24 hours a day, 7 days a week

Constraints: Virtually none. Current policy prohibits flight training (touch and go's) by jet powered aircraft and engine run-ups during overnight hours 11 p.m. to 7 a.m.



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RESOLUTION NUMBER			
DATE OF FINAL PASSAGE			

A RESOLUTION OF THE CITY COUNCIL IN SUPPORT OF THE TRANSFER OF ONTARIO INTERNATIONAL AIRPORT (ONT) TO LOCAL CONTROL.

WHEREAS, local control of airports in Southern California has been shown to be conducive to development of successful regional airports because the airport sponsor has a vested interest in the airport making the greatest contribution to its economy.

WHEREAS, local control of ONT will help ensure that all of Southern California will have sufficient airport capacity to meet the long-term demand for air travel in the region.

WHEREAS, on January 7, 2011, the Los Angeles Economic Development Corporation called on Los Angeles World Airports (LAWA) to shift control of ONT – as well as the responsibility and risk that comes with that control – to another entity so LAWA can focus more of its energy on modernizing Los Angeles International Airport

WHEREAS, on November 29, 2010, the Alliance for a Regional Solution to Airport Congestion (ARSAC) urged the Los Angeles Board of Airport Commissioners to transfer ONT airport management decisions to the local Ontario area in pursuit of a regional airport system that can better address ONT patronage decline and regional service demands.

WHEREAS, on September 2, 2010, the Southern California Association of Governments (SCAG) Regional Council enacted a resolution recommending the transfer of ONT to local control as being in the best interests of Los Angeles and the Southern California region. SCAG further stated that under local control, ONT can recover from the economic downturn of the past several years while positioning itself for long-term growth, consistent with the reorganization of air traffic contemplated in SCAG's Regional Transportation Plan.

WHEREAS, after transfer to local control, ONT can operate on the same basis as airports in Burbank, Orange County, Long Beach and Palm Springs - as low-cost secondary airports under local control.

THEREFORE, BE IT RESOLVED, the City Council hereby supports the transfer of ONT to local control in furtherance of airport regionalization and the region's economy.

BE IT FURTHER RESOLVED, the City Council requests the cities of Los Angeles and Ontario commit the necessary resources and effort to affect the transfer of ONT to local control at the earliest possible date.

BE IT FURTHER RESOLVED, the City Clerk shall communicate this action of the City Council to the Mayors of Los Angeles and Ontario, the Acting Administrator of the Federal Aviation Administration, and state and federal elected representatives.

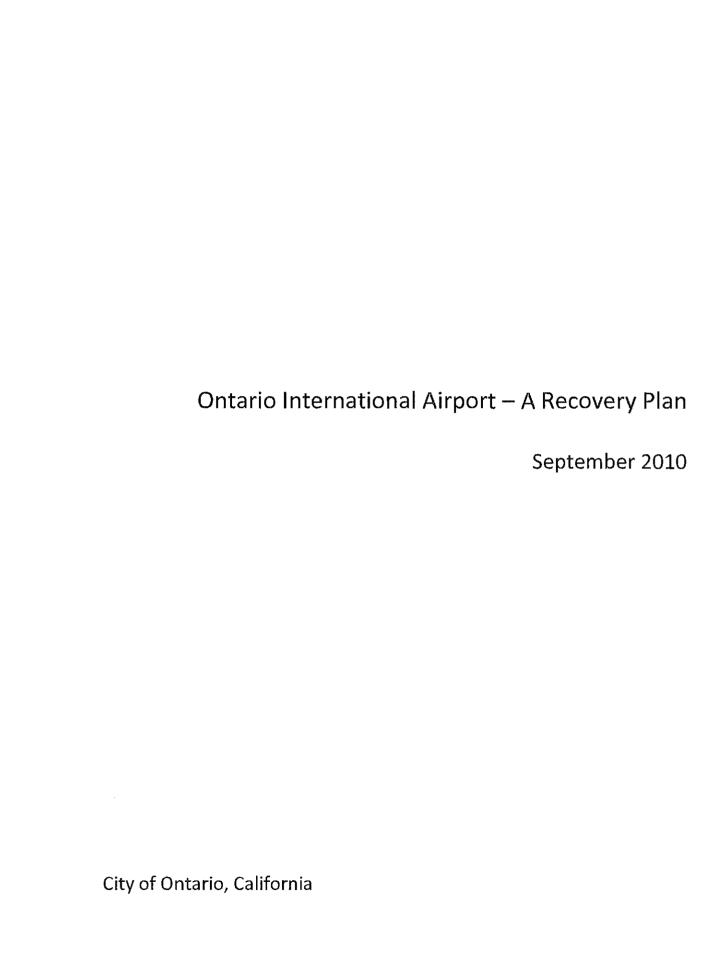
APPROVED BY:		
DATE:		

Please transmit the approved resolution to the following parties:

Mayor Antonio Villaraigosa
City of Los Angeles
City Hall
200 North Spring Street, Room 300
Los Angeles A 90012

Mayor Paul S. Leon City of Ontario City Hall 415 East "B" Street Ontario, CA 91764

Michael P. Huerta Acting Administrator Federal Aviation Administration 800 Independence Avenue, SW Washington, DC 20591



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### 1. Introduction

The City of Ontario ("Ontario") presents this White Paper to support its position that the success of Ontario International Airport ("ONT") requires that local control be restored. After extensive research, it is Ontario's belief that the most effective and expeditious means to accomplish this objective is through a mutually agreed upon modification of the existing joint powers agreement between Ontario and the City of Los Angeles.

This document also incorporates Ontario's comments on the Jacobs Consultancy report — "Alternatives for Management and Operation of LA/Ontario International Airport" presented at the Los Angeles Board of Airport Commissioners ("BOAC") meeting August 2, 2010. The LAWA/Jacobs report focused on ONT's high costs, but did not get to the heart of the other problems facing ONT: An inherent conflict of interest in Los Angeles controlling LAX and ONT, overstaffing, high labor costs, a 15 percent administrative fee levied by LAWA on ONT, and a reduced budgetary commitment to airport regionalization. Nor did it set forth options that are practical or that have a reasonable probability of succeeding. This White Paper seeks to fill this vacuum while providing a framework for ONT to make a greater contribution to airport regionalization.

## 2. Historical Perspective

Even people in the aviation industry are often surprised to learn that ONT is operated by the City of Los Angeles' Department of Airports (also known as Los Angeles World Airports or LAWA). ONT is located 35 miles east of downtown Los Angeles in a different city and county from Los Angeles. An understanding of how this airport came to be controlled by Los Angeles is necessary to appreciate its current status as a secondary airport in the LA Basin and to understand its potential as an integral part of the Southern California regional airports system.

The airport traces its origin to 1923, making it one of the oldest in the nation and the state. This was five years before Mines Field began operations at the current location of LAX. Dirt runways were replaced with two concrete runways in 1942 to support the nation's war effort. By the mid-1950s, Lockheed, Douglas and Northrop had major aircraft facilities at ONT. During this era, commercial air service in Southern California was limited to Burbank Airport until 1946 and thereafter at Los Angeles Municipal Airport, later to be renamed Los Angeles International Airport.

With the dawning of the jet age in 1959, commercial air service became vastly more popular. Airlines began to expand their fleets. While LAX remained the principal airport serving Southern California, there were often times when it was shrouded in fog, requiring flights to divert to ONT. As many as 60 days a year, passengers and luggage were bussed between ONT and LAX.

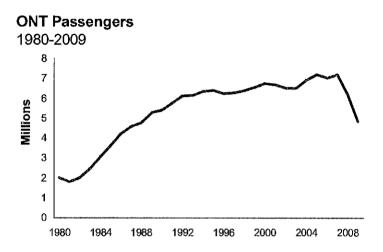
Because much of the annual activity at ONT during the 1960s was accommodating diverted airplanes, the cities of Ontario and Los Angeles felt it would be in the best interests of the Southern California region if Los Angeles took responsibility for operating the airport. In addition, Los Angeles was expected to bring more air service to ONT, thereby attracting businesses and creating jobs. Discussions to this end began in the early-1960s, resulting in a "Contract between the City of Los Angeles and the City of Ontario for the Joint Exercise of Powers in Relation to Ontario International Airport" ("JPA"). As memorialized in the Agreement of 1967, the parties felt that "considerable benefit would result to ONT and LAX, to the two cities and to the users of air transportation into and out of Southern California" from the arrangement.

Section 9 of the JPA stated: "Los Angeles shall exercise its best efforts to attract and obtain additional regular scheduled airline service for ONT and shall immediately, under approval of this Agreement, apply to the Civil Aeronautics Board for change in the certificates of the scheduled carriers presently serving Los Angles to specify ONT as a joint-use airport or hyphenated point with LAX."

From the signing of the JPA in 1967 until deregulation of the airline industry in 1978, the two airports were treated the same by the Civil Aeronautics Board for the purposes of airline route authorities and the setting of airfares. Thus, an airline authorized to serve LAX could also serve ONT under the same route authority and with the same air fares. Air service soon began to take off and by 1971 the airport was serving more than 1 million passengers a year.

The Los Angeles Department of Airports operated its three airports (LAX, ONT and Van Nuys Airport) as a single financial entity. This meant that all revenues from the three airports were deposited in a single airport account and all expenses were paid from that account. ONT generated sufficient revenues to cover its expenses and also to repay Los Angeles for its investments in ONT which from 1967 to 1985 totalled approximately \$4 million.

As shown on this chart, ONT passenger traffic continued to grow through the 80s and 90s as airline deregulation produced greater competition and lower fares. About a dozen LAX airlines also operated passenger flights at ONT to serve the rapidly growing Inland Empire.



By 1985, the airlines and LAWA determined additional facilities were needed to keep pace with the passenger growth rate. A Supplemental Agreement to the 1967 JPA was negotiated for the "Acquisition of Ontario International Airport by the City of Los Angeles." That Agreement acknowledged the prior \$4 million payment by Los Angeles (which was subsequently fully repaid by ONT) and cleared the way for LAWA to begin development of a Master Plan to meet the airport's long-term needs and provided future air service capacity for Southern California.

Section 14 of this Agreement stated "that both Los Angeles and Ontario recognize the continuing necessity for and hereby agree to cooperate with each other in carrying out the purposes and objectives of the Joint Powers Agreement which it is agreed shall remain in full force and effect."

As the planning continued into the early 1990s, a major dispute arose at LAX between the airlines and LAWA relating to LAWA's use of airport revenues and its desire to impose a "commercial compensatory" methodology for setting airline rates and charges at LAX. ONT was not involved in that dispute. Instead, it remained a stand-alone "residual" airport where the airlines' rates and charges were adjusted periodically to ensure the airport broke even and did not require any subsidy from LAWA. This occurred beginning in 1994.

Airline rates and charges at ONT were extremely low through the 1990s, thanks to low overhead and lack of significant debt service payments. This was typical of secondary airports in the United States and the reason JetBlue Airways chose ONT as its first West Coast city in 2000. A second JetBlue flight was added in 2001 and plans announced for a third flight as part of a gradual buildup of its West Coast schedules.

As planning for the new ONT facilities turned to how to pay for them, the airlines and LAWA agreed to a plan using Passenger Facility Charges that would help keep operating costs as low as possible after the new facilities opened.

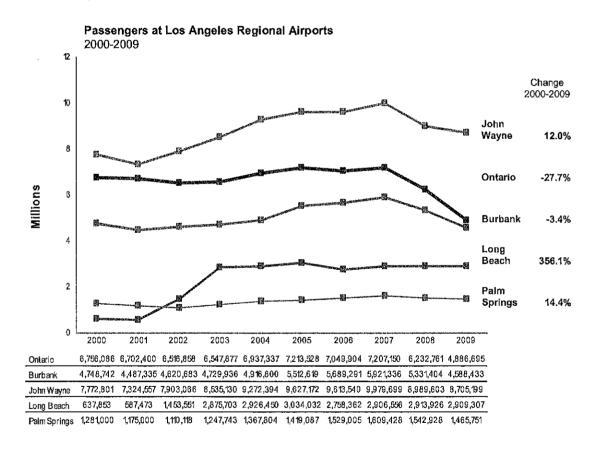
In the early 1990s, federal legislation created the ability for airports to charge a Passenger Facility Charge to be collected by the airlines in the ticketing process with funds held in trust by the airport sponsor for approved capital projects. At \$3 per enplaned passenger, LAX collected several hundred million dollars in PFCs over the course of several years. With only a limited number of LAX capital projects eligible for use of the PFC funds, the airlines serving ONT (that also served LAX) suggested using \$125 million of collected PFCs at LAX as a down payment on the new ONT facilities. Because the same airlines accounted for the vast majority of PFC collections at both ONT and LAX, it made sense to use some LAX PFC funds for the ONT terminal project. The international airlines at LAX who did not serve ONT also agreed to the plan after additional PFCs were allocated to LAX projects benefiting them. The FAA approved the specific use of PFCs and funds were transferred to the ONT terminal project. This permitted the project to go ahead with limited need for debt financing; as a result, ONT today enjoys one of the lowest debt service ratios among medium hub airports.

Nevertheless, while debt service costs were kept low, LAWA made a number of decisions that dramatically increased costs, including staffing the new facilities with City of Los Angeles employees, bringing in-house functions such as janitorial and grounds keeping that are frequently contracted out, and imposing a burdensome administrative charge. These decisions would rapidly lead to high personnel costs that would make it much more expensive for airlines to serve ONT.

## 3. Market Analysis

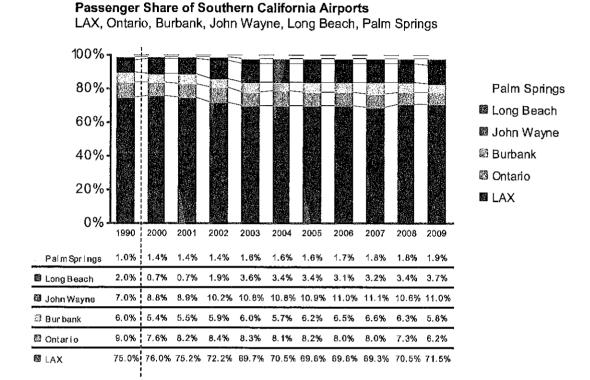
ONT is located in one of the fastest growing regions of the U.S., serving a population of nearly 5 million people in San Bernardino and Riverside Counties and portions of north Orange County and east Los Angeles County. For the broader region, ONT is generally considered the most promising solution for Southern California's future airport capacity needs because of its ability to accommodate a large increase in air service in a region where other airports have very limited capacity to grow.

After experiencing significant growth during the '80s and '90s, ONT entered 2000 on solid footing. As illustrated below, however, by 2009, ONT had nearly 28% fewer passengers than in 2000 – a dismal record in comparison with the other Los Angeles area airports. The number of ONT passengers – which approached that of John Wayne in 2000 and 2001 – now amounts to only slightly more than half of John Wayne's. Burbank, which handled far fewer passengers than ONT in 2000, is now about the same size as ONT.



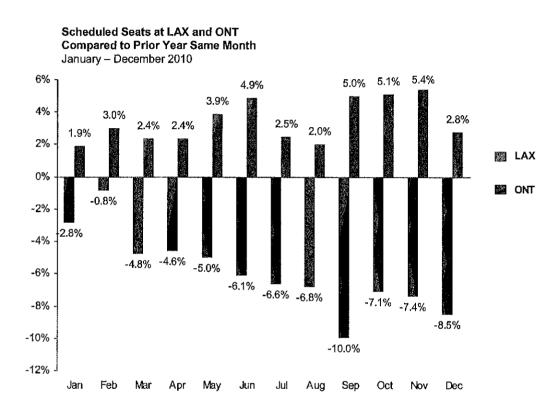
<sup>&</sup>lt;sup>1</sup> Los Angeles area airports include LAX, Burbank, John Wayne, Long Beach, and Palm Springs. San Diego is not included as it serves a separate metropolitan area.

As ONT passengers have declined in absolute numbers, so has ONT's share of the Los Angeles region's air market. Despite LAWA's stated policy and commitment to promote regionalization – the greater use of regional airports other than LAX – LAX's share of passengers in the Los Angeles region has actually increased over the past seven years from 69.7% to 71.5%.



Source: Los Angeles area airports

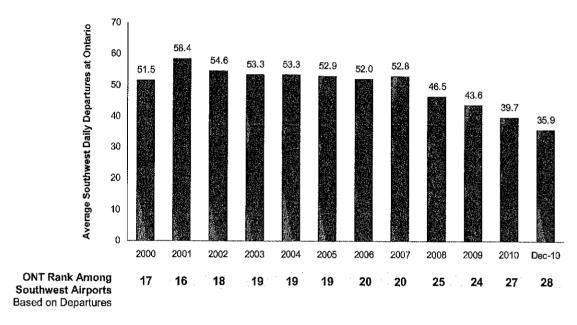
Published airline flight schedules for ONT for 2010 show that ONT continues to lose air service and will experience even deeper cuts during the 2<sup>nd</sup> half of the year. As ONT offers fewer flight options, it becomes less attractive to travelers who choose instead to fly from LAX and other area airports. This downward cycle becomes self-reinforcing and makes ONT increasingly vulnerable to further cuts. Meanwhile, as ONT continues to decline, LAX air service has grown each month in 2010 and will continue to do so for the remainder of the year.



Source: Official Airline Guide as of July 30, 2010

ONT's largest airline, Southwest – which also serves LAX, Burbank, and John Wayne airports in the Los Angeles area – continues to cut service at ONT. As a result, ONT, which ranked as the 17<sup>th</sup> largest airport in Southwest's system in 2000, will have slipped 11 places to 28<sup>th</sup> as of this December.

Average Southwest Daily Departures at ONT Each July & as Scheduled for December 2010



Source: Official Airline Guide as of July 30, 2010

#### Other changes since 2000:

- In 2000, ONT attracted its first non-stop service to Canada (Toronto) and Mexico (Mexico City and Guadalajara). Over the next three years, it attracted additional service to Hermosillo and Mexico City, as well as cargo service to China. As of February 2010, however, ONT has lost all international service, along with the Customs and Border Patrol staffing that is very difficult to obtain and that would be needed to accommodate international service in the future.
- JetBlue, which originally initiated its service to Southern California at ONT in 2000, now serves three Los Angeles area airports – LAX, Long Beach, and Burbank – but not ONT.
- Of the 100 largest U.S. airports, ONT's performance in terms of passenger growth since 2007 ranked 98<sup>th</sup>.

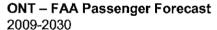
 As a secondary airport in a large metro area, ONT's airlines would normally include multiple low cost carriers. Instead, all the major low cost carriers in the Los Angeles area now serve LAX, while Southwest is the only low cost carrier remaining at ONT (see chart below).

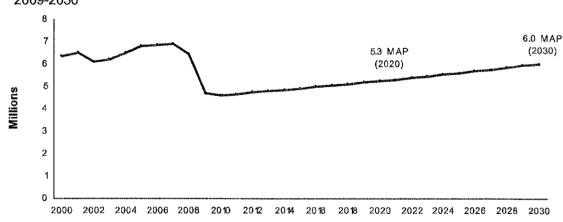
Low Cost Carrier Passengers at LAX and ONT 2009 Domestic O&D

	LAX	ONT
Southwest	6,151,260	2,560,150
Virgin America	1,601,610	
AirTran Airways	504,340	
Frontier Airlines	437,980	
Allegiant	218,950	
JetBlue	168,740	
Spirit Airlines	127,040	
Midwest Express	76,440	
Sun Country Airlines	53,680	
	9,340,040	2,560,150

Source: Domestic O&D Survey 2009

Based on recent performance and trends, the FAA projects that ONT passengers will reach only 6 million by 2030, a figure that ONT passed in the '90s and that is 17 percent lower than ONT's passenger volume was in 2005. Regardless of the accuracy of that forecast, there is reason for grave concern about ONT's future.





 $Source: FAA\ TAF\ 2009-2030;\ Passengers = Enplanements\ x\ 2.\ FAA\ actual\ 2000-2008;\ FAA\ forecast\ 2009-2030$ 

What is causing ONT's air service decline? Can an effective recovery strategy be developed and implemented?

### 4. The Problem

In major metropolitan areas with multiple airports, the economics of the airline business favour large scale operations at the primary airport – in this case LAX. Successful secondary airports in metropolitan areas with multiple airports almost invariably share two characteristics:

- 1. Substantially lower costs than the primary airport. Especially during the current downturn when primary airports are less congested, it is more important than ever that secondary airports maintain their cost advantage; and
- Aggressive marketing campaigns for air service that recognize the secondary airport must compete with the primary airport and other airports in the region for passengers and flights.

As discussed below, LAWA's management of ONT has burdened the airport with the highest costs in the region and among the highest in the country.

At the same time, LAWA has made drastic cuts in ONT's marketing efforts, slashing the resources devoted to ONT market by 85% since 2007.

Whether these facts reflect a deliberate LAWA policy to develop LAX at the expense of ONT is unknown. Whether deliberate or not, the result is the same – ONT has extremely high and uncompetitive costs, and has sharply curtailed its marketing efforts.

## A. ONT's Extremely High Airport Costs

From an airline perspective, airport costs are typically measured in terms of the Cost per Enplaned Passenger (CPE). The CPE is the sum of the charges paid by the airlines to the particular airport divided by the number of passengers departing from that airport. The most recent reported U.S. median CPE was \$6.76 for FY08<sup>2</sup>. In budget information provided by LAWA to the City of Ontario, ONT's CPE is projected to be approximately \$14.50 in the current fiscal year, or more than double the U.S. median. The LAWA/Jacobs Report provides an even higher ONT CPE estimate of \$16 for 2010.<sup>3</sup>

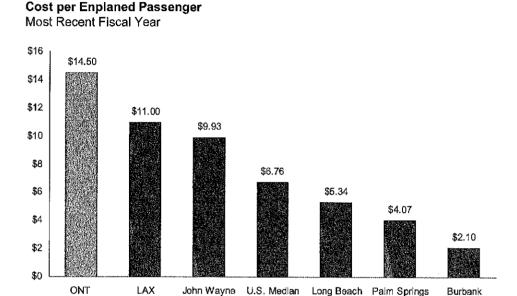
The airlines are not able to charge higher fares at ONT to make up for the higher ONT airport cost. (In a region with competing airports, travelers are not willing to pay higher airfares to fly from ONT than other area airports.) Thus ONT's higher cost reduces the airlines' ability to make a profit at ONT. And the nearly \$8 difference between ONT's CPE and the U.S. median exceeds the airlines' total average profit per emplaned passenger.

<sup>&</sup>lt;sup>2</sup> U.S. Airport Medians for FY 2008, Moody's U.S. Public Finance, November 2009.

<sup>&</sup>lt;sup>3</sup> See Alternatives for Management and Operation LA/Ontario International Airport, August 2, 2010, p.9.

As widely reported, ONT's projected CPE for the current fiscal year exceeds that of all airports in the region. The LAWA/Jacobs Report<sup>4</sup> shows that ONT's CPE is the highest among the 31 medium-size airports it evaluated. A broader analysis shows that ONT's CPE is the 2<sup>nd</sup> highest among the 69 airports served by Southwest Airlines.

Recent cost estimates for ONT, LAX, and the other Southern California airports are provided below.



Source: Airport financials, press reports, FAA Form 127

CPEs are somewhat of a moving target as airline enplanements change and airports embark on major capital programs. As discussed below, although ONT's CPE also will rise and fall as enplanements change, the airport is fortunate to have a low level of debt, and therefore should have a greater ability than most airports to reduce costs during periods of declining enplanements.

## B. The Role of Low Costs in Attracting Additional Air Service

Examples of successful secondary airports in large metro areas include: BWI, where lower costs were a strong factor in attracting Southwest's major operation there over Washington Dulles; and Ft. Lauderdale, where lower costs led to the development of LCC service there while Miami has none. Chicago Midway Airport, Houston Hobby, Boston Manchester, and Dallas Love Field have all achieved success by having much lower costs than the primary airports in these metropolitan areas.

<sup>&</sup>lt;sup>4</sup> See Alternatives for Management and Operation LA/Ontario International Airport, Jacobs Consulting, August 2, 2010, p. 9.

Low cost carriers, such as Southwest, JetBlue, AirTran, Allegiant, Spirit, and Frontier, which offer a simplified fare structure and lower average fares, are the most likely candidates for growth at ONT. These carriers are also the most likely to consider airport costs as an important factor in their air service decisions. ONT's current high costs present a significant hurdle to the expansion of air service.

As an example, Allegiant – perhaps the most cost-sensitive of all carriers – made the unexpected decision to serve LAX instead of ONT based at least in part on LAX's lower costs. Allegiant's decision to serve LAX beginning in May 2009 stands in contrast to its actions in other large urban areas, such as Phoenix, where it serves a secondary airport, Williams Gateway; and Tampa, where it serves a secondary airport, St. Petersburg. Allegiant has recently expanded service in the LA region by initiating service to four cities from Long Beach, another lower cost airport.

Although there is no guarantee that lowering ONT costs will result in more air service, having low costs gives ONT a fighting chance to reverse the recent loss of air service and to begin a long-term growth trend. With lower costs more typical of a secondary airport in a large metropolitan area, ONT would be well-equipped to make its case for additional or new service to Southwest, JetBlue, Allegiant, and other low cost carriers.

The LAWA/Jacobs Report acknowledges the importance of lowering ONT's costs:

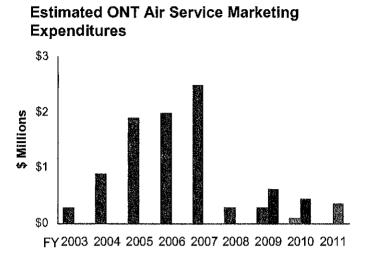
"Reducing CPE alone would not result in an increase in air service from incumbent airlines in the short-term, but doing so could be an important step in the long-term growth in air service from incumbent airlines and in attracting competitive air service from new-entrant airlines."

## C. LAWA's Drastic Reduction of Air Service Marketing at ONT

Apart from having low costs, nearly all successful secondary airports have engaged in aggressive air service marketing campaigns. LAWA did so as well for ONT until 2007, when it changed course and slashed the resources devoted to ONT marketing efforts.

Precise figures on ONT marketing expenses are not broken out in LAWA's budget, but the information below is believed to be reasonably accurate.

<sup>&</sup>lt;sup>5</sup> See Alternatives for Management and Operation LA/Ontario International Airport, Jacobs Consulting, August 2, 2010, p. 3.



Source: Estimated based on industry sources and LAWA budget analysis; 2009-2011 figures in grey provided by LAWA.

Figures for FY2003 through 2008 are based on historical information and industry sources, with estimates going forward. Separate figures in grey for FY2009-2011 are as provided by LAWA

After spending in the range of \$2-3 million per year for ONT air service marketing during FY 2005-2007, LAWA slashed that figure to less than \$400,000 for the current fiscal year, a reduction of approximately 85%.

LAWA has never explained this deliberate decision to curtail air service marketing at ONT. It is, however, inconsistent with LAWA pledges to support regionalization and has been harmful to air service development at ONT. During this same period, many U.S. airports were increasing the resources devoted to air service marketing in the face of growing competition among airports for new air service.

Other LAWA actions further illustrate its lessening commitment to ONT. For example, for many years, the LAWA Board of Airport Commissioners routinely held two Commission meetings each year in Ontario to demonstrate its commitment to ONT and regionalization. The BOAC has not held a meeting in Ontario since October 2007 (almost 3 years).

## D. Understanding the Components of ONT's Costs

The charges paid by the airlines serving ONT are determined by totalling the airport's operating expenses and debt payments, and subtracting any revenue the airport receives from sources such as airport parking, rental car fees, and airport food and retail. The balance is what the airlines must pay.

<sup>&</sup>lt;sup>6</sup> LAWA reports that it discontinued ONT meetings based on a City Attorney opinion that prohibits LAWA from acting on any LAX or Van Nuys items during meetings held outside of Los Angeles.

To determine why ONT's costs are so high, it is necessary to briefly review the airport's operating expenses, debt payments, and non-airline revenue. Although the LAWA/Jacobs Report suggests that additional study is needed to determine why ONT's costs are so high, even a cursory analysis of the airport provides a clear answer. We begin with a review of ONT's debt.

## E. Airport Debt - Not the Problem

Some airports have high costs as a result of the substantial debt incurred as part of large capital development programs. The debt incurred in building the Denver Airport in the early 1990s made it a particularly costly airport for many years, as did the debt required to finance San Francisco's international terminal in 2000. Debt service requirements sometimes make up more than half of total operating costs at airports with major capital programs.

ONT is fortunate in that it has little debt. Fitch Ratings, in its March 2009 review of ONT, highlights the airport's "low debt levels" and "very modest and level debt profile (with debt service payments representing only 8% of total operating revenues in fiscal 2008)." Fitch notes as well that the "airport has no major capital projects over the next 5-10 years and intends to fund maintenance capital projects from airport cash and from passenger facility charge revenues and grants."

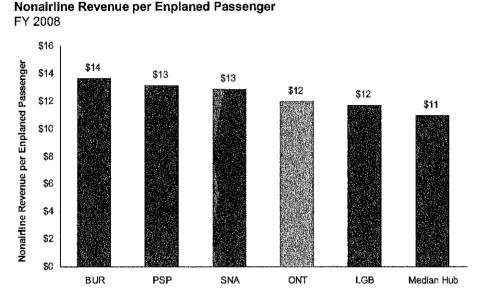
The median level of airport debt for U.S. airports was \$78 per O&D passenger in fiscal 2008, according to Moody's<sup>7</sup>. For Ontario, the comparable figure was only \$23 in airport debt per enplaned passenger. For the current fiscal year, the ONT figure will have risen to about \$34 because of the declining number of passengers. Even so, ONT's outstanding debt is only 44% the level of the median U.S. airport. In short, despite ONT's passenger declines, debt is not the cause of its high costs. Other things being equal, ONT's low debt means it should have lower than average costs.

#### F. Revenue from Non-Airline Sources – Not the Problem

The more revenue collected from sources such as airport parking, rental car fees, airport food and retail, and other "non-airline" sources, the lower the fees the airlines must pay.

Although there is certainly room for improvement in some aspects of ONT's non-airline revenue management efforts, it turns out that ONT's non-airline revenue per enplaned passenger is slightly higher than the medium-hub airport average of \$11. This is primarily because ONT's parking revenue and rental car rental are higher than average. These sources of revenue more than compensate for ONT's lower than average food & beverage and retail revenue.

<sup>&</sup>lt;sup>7</sup> U.S. Airport Medians for FY 2008, Moody's U.S. Public Finance, November 2009.



In summary, a lack of non-airline revenue is not the cause of ONT's high costs. Other things being equal, ONT's higher than average non-airline revenue means that it should have lower than average airline costs.

## G. Sky High Airport Operating Expenses

If ONT has low airport debt and above average non-airline revenue, what is the reason for ONT's high costs? The short answer is that ONT has extremely high operating expenses as a result of:

- A much larger workforce than comparable airports
- The burdensome LAWA administrative charge
- Much higher compensation levels than at comparable airports

For U.S. airports, the median level of operating expenses per enplaned passenger for FY 2008 was less than \$14<sup>8</sup>. For ONT, operating expenses per enplaned passenger have ranged from \$29 to \$33 over the past several years – and even after cost and staff reductions at ONT will be in the \$29 range. Thus, as the LAWA/Jacobs Report accurately states, even after cost cutting –

"ONTs total operating expenses per enplaned passenger are more than twice the average for U.S. medium hub airports"<sup>9</sup>.

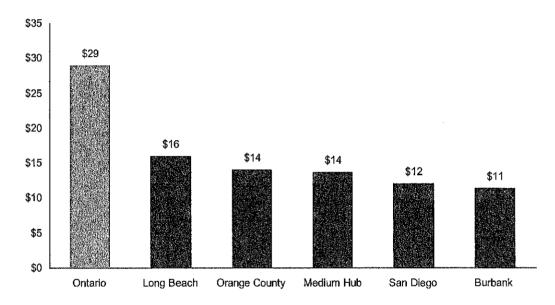
<sup>&</sup>lt;sup>8</sup> U.S. Airport Medians for FY 2008, Moody's U.S. Public Finance, November 2009.

<sup>&</sup>lt;sup>9</sup> See Alternatives for Management and Operation LA/Ontario International Airport, August 2, 2010, p.11.

The LAWA/Jacobs Report shows that in comparison to ONT's \$29 operating expense, comparable airports had operating expenses ranging from \$9 to \$17 per enplaned passenger, with all but one of the comparable airports below the \$15 level. 10

The chart below shows the operating expense per enplaned passenger at Los Angeles area airports and San Diego.

Operating Expense per Enplaned Passenger Most Recent Fiscal Year



Source: Airport financials, Fitch ratings reports, FAA Form 127

Stated differently, assuming that ONT had achieved the medium-hub airport cost average at its existing enplaned passenger level, ONT could generate over \$31 million in cost savings, or a cost reduction in the range of \$13 per enplaned passenger.

<sup>&</sup>lt;sup>10</sup> See Alternatives for Management and Operation LA/Ontario International Airport, August 2, 2010, p.11.

# H. Too Many Employees, at High Average Compensation Levels, and Additional Millions (\$) for Administrative Services

Comparing the number of employees at different airports has certain limitations because the degree of outsourcing differs.<sup>11</sup> Nevertheless, most airports operate within certain ranges, and in terms of employee staffing, ONT is in a class by itself.

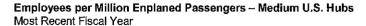
ONT has budgeted for 302 employees for the fiscal year beginning July 2010, an extremely high number that is discussed below. In addition to budgeting for those employees and other operating expenses, ONT pays LAX an administrative fee of 15% of its operating expenses. For the fiscal year that began July 2010, the administrative fee will be \$8.7 million. We do not know what services are provided in exchange for this charge. Although there are certainly some important functions that LAWA provides ONT, such as legal, risk management, etc., the magnitude of the administrative charge raises questions as to the value provided – and particularly so when viewed in conjunction with ONT's already high budget for wages and benefits.

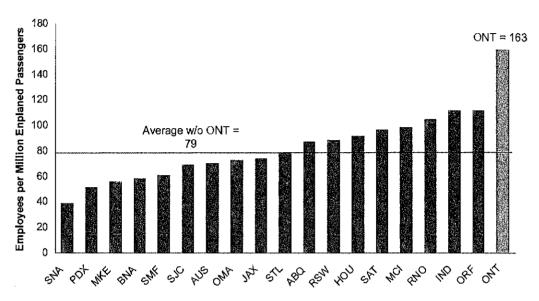
ONT's compensation budget for the current fiscal year is \$30.9 million, which amounts to \$102,400 per employee. Taking into account the administrative fee, ONT's true employee count is really the 302 employees budgeted plus 85 additional LAWA employees that it pays for with the \$8.7 million administrative fee (85 x \$102,400 is \$8.7 million). The true total ONT employee count of 387 is more than double John Wayne's staff of 175, more than three times Long Beach's staff of 124, and more than San Diego's staff of 355 (SAN has three and a half times as many passengers as ONT).

Shown below for 18 medium-size airports is the number of airport employees per million enplanements, which range from 52 to 112 – with an average of 79 employees per million enplaned passengers. The ONT estimate of 163 employees per million enplaned passengers is more than double the average of the other airports.

<sup>&</sup>lt;sup>11</sup> At Burbank, for example, most airport functions have been outsourced, and total airport salaries and benefits are only \$2.4 million compared with contractual services that are seven times that amount.

<sup>&</sup>lt;sup>12</sup> Both the employee count and the administrative charge are down substantially from the year before when LAWA budgeted for 366 employees and a \$10.2 million ONT administrative charge.





Source: Analysis of reported airport staffing

Note as well that among medium size airports there is little correlation between the size of an airport and the number of employees reported per million enplanements. In other words, smaller airports do not necessarily have more employees per million enplanements.

Using the ratio of 79 employees per million enplanements and applying that ratio to ONT's projected 2.37 million emplanements shows that ONT should have approximately 187 employees – assuming that the administrative charge goes away – and not 302 as currently budgeted. If ONT continues to pay an \$8.7 million administrative charge, then ONT would need to reduce its staff from the current level of 302 employees to only 102 employees to reach an average staffing level. (The administrative charge alone adds \$3.68 per emplanement to ONT's costs – which is more than Orange County, San Diego, or Burbank paid in total compensation and benefits per emplanement in FY2008.)

Apart from the sheer number of employees, the ONT budgeted average employee compensation of \$102,400 is the highest of any airport in the region, with other airports having total average compensation at least 15% lower. And this figure may understate true average ONT compensation because many of ONT's core senior management functions are provided by LAWA. Even the airport manager position at ONT is split half time with Van Nuys Airport – an unusual arrangement for a medium hub airport.

LAWA's management has made substantial cuts in ONT's operating costs.<sup>13</sup> To have made such efforts only to achieve little progress in improving ONT's costs suggests that the LAWA organizational structure is simply not suited to operating an airport such as ONT which must have a competitive cost structure to have a realistic chance of succeeding. The LAWA/Jacobs Report suggests as much in its consideration of outsourcing the majority of ONT operations.

<sup>&</sup>lt;sup>13</sup> LAWA notes that there were 450 LAWA employees at ONT in 2007, and therefore the 2011 budgeted number of 302 represents a decrease of nearly one-third.

## 5. Transfer Options

This section discusses the three options set out in the LAWA/Jacobs Report, as well as the most logical option of transferring management control of the airport back to the City of Ontario.

Each option is evaluated using the following criteria:

- (1) Will the option result in ONT achieving a competitive cost structure?
- (2) Will the option result in ONT's management aggressively marketing the airport?
- (3) Does the option assure that management will devote the time and attention needed to develop ONT to its full potential?
- (4) Does the option assure that ONT's interests will be paramount and not subject to conflicting priorities?

### A. LAWA/Jacobs Report Options

The following three options are discussed in the LAWA/Jacobs Report:

<u>LAWA continues to manage and operate ONT</u> – LAWA would continue to seek ways to lower airline costs and increase non-airline revenues.

This option is a continuation of the status quo that has not worked to date and fails to meet any of the four criteria outlined above—cost reduction, aggressive marketing, management focus, and conflict avoidance.

3<sup>rd</sup> Party Terminal and Parking Concession Agreement – LAWA would outsource the operation and maintenance of the terminal facilities, concession program, public parking, and rental car.

This option partially addresses the first criterion and none of the others. By outsourcing portions of the airport to a more efficient operator, it would lower airport costs. However, it does not outsource the entire airport, including portions that consume significant operating resources, and therefore may not achieve the cost reductions required. In addition, it does not address the other criteria listed above.

<u>Long Term Concession Agreement</u> – LAWA would lease the airport for 40-60 years. Although the LAWA/Jacobs Report does not mention the FAA's privatization program, the description suggests that vehicle would be used.

This option may or may not ultimately lead to a competitive cost structure for the airlines at ONT. So far, there have been no successful privatization efforts in the U.S. so this is unproven territory. What we do know, however, is that even if successful, the privatization process will take at least 2-3 years. ONT cannot wait that long to make substantial progress in reducing costs and to begin to aggressively promote the airport. Each month that passes means less air service at

ONT and a more difficult recovery. Depending on the structure of the deal, this option may satisfy the other criteria listed, at least if Ontario is the public agency sponsoring the privatization."

### B. Transfer of Control to Ontario

The City of Ontario once used the JPA to transfer control of ONT to the City of Los Angeles. The same JPA may be used to transfer management and operational control of ONT back to the City of Ontario. Ontario is committed to taking whatever steps are necessary to assure that this vital economic engine is reinvigorated through the creation of a low-cost airport that aggressively markets the airport and region. For Ontario, there is no doubt as to the airport's highest priority of attracting new service, nor will there be the appearance of a conflict of interest.

## 6. The Ontario Imperative

It is a hopeful sign that Los Angeles recognizes the need for a different approach to the management and operations of ONT. Ontario strongly believes that the management and operating responsibility for ONT should be transferred to the City of Ontario through a modification of the JPA as described in this White Paper. This option provides the greatest opportunity to ensure the long-term viability of ONT while achieving the mutual goal of airport regionalization.

There must be a sense of urgency as the two cities work together cooperatively to find a way to reverse the downward decline of air service and passenger traffic at ONT. Since 2007 passenger traffic at ONT has plummeted more than 32 percent. Adding to the need for immediate action, airlines serving ONT have announced flight schedule reductions of nearly 8 percent in the second half of 2010. In economic terms, the decline in air service at ONT from 2007-2009 has meant the loss of over \$400 million to the Inland Empire regional economy and the loss of over 8,000 jobs. 14

In 2006, LAWA affirmed its commitment to regionalization as part of the settlement of a lawsuit challenging the Master Plan for expansion of LAX. There, LAWA expressly agreed to "develop a regional strategic planning initiative to encourage the growth of passenger and cargo aviation activity at under-utilized, LAWA owned, commercial airports in the region (currently Ontario International Airport and Palmdale)."

It is admirable that LAWA has begun to reduce operating costs at ONT. It is crucial that the City of Ontario continue this process as it aggressively markets the airport. There also must be recognition that there is the appearance of a conflict as a result of LAWA owning and operating competing airports in the current and future Southern California economy. This conflict must be addressed as a prerequisite to achieving true airport regionalization and restoring ONT as an economic engine for the region.

Since 2001, LAX has declined from the 3rd busiest airport in the world to the 7th. In 2009, it served 56.5 million passengers, a loss of 5.9 million passengers since 2007 and 10.8 million since 2000. Ontario understands LAWA's need to focus attention and resources on rebuilding LAX traffic even as it mounts the largest capital improvement program in the airport's 83-year history.

Returning ONT to local control will also promote airport regionalization, a key initiative of Los Angeles Mayor Antonio Villaraigosa. Regional airports in Southern California under local control have rebounded from 9/11 and weathered the recessionary economy. Regional airports

<sup>&</sup>lt;sup>14</sup> Estimated total economic impact of ONT passenger air service; 2007: \$1.27 billion; 2009: \$860 million; loss of \$410 million. Estimated total jobs created by ONT: 2007: 25,081; 2009: 17,006; loss of 8,075 jobs. Source: Oliver Wyman analysis.

under absentee control – ONT and Palmdale Regional Airport – have not. Adding to the importance and urgency of airport regionalization is SB 375. Without a healthy ONT, the region will be challenged to develop a successful sustainable community strategy under SB 375 which the California Air Resource Board would approve.

Under local control, ONT will simultaneously reduce its cost structure and increase its marketing, advertising and promotion spending to provide the airport capacity Southern California needs in the long term to protect its tourism economy. Other airports in the region are constrained. John Wayne Airport has a passenger cap. Long Beach Airport has a noise cap. Bob Hope Airport is constrained by its facilities and staunch opposition to airport expansion from the City of Burbank. Palm Springs Airport's ability to assume a greater market share is limited by its distance from the regions' major population centers. ONT is the only airport in Southern California that is unconstrained, and where there is political and community support for greatly expanded operations.

SOUTHERN CALIFORNIA



# ASSOCIATION of GOVERNMENTS

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Energy & Environment Margaret Clark, Rosemead

Transportation Greg Pettis, Cathedral City

# AMENDED Agenda Item #7

September 2, 2010

Mr. Miguel A. Santana City Administrative Officer City of Los Angeles 200 N. Main St. Suite 1500 Los Angeles, CA 90012-4137

Dear Mr. Santana:

SCAG is aware that you have been asked to submit a report to the Los Angeles City Council's Budget Committee in September in response to a Council motion, on the feasibility of transferring operating control of LA/Ontario International Airport (ONT) from Los Angeles World Airports (LAWA) to the City of Ontario.

SCAG has enjoyed the long partnership with City of Los Angeles and the leadership position the City has demonstrated in providing for interregional and international travel (i.e. LAX and Ontario airports). Continuation of options for international and national travel for the 19 million residents of the regions is essential for the economy, livability, clean air and other public policy goals the City and SCAG have partnered on. At the same time, SCAG understands the tough economic challenges the city faces during this recession.

Staff have reviewed the recent report from Jacobs Consultancy – "Alternatives for Management and Operation of LA/Ontario Airport" – commissioned by LAX, that was presented at the August 2 meeting of the Los Angeles Board of Airport Commissioners. Staff has also received a briefing on this issue from Ontario and San Bernardino County officials.

SCAG supports the finding to recommend the transfer of ONT to local control as being in the best interests of Los Angeles and the Southern California region. The transfer will enable LAX to focus its attention on modernizing Los Angeles International Airport and restoring passenger traffic to pre-9/11 levels — essential steps to make LAX achieve its full potential as the City's primary economic engine.

SCAG believes that under local operating control, ONT can recover from the economic downturn of the past several years while positioning itself for long-term growth which would be consistent with the "reorganization" of the air traffic contemplated in the SCAG's Regional Transportation Plan. By transferring control of ONT to the City of Ontario, ONT will operate on the same basis that airports in Burbank, Orange County, Long Beach and Palm Springs operate as a low-cost secondary airport under local control.

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Energy & Environment Margaret Clark, Rosemead

Transportation Greg Pettis, Cathedral City During the recession of the past several years, ONT has one of the highest operating costs in the region. Over the past decade, as other regional airports have recovered from 9/11 and increased their market share, ONT has lost more than two decades of traffic growth and seen its market share decline. This is unfortunate since ONT is the only airport in the system not constrained by passenger or noise caps (John Wayne and Long Beach, respectively) or facility constraints (Bob Hope) or a legally enforceable settlement agreement (LAX).

SCAG recognizes that LAX has several billion dollars of debt to finance the Bradley West and related projects. While these facility improvements may push airline rates and charges higher, that alone is not sufficient to drive low-cost airlines to ONT. If ONT does not simultaneously reduce costs and build traffic to reduce its cost per enplaned passenger, airlines will be incentivized to find markets outside Southern California where they can obtain the highest returns for their aircraft assets. This result would negatively affect the economy of not only the Inland Empire but the entire southern California region including Los Angeles.

Southern California must continue to have a robust system of regional airports both to accommodate local demand and to minimize automobile traffic and emissions resulting from unnecessary reliance on LAX. In that regard, it is especially important that ONT, which is uniquely positioned to accommodate growth, be operated in a way that enables it to achieve its full potential. As airline traffic rebounds and LAX approaches its practical capacity based on ground access and facilities, the region's need for a fully-developed and healthy ONT will become increasingly important. Without ONT, SCAG and the region will be challenged to develop a successful sustainable community strategy under SB 375 which the California Air Resource Board would approve. In summary, SCAG believes that the transfer of ONT to local control is in the best interests of all jurisdictions including Los Angeles. It also is in the best interests of promoting regionalization and boosting our region's economy.

Thank you for considering SCAG comments as you deliberate in preparing your report and making your recommendation. SCAG respectfully requests that this letter be provided to the City Council when your report is transmitted.

Sincerely,

Hasan Ikhrata Executive Director

CC Regional Council
Greg Devereaux, CAO
County of San Bernardino

Hosas Wehalt

# Los Angeles Times

THURSDAY, MARCH 10, 2011 EDITORIALS

# Turbulence over Ontario

ot all the turbulence in the local air travel world is in the skies; there's quite a bit of it in the relationship between the cities of Ontario, where officials are fighting for control of their regional airport, and Los Angeles, where the agency that runs Los Angeles International Airport seems determined to hold on to the Inland Empire facility. It's a complicated issue, but we can't see a compelling reason for L.A. to keep running an airport so far away.

No one denies that Ontario International Airport is hurting badly. The number of passengers is down by nearly 30% since 2007, and the drop in traific is damaging the local economy. The key question is why. Those who support the status quo maintain that the downturn is a function of the economic slump, which hit the Inland Empire particularly hard. But Ontario officials blame managers at Los Angeles World Airports, the city agency that also runs LAX and Van Nuys Airport.

They point out that Ontario Airport has extraordinarily high operating costs because it employs far more people than comparably sized facilities and, under L.A. labor rules, pays them more. As a result, Ontario must charge airlines the highest per-passenger fees in the region and among the highest in the country; at LAX, the cost per passenger is \$1, and the U.S. median is \$6.76,

yet it's a whopping \$14.50 at Ontario. What's more, the airport agency slashed Ontario's marketing budget.

Although Los Angeles World Airports is considering bids from private operators vying to take over day-to-day management of Ontario Airport, a staff report obtained by The Times makes it clear that managers don't favor ceding control to Ontario. A PowerPoint presentation created for the agency's board said marketing functions might be transferred to Ontario, but otherwise, managers see no reason to give more power to "a jurisdiction that has no experience in managing a commercial airport."

This might all seem like a minor spat between regional powers, but the decisions will have repercussions. Consider the case of a low-cost airline currently operating out of LAX, where landing fees are likely to rise to pay for capital improvements. If it can get a better deal at Ontario, it might transfer flights there and at least stay in Southern California. But if there's no competitive airport, it's more likely to leave the region entirely, taking economic benefits with it. A healthy Ontario Airport is in everybody's interest, and although L.A. wage rules are fine for LAX, it's not fair to impose them on another city where living conditions differ. Los Angeles gains little by continuing its hold on Ontario's airport, but it has something to lose.

## OP-ED

# Ontario needs its airport back

A deal signed in 1967 to let L.A. run the facility makes no sense today.

#### Alan D. Wapner

that L.A./Ontario International Airport (ONT) — located 35 miles east of downtown Los Angeles in San Bernardino County — has been operated by Los Angeles. That arrangement worked well for more than 40 years. But it doesn't now, and that must be fixed for the good of the entire region.

While other secondary airports in Southern California have rebounded from 1911, weathered the recession and increased market share. ONT has fallen on hard times. Today, it operates at passenger traffic levels not seen in nearly a quarter-century, and its market share continues to decline. As a result, the city of Ontario feels strongly that the success of ONT as an integral part of Southern California's airport system requires that local control be restored.

During the 1960s, ONT often accommodated airplanes diverted from Los Angeles International Airport when that facility was fogged in. Consequently, the cities of Ontario and Los Angeles felt it would be in the best inter-

ests of the Southern California region if Los Angeles took responsibility for operating the airport stree LA had airport operations expertise and crucial sirline relationships. To that end, the two cities signed an agreement in 1967. Today, however, Los Angeles has an inherent conflict of interest in controlling both airports. As Los Angeles struggles to regain lost traific at LAX and to pay for a multibillion-dollar expansion, it views ONT as something of a competitor deserving scant attention.

To avoid this conflict, Los Angeles World Airports, the agency that operates both facilities, must relinquish control of ONT and concentrate on LAX. The need for this was highlighted by LAWA Executive Director Gina Marie Lindsey's comments at the July 14 meeting of the L.A. Board of Airport Commissioners;

"Now continuing to pursue a strategy that actively pushes traffic away from the city of Los Angeles and into other jurisdictions could be viewed as a little self-destructive."

LAWA's reduced commitment to Ontario is manifested in other ways. A September study commissioned by Ontario to explore the reasons for the dirport's decline included the following findings: a smaller budget for the murketing needed to attract new air service and scant concern about the high airport charges that

make it difficult for airlines to make a profit at the facility. These high charges result from overstaffing at the airport, high labor costs and a 15% LAWA administrative fee that Ontario bears as part of its operating budget.

For elected officials and resi-

For elected officials and residents of Los Angeles alike, the reasons for restoring local control of ONT are compelling. This action would:

- Allow LAWA to focus its energy and time on LAX for the benefit of the region's economy as a whole.
- a Promote regionalization by returning ONT to local control, which is proved to be conducive to developing robust regional airports because the sponsoring community has a vested interest in the airport making the greatest contribution to its economy.
- Ensure that all of Southern Callfornia including Los Angeles including Los Angeles sufficient, sensibly priced airport especity, Without adequate capacity, airlines will be forced to land elsewhere. Foor airport planning has aiready harmed the Los Angeles economy. A few years ago, Qantas relocated one flight from LAX to San Francisco International Airport—along with the \$300 million the flight contributed to the local economy because LAX lacked adequate infrastructure to handle the aircraft.

■ Shift responsibility, accountability and risk for ONT's performance from Los Angeles to Ontgrio.

ONT must not be allowed to continue its downward spiral. It is too important to Southern California's economy, and it is essential to help meet the region's longterm demands for air travel.

For these reasons, the 83-member Regional Council of the Southern California Assn. of Ocverments, or SCAG, recently voted unanimously—in an unusual move without further discussion—to recommend the transfer of ONT to local control.

"Southern California must have a robust system of regional airports both to accommodate local demand and to minimize automobile traffic and emissions resulting from unnecessary reliance on LAX," sald SCAO in a Sept. 2 letter to Miguel Sanbana, L.A.'s city administrative officer. "As airline traffic rebounds and LAX approaches its practical capacity based on ground access and facilities, the region's need for a fully developed and healthy ONT will become increasingly haportant."

It is time for Los Angeles to transfer management and operational control of Ontario Airport back to the city of Ontario.

ALAN D. WARNER is mayor protem of Ontario.