Jul 10 2018 0530 PM Financial Administration & Audit Committee Committee SD 480

KEN MIHALIK: Financial Administration and Audit Committee. And I'll call this meeting to order. Tonight we have two recommended actions and several updates.

The first recommended action reads as follows. It is recommended by the Financial Administration and Audit Committee that the Board of Directors authorize the General Manager or his designee to execute all documents necessary to award a contract to Mythics for licenses for the ERP replacement program for an amount not to exceed $2 million over five years. Subscriptions for the ERP replacement program will be paid annually.

And this recommendation addresses two of the GM's 2018 goals, core goal number three, strong financial management and task goal number one, fiscal sustainability. Do I have a motion?

LORRAINE ANDERSON: Move approval.

KATE WILLIAMS: Second.

KEN MIHALIK: That's Director Anderson and seconded by Director Williams. Miss McKillop, do you have any additional information for us?

HEATHER MCKILLOP: Yes, just real quick. This is Heather, and I wanted to introduce Rahul Sood. He is in charge of our Enterprise Resource Planning (ERP) program. So he's here to answer any questions that you might have of a technical nature. But Rahul has been working on this project with our business process groups mainly in the procurement area and in our budgeting area, so Jeannette's group and Brian Iacono.

This is our first phase of moving from a different platform. And I'll let Rahul describe what that looks like. But as we mentioned, we're looking at phasing out our current Oracle reliance in the current form that it's in. And the first stage was to look at public sector budgeting and inventory because those are one, we don't have inventory right now electronically. And the second piece of it is the public sector budget budgeting will no longer be supported, so we would not be able to do our budget in an automated format going forward.

So we chose to focus on those first. The next one will be the HR modules, and then after that, the backbone, the financial backbone. We'll be looking at moving that. Probably we will be staying with Oracle, but moving that to more of a software as a solution or a Cloud-based system. So this is a three-year-long plus process. This is the first one, of buying licenses, so that we can move forward and implement the public sector by budgeting and the inventory control.

So with that, I'll just ask you Rahul to mention if I missed out on anything there.

RAHUL SOOD: This is Rahul. The three-phased approach is basically just to get us from where we are. Our current support for existing licenses expire in December 2022. So hence we are starting this year to migrate all of our other modules into a more subscription-based approach rather than an on premise that we have to keep on supporting every year. So that's where we are heading.

HEATHER MCKILLOP: And I just want to say this money, we have set aside $10 million over two years. This is part of that budget. And then we also a have maintenance money program that the money would come out of ongoing in the mid-term financial plan and the long range plan.

KEN MIHALIK: OK. I see we have a number of speakers. Director Menten, you have the floor.

NATALIE MENTEN: Thank you. So I believe we have one or two individuals who work for the agency, at one other ERP developers.

HEATHER MCKILLOP: You have ERP developers.

RAHUL SOOD: Yes. We have three developers currently in-house for ERP developers.

NATALIE MENTEN: And so in those, when we're buying these new modules, I assume they work on integrating the system into these modules that we're purchasing.

RAHUL SOOD: That is correct.

NATALIE MENTEN: OK. And is that best suited for somebody in-house, or would that be better contracted?

RAHUL SOOD: It will be better suited with somebody in house because they understand the existing system and integrate it into the new system.

HEATHER MCKILLOP: Can I add something to that, though? We have contracted with outside vendors, too, to supplement staff in various areas of this implementation over the next few years. So their services will be supplemented with outside staff. And I forgot who that vendor is.

RAHUL SOOD: I was focusing more on the integration side. But the implementation of the software will be done by a third party consulting company that we're going to hire.

NATALIE MENTEN: And that would be outside this contract license.

RAHUL SOOD: That will be outside of this contract license, correct.

NATALIE MENTEN: Will that be substantial cost?

RAHUL SOOD: For this planning and budgeting, we have estimated a budget of $600,000 for implementation.

NATALIE MENTEN: OK. All right. That answers my questions for now. Thank you very much.

KEN MIHALIK: OK, thank you. Director Folska.

CLAUDIA FOLSKA: Thank you, Chairman Mihalik. Can you remind me when we changed to the Oracle system?

RAHUL SOOD: 2006.

CLAUDIA FOLSKA: And how long did that integration take?

RAHUL SOOD: The implementation took about three years.

CLAUDIA FOLSKA: And how much was that?

RAHUL SOOD: I'll have to get the numbers, but we can get back to you.

CLAUDIA FOLSKA: OK. Thank you.

KEN MIHALIK: OK. Thank you. Director Williams.

KATE WILLIAMS: Thank you, Chair Mihalik. Good evening, ladies and gentlemen. So the pricing that we have on this is based on our size. Or is it a flat fee across the industry?

RAHUL SOOD: So different modules are priced differently. Planning and budgeting is priced for 100 users within the district to be able to use the planning and budgeting application. For the procurement, sourcing, and contract management, we have the entire district licensed to be able to use that module. For inventory planning, we have 25 users licensed. And the licenses is based on the number of parts that we reorder every year, so it's based on that parts.

KATE WILLIAMS: Thank you. That's what I wanted to know.

KEN MIHALIK: Thank you. Director Broom.

BOB BROOM: Thank you, Chair. A couple of comments. One, I get alphabet fatigue after a while. You know, I'm wondering what is ERP?

RAHUL SOOD: Enterprise Resource Planning.

BOB BROOM: So I would suggest when you do memos like this, the first time you use that in a memo, to put that behind it just so you don't cause me all that heartburn trying to figure out what that is.

RAHUL SOOD: We'll take that into consideration, definitely.

BOB BROOM: The other thing is that I've seen time and time again, when major software systems are implemented by large governmental units, that it ends up a godawful mess. And the things don't work right and so on and so forth. So we'll keep our fingers crossed. I don't have any experience with RTD, but I've had experience with other organizations. Thank you.

HEATHER MCKILLOP: Well, this will be my fourth one. So we hope it isn't a godawful mess. But I think we're taking a totally different approach on this one. There are a lot more options available to us than there have been in the past. And one of the big moves is moving off of it being on premise and us having to support all the servers, having to deal with the updates, the patches-- thank you-- and those type of things, which is basically what we're paying them to do.

Hopefully we'll not get in a situation where we are now 12 years later and we've done what, one upgrade in that whole 12-year period when we probably should have done three or four but didn't because of the expense. So this is a different way of looking at it. We hope it will be successful. And we've been planning this since I started, so three years now. So there's been about three years of planning going into it. I don't know if that ensures success, but we're going to make it that way. Rahul's job-- no, just kidding. I was going to say Rahul's job is dependent on that. But no pressure, Rahul.

And we'll keep regular updates because we'll be coming back to you at periodic times when we go for the next set of licensing, when we go for the implementation cost, those type of things. So over the next few years, you'll have multiple updates on how the progress is going.

BOB BROOM: Thank you very much.

KEN MIHALIK: Thank you. Director Folska, before I get to you, I'm going to interject real fast. What would the equivalent licenses have been, the ones that these are meant to replace or upgrade?

RAHUL SOOD: So the current license model differs from this license model because we bought it as a suite of tools, and we licensed different modules based on different user need at that time of the implementation timeline. So for example, let's say inventory planning, currently we have 15 users licensed. So we are going from 15 to 25 just to accommodate for the growth. So different modules are licensed differently in the current system, and they're licensed differently when we are going to the new subscription model.

HEATHER MCKILLOP: I think what you're asking, though, is what would the cost difference be if we had gone the old methodology of implementation versus this methodology. And we can get you some comparisons of those numbers, but probably in the tens of millions of dollar difference.

KEN MIHALIK: I'm sure there's a substantial cost avoidance, essentially, or at least a still a trade-off.

HEATHER MCKILLOP: And there is a trade-off because what you're paying for the old way of doing is you're funding all those costs up front, and then you're kind of amortizing them over time. This way we're paying for it every year. So in the end, I'm not sure, if you did it over a five- or 10-year process, that it would be that much different.

The problem that we've seen in this organization is we've never funded the expensive upgrades. And this prevents that issue from happening in that you have a kind of a constant price that you know over time, which includes all those patches and upgrades and things that you need to do to stay current.

BOB BROOM: So cost of good repair or state of good repair for the software.

HEATHER MCKILLOP: Exactly. And all the hardware piece is on the vendor instead of us.

KEN MIHALIK: OK, thank you. Director Folska, you have the floor.

CLAUDIA FOLSKA: Thank you, Chair. Heather, I'm sure you guys have done a cost benefit analysis with the present value.

HEATHER MCKILLOP: So we've done something similar to that when we presented it to our internal IT governance committee back in 2017, early '17. I don't have that handy, but we can get that for you.

CLAUDIA FOLSKA: I'd be real interested in that. And then just out of curiosity, do you go to your user groups and ask them what they need and what's going to work best for them?

RAHUL SOOD: Yes. It has been a two-year-long process looking at different products, different demos with the user community, with us, within all these three different module space. So all of the users have been 100% involved during the entire selection process for the product.

CLAUDIA FOLSKA: OK, thank you.

KEN MIHALIK: And real quickly on the check with Director Deadwyler to see if she's-- oh, you're with us.

BARBARA DEADWYLER: Thank you for that. I have nothing, thanks.

KEN MIHALIK: OK. Thank you. I did forget about you, and thankfully I was reminded that you were still on the phone. So apologize for that. Director Menten.

NATALIE MENTEN: Yes. Forgot that I did definitely want to ask about one issue that's very, very important to me. And that is with our financial transparency on the website right now, we have a PDF of our purchases and PDF of purchase orders, which is present on the policies page of financial. Looking at other governments, we're way, way-- I appreciate it because before I came here we didn't have either of those. But now we got the PDF, which you can convert it in the Adobe converter, put it in a spreadsheet.

But looking at other governments, we're really, really behind. So what I'm wondering is if this will make it easier for us to include a check register and purchase order in a searchable type of format, with the main focus being that vendors would be able to see what we buy, including when it says payee, or check made out to ABC Corp it includes the description, so that anybody who is a competitor with ABC Corp could say, ah, that's what they bought. Oh, we supply it. Let's submit our interest to be included in the bid proposals.

RAHUL SOOD: Yes. As part of the sourcing and contract management module that we are getting as part of the ERP Cloud subscription, vendors will have access to come in and not only take a look at what solicitations are out there, apply for solicitations online, work with the procurement department in a much more collaborative online perspective. All of the Request for Proposals (RFP), Request for Qualifications (RFQ) will be available online for anybody to look at any given time.

Once the RFP, RFQ is awarded to a vendor, that award will be available on the same website. Who the vendor is, what the selection criteria was, all of that will be available online, yes.

NATALIE MENTEN: And our check register?

RAHUL SOOD: So that's part of the phase three with finance. When we move finance over into this new solution, they will have access to that information.

NATALIE MENTEN: And when would phase three approximately be, do you plan on?

RAHUL SOOD: We need to finish it before 2022.

NATALIE MENTEN: OK. Well, we only got a certain amount of time.

HEATHER MCKILLOP: We would expect it to start around 2020, and then implementation, be done prior to 2022. That's the biggest piece that were moving.

NATALIE MENTEN: OK. Offline, I'd like to have some more conversation because it is very, very important, I think, to our financial and vendors and all above. OK. Thank you very much. That's all.

KEN MIHALIK: And thank you one more time. Back to Director Folska.

CLAUDIA FOLSKA: Thank you, Chair. I'm so sorry for doing this, but I do think this is an opportunity that I would be remiss to not ask. And that is that when agencies purchase ERP systems, that they are accessible, that they are compliant with all of those accessible codes. Have you looked into that? And do you have the expertise to do that?

RAHUL SOOD: Yeah. So we are looking at anything customer facing or vendor facing that will be part of the ERP will be accessible friendly. So part of that going to the Cloud approach, all of these Cloud vendors certified in a certain-- I'm forgetting the codes-- but 508 compliance, they do certify those external facing competence that the customers and vendors are going to use in that format, yes.

CLAUDIA FOLSKA: My hope is that the people internally would have access to that as well because someday you may hire somebody with a disability who could be needing an accessible--

RAHUL SOOD: Definitely. And current system that we currently have is not even accessible friendly.

CLAUDIA FOLSKA: I know. Mine isn't right here.

RAHUL SOOD: The new one, the vendors that we are looking at, all of those vendors basically have HTML5 capabilities within that browser, where they make it much more accessible friendly. Whether they are 508 compliance for the entire solution or not, that we will have to evaluate.

CLAUDIA FOLSKA: All right. Well, I think that should be a requirement, and it's their job to build that into their architecture.

RAHUL SOOD: We can work that out.

CLAUDIA FOLSKA: Great. Thank you.

RAHUL SOOD: Thank you.

KEN MIHALIK: OK. Thank you. Seeing no other speakers, we'll move to a vote. And the mover was Director Anderson and the second was Director Williams.

BARBARA DEADWYLER: I vote yes.

KEN MIHALIK: Oh, yes, thank you, Director Deadwyler. With Director Deadwyler's yes, that's 13 yeses. Passes unanimously. It's move to the unanimous consent agenda. Thank you very much.

And the second of two recommended actions tonight reads as follows. It is recommended by the Financial Administration and Audit Committee that the Board of Directors authorized the General Manager or his designee to award a five-year contract to active navigation in a total not to exceed amount of $869,539 for a data and content analysis software or record crawler. This recommended action addresses the GM's 2018 goals, task goal number one, fiscal sustainability, and task goal number three, asset management state of good repair.

BOB BROOM: So moved.

LORRAINE ANDERSON: Second.

KEN MIHALIK: I've got Director Broom as a mover and Director Anderson as the second. Thank you very much.

ROLF ASPHAUG: Yes, Chair Mihalik? This is Rolf Asphaug, General Counsel. To speak on this recommended action, I'd like to introduce our Senior Manager for the Information Governance and Management Division at RTD, Linda Buss. Linda will explain the purpose of this procurement and how it fits into RTD's overall information management strategy.

KEN MIHALIK: Thank you very much.

LINDA BUSS: Thank you for this opportunity. So I'd like to give you folks a little background on this particular procurement. In 2016 we hired an information governance consultant, IQBG, to go through the current state of the records management and information governance capabilities at RTD.

What they recommended is that we proceed to purchase a data and information analytics tool, which is also called a crawler. It's not really a very attractive name. But it certainly describes what it's designed to do, which is to look at electronic files in a folder on a share drive and identify duplicates, near duplicates, and the official record copy. So the crawler is really key to implement a strategy to remove duplicates within the file systems that we are currently using.

Now the procurement can seem a little expensive at this point. But this is for five years for the support and the licensing of this product. The purchase has already been vetted by the information technology governance board to confirm our need for the purchase, as well as sufficient internal resources to support it. It has also undergone review through the budget process.

IGM's goal-- Information Governance Management-- is to reduce storage of information in unauthorized locations, identify and remove duplicates-- a technical term we use is deduping-- reduce storage costs, identify the most current version to preserve as the record copy, and also to improve current processes and practices when it comes to managing information as an organization.

So what kind of an impact would this type of product have for RTD? Roughly 40% of the total content in a prior pilot scan, nearly 1/2 the electronic data that's currently stored on our systems was identified as being obsolete or with no significant value to RTD. In technical terms, in the records management field, it's called ROT, redundant, obsolete, and trivial.

Some of the content that was contained in the pilots also appeared to be credit card information and social security numbers. So that's another reason we need to move forward, identify this information, and to get it off of the share drives and into the correct repositories where it can be accessed controlled and dispositioned or deleted at the end of its retention.

Reducing the volume of files on the share drives, makes it easier for RTD employees to locate the information that's necessary to perform their jobs, helps IT manage the storage space, and encourages RTD employees to use the repositories that were designed to protect this information.

KEN MIHALIK: OK. Thank you for that description. We've got two speakers. Director Williams.

KATE WILLIAMS: Thank you, Chair. I have a question probably just for my own knowledge. The crawler does remove data that is time dated? Are we required to maintain those records for a certain period of time? And does this help to remove outdated stuff?

LINDA BUSS: So crawler is actually designed to allow us to create rules that we will compare against the content of a file. So it may be 15 years old. The content is identified as non-record material, and so that file would be flagged as ready to remove. Content that is part of the records retention schedule would be flagged for someone from the Information Governance and Management division to actually put eyes on and make a determination whether yes, this is ready to disposition, or no, we need to keep this a little longer until it's reached the end of its retention.

So it's very flexible. It's a very sophisticated software application. And we can configure it to do a number of the different things that we really need it to do.

KATE WILLIAMS: Thank you. That was a great answer.

KEN MIHALIK: Thank you. I'm going to check in with Director Deadwyler, see if she has any questions.

BARBARA DEADWYLER: No, I don't. Thank you, Chair.

KEN MIHALIK: OK, thank you. And Director Folska, you have the floor.

CLAUDIA FOLSKA: Thank you, Chair. I don't know where I've been lately, but I have never heard about this IT governance board until recently. And I'm wondering if you could tell me what this body is and who is on this board, and where are they, and what do they do?

DAVE GENOVA: Rolf or Heather?

CLAUDIA FOLSKA: What's the policy behind having them?

ROLF ASPHAUG: Heather is coming up because that board, Director Folska-- this is Rolf Asphaug again-- is chaired by the IT division. But it is a group that evaluates anything that is IT-related, software, hardware, anything that has an information technology component, to essentially make sure that the purchase is sound, that we have the resources not only to buy some shiny new item, but to actually support it over the years, and that it fits into our overall business plan and business needs. Heather's up at the table and can provide more information on that.

HEATHER MCKILLOP: Well, he did a great job of explaining. It's made up of the SLT, Senior Leadership Team members, as well as procurement, quite a few from the IT staff. So we have various individuals across the organizations that might be impacted both from a budgetary standpoint, but also a resource standpoint.

We had a point several years ago before it was created that we had a backlog of IT projects, and there were lots of complaints about not having transparency in the organization into when those projects would be completed or the resources available. Through implementation of this governance committee, we've been able to eliminate that backlog and provide transparency into when projects would be done.

And that group actually makes decisions about prioritization of those projects within the existing budget and the resources that we have available to us in IT and the different business groups that might have to do the testing and other things related to those type of projects. So it's been very effective, I think. Of course, it's my committee, so I thought it was very effective. But I think it's been a great way to bring some transparency to the process, and I think it's improved the relationship between all of the other divisions and IT within RTD.

CLAUDIA FOLSKA: So it's been referred to as an IT governance board, and it seems to me that the only governance board we have is this board that's been elected. And I'd like to see a policy around this if there is one. And I think it's a governance board, it's appropriate to have some board members on that governance board.

HEATHER MCKILLOP: It's an internal governance committee regarding IT projects. So it's not designed to be a policy committee. It's not designed to replace the board. It's designed to be an internal makeup to be able to address the prioritization of projects that the board has adopted through the budget process.

CLAUDIA FOLSKA: Like I said, I'd like to see a policy on that. You called it a governance committee, governance board. This is the governance committee, board, whatever. And I think it's important that we have a view into it. It's not been transparent, to me, at least. And it could be my fault. Maybe I missed it. But this is new to me. Thank you.

KEN MIHALIK: OK. Thank you, Director Folska. Thank you, ladies. Seeing no other speakers, we'll go to vote. And I have Director Broom as the first and Director Anderson as a second. Yes, Director Deadwyler, what was your--

BARBARA DEADWYLER: I vote yes.

KEN MIHALIK: OK. Thank you. And same as before. 13 yeses, no no's. This will move to the unanimous consent agenda.

Now we move on to a series of updates, first being an update from the audit department. Miss Isaac-Heslop, Mr. Parker, thank you very much. Were you looking to display it on the-- well, if you've got it, we've each got it on our packet. Maybe it'll pop up there here in a second.

Director Deadwyler, we're just trying to get squared away here.

ANN MARIE ISAAC-HESLOP: Hi, Chair and Vice Chair, ladies and gentlemen. Ann Marie Isaac-Heslop here, Manager of Internal and IT Audit. And Kevin Parker is the Senior Auditor. We're going to do a short, smooth update. I know you guys heard the word short up a lot today. But how about if we just said, questions?

So what we've presented, we have put together a short slide show which has a list of completed audits that we've done. Some of these we've been working on for quite a while. But we've managed to come to a final report on some of them. We also have listed a lot of in progress audits. This isn't everything that we're doing, but it's a lot of the audit work that we're currently doing. We have a lot of follow-up audits, and we have some further information on the final slide there.

We have put together a package and sent it to each of you with all of the completed audits. And basically when we come to these meetings, we're coming to see if there are any questions on anything that we have done, have in audit plan, or have in progress. So with that, I will open it up to questions.

KEN MIHALIK: Well, that was short. I'm looking around. I see one. Director Menten, you have the floor.

NATALIE MENTEN: Thank you. I will start with, first, the items that are in the presentation that was on our screen-- and is on our screen, I should say-- and taking a look at a couple of these. These will be some comments and then a couple of questions.

One was civil rights. I do appreciate the findings that there needs to be a closer eye on the functions. I am concerned when this organization goes to events where the ticket prices are $80, $100, or more for a dinner, what that looks like to the community. And I don't believe that it falls within the reaching out to the common person. So I'm going to agree with the findings in the civil rights audit.

I will then move to the FasTracks staffing audit, which you had provided the paper document here. And in noting there's a couple of items that I appreciate you bringing to attention. And specifically on the recommendations there that we right now have 38 vacancies showing in the organizational chart, and the recommendation is that those should be removed immediately.

I would have to agree with that, as we have completed buildout on a big chunk and we won't be able to move forward into anything else with the buildout for a substantial amount of years. So I will look forward to that progressing in the follow-up. Since that is completed, you will still have the follow-up, so I'll look forward to that. Would that be something we could expect in the next quarterly report, or might that take a little bit longer?

ANN MARIE ISAAC-HESLOP: First of all I want to say that the 38 vacancies were in the FasTracks reorg org chart. So it wasn't under Capital Programs. It was in the FasTracks reorg org chart. So I think sometimes it gets a little bit confusing whether it's 38 vacancies showing up under Capital Programs or whether it's under FasTracks.

We did have a management response on it that says that Heather will actually be working with Capital Programs/ FasTracks with Henry to remove those. So it kind of just depends on not just audit, but basically on the timing for both of them, when we would be able to come back with anything on it.

NATALIE MENTEN: OK. So on the follow-up, then, it may be a better number than on where the split is between O&M versus the build. Would that be an accurate way to put that? Yeah, OK. Great. I'll look forward to that one, then.

Then I know in the past with the audits regarding salaried positions and salary increases, and also what we would call promotions or lateral changes, in the last couple of weeks I had requested some more information on how we address what we would call job comparisons. And there's two different levels because Heather, you and I had talked after the meeting last time. And I'm not sure where we are on going through with having an independent evaluation.

And I know there's some other board directors, at least a couple, that are interested in knowing-- we're getting a point where we are stretching our dollar further and further. And keeping a closer eye on the promotions, the salary increases, the positions that are being filled, and how we accurately look at the job descriptions of the agency compared to an independent private sector because we already do it somewhat with the government.

But we don't do it, really, as far as I'm understanding, as much with the private sector, and especially tying in pensions, which is a problem with this agency throughout the country. And it seems hard to compare apples to apples in that with private versus public. So could you explain a little bit on how we are addressing that independent evaluation of our FTEs and filling the positions for me, please?

HEATHER MCKILLOP: Sure. This is Heather. And that was a lot of questions there, but I will try to take them. And then you'll have to remind me if I missed something.

So in a previous audit that I believe was early 2015-- it was right after I got here, so sometime early to mid-2015-- there was an audit finding that came out that said that perhaps that we needed to do a classification study. So there is a difference between a classification study and a salary survey. So I'll talk about what a classification study is first. The recommendation is that we might want to use an outside firm to do that. And again, I believe that was sometime mid-2015.

Classification study really looks at all the job descriptions you have within the organization. And are there jobs that are similar, or like, that can be grouped together and perhaps renamed or called something that's more relevant to what it's being called in the industry today. And industry could mean private or public sector. Typically that does not deal with salary per se in that somebody might have a salary adjustment as they get moved into a different classification title. But it doesn't look at, necessarily, the salaries for each classification. But it does look at overall.

An example I use is that one time when I first came, we had 15 different job descriptions for budget analysts, and we consolidated that into four. So that's what a classification study does. Rather than doing that externally, we have looked at doing that internally piece by piece.

My experience is if you do that all at one time, it can be very chaotic for the organization. But if you look at it on an individual basis, that might produce better results. We have looked at the budget analyst series. We're looking at the administrative assistant series now. And we'll continue through the organization to do that.

That doesn't happen very often. Typically that happens on a, maybe, five-year, seven-year basis that you do something like that. It would probably cost several hundred thousand dollars if we went externally to do that. It's still an option, but we've chosen not to pursue that option at this time.

The second piece of it is the salary survey. And that's done on a regular annual basis, where you go out-- and we use Mountain States, we pay Mountain States-- to look at both public and private sector and see where our positions fall. And we compare through job descriptions and some other criteria, where do our positions fall within similar positions throughout the Denver metropolitan area, state of Colorado, and then nationally.

We have paid more attention recently specifically to the Denver metropolitan area because that's who we compete with for positions. And this happens to be an area that tends to have higher wages than a lot of the rest of the country. And that salary survey, we do that annually. We look at how we compare. We try to stay around the mid-range for most positions. There are going to be some positions that are slightly above the mid-range just because they don't fall exactly into what a comparison is. And there'll be some that'll be low. But if we look at all of our positions, we try to keep those around the mid-range.

You may have heard of progression pay that was mentioned in some previous audits. That was done to move people up so that they met close to the mid-range. Last year we had 51% of the people slightly above and 49% slightly below. That's an equilibrium for us. So we discontinued progression pay the last two years. So 2017 there was no progression pay and 2018 there was no progression pay.

We continue to look at that on an annual basis because we don't want to get too far behind the market. Otherwise, we have to do significantly larger pay increases. That happened in 2013-14, I believe, which is what the audit found, because we had had four or five years with no pay increases whatsoever. So that's kind of done on a global level every year.

And then on an individual basis, as positions become vacant, we have the hiring manager reviewed it to make sure that the job description is still accurate for the particular position that's vacant. Do they still need the position? Does the job description need to change? If it doesn't need to change, then we use whatever the market is compared to, and we use Mountain States for that comparison.

If it does change, then we go out and do an analysis through Mountain States as to what are comparable positions with that job description look like. And then we use that salary range as our salary range. So there are several different ways of doing that, different methodologies over time. But on an annual basis we do look at salary compared to what's out there in the market. We make adjustments--and again, we haven't done that for the last two years. But we do consider that every year when we look at it.

The last part of your question was how do we factor in those other benefits piece of it? So each year our employees get a statement that shows how we equate the dollar amount of the benefits that they receive on top of their salary. So it's a total compensation package, we call it, and it's a total compensation letter that we get. That is the information that we also use to compare on another basis.

So maybe in Company B, they don't have a pension plan, but they match all their 401Ks. Or they don't have as good of a health care plan, but they offer a much better 401K or something like that. So we do it on a money comparison basis. So we don't look at do you have a pension plan? We look at, OK, we have a pension plan. This is what we contribute from a dollar perspective. What does that whole compensation package look like compared to the other industry segments that we're looking at? I hope I addressed most of those questions.

NATALIE MENTEN: Yeah, I think we got pretty close. Will I be able to get the Mountain States report in full?

HEATHER MCKILLOP: So we're still discussing that. I'll talk to you offline about that.

NATALIE MENTEN: All right. I will also follow up, then, with one other question. And this will be more directed, whoever would like the answer. In the past we had a recommendation from the audit department to put our audit reports online for public transparency. My understanding is that was nixed at a higher level. And I would like to know an answer about putting our audit reports for the agency online for the public to review.

DAVE GENOVA: I have no problem putting them online. They're public documents. I don't recall the conversation about previously putting them online and who said no to that. I don't even recall the conversation.

NATALIE MENTEN: OK. I remember I had that with you in one of the meetings that was after one of our executive committee meetings upstairs, where you were going to talk to Anne Marie after I brought up what was mentioned. So if we are good putting that online, then I would love to see that proceed because I think that would be a great asset in our statement of being very visible and serving the public.

DAVE GENOVA: Certainly we put a lot of our publicly available reports online, and I don't see an issue with these.

NATALIE MENTEN: OK. Thank you. That's all my questions.

KEN MIHALIK: Thank you. And looking through some of the P-Card audits, I think RTD should be proud to put this online. They seem to be really tight controls.

NATALIE MENTEN: Oh, I'm sorry.

KEN MIHALIK: Yes. One more question, Director Menten.

NATALIE MENTEN: Kudos for the paper here, Rolf. I think you had the best one out of here.

ROLF ASPHAUG: Well, thank you, Director Menten. We still had a finding, and we've gone ahead and communicated to all of our staff to make sure that we do what was recommended to do.

NATALIE MENTEN: You have the least amount of paper in your stack. Very good.

KEN MIHALIK: OK, thank you. Director Folska.

CLAUDIA FOLSKA: Thank you, Chair. I know that, Ann Marie, a few years ago, actually, we were talking about all the audits that you do. And it's been somewhat contentious on the board who gets to ask for audits and so on and so forth. Can you tell me how many audits you do annually?

ANN MARIE ISAAC-HESLOP: Around 2016, we sort of got away from the idea that we needed to do a number of audits each year, the reason being some of the audits take a really long time. According to the Association of Local Government Auditors, a team of less than five people do approximately four audits per year. Since I've been here in five years, Kevin and myself have done up to 21 audits and more in one year. So I try to stay clear of a particular number because if we went for a number, I would really like to go for the four audits a year.

CLAUDIA FOLSKA: Right. And so what does it take? What I find so incredibly impressive about auditing is that you have to have a deep knowledge of a broad breadth of different disciplines throughout this agency, whether it's the P-Cards or the bus operations or administrative. Every single thing in IT is so complicated, and there are layers and layers and layers.

And I know that one of the things that I had asked for is that we find a way to enhance your department by providing you the necessary resources, i.e. budget, to support the efforts that this agency has asked you to do. Has that been done yet?

ANN MARIE ISAAC-HESLOP: For 2018, we actually got some money, $100,000 a year for five consecutive years, which we've spoken to the General Manager today about. This is what I want to say, that between Kevin and myself, we have more experience than the years that I've been on this, and that's a considerable long time.

So basically, between the two of us, we have a lot of experience. It allows us to be able to get in there and actually do the work in less time than someone else who was newer to auditing. However, now that we have this money, we've been doing some research into trying to figure out how we can get a contractor and how many hours we can get.

And we've kind of been sort of really on a high. We got the money and then put in a low. And we realized that when we go out to conferences, et cetera, and we meet contractors who can do the work, they are telling us, well, you can probably have two months, but I won't be able to stay in your office. We can probably do a couple of audits for you for the $100,000, which we don't feel that's OK.

And we know the market is very active. Everybody has a lot of work. I sit on a roundtable with chief executives like myself from other mostly private sector, and they just laugh. They're like, $100,000, don't even come near us. But for us it's fantastic. So basically we have to really think about how we can use this resource to get the most out of it at the moment, rather than just taking the 60 hours or whatever some contractor is willing to provide for us.

CLAUDIA FOLSKA: So it sounds to me that your department is inadequately funded to do the job that the people in this agency have asked you to do. Is that correct?

ANN MARIE ISAAC-HESLOP: We've asked for resources for several years. And we were speaking today about it to the General Manager.

DAVE GENOVA: So if I may, Chair Mihalik, so every year the board approves the audit plan. And so I think that that would be the timing. And historically it's run around, up until the last couple of years, around 20 audits or so including some follow-up audits and things.

So typically internal audit will bring that to the board and in the fall as far as a proposed audit plan after audit has reached out to the board of directors and then also staff about suggestions for audit areas and audit types. And then they put together an audit plan. And the resources over the last years historically have been able to accomplish that audit plan.

So if we wanted to do additional audits or additional things into the audit plan, then we probably would have to bring on some additional resources to do that. But it just depends on the breadth and scope of the audit plan.

CLAUDIA FOLSKA: OK. And with the new technology that we just voted to purchase, were you part of that user group, Ann Marie?

ANN MARIE ISAAC-HESLOP: No. This is for the ERP stuff?

CLAUDIA FOLSKA: We're purchasing a new ERP system that will be live in 2020, 2022. So were you part of the user group to see how that will help you automate your activities?

ANN MARIE ISAAC-HESLOP: We were not a part of it.

CLAUDIA FOLSKA: OK, because they just told me, this board, that they had everybody throughout this agency. It's an enterprise-wide system. What kind of automated system do you use to perform your duties?

ANN MARIE ISAAC-HESLOP: We use absolute manual system, including writing on the coordinates of the white paper with a red pen.

CLAUDIA FOLSKA: So I think, then, it is quite fair to say you are inadequately equipped to do your job as highest and best use of your time and ability. And I would ask that this agency and you, Mr. Genova, put it in the budget that this department is better funded for this automation. This, I think it's appalling. I'm sorry. That's all I have to say.

HEATHER MCKILLOP: So Mr. Chair, if I could address that one.

KEN MIHALIK: Sure.

HEATHER MCKILLOP: So remember the licenses you were approved for public sector budgeting and inventory control. We have not started the process on the financial management system for Oracle, which is where they derived most of their information. So that is not two areas that they would be affected by, inventory control or public sector budgeting.

CLAUDIA FOLSKA: Well, the fact that everything we do here is using a computer except for the auditing department, again, I say is appalling. This needs to be electronic. This is not the best use of anybody's time to be shuffling papers around and writing it down by hand.

KEN MIHALIK: Thank you, Director Folska. If you care to follow up with them later on, please do. Director Anderson.

LORRAINE ANDERSON: You know, I thought it took eight people to [INAUDIBLE] what to do. Thank you.

KEN MIHALIK: OK. I see one more. Director Lubow.

JUDY LUBOW: Thank you, Chair. I just want to chime in because it seems to me that the audit department is essential in terms of quality control for any organization. And perhaps there's enough people. Perhaps there could be a significant improvement if there were additional people. I don't know. I'm just hoping that there is a review of the audit department, a recent review to see if a significant improvement of the agency could happen if there were additional staff. I'd be interested in seeing a result of that review, and just moving forward, for the benefit of the agency. That's all. Thank you.

KEN MIHALIK: OK. Thank you for that. So no other commenters? Thank you both. Oh, sorry, hang tight. Let me see if Director Deadwyler, are you still with us? And do you have any comments or questions for the audit committee or the audit department? I don't think she's with us anymore. OK. Thank you both.

HEATHER MCKILLOP: Thank you. So we'll try to keep these next two as brief as possible. The mid-term financial plan, this is the third time, I believe, that you have seen that plan. So we'll be a little more brief. The long-term financial plan is the first time you'll be seeing it. The good news is that both of the plans are balanced. They are both in a better situation than they've been for years that I've been here, so that's good news.

And so with that we're going to go on the mid-term financial plan. Jannette's going to go through some of the differences from the last time you've seen them. Unless there are changes tonight, we will not be bringing them back again until September.

We're in a wait mode right now to find out how the fare structure meetings go and what the recommendations will be back to this board in September. Depending on what those recommendations are and how it impacts these plans, we may or may not have to make changes to it. So that's kind of where we are in a nutshell. And with that, I'm going to turn it over to Jannette to walk through some changes since the last time you were here.

JANNETTE SCARPINO: Thank you. The mid-term financial plan is made up of the Strategic Budget (SBP) and the Annual Program Evaluation (APE). These two plans are integrated into one through the year 2024. We also do a long-term financial plan through 2040 in a separate document, which we will speak about shortly.

The components include fiscal management, continued building of reserves. With respect to that, we are looking at a steady increase to the board-appropriated fund and the operating reserve. The capital replacement fund will be used by the base system through 2021, and then it will be funded again in 2022. We want to maintain service levels. We will budget for operations and maintenance of completed projects, state of good repair. We may have an opportunity to lock our diesel fuel. We are currently budgeting $2.20 a gallon. The futures market is roughly $2.36 a gallon for 2019.

And I think the biggest change is here, and that is that we have closed the previous gap, which you saw in our first draft, of $65 million. And we've done this by identifying our highest priority projects. So we have eliminated many of them or reduced them or deferred them. We are still making these decisions about our projects. But the current plan, this version, is balanced. That includes a planned fleet expansion, which we will pay for with previously issued COPs or local funds.

You know our uncontrollable and controllable variables. We've been through this before. Our revenue assumptions are essentially the same. We are using the March 2018 forecast from the University of Colorado Leeds School. I do want to point out that while the Leeds School was forecasting a 4.1% increase in 2018 over 2017, our current run rate is something north of 6%.

We saw an April increase year over year of 6.8%. In May our year over year increase was 6.2%, so we're a little ahead of the curve. CU forecasted a bit of a slowdown in 2018 because they thought that the Colorado economy is at capacity. In our plan we've also reinstated the marijuana sales tax, and we will see that in the CU Leeds September forecast.

We've shown you this chart before. But just to remind you, upward slope. Our revenue assumptions also include grants, local and third party revenues, largely on the FasTracks side, and we are not assuming any new debt coming into the plan over the six-year period.

Our expenditures, suffice to say-- you've seen this before-- essentially we are inflating our O&M costs at the CPI rate. I talked about fuel just seconds ago. Debt service, again, no new debt is assumed in the plan. And with respect to project and capital expenditures, as I said, the base system will be drawing down the capital replacement fund in 2019. But we will resume funding of it in 2022. And more importantly, we do not anticipate the system needing to transfer any dollars to FasTracks over the mid-term plan.

Our reserves assumptions, we talk about this all the time. We strive for a combined three months of O&M cost in our three reserve funds, the board-appropriated fund, the operating reserve, and the unrestricted fund balance. We believe this will be sufficient to withstand economic fluctuations.

With respect to the FasTracks Internal Savings Account (FISA), we expect that it will build rather significantly. We will use it in the short term, but it will build rather significantly through 2024.

This is the summary cash flow for the base system. I'm not going to belabor this either other than saying that note the adjustment to balance line, which is the red noted line right after line five. There is no need for an adjusting entry here. We have the plan balanced at this time. And that is noted by line 33, which is the unrestricted year end fund balance. It is positive in all years.

I will point out that years 2019 through 2021 are a little bit skinny. Those are our tight years. That took some work. But after that, the plan generates cash flow rather nicely.

This is a graph of our projected sources of funds for 2019. Note our largest sources, sales and use tax, revenue, and passenger fares. And similarly, a pie chart of our uses of funds, our major uses being operating expenses, capital expenditures, and debt payments.

And finally, for my part, we just want to graph the base system reserve balances. And this is kind of interesting because the blue line represents our unrestricted year end fund balance. And as I said, it is projected to increase as the plan generates strong cash flow in the years 2022 through 2024.

But in the first three years, 2019 through 2021, it's a little bit tight. We are looking for steady plan growth of our other funds at $3 million in each fund each year. However, in the final plan, we may change these contributions and push more into the board-appropriated fund and operating reserve. But the point of this chart is to see how the cash flow is generated after those early years.

So with regard to FasTracks, Susan will take it from here.

SUSAN COHEN: OK. This is Susan Cohen talking about FasTracks. The assumptions are basically what you saw last month. We will be completing our ongoing projects closing out US 36, Eagle, and I-225, in completion of the committed segment of North Metro through 124th Avenue and the Southeast Rail Extension.

And we have assumptions for state of good repair for all the corridors except Eagle. Eagle's cost of state of good repair is actually included in the Concession Agreement, so we don't budget a separate allowance for that. We begin that allowance at 3/10 of a percent seven years after the corridor's open. So in the current mid-term plan, we would be starting allowances for the West Rail Denver Union Station, US 36-BRT, I-225 by 2024.

And next page is the summary cash flow, which, as Jannette said earlier, is completely balanced. We have fully funded reserves. And the end of the period in 2024, at the end of line 27, the unrestricted fund balance is $39.2 million forecast. And the FISA, which is line 33, is fully funded at $179.6 million.

Next steps. We had spoken about the second draft presentation here. August 14 is tentative. Unless we have changes, we will not be back on the 14th. We will see what happens after that fare hearings that are coming up the next couple of weeks. We're anticipating coming back at the committee meeting on September 11 with presentation of this mid-term plan and the long range financial plan, which you'll see in the next presentation, for adoption, and the first presentation of the 2019 requested budget.

We are expecting to bring back the mid-term and long range financial plans for adoption at the board meeting on the 18th of September and bringing back the budget for adoption on November 13. Now I'd like to entertain any questions.

KEN MIHALIK: I know there's one. Director Broom, you can lead us off.

BOB BROOM: Thank you, Chair. I assume this plan doesn't include any revenue projections from the recent US Supreme Court ruling that reversed the collection of sales tax on internet sales.

HEATHER MCKILLOP: So I will attempt to answer that. So it does include a portion of that because we have had nexus with Amazon for the last year and a half. And we have steadily seen those revenues increase. But no, it does not include any assumptions for all the other online vendors and what those would mean. We will be having that conversation with the CU Leeds School of Business. As we progress into the September forecast, we typically meet with them and discuss any legislative changes both on the state and federal level, and how that might impact their forecasting, and what methodology they might be using to do that.

BOB BROOM: Can I continue?

KEN MIHALIK: Please.

BOB BROOM: As I understand it, it's going to take a bill in the legislature to implement this, and that a lot of states have already preempted this and put legislation on the books in the event this happens so that they can take advantage of it.

What I get concerned about, I guess, given our experience with marijuana, is that somehow RTD will get lost in the drafting down at the state legislature. And so I just want us to go on record early on that we don't want to see a repeat of that and put our lobbyists on notice that they need to really watch the bills carefully to make sure that we're not disadvantaged when this process takes place.

And the reality of it is that, after listening to this discussion for many years at National League of Cities is that some states had adopted something where there was a single sales tax, and then they would distribute from the state level back. Obviously in Colorado, the problem is that there's hundreds of different jurisdictions with different sales tax rates.

Now Amazon and Walmart and some of these others have the ability, with their software, to be pretty good about, when they charge sales tax, that they are remitting back to the proper entities, whether it's the cities, the special districts, or the state and so forth. So I don't know what kind of approach that the state's going to take, whether they're going to try to have some software that they'll make available to firms to use, or if they're going to try to come up with some kind of a singular amount and then have a formula. But that's something we should certainly keep our eye on to make sure that we're not disadvantaged in that process because you'll get one bite at that apple, probably.

HEATHER MCKILLOP: Well, and it's very complicated, as I can tell you from my years at Department of Revenue, this issue about online vendors and collection. So the Department of Revenue does have some options available. They are currently collecting from some online vendors now. And the issue of the multiple jurisdictions within the state of Colorado has been an ongoing issue, especially for small businesses, for years and years and years, especially when you have the ability for home rule cities to opt in and out of different exemptions that aren't consistent with the states.

So I'm sure it will be worked out. And yes, we'll have to keep a careful eye to make sure that we don't end up being excluded or accidentally omitted from that conversation. I think there are varying opinions on whether there needs to be a state additional legislation on this or not. My guess is whether there needs to be or not, something will get introduced. So we will definitely keep an eye on that.

KEN MIHALIK: Thank you. Director Lubow.

JUDY LUBOW: Thank you, Chair Mihalik. I have a few little questions. One of the assumptions in the mid-year plan, financial plan, is that the service levels will be maintained. But we've dropped service levels a little bit, and so I'm wondering how that fits in with that idea of service levels being maintained. We've just dropped a little, but we're not going to drop any more terms of our assumptions.

HEATHER MCKILLOP: So there's two ways of looking at it. We constantly adjust service levels three times a year. So we do not, on an annual basis, adjust for those because usually, over the course of the year, they balance each other out with all the plus and minuses three times a year.

For planning purposes, we had to make an assumption not knowing what for future service levels would look like, but knowing that overall, there's not an intent at this time to cut service significantly across the region. And if anything, we'll be increasing service with the onset of the North Line and the southeast corridor extension.

So though we've had to build in those assumptions already through FasTracks, but overall, on the base system, we have made the assumption that those numbers would be stagnant. So no increases or decreases. Over time we'll adjust that on an annual basis. But at this time it's almost impossible to figure out what that will look like even a year from now, let alone between now and 2024.

JUDY LUBOW: OK, thank you. Complicated, yes. Another couple of questions. There was also some statement about the planned fleet expansion was funded by previously issued Certificates of Participation (COPs). So does that mean that we issued it a couple of years ago in the assumption that three years later it was going to be bought?

HEATHER MCKILLOP: Yeah. So because of the long lead time, especially for rail cars, we have to budget all that money up front. So the COPs were issued at that time multiple years ago. I believe it was 2015 is when they were issued. And then we're just now starting to see those rail cars come in. So the actual payment-- we have to have the money in the bank to order them-- but as they come in, we make payment, and they come in over a series of time. So yes, those were issued previously.

JUDY LUBOW: Thank you. And then just one more. I didn't understand. There was a little chart with the fluctuating percentages and marijuana adjustments. Can you explain that?

SUSAN COHEN: The chart was meant to compare the rates that were presented last month, which was done before we had heard about the Supreme Court decision to the adjusted growth rates with the marijuana reinstatement. And if you look at the chart, the growth rates are pretty much the same over time, with the exception of 2019, which is when the actual change is expected to take place.

And we expect to see that bump in 2019. From 2020 to '24, the overall growth rate is pretty much the same. So we're expecting marijuana sales tax, once it's in place, to grow at pretty much the same as everything else.

JUDY LUBOW: OK, thank you. I just didn't understand it. Thank you very much.

HEATHER MCKILLOP: And that should have gone in place July 1. So we'll start seeing in two months from now, 60 days, that money coming in.

KEN MIHALIK: On to the long term.

HEATHER MCKILLOP: On to the long term.

KEN MIHALIK: Long range financial plan.

HEATHER MCKILLOP: The really long term, 2040. So this is the first time you'll be seeing this. It looks significantly better than last year. A good portion of that change is due to the reinstatement of marijuana, as well as significantly higher growth rates in the sales and use tax revenue. But it did afford us a little bit of a cushion in that we didn't have to draw down money from the base system, as well as we did not have to use all the FISA. So there is an ending FISA balance in 2040. And with that, I'm going to let Susan walk through the presentation and give you some update on that.

SUSAN COHEN: I'm going to start with an overview of the long range financial plan and what it is and what it does. It includes both FasTracks and the base system. It's essentially an extension of the mid-term financial plan. It springs off at the end of 2024, when the mid-term financial plan ends. And it's the plan we submit to Denver Regional Council of Governments (DRCOG) for incorporation in the regional transportation plan. It's required for anyone in the region, not only RTD, but anyone in the region who wants to receive federal funding to have an adopted Regional Transportation Plan (RTP).

The time horizon is 2040, which is the time horizon for the RTP, and that's what you will be asked to adopt. And you'll see the charts extended to 2040. The major elements of the financial plan include FasTracks corridor construction, which includes post-opening projects through 2040, which is the time horizon of the RTP, ongoing operations and maintenance of the base system and FasTracks, including O&M costs, capital replacement and rehabilitation, and ridership and fare box revenue, revenue sources, primarily sales and use tax and federal grants, and reserves.

Let's go into each one of those elements in a little more detail, starting with the fast tracks corridor construction. The future construction includes commitments that were included in the environmental documents for the federally funded corridors, and we are required to complete them by 2040. And the East Corridor, Gold Line, and Southeast Rail Extension environmental documents all included projected needs for additional parking to meet horizon year demand.

We had remaining post-opening scope items for the Flatiron Flyer that were adopted by the board in 2013. They include additional vehicles and additional parking. We still, at this point, have we have not identified the funding at this time. Those include the Central Rail Extension, Southwest Rail Extension, the North Metro completion from 124th to 162nd Avenue and completion of Northwest Rail from Westminster to Longmont.

For operating and maintenance costs, we project our base system costs based on the ongoing expenditures from the final year of the mid-term plan. FasTracks we've assumed operation and maintenance of all projects that are completed. We have Eagle Class from the Concession Agreement.

We forecast light rail and bus costs using our O&M cost model of forecast service levels and projects included at the end of the mid-range plan. We have also projected North Metro Commuter Rail costs based on RTD operating the system. We escalate all costs to the actual year expenditure using forecasts of the Denver Boulder Consumer Price Index (CPI).

For capital replacement and rehabilitation, we've included capital replacement based on our current asset inventory and replacement schedules for the assets we currently own and adjust those schedules based on major assets that are included in the mid-term plan. So we make sure that if we buy it, we replace it when it's needed. We also have an annual allowance for major rehabilitation. For the base system, we budget every year 1/2 a percent of the installed cost of the existing asset inventory.

For FasTracks, as I mentioned before, we start with an allowance of 3/10 of a percent for the corridors that increases to 5/10 of a percent as the assets get older and in more need of rehabilitation, and escalate all those costs to future year dollars at CPI.

For revenues for sales and use tax, we use the same CU Leeds School March 2018 forecast that you saw in the mid-range plan, just it's extended out to 2040. And it's been adjusted for the marijuana sales tax reinstatement. For grants, we've forecast our formula grants based on historic appropriations adjusted for inflation at CPI. We also receive fixed guideway grants, and those are forecast to increase based on mileage to be added to the rail system through FasTracks.

We forecast that the funding begins nine years after lines into revenue service, which includes the Federal Transportation Administration (FTA) time period at which they're eligible, plus the lag for actually reporting statistics. And we do not assume discretionary grants in the long term. We're conservative and don't want to be forecasting projects out that we can't guarantee being funded.

As you can see, this is the sales tax forecast from 2025 to 2040. This picks up on the mid-term forecast that you saw before.

For ridership and fare box revenue, we've been forecasting base system ridership and fare box revenue based on our fare model. FasTracks ridership for long term is forecasted using the regional travel model in cooperation with DRCOG. Fare increases are assumed in conjunction with board adopted policy. We tie our fare increases to the Denver Boulder CPI and assume a fare increase every three years after the mid-range plan period.

So we'll talk about changes from what you saw when we last adopted this plan in 2017. We mentioned earlier sales and use tax forecasts have increased over 2017 forecasts. The fare box revenue forecasts are stable. The only differences between this year's forecast and last year's forecast are adjustments to CPI. We're still assuming the same fare increase every three years at the end of the mid-range plan.

We've had some minor changes in operating costs. The totals are fairly close to what you saw last year. The distribution between the base system and FasTracks has changed. As a result, we were able to move the maintenance facility replacement that was the long range plan in 2026 up to 2025. We've also, at this point, been able to balance the mid-range financial plan without issuing any additional COPs. That's a big change from last year given the increases in forecast sales and use tax, we are able to pay for everything on a pay as you go basis without additional debt.

HEATHER MCKILLOP: And can I just add one thing here? I do want to mention our goal is to ultimately move that maintenance facility replacement even closer to the State Highway 119 implementation because there will be a nexus there between needing some additional facilities on that particular project. Because we're not sure of the final cost because we haven't made it through the EIS and the preliminary engineering on the 119, we're not sure where we are with that. And we're really not sure what that maintenance facility would actually look like. We're exploring a lot of different options, and that will also come out through the system optimization process that we're embarking on that we talked about before.

So we decided to move it up as much as we could right now. And then our intent next year would be to bring that closer together and see what that looks like.

SUSAN COHEN: This chart here shows the difference in the sales and use tax forecasts between last year's plan, which is in the blue, and this year's forecast, which is in the orange. As you can see, the orange line is consistently higher than the blue line, which represents approximately a $1.5 billion increase in the forecast covering both base and FasTracks between 2018 and 2040.

O&M cost, same. This is the total. And overall blue for the 2017 adopted plan, 18 for current forecast. They are fairly close. They switch places over time. Some years the current forecast is higher than it was for last year, other years it's lower.

HEATHER MCKILLOP: But they pretty much mirror each other.

SUSAN COHEN: They're pretty much over time.

HEATHER MCKILLOP: So where you see the bumps in O&M cost forecast comparison is due to the Concession Agreement. And there's one other. The Concession Agreement.

SUSAN COHEN: Yeah. The Concession Agreement includes major maintenance on the vehicles every five years, and that's why there's a bump in the cost every five years.

Talking about the FISA, the FISA continues to grow over the period of the long range plan. We have to use a small amount of it between 2025 and 2027 to cover FasTracks operations. However, the full balance is restored to the FISA by 2029. And FISA is fully funded through the terminal long range plan and is forecast balanced at just under $559 billion by year end 2040.

Long range plan. See the summary here. We've got forecasts over five- to six-year time increments through 2040. And we have positive balances in every year. By the end of the plan in 2040 on the base system, we're looking at forecasting about a $1.4 billion year end balance.

On FasTracks, same setup. If you look at the year end balance at year end 2040, we're looking at just under $1.1 billion in unrestricted fund balance and about $559 million in the FISA.

Another chart to look at our net revenue coverage, which would represent ability to pay debt. In the first four years, which are basically this year and the first three years of the mid-range plan, we're somewhat challenged in meeting a 1.2 net coverage. We do, however, go above it in 2022 and stay above the 1.2 board policy through 2040.

HEATHER MCKILLOP: And I would just like to add this is a considerable change from last year. We were below one in many of our years starting this year. So we're hoping that this is a good story for us to tell the rating agencies, and that we'll be able to maintain our credit ratings, which we were very concerned about based on last year's long range plan.

SUSAN COHEN: And also in last year's long range plan, to go back to the discretion of the maintenance facility, the major reason the maintenance facility had to be deferred to 2026 was that we didn't have pay as you go cash to pay for it and we didn't have net revenue coverage to issue COPs until 2026. This is a much better story than we had at this time last year.

We also have the RTD cash flow graph.

HEATHER MCKILLOP: Whoop, I'm going the wrong way. We're so excited to get to this graph. This is the graph that a board member loves. Well, loves this year, perhaps, compared to last year. If

SUSAN COHEN: Right. Right.

HEATHER MCKILLOP: And if I could just say, last year at this time, if you remember, the green, which includes the debt service-- I believe the green is the debt service coverage. I can't see without my glasses that part. But we had years and years where that line was below that number. So if you compare it against last year, it's amazing what $1.5 billion over 30 years will do to help out the situation.

So I was going say these are just the same challenges and opportunities that we've had. Of course, one of our big challenges that are both on the base system and FasTracks, and in particular FasTracks' construction and completion, and then ongoing operation of the unfunded FasTracks corridors. As we said, you can just see the volatility that we see in sales tax, O&M cost variability varied very little from last year, but the sales and use tax was huge. So that continues to be one of those many challenges that we just have to deal with on an ongoing basis. And with that, we'd be glad to take any questions.

KEN MIHALIK: Director Catlin, you have the floor.

PEGGY CATLIN: Thank you, Chair Mihalik. I confess I've forgotten a lot about my National Environmental Policy Act (NEPA) training. But the projects with funding not identified at this time, the four projects noted, does the Environmental Impact Statement (EIS), or do the environmental documents expire? And will they have to be redone?

HEATHER MCKILLOP: So my understanding is we haven't moved through that process with the environmental documents on those four corridors. Is that correct, Bill? Or do you want to add to that?

PEGGY CATLIN: OK. So they're not at risk.

HEATHER MCKILLOP: Correct. And the one that is in process right now is on the base system, and that's State Highway 119. And we're trying to get that funding as close to that.

PEGGY CATLIN: And there has to be a reasonable expectation of funding in order to get a finding of no significant impact for Finding of No Significant Impact (FONSI).

HEATHER MCKILLOP: Or ROD, probably, is what we'd be going through, Record of Decision on some of these projects because we'd be doing an EIS.

PEGGY CATLIN: OK, thank you.

KEN MIHALIK: OK, thank you. Director Folska, you have the floor.

CLAUDIA FOLSKA: Thank you, Chair Mihalik. Can you elaborate, please, a little bit about the grants that you anticipate getting?

HEATHER MCKILLOP: I'll let Susan talk about that.

SUSAN COHEN: We're primarily anticipating formula grants. We have preventive maintenance formula grants from FTA. There are formula grants from the bus and bus facilities, formula grants also from FTA. and some state grants. There's also the fixed guideway program. And those are based for segments that have been in operation for seven years or more. So as FasTracks corridors open, we're anticipating getting more money out of that formula program.

We anticipate that the money comes nine years after opening rather than seven because we report the statistics to the National Transit Database after the corridor's been open seven years. And there is a lag time between when we start reporting statistics and when they're calculated in the formula.

PEGGY CATLIN: So have you made adjustments to your expectations based on the changes that the federal government has put in place before this?

SUSAN COHEN: Yes. We our forecast on the current year appropriations.

PEGGY CATLIN: OK. Thank you.

KEN MIHALIK: I see that's all. Director Lubow.

JUDY LUBOW: Thank you, Chair Mihalik. And I'm very excited about the cash flow graph. Like, yay. But it's not real money, so I can't get too excited. But nonetheless, it's interesting to note that the increase that's projected, I believe in the sales and use tax, over the 30 years is $1.5 billion, which just happens by coincidence to be the projected cost of the Northwest Corridor. So anyway, offline I would like to talk with you about ways we could use that information and hopefully get some money for the corridor. Thank you.

HEATHER MCKILLOP: I don't want to burst your bubble. But remember 1.5 is today's dollars, and those dollars are out in 2030 and beyond. But yes, we can have that conversation. It's definitely a slightly brighter picture than the last two years.

JUDY LUBOW: Right. OK. Thank you very much.

KEN MIHALIK: You can be happy for a year. Seeing no other comments or questions, we'll move on to the May financial status report.

HEATHER MCKILLOP: So I just wanted to give you a brief update on that because-- and I'll be brief-- but this particular report was estimated because we had to have it in the packet due to the holiday on the third. We did not get the numbers until Friday the 5th. I believe that was the 5th. And so-- no. Thursday. Sorry. I was on vacation Thursday and Friday.

So with that, we just have estimated numbers in there. So I wanted to give you an update. They don't vary much. But this will be just sales and use tax. So the May month numbers, so the first number where it says May 2018 actual versus budget is 0.3%. And that number, May, the month is actually 6.4%. So we're considerably up in the May time frame. The year to date number, which is the 2008 actual versus budget, we're at 1.2% over budget.

The month which is the May 2018 versus 2017, we're up 4%. And the year to date number, we're up 6.2%. So that number didn't change. And that's the number that Jannette mentioned we had originally budgeted around 4% for 2018. And year to date over last year, we are up significantly from what they thought that original amount would be.

So we're doing OK with sales and use tax. We probably won't see the marijuana money for another couple of months because it takes two months, 60 days, a reporting cycle to go through. But we should start seeing those in the next few months. So we're expecting right now, mid-year through with one month to go to get to our six months here on this report, that we're going to end the year in a positive manner for sales and use tax. And at this time fare revenue looks that way also. That's all I have to report. I'll take any questions.

KEN MIHALIK: Well, I think you've done enough tonight, looks like. We'll move on to any other matters from anyone. Director Menten.

NATALIE MENTEN: I had a question that I talked to you about on the phone a little bit, Heather. And now that we've got this fare review book, which is a little bit different than the one I'd worked on. But going to the options with 70% discount for youth, and which right now, at the figures when it was like $0.87, something like that.

HEATHER MCKILLOP: Yes, for the local. Like 85 or 87, somewhere in there.

NATALIE MENTEN: Right. So we would round it to the 90.

HEATHER MCKILLOP: Most likely, yes.

NATALIE MENTEN: And my question-- and I know you'd stated to me the reason that that was used versus a flat rate is because it would be easier to graduate as the years go on. Right. But I'm just curious, if we did bump the youth to $1.00, round up to $1.00, what kind of fiscal financial impact would that be?

HEATHER MCKILLOP: We have not run that scenario. We would look at that when we looked at the other options that we get out of the public feedback that we get. And we can look at that as one of the potential options that we consider is a flat rate versus a percentage. And that came up in the past working group also. There was a lot of discussion at the beginning of whether we do a flat amount or percentage, and it was decided that a percentage would make more sense and be a better methodology over time.

NATALIE MENTEN: OK.

HEATHER MCKILLOP: But yes. We have noted in that that that is a comment.

NATALIE MENTEN: Because that's one-- you know we always get the argument oh, you're making me carry around change. So there are counters that. And then stating within the three years, then it goes to $1.25 or something like that.

HEATHER MCKILLOP: Seattle does a flat rate. But they do a changing flat rate throughout the day. So at one point it's $1.00. Sometimes it's $1.25 during-- so they have a peak pricing, too. So there's some various different ways that we looked at doing that. But yes. And I do not believe we modeled the flat number, so we'd have to do that. And the hope is that we will do one more set of modeling after we get all the feedback from all the meetings. And then we'll be able to do one final model set that we bring forward to this group.

NATALIE MENTEN: And just curious with the modeling for that specific item that I just asked about. Would that be an intense process or relatively easy?

HEATHER MCKILLOP: Right now would be pretty intense because we're having them work on a lot of information around the EcoPass, NECOPass, and college in the Service Level Areas (SLAs). So they're doing a considerable amount of work gearing up to the meetings next week that we have start on July 16.

So right now it would be very time consuming for them. I'd have to check after that, after we're past the period in the next couple of weeks, and what that would look like. I can say they're at capacity right now in generating these different options for us to take out regarding what those ranges would be in the SLAs related to Eco, and NECO, and college.

NATALIE MENTEN: OK. And on that line, then, the SLA discussion, the background information will be ready by the 16th for the first estimating.

HEATHER MCKILLOP: That is what we are planning on, as close to that as we can get.

NATALIE MENTEN: OK. And then I'm guessing that we have email addresses for the main contacts at the firms, public and private, for those who buy the EcoPass.

HEATHER MCKILLOP: For the EcoPass coordinators, we do.

NATALIE MENTEN: And they've been sent this list of all of the dates.

HEATHER MCKILLOP: We are currently drafting a memo to them to describe the dates and the changes that we are proposing.

NATALIE MENTEN: Thank you. That's all my questions.

KEN MIHALIK: OK, thank you. And Director Lubow, I think you'll have the last word.

JUDY LUBOW: Thank you. I just wanted to know if the board members want to participate in the telephone town hall, or at least just hear it. Do we just call the number that we were sent?

HEATHER MCKILLOP: Is that correct? OK, yes, that is correct.

JUDY LUBOW: Thank you, that's it.

KEN MIHALIK: Saying yes, OK. That is it. Next meeting, August 14th. We are adjourned. Thank you.