



Metro

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July 20, 2020

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER

SUBJECT: FISCAL YEAR 2020 – THIRD QUARTER YEAR-TO-DATE (YTD)
FINANCIAL AND PERFORMANCE REPORT



ISSUE

This report summarizes Metro's performance for FY20 through the third quarter ending March 31, 2020.

Metro has been utilizing the Comprehensive Agencywide Performance Evaluation (CAPE) tool on a quarterly basis to monitor performance. The tool measures Mission Essential Task Lists (METLs) attainment which was developed under CEO's directive to incrementally achieve the June 2018 Board adopted Metro Vision 2028 strategic plan and to report fiscal stability through actual to budget variance analysis. CAPE illustrates Metro's fiscal discipline and accountability by reviewing the financial performance with the available resources and budget usage.

During this quarter, the COVID-19 crisis resulted in a stay-at-home order for Los Angeles County on March 19, 2020. Although, the pandemic did adversely affect revenues received toward end of the quarter, it did not have a significant impact on the FY20 third quarter financial performance.

Staff will continue to monitor the financial conditions and adapt to the new economic realities caused by COVID-19 while being committed to fiscal responsibility and advancing Metro as a mobility transforming organization.

DISCUSSION

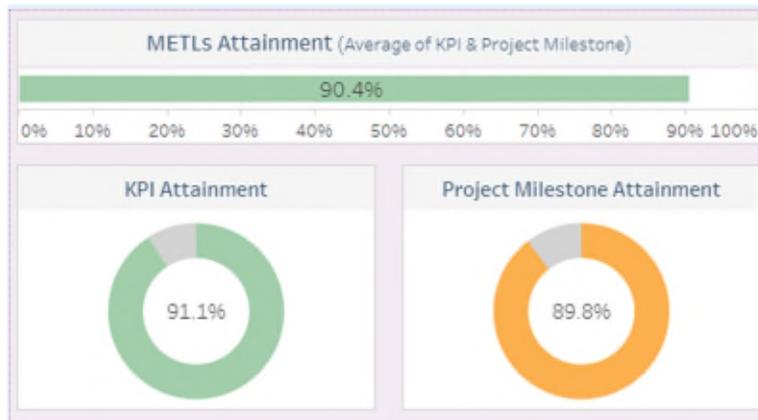
A. METLs-KPIs and Project Milestone Attainment Score

Achievement of METLs are measured by Key Performance Indicators (KPIs) and Project Milestones. KPIs evaluate the performance of ongoing operations, while Project Milestones track the progress of one-time or new initiatives and projects in relation to

their planned schedule and delivery. The METLs Attainment score is the average of KPIs and Project Milestones rates.

KPI and Project Milestone Attainment ratings are based on their performance represented in percentages. Scores of 90% and above are “Excellent,” 70-89.99% are “Good,” and below 70% are “Needs Improvement.” Please see Figure 1 for the METLs Attainment Score.

Figure 1. METLs Attainment Score



Scoring Legend:



For the third quarter of FY20, Metro received a METLs Attainment score of 90.4%, as a result of the departments achieving a 91.1% KPI Attainment and 89.8% Project Milestone Attainment, illustrating the agency’s continued commitment towards the Vision 2028 goals.

The high attainment score of METLs illustrates that the Agency is progressing toward achieving the vision of Measure M, with all transit expansion projects in various stages of planning, groundbreaking, and construction. Further, the Excellent score in KPI Attainment and Good score in Project Milestone Attainment demonstrates Agency’s performance is on target and moving forward with improving existing lines and facilities as well as enhancing the transit system by taking advantage of new technologies such as advanced mobile apps and better real time information to make the transit system safe, clean and efficient.

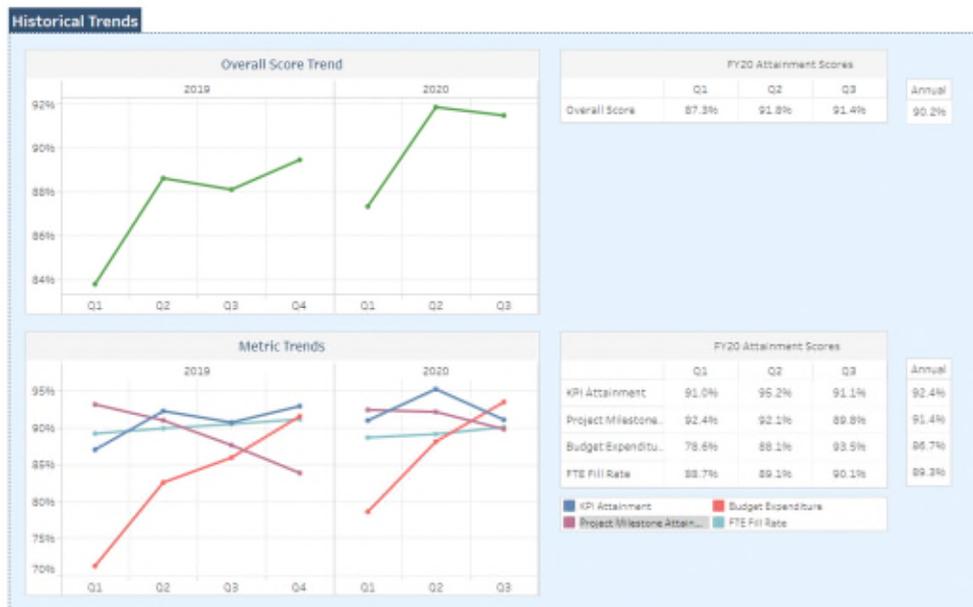
KPI Attainment

Each department developed KPIs related to the METLs which align to the Agency's Vision 2028 goals and initiatives. KPIs measure productivity, efficiency, and outcome rather than output metrics. For the third quarter, KPI attainment achieved a score of 91.1% with 68 out of 87 KPIs receiving an "Excellent" score. This score is a 0.2% increase from this time last year. The KPIs reflect on-going operations and Metro's commitment to continuous improvement.

Project Milestone Attainment

Project Milestone Attainment achieved a score of 89.8%, a 2.2% increase from FY19Q3, illustrating the steady progress being made for various projects during the quarter. Project Milestones track progress of key projects, programs, and studies on a quarterly basis and are scored based on the project's schedule and delivery in relation to its Life of Project. Additionally, Project Milestones help establish new targets and ensure good utilization of resources. For the third quarter, 86 out of 121 Project Milestones received a rating of "Excellent."

Figure 2. Performance Metric Trend Analysis Tool



The performance metric trend analysis tool (Figure 2), introduced this year, compares the current year's performance to prior year's data by showing the trend of the current quarter. The tool was a result of collecting performance data in the system last year. Any underperforming metrics from the third quarter have been addressed through an action plan designed to help the metric improve in the following quarter.

B. Summary of Revenues and Expenses

		YTD March 31, 2020			
Revenues/ Expenses (\$ in millions)		Budget	Actual	Variance	% of Budget
1	Sales Tax and Operating Revenues	\$ 3,399.9	\$ 3,291.2	\$ (108.7)	96.8%
2	Reimbursement Revenues ¹	2,005.8	1,499.8	(506.0)	74.8%
3	Total Revenues	5,405.7	4,791.0	(614.7)	88.6%
4	Total Expenses/Expenditures	4,905.0	4,564.8	340.2	93.1%
5	Revenues Over/(Under) Expenses	\$ 500.7	\$ 226.2	\$ (274.5)	

¹ Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdowns, and prior year commitments.

Metro illustrates its commitment to fiscal discipline and accountability through monitoring its financial performance. Overall, Metro collected \$3,291.2 million of sales tax and operating revenues in addition to \$1,499.8 million of reimbursements from grant and debt financing and expended \$4,564.8 million. Sales tax and operating revenues came in lower than the budget by \$108.7 million. Reimbursement revenues ended short of budget by \$506.0 million due to project schedule and invoice timing. Total expenses of \$4,564.8 million came in under the budgeted amount of \$4,905.0 million, which resulted in a \$340.2 million variance due to delays in capital project billings.

C. Summary of Revenues

		YTD March 31, 2020			
Source (\$ in millions)		Budget	Actual	Over / (Under) Budget	% of Budget
1	<u>Sales Tax, TDA & STA Revenues</u>				
2	Proposition A	\$ 639.3	\$ 614.2	\$ (25.1)	96.1%
3	Proposition C	639.3	614.2	(25.1)	96.1%
4	Measure R	639.3	613.5	(25.8)	96.0%
5	Measure M	639.3	610.3	(29.0)	95.5%
6	Transportation Development Act	319.8	304.7	(15.1)	95.3%
7	Subtotal Sales Tax & TDA Revenues ¹	2,877.0	2,756.8	(120.1)	95.8%
8	State Transit Assistance Fund ²	88.5	80.8	(7.7)	91.3%
9	SB1 State Transit Assistance Fund ²	73.4	67.4	(6.0)	91.9%
10	SB1 State of Good Repair ³	22.6	26.6	4.1	118.2%
11	Subtotal Sales Tax, TDA & STA Revenues ¹	\$ 3,061.4	\$ 2,931.7	\$ (129.7)	95.8%
12	<u>Operating & Other Revenues</u>				
13	Passenger fares	\$ 213.4	\$ 183.7	\$ (29.7)	86.1%
14	Toll Revenue	43.8	41.1	(2.7)	93.9%
15	Advertising	19.2	19.1	(0.2)	99.2%
16	Union Station	7.9	14.5	6.6	184.1%
17	Bike Revenue	2.0	0.3	(1.7)	16.0%
18	Parking Unit	2.4	2.0	(0.4)	81.7%
19	Low Carbon Fuel Standard Sales	17.0	17.5	0.5	102.7%
20	Investment Income	3.8	52.5	48.8	1387.2%
21	Other Income ⁴	29.0	28.8	(0.2)	99.3%
22	Subtotal Operating & Other Revenues	\$ 338.5	\$ 359.5	\$ 21.0	106.2%
23	Total Sales Tax & Operating Revenues	\$ 3,399.9	\$ 3,291.2	\$ (108.8)	96.8%
24	Reimbursement Revenues ⁵	\$ 2,005.8	\$ 1,499.8	\$ (506.0)	74.8%
25	Total Revenues	\$ 5,405.7	\$ 4,790.9	\$ (614.8)	88.6%

Totals may not add due to roundings.

¹ Actual Proposition A, Proposition C, Measure R, Measure M and TDA Revenues represent amounts released by the California Department of Tax and Fee Administration (CDTFA) through the third quarter.

² Actual for STA and SB1 STA represents amounts released by State Controller's Office through the third quarter

³ Actual for SB1 SGR represents amounts released by State Controller's Office through the third quarter.

⁴ Includes CNG tax credits, lease revenues, vending, SAFE fees and other miscellaneous revenues.

⁵ Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

- Sales Tax, TDA & STA Revenues

Sales Tax and TDA revenues for the third quarter of FY20 came in \$120.1 million, 4.2% below the adopted budget. The adverse variance closely reflects the impact of the early stages of the global COVID-19 pandemic shutdown and stay-at-home order in L.A. County starting on March 19, 2020.

The State Transit Assistance (STA) revenue is budgeted based on the State Board of Equalization's forecast of sales tax revenues on diesel fuel. Actual revenues received for the reporting period are dependent upon actual consumption of diesel fuel combined with changes in fuel price. The information presented for the third quarter of FY20 is \$7.7 million below the budgeted amount of \$88.5 million.

The Road Repair and Accountability Act of 2017, commonly known as Senate Bill 1 (SB1), is a significant component in the current budget. On an annual basis, SB1 allocates formula funds to transit agencies for two programs: 1) State of Good Repair (SGR) and 2) State Transit Assistance (STA) for bus and rail operations. In FY20 Q3, Metro received \$67.4 million in SB1 STA formula funds, \$6.0 million lower than the budget and \$26.6 million in SB1 SGR funds, \$4.1 million higher than the budget.

All revenues, including sales taxes are being monitored and evaluated for possible adjustments in this rapidly changing environment. Staff will continue to update the board on revenue forecast changes via regular meetings during the FY21 Budget process culminating in a Proposed FY21 Budget in September 2020.

- Passenger Fare Revenue

Passenger fare revenue of \$183.7 million is lower than the adopted budget by \$29.7 million, primarily due to continued boarding loss. The YTD Q3 boardings were 266.9 million, or 6.6%, below the budgeted boardings of 285.6 million. Due to the impact of the coronavirus (COVID-19) and stay-at-home order in LA County starting on March 19, 2020, the March systemwide boardings dropped by 38.6% from the budget, which is 35.4% less than year-over-year actuals. Systemwide boardings are expected to decline further in Q4.

- Toll Revenue

Metro ExpressLanes toll revenue of \$41.1 million was short of budget by \$2.7 million, or 6.1%. Although third quarter ExpressLanes trips increased 5.3% year-over-year, the average toll paid declined by 8.3%. The additional trips traveled on the ExpressLanes were not necessarily at the most congested times, resulting in lower average toll revenues per vehicle. There was a 23.2% decrease in violations revenue year-over-year partially due to the special reduction of fees and penalties for customers impacted by the transition of the new Back Office System effective January 2020; and the implementation of "Pay as You Go" which decreased the

violation fees. In addition, the coronavirus pandemic (COVID-19) decreased the volume in the ExpressLanes usage starting in March 2020 resulting in a decline in toll revenue and violation fees. State law requires the net toll revenues generated from Metro ExpressLanes be reinvested in the corridors from which they were derived, pursuant to a board approved expenditure plan.

- Metro's bus and rail operating advertising revenue was lower than the budget by \$0.2 million, or 0.8% due to timing delays. A higher payment of advertising revenue was earned in the third quarter of FY20, but was received in the fourth quarter. The department anticipates the revenue will be reflected in the fourth quarter.
- Union Station operating revenue was higher than budget by \$6.6 million due to higher common area maintenance recovery. It is likely additional adjustments will be made upon successful conclusion of negotiations for Common Area Maintenance (CAM) charges expected to complete by close of fiscal year.
- Bike Share revenue was short of budget by \$1.7 million, or 84.0%. The variance is primarily attributed to the delays in implementing the new Smart bike technology and expanding the program to new service areas. In addition, the revenue projection submitted at the start of FY20 was based on a formulated projected revenue increase, which was overly ambitious. Although the KPIs for ridership continues to be met, the revenues generated are from passholders which is less than what is generated on a per ride basis. Further variances are due to the impact of the coronavirus (COVID-19) beginning in March 2020.
- Net revenue for the parking management program was lower than expected by \$0.4 million primarily attributed to the coronavirus pandemic (COVID-19) shutdown. The delay in implementing the Wardlow and Willow stations also contributed to the negative variance.
- Low Carbon Fuel Standard (LCFS) Credit Revenue

The sale of LCFS credit is based on market conditions. Therefore, the budget is conservative. In the third quarter of FY20, Metro executed one direct sale of LCFS credit bringing in \$17.5 million of revenue which was \$0.5 million more than anticipated in the budget. This sale was timed to take advantage of market conditions favorable to Metro's interests. Per Board policy, revenues generated from LCFS program can be used for the implementation, operations, and maintenance of sustainability related infrastructure projects.

- Investment Income

Investment income totaled \$52.5 million exceeded the budget by \$48.8 million primarily due to higher than anticipated cash balances. This higher than expected balances was the result of slower draw-downs of planned capital projects, call for projects, and subsidies during the period. Metro continues to invest unused funds according to the Board approved investment policy.

- Other Income

Other income of \$28.8 million came in on budget with only \$0.2 million lower.

- Resources Based on Reimbursement

The actual reimbursements of capital expenditures from grants, debt financing and prior year carryover ended the quarter-to-date below budget by \$506.0 million. These resources are recognized on a reimbursement basis and are driven by actual capital expenditures billing process. Details of the related expenses can be found in the “*Summary of Expenditures*” section of this report.

D. Summary of Expenditures

Overall, the third quarter year to date FY20 expenditures totaled \$4,564.8 million or 93.1% of the \$4,905.0 million budget, representing an underrun of \$340.2 million or 6.9% below budget. A portion of the variances in the program types: Metro Transit-Operations and Maintenance, Metro Transit-State of Good Repair and Oversight and Administration are offset by the FTA approved burden rate allocation for audit and reporting purposes.

Program Type (\$s in millions)	YTD March 31, 2020			
	Budget	Actual	Under/(Over) Budget	Actuals as % of Budget
1 Transportation Infrastructure Development	\$1,344.1	\$1,087.8	\$256.3	80.9%
2 Metro Transit - Operations and Maintenance	1,354.3	1,494.1	-139.9	110.3%
3 Metro Transit - State of Good Repair	384.3	505.1	-120.8	131.4%
4 Subsidy Funding Programs	1,033.5	975.2	58.2	94.4%
5 Regional Rail	132.8	109.5	23.3	82.4%
6 Congestion Management	89.8	63.5	26.4	70.6%
7 General Planning & Programs	111.7	77.5	34.2	69.4%
8 Debt Service	400.9	388.5	12.4	96.9%
9 Oversight and Administration	592.9	537.9	55.0	90.7%
10 FTA Approved Burden Rate Allocation	-539.3	-674.3	135.0	125.0%
11 Grand Total	\$4,905.0	\$4,564.8	\$340.2	93.1%

- Transportation Infrastructure Development

The Transportation Infrastructure Development program totaled \$1,087.8 million or 80.9% of the \$1,344.1 million budget. The \$256.3 million variance, or 70.0% of the \$366.3 million variance, is primarily attributable to billing and construction-related activities for Measure R and Measure M transit construction projects and MR/MM planning studies. The Division 20 Portal Widening Project delayed a contract award due to a protest in the procurement process and a timing issue with the CTC application. The Westside Subway Ext. Section 3 experienced lower than anticipated costs associated with real estate acquisitions, which was partially offset by higher than forecast tunnels and stations expenditures. The Regional Connector project experienced slower than anticipated construction progress, and delayed lease payments for the Mangrove Yard and underground easement costs until Q4. For the

West Santa Ana Branch Corridor project, the supplemental Engineering and Support Services needs were lighter than anticipated, contributing to the variance for that project. For the Airport Metro Connector project, re-scoping efforts for the "shoo fly" construction delayed contract award, which contributed to the variance. A two month production pause due to Covid-19 impacted the Westside Subway Ext Section 1 project, and scheduled milestone payments to Heavy Rail Vehicle Procurement contracts were delayed to next fiscal year. Various components of the Orange Line BRT Improvement are delayed until next quarter. The remaining variance lies in construction delays and invoice timing issues for Highway projects.

- Metro Transit - Operations and Maintenance

The Metro Transit – Operations and Maintenance Program has been overspending in FY20 by 10.3%.

Metro Transit - Operations and Maintenance Program delivered 1.9 million actual Revenue Service Hours (RSH), 6.5% below the RSH budgeted. Actual expenditures came to 110.3% of the budget. The \$139.9 million overrun is mainly due to the overruns in the Bus program by \$87.9 million and Rail program by \$65.4 million. The overrun is mostly due to labor related expenditures because of overtime due to absenteeism and staff leaves, bus bridging services, and staff hired for the delayed Crenshaw/LAX line. Utilities, Inventory Parts, Propulsion power, and other Parts and Supplies have contributed to the variance as well.

- Metro Transit - State of Good Repair (SGR)

The Metro Transit- State of Good Repair program finished the third quarter at \$120.8 million over budget, or 131.4% of budget spent. \$109.0 million overage is primarily due to planned efforts to deliver base buses per contract specifications for CNG 40' and 60' buses. Similarly, the \$29.4 million overrun in Willowbrook Rosa Parks Station Improvements is also a result of invoice timing. All invoice processing is expected to be completed by fiscal year end.

- Subsidy Funding Programs

Subsidy programs came in at 94.4% of the budget with an underrun of \$58.2 million due to invoice timing from local agencies and delays in drawdowns of regional subsidies.

- Regional Rail

The Regional Rail program includes subsidies to Metrolink and Metro directed capital projects and studies. Overall, Regional Rail recorded \$109.5 million of the \$132.8 million budget with an underrun of \$23.3 million. Total Metrolink operating expenditures came in at \$89.9 million, slightly above the \$83.5 million budget due to a higher contribution to Metrolink operations during the first quarter but will expect to

equalize by end of fiscal year. Metrolink Transit Capital projects continue to significantly underrun the expected rate of expenditures due to project delivery and invoicing delays. Metro directed Regional Rail expenditures came in \$29.8 million under budget primarily due to delays in real estate acquisition for the LINK US and Rosecrans and Marquardt Grade Separation projects. Both Regional Rail Modeling Studies and the Doran St. Grade Separation experienced project delays, which also contributed to the variance.

- Congestion Management

The Congestion Management Program spent \$26.4 million, or 70.6%, of the \$89.8 million budget. \$12.3 million of the \$26.4 million variance is attributed to Express Lanes I-10 and I-110 experiencing delays in development work for Go-Live, which was pushed back to mid-2020 due to unforeseeable soil and power related challenges. Installation schedule and associated milestone payments for the Roadside Toll Collection System have been delayed due to weather interference with closures. Caltrans maintenance activity has been temporarily reduced because of staffing availability. In addition, CHP has an invoice timing lag of 3 months. The other half of the variance is attributed to Freeway Service Patrol (FSP) delayed procurement of the FSP new operation system and tow service contracts.

- General Planning and Programs

General Planning and Programs ended the quarter at \$77.5 million spent, or 69.4% of the \$111.7 million budget. Of the total \$34.2 million variance, Active transportation projects such as the Bikeshare Program Operating & Maintenance, LA River Waterway System Bike Path, and other bike related projects have a combined variance of \$10.8 million as a result of invoicing delays and schedule postponement. \$5.6 million of the variance can be attributed to Union Station projects such as Parking Lot G Enhancements which is expected to spend the entire budget by end of fiscal year, and Union Station Transportation Master Plan being delayed due to geotechnical and utility investigations and resubmittals of traffic control plans. \$4.3 million of the variance is attributed to invoice timing of the Public-Private Partnership (P3) project studies. The remaining variance of \$13.5 million is related to project or invoice delays in Transit Oriented Communities, Joint Development, System Connectivity Program and Studies, and other miscellaneous administrative projects.

- Debt Service

The debt principal and interest expenses totaled \$388.5 million for the third quarter, \$12.4 million below the budgeted amount of \$400.9 million. The underrun is a result of lower debt service from refunding the Prop A 2009 bonds. There is a timing discrepancy between the drawdown amount for Measure R TIFIA loans and its amortization schedule. Credit facilities have not been utilized to full capacity as budgeted and no drawdown from revolving credit for Measure R and Prop C this quarter resulted in lower than anticipated interest payments.

- Oversight and Administration

As aforementioned, a portion of the variance in Metro Transit-Operations and Maintenance, Metro Transit-State of Good Repair, and Oversight and Administration is offset by the FTA approved burden rate allocation for audit and reporting purposes. Expenditures spent for Oversight and Administration are \$537.9 million which is 90.7% of the \$592.9 million budget. This program consists of activities that provide legally required oversight and support for the Agency such as the Office of the Inspector General (OIG), County Counsel, Audit and Government Relations, as well as efforts to administer Measure R, Measure M, and other agencywide support functions.

NEXT STEPS

The Covid-19 crisis did not largely impact Metro until mid-March and did not have a significant impact on FY20Q3. However, staff will continue to monitor and report on the financial performance in the next quarter to the Board.

Staff will adapt and refine the Comprehensive Agencywide Performance Evaluation (CAPE) accordingly to reflect Metro's commitment to fiscal responsibility and advancing Metro as a mobility transforming organization.