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Tom Nolan | Chairman  
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Leona Bridges | Director  
Malcolm Heinicke | Director  
Jerry Lee | Director  
Joél Ramos | Director  
Cristina Rubke | Director  
Edward D. Reiskin | Director of Transportation

**MEMORANDUM**

DATE: August 22, 2012

TO: Bond Oversight Committee  
Rudy Nothenberg, Chairman  
Daniel Murphy, Vice Chairman  
Leona Bridges  
Jose Cisneros  
Harlan Kelly, Jr.  
Steve Ferrario  
Nadia Sesay

FROM: Sonali Bose  
Chief Financial Officer

SUBJECT: Bond Oversight Committee—Follow-up from April 25, 2012 Meeting

The following are responses to requests for information and questions and comments summarized by Mr. Nothenberg at the initial meeting of the Bond Oversight Committee.

**FINANCIAL REPORTING**

*The proposed Quarterly Financial reporting format will provide the BOC with useful high level information regarding the status of Bond funded projects but will need to be backed by more detailed data which should support (and reconcile with) the high level data proposed to be provided quarterly document.*

*We should, in addition to the quarterly report, be provided – on a monthly basis – with a schedule that shows – for each separate Bond funded project:*

- The total budget for the project – both hard and soft costs, by major object of expenditure.*
- The encumbrances (or actual expenditures if no encumbrance system is being used) against each major budgeted object of expenditure to the start of the reporting period.*
- The encumbrances (or actual expenditures if no encumbrance system is being used) against each major object of expenditure for the reporting period.*
- The resulting total at the end of the reporting period.*
- The available balances at the end of the reporting period.*



*It would also be desirable to have a report which compares encumbrances (expenditures) against the expected stage of completion of a project. It would be very useful to have a graphic which tracks where the project should be (in terms of completion) at the time of the report, where it actually is and how the encumbrances (expenditures) compare with the anticipated level of expenditure at that stage of completion of the project.*

SFMTA RESPONSE: At the April 25, 2012 meeting, the SFMTA provided samples of three reports to be provided to the BOC: (1) Project Expenditure Report (monthly); (2) Project Progress Report (quarterly); and (3) Bond Expenditure Report (quarterly). Copies of the three sample reports are attached. The BOC agreed to this schedule and suggested that the monthly reports provide a greater level of detail than the quarterly reports. SFMTA staff will provide these reports in the format and on the schedule as provided on April 25, 2012 and will make no substantive changes in format or schedule without approval of the BOC. Non-substantive changes requested by SFMTA staff may be made with the approval of the BOC Chair.

### **EXPENDITURE CONTROLS**

#### **CASH CUSTODY:**

- *Will bond proceeds be held by MTA or in the Treasurer's PMIF?*

SFMTA RESPONSE: Bond proceeds will be held by The Bank of New York, N.A., as Trustee, pursuant to the provisions of the Supplemental Indenture of Trust. The Trustee was selected via a solicitation in September 2011.

- *If in PMIF, what is the process of assuring fund availability to make timely vendor payments?*

SFMTA RESPONSE: The Trustee will wire funds directly to vendors at the direction of the SFMTA once the SFMTA provides a requisition detailing the expenditures executed by the Project Manager and approved by the CFO or Director of Transportation. In the cases where SFMTA has paid the vendor first, the SFMTA will be reimbursed for these payments by the Trustee.

- *Irrespective of where held, what is the process and timing of crediting interest earnings – such as they are - back to bond funds?*

SFMTA RESPONSE: The Indenture of Trust requires that earnings remain on deposit with the Trustee unless specifically requested by the SFMTA CFO or Director of Transportation (for purposes of project costs or applied toward debt service). Interest rates in the short-term remain very low, with the 6-month Treasury yield less than 0.2%. We expect earnings to be minimal in the current market.

**EXPENDITURE APPROVALS: OUTSIDE VENDORS:**

- *What is the approval process for non-project expenditures such as Financial Advisors, Bond Counsel etc.?*

SFMTA RESPONSE: These types of expenditures will be approved by the SFMTA pursuant to the agreements between the SFMTA and these firms will be paid from bond proceeds as part of the closing. Any work beyond the financing will be paid by the SFMTA directly pursuant to the agreements between the SFMTA and these firms and the City's payment policies. The BOC's responsibilities will extend only to the funds remaining for project costs after all closing expenses have been paid and any required non-hard cost reserves established.

- *With respect to project funds, is there a pre-encumbrance approval process prior to expenditures being incurred? If so, at what level of expenditure are encumbrances required and who approves them?*

SFMTA RESPONSE: Yes. All expenditures must be encumbered prior to payment in accordance with City and SFMTA policies. Encumbrance documents are initiated and routed through the project manager, the CFO, and the SFMTA Contract Compliance Unit. These documents will include specific statement on the encumbrance request that verifies that these individuals have confirmed bond eligibility and that the funds are available with the Trustee in accordance with the Indenture. Depending on the type of expenditure, the approval process may also include the Director of Transportation. The BOC will not be reviewing nor approving these documents.

- *At time of invoice processing, what documentation is required to assure that the expenditures were within the parameters of the pre-approved encumbrance, are related only to that particular pre-approved project, that funds are available, and that the particular expense is bond fund eligible? Who provides such approvals, assurances?*

SFMTA RESPONSE: Payments cannot be made without an encumbrance type document, and the parameters (availability of funds, eligibility, etc.) of the encumbrance are controlling. Payment of invoices will be against encumbrances or pre-encumbrances. All of the parameters established at the time of the encumbrance cannot be changed without going back through the approval process. The City's accounting and financial reporting system FAMIS – serves as the control pursuant to City procedures established by the Controller's Office. The BOC will not be reviewing nor approving these documents.

**EXPENDITURE APPROVALS, MTA & OTHER CITY AGENCIES:**

- *Are the other agency work-orders or internal MTA Overhead charges budgeted like other expenditures?*

SFMTA RESPONSE: There are two ways in which City departments can charge costs to projects—work orders or work authorizations. These must be authorized by the SFMTA Project Manager who will confirm reasonableness of costs and supported by an underlying MOU.

The work order process requires that the City department submit billings online through the City's financial system and they are subject to SFMTA approval prior to being charged to the project. Work authorizations are established by transferring a budget amount as directed by the SFMTA project manager to an index code to which the City department can charge directly (which is a not-to-exceed amount). With work authorizations, the supporting documentation is provided after the fact (as opposed to prior to approval for work orders). In both cases, the project manager reviews the charges either before or after they are posted. City departments with indirect cost allocation plans that have been approved by their main granting agency may pass these costs through to the SFMTA.

These amounts would be part of the project budget approved by the SFMTA Board of Directors and part of the Agency's Capital Investment Plan. If work on a project is completed by SFMTA staff or other City departments, these hours can be charged to the project along with the formal approved overhead rates and routed through the project manager, the CFO, and the SFMTA Contract Compliance Unit. Depending on the type of expenditure, the approval process may also include the Director of Transportation.

- *What is the approval process for accessing Bond funds for overhead charges by MTA or for work order charges from other City agencies for services rendered? Are such transfers subject to the same pre-approval process as for external vendors? If different, what is it?*

SFMTA RESPONSE: Yes, all expenditures, regardless of type, will be subject to the same approval and payment process subject to the Indenture of Trust as well as the City's policies and accounting and financial system FAMIS.

- *Is there a process of assuring that services being billed for – internally from MTA or from outside City agencies are legally bond fundable, project related, actually performed and fairly priced? If so, what is it?*

SFMTA RESPONSE: Projects were reviewed in advance with tax counsel for conformance with tax matters. Assurance of legally bond fundable expenditures and project related expenditures will be the responsibility of the

project manager and the CFO and Director of Transportation. The BOC will also assist in this effort during their review of the projects. The Controller's Office may also audit to ensure compliance.

Assurance of fair pricing will be achieved by following the SFMTA and City contracting and bidding procedures under the purview of the SFMTA Contract Compliance Unit.

- *What is the process of assuring that services were received, bond fundable and fairly priced if there is no encumbrance system?*

SFMTA RESPONSE: The City requires the use of an encumbrance system.

Attachment: (1) Project Expenditure Report Sample  
(2) Project Progress Report Sample  
(3) Bond Expenditure Report Sample