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METRO

Metropolitan
Transportation
Authority

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May 23, 2003

TO:	**BOARD OF DIRECTORS**
THROUGH:	**ROGER SNOBLE** **CHIEF EXECUTIVE OFFICER**
FROM:	**TERRY MATSUMOTO** **EXECUTIVE OFFICER, FINANCE AND TREASURER**
SUBJECT:	**SECOND 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 six 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. This presentation model provides a useful tool to manage and control MTA's transit operations business.

SUMMARY OF OPERATING RESULTS

For the first six months ended December 31, 2002, net income was $4.6 million reducing the accumulated retained earnings deficit to $58.4 million. For the six months ended December 31, 2001, the Enterprise Fund recorded a net gain of $28.7 million.

REVENUES

For the six months ended December 31, 2002, passenger revenues were $126.0 million compared with $123.8 million for the same period in the prior fiscal year. Passenger fares were $1.2 million (or 0.9%) under budget. The farebox recovery ratio was 28.6% compared with 30.6% for the same period last year. Other sources of operating revenues were tax subsidies and grants.

Net non-operating items were $1.7 million (or 3.5%) below budget. Federal grant revenues were $49,000 under budget.

EXPENSES

For the six-month period, operating expenses, net of depreciation expense, were $ 441.1 million compared with $ 404.2 million for the same period last year.

Operating expenses were $1.6 million lower than budget. This was mostly attributable to savings in maintenance costs and general and administrative costs.

Total revenue service hours, bus and rail, were 4.0 million hours. For the same period last year, service hours were 3.9 million hours.

COST PER REVENUE SERVICE HOUR

	BUS	LIGHT RAIL	HEAVY RAIL
FY 2003 Budget	$ 97.41	$278.55	$234.95
FY 2003 Actual	$100.47	$287.35	$245.71
Favorable (Unfavorable)	($3.06)	($ 8.80)	($10.76)

Bus cost per Revenue Service Hour is $3.06 (or 3.1% of budget) higher than budget because of higher operator labor costs, lower revenue service hours for purchased transportation and lower revenue service hours for MTA operated buses.

Light Rail cost per Revenue Service Hour is $8.80 (or 3.2% of budget) higher than budget due to higher costs of labor and benefits than budgeted.

Heavy Rail cost per Revenue Service Hour is $10.76 (or 4.6% of budget) 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 this fund 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 December 31, 2002, the total Special Revenue fund balance was $693.1 million. $473.5 million was reserved for transportation projects previously approved by the MTA, and $219.6 million was identified as unreserved and designated for transportation improvements. At December 31, 2001, the total Special Revenue fund balance of $766.6 million was all reserved for transportation projects approved by the MTA.

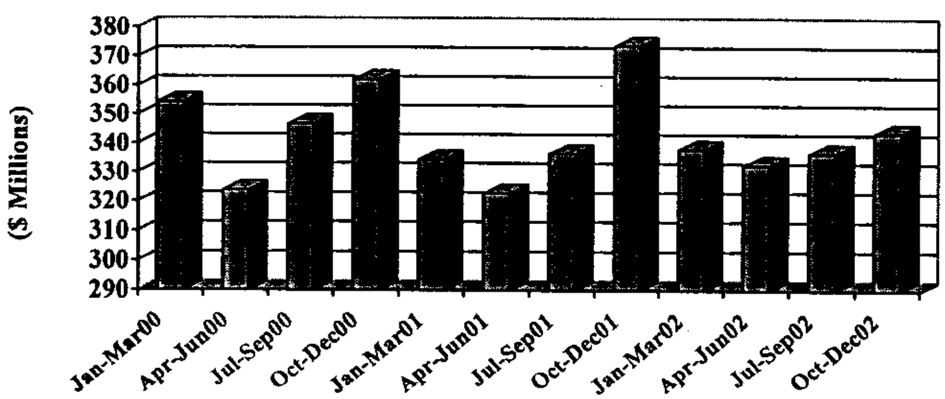
REVENUES

Sales tax revenues for the six months ended December 31, 2002 were $680.3 million compared with $700.0 million (adjusted for the $9.8 million supplemental STA allocation for FY00 received December, 2001) for the same period year. Sales tax revenues declined by 2.8% compared with last year. Sales tax revenues from Prop A, Prop C, TDA, and STA, were $ 11.5 million (or 1.7%) under budget.

Total revenues were $ 12.6 million (1.7%) under budget.

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

TAX REVENUES BY QUARTER



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

Intergovernmental revenues were $0.1 million under budget.

EXPENDITURES

For the six-month period ended December 31, 2002, expenditures were $ 303.7 million compared with $ 253.8 million for the same period last year. Expenditures increased by $49.9 million or 19.7%.

Expenditures were $82.3 million lower than budget because municipal project sponsors had lower than budgeted cash flow requirements. General and administrative expenses, including professional services, MTA programming, planning and project management costs, were $209,000 over 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 December 31, 2002, the Capital Projects fund balance was $91.9 million. $222.3 million was reserved for encumbrances related to construction or service contracts executed but not yet completed and requisition of assets or services previously approved by the MTA. Of the $222.3 million encumbrance reservation, $146.2 million were for future commitments and new requisitions that will be funded by future federal and local grants.

REVENUES

Intergovernmental revenues were $20.5 million, or 88.7%, below budget due to the lower than planned capital expenditures related to the light rail and heavy rail transit projects. Intergovernmental revenue is recognized on a cost reimbursement basis. Consequently, expenditures, which are lower by 64.5% than expected, resulted in lower intergovernmental revenue.

EXPENDITURES

Expenditures were $142.2 million, or 64.5% under budget. The significant components of the under run were:

Light and Heavy Rail Capital:

- Light rail projects were under budget due to unresolved EMC claims, construction delays, and delays in awarding contracts due to the anticipated State budget shortfall.

- LRV fleet enhancement procurement of $3 million was delayed due to the State budget shortfall.

- The contractor for the LA Rail Cars missed the deliverable schedule resulting in an expense variance of $9.8 million. The contractor is expected to deliver the items by the end of this fiscal year.

- Red Line Segment 3 NH - $7.9 million Universal City Pedestrian Underpass and site enhancement was delayed. The notice to proceed for site enhancement was given to the contractor on December 3, 2002.

- Eastside Light Rail Transit - $8.9 million under budget are for unspent funds for real estate acquisition.

Other capital projects:

- Bus acquisition - $3.8 million under budget due to manufacturing delays.

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 six months ended December 31, 2002, total revenues were $0.7 million under budget. Total expenditures were $14.9 million under budget due to services not yet billed and delayed programs. The unreserved, undesignated fund balance of $130.1 million as of December 31, 2002, represents proceeds from lease/leaseback and property lease revenues that are programmed for future projects.

DEBT SERVICE FUND – For the six months ended December 31, 2002, debt and interest expenditures were $45.2 million or 33.7% 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.

The new lease / leaseback transaction was consummated 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 December 31, 2002 the fund had a total investment in fixed assets of $ 1,588 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 December 31, 2002 were $ 3,559 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

Second Quarter Financial Report (Unaudited) For the Six Months Ended December 31, 2002