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May 30, 2003

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO
EXECUTIVE OFFICER, FINANCE AND TREASURER

SUBJECT: THIRD QUARTER FISCAL YEAR 2003 UNAUDITED FINANCIAL REPORT

ISSUE

The following financial report is management's discussion and analysis of the financial results for the first nine months of fiscal year 2003.

DISCUSSION

ENTERPRISE FUND

The Enterprise Fund accounts for bus and rail operations in a manner similar to private business enterprises. Revenues and expenses, including depreciation, are accounted for using the full accrual basis of accounting.

SUMMARY OF OPERATING RESULTS

For the nine months ended March 31, 2003, the net loss was $15.7 million increasing the accumulated deficit to $78.7 million. For the nine months ended March 31, 2002, the Enterprise Fund recorded a net gain of $25.1 million.

REVENUES

For the nine months ended March 31, 2003, passenger revenues were $184.5 million compared with $183.5 million for the same period last year. Passenger fares were $6.3 million or 3.3% under budget. The farebox recovery ratio was 27.3% compared with 29.4% for the same period last year. Other sources of operating revenues were tax subsidies and grants.

Net non-operating items were $5.9 million or 8.2% below budget compared with $9.5 million or 11.1% below budget for the same period last year. Federal grant revenues were $655,000 over budget.

EXPENSES

For the nine-month period, operating expenses, net of depreciation expense, were $675.9 million compared with $623.1 million for the same period last year.

Operating expenses were $4.6 million or .7% higher than budget. This was attributable to the high cost of fuel, materials, workers compensation, and labor. General and administrative costs were $4.7 million or 17.6% lower than budget.

Total revenue service hours, bus and rail, were 6.0 million hours. For the same period last year, service hours were 5.7 million hours.

COST PER REVENUE SERVICE HOUR

	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE)
Bus	$ 98.77	$101.16	($ 2.39)
Heavy Rail	$243.85	$254.15	($10.30)
Light Rail	$288.49	$293.96	($ 5.47)

Bus cost per Revenue Service Hour was $2.39 or 2.4% higher than budget because of the higher operator labor costs, higher fuel cost, and the lower revenue service hours for both purchased transportation and MTA operated buses.

Light Rail cost per Revenue Service Hour was $5.47 or 1.9% higher than budget due to the higher costs of labor and materials.

Heavy Rail cost per Revenue Service Hour was $10.30 or 4.2% higher than budget because of lower than expected revenue service hours.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for sales tax and other revenues that are legally restricted to expenditures for specific purposes. In accordance with generally accepted accounting principles, the financial results in these funds are reported on the "flow of funds" basis. The primary uses of these funds are transfers to other MTA funds, including Enterprise, Debt Service and Capital Projects, and subsidies and grants to transportation agencies throughout Los Angeles County.

SUMMARY OF RESULTS

As of March 31, 2003, the total Special Revenue fund balance was $684.8 million of which $567.7 million was reserved for transportation projects previously approved by the MTA, and $117.1 million was identified as unreserved and designated for transportation improvements. At March 31, 2002, the total Special Revenue fund balance of $762.0 million of which $638.4 million was reserved for transportation projects approved by the MTA.

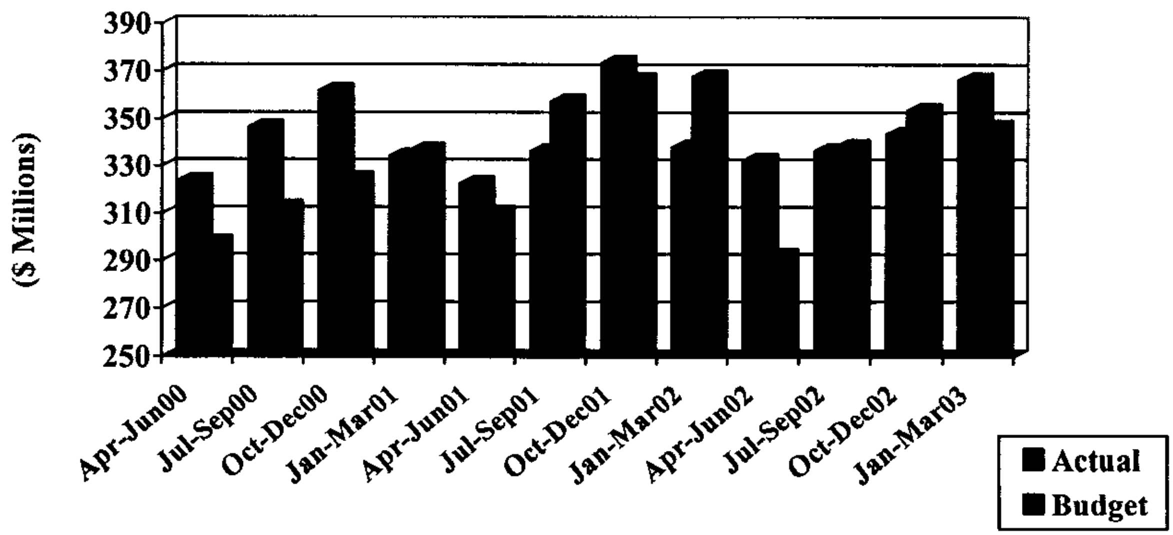
REVENUES

Sales tax revenues for the nine months ended March 31, 2003 were $1,046.7 million compared with $1,047.9 million for the same period last year. The FY02 reported STA sales tax included the $9.8 million supplemental allocation for FY00 received December, 2001. Sales tax revenue from Prop A, Prop C, TDA, and STA were $8.4 million or .8% higher than budget.

Total revenues were $4.8 million or .4% under budget.

The following graph shows quarterly receipts for the last twelve quarters.

TAX REVENUES BY QUARTER



NOTES: Oct-Dec-01 tax revenues included the $9.8 million STA supplemental allocation for FY00 received December, 2001.

Intergovernmental revenues of $46.3 million were $16.4 million or 26.1% under budget.

EXPENDITURES

For the nine months ended March 31, 2003, expenditures were $488.8 million compared with $417.4 million for the same period last year. Expenditures increased by $71.4 million or 17.1%.

Expenditures were $104.4 million lower than budget because municipal project sponsors incurred lower than budgeted expenditures. General and administrative expenses, including professional services, MTA programming, planning and project management costs, were $550,000 under budget.

CAPITAL PROJECTS FUNDS

The Capital Projects funds are used to account for financial resources to be used for the acquisition and construction of major capital assets. In accordance with generally accepted accounting principles, the financial results of these funds are reported on the "flow of funds" basis.

SUMMARY OF RESULTS

At March 31, 2003, the Capital Projects fund balance was $103.3 million. Encumbrances related to construction or service contracts executed but not yet completed and requisition of assets or services previously approved by the MTA amounted to $167.7 million. Of the $167.7 million encumbrance reservation, $109.8 million were for future commitments and new requisitions that will be funded by future federal and local grants.

REVENUES

Intergovernmental revenues were $168.9 million or 62.2% below budget due to the lower than planned capital expenditures related to the light rail, heavy rail and other capital projects. The intergovernmental revenue is recognized on a cost reimbursement basis. Consequently, the expenditures, which are lower by 56.9% than expected, resulted in lower intergovernmental revenue.

EXPENDITURES

Expenditures were $154.8 million or 56.9% under budget. The significant components of the under run were:

Light and Heavy Rail Capital:

- Light rail projects were under budget by $96.6 million due to unresolved EMC claims, slow phase of litigation, and delays in awarding contracts due to the anticipated State budget shortfall.

- The contractor for the LA Rail Cars missed the deliverable schedule resulting in an expense variance of $7.9 million. The contractor is expected to deliver the items by the end of this fiscal year.

- No parcels have yet been acquired on the Mid-City/Westside BRT with a real estate budget of $7.9 million.

- Award for Contract C0675, the SFV East-West Rapid Transit Project design / build delivery system with a budget of $17.0 million was not executed until April 2003. Consequently, the related professional service budget of $8.3 million remains unspent.

Other capital projects:

- Bus acquisition - $4.9 million under budget due to manufacturing delays.

- Facilities budget of $3.8 million for repaving of LAX and other terminals and the construction of soundwall for Division 6 are on hold

OTHER FUNDS

The remaining MTA funds are governmental type funds whose financial results, in accordance with generally accepted accounting principles, are reported on the "flow of funds" basis. Selected highlights include:

GENERAL FUND – For the nine months ended March 31, 2003, total revenues were $7.4 million or 27.7% over budget. Total expenditures were $26.1 million or 41.6% under budget due to services not yet billed and delayed programs. The unreserved, designated fund for administration balance of $161.6 million as of March 31, 2003, represents proceeds from lease/leaseback and property lease revenues that are programmed for future projects.

DEBT SERVICE FUND – For the nine months ended March 31, 2003, debt and interest expenditures were $41.0 million or 20.4% over budget due to the $44.3 million Textron lease payment. The corresponding $59.3 million in proceeds from this leaseback transaction were received prior to the end of the last fiscal year and were not also included in the FY02 budget.

Also, the proceeds from a $384.1 million 2002 bus leaseback transaction were received during this quarter.

This new lease / leaseback transaction was approved after the adoption of the FY03 budget.

GENERAL FIXED ASSET ACCOUNT GROUP - This account group is established to account for all fixed assets of the MTA, other than those accounted for in the proprietary funds. As of March 31, 2003 the fund had a total investment in fixed assets of $ 1,687 million.

GENERAL LONG-TERM DEBT ACCOUNT GROUP - This account group summarizes the long-term obligations of the MTA, other than those accounted for in the proprietary funds. The long-term liabilities consist of sales tax revenue bonds, refunding bonds, certificates of participation, commercial papers, and other liabilities payable from governmental activities. Long-term obligations as of March 31, 2003 were $3,995 million.

NEXT STEPS

Please call Terry Matsumoto, Executive Officer, Finance and Treasurer, at 213.922.2473 if you have any questions about this report.

ATTACHMENT

Third Quarter Financial Report (Unaudited) for the ninth months ended March 31, 2003.