FINANCE AND BUDGET COMMITTEE
FEBRUARY 21, 2002

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

SUBJECT: MIDYEAR REPORT ON FY02 BUDGET

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file midyear report on FY02 budgeted revenues and expenses.

ISSUE

The MTA FY02 Budget established the legal authority to obligate and expend funds for the period July 1, 2001 though June 30, 2002. It is the MTA's practice to report on the budget at midyear in order to inform the Board of issues that may require corrective actions. As a result of noted recessionary trends in the Southern California economy and the events of September 11, 2001, the Chief Executive Officer further directed staff to reassess all financial plans to live within FY01 expenditure levels, adjusted for the strike in FY01. This report summarizes the results of those reassessments and presents the forecast of revenues and expenses for FY02.

DISCUSSION

At this point in the year, the forecasts of key financial parameters are:

Mid-year Budget Reassessment – At the direction of the CEO, all departments were requested to review FY02 Budgets and develop a plan to live within FY01 expenditure levels, or in the case of bus and rail operating costs, live within the FY02 budgeted cost per hour. Excluding subsidies to others and debt service, these plans resulted in a reforecast expenditure budget 10.6% lower than the FY02 expenditure plan. Included are the elimination of 11 authorized positions, salary savings for 40 vacant positions, a reassessment of the capital program to recognize delays in project schedules, reduced reliance on consultant services, and reductions in areas of discretionary spending (travel, materials and supplies).

Sales tax revenues – Sales tax revenues are forecast to be within 0.5% of the FY02 budget. Although sales tax revenues are not projected to grow over FY01 actual levels, budget projections developed in early 2001 were based on lower FY01 estimates. Therefore, at this time, there are no projected adverse impacts to any projects or programs. Prop A and Prop C, which represent 77% of the MTA's FY02 budget of $1.414 billion in sales tax related revenues, are forecasted at their budgeted levels. There is a projected $9.3 million shortfall in State Transit Assistance (STA) revenue and a $2.0 million dollar increase in projected Transportation Development Act (TDA) funds.

Formula Allocation Program – The projected drop in STA revenue could potentially result in a lower allocation of formula funds that support MTA's capital program ($4.4 million) and rail operations ($3.2 million). Additionally, the lower than anticipated STA revenue could result in a lower allocation of formula funds to municipal operators of approximately $1.6 million or 1.2% of their annual allocation for FY02.

Fare revenues – Passenger fare revenues are projected to be on budget. Consistent with a revised bus boarding estimate approximately 0.5% below budget and a 0.7% reduction in the average fare per boarding, bus passenger revenue is forecast to be $2.6 million or 1.2% under budget. This variance is offset by a revised rail boarding estimate 2.4% higher than budget and an increase in the average fare per boarding (5.5%) resulting in a favorable $2.6 million or 8.2% favorable variance in rail passenger revenue. Increased rail ridership is attributed primarily to higher than anticipated demand on the Red Line.

Bus revenue vehicle service hours (RSH) – 91 additional buses were added to Consent Decree service in October 2001. Total bus RSH are currently projected to be slightly under authorized levels (about 1%) at the end of the fiscal year. This under run in RSH reflects scheduling efficiencies throughout the entire system as well as reductions in services, which were then assumed by other operators as part of the service change process to minimize customer impact. The "new services" pilot line program has taken longer to implement than anticipated primarily because the MTA has committed to a clean-fuel CNG program for all of its new bus purchases. It is anticipated that proposals to operate two new freeway services will be brought to the Board in March for award. Nevertheless, the pilot line service project will show an under run by the end of the fiscal year equivalent to 9 months of delay.

Rail revenue vehicle service hours – Rail RSH will be below budget levels since Blue and Green line service increases, three and two car trains, respectively, were delayed. Red line hours will be at plan levels.

Capital expenditures – Capital expenditures within the MTA's internal capital and Call for Projects program will be under budget due to delays in implementing those projects and programs. Intergovernmental revenues, primarily Federal and State grants that are on a cost reimbursement basis and proceeds from debt will correspondingly be below budget levels. Projects and programs not completed during FY02 and their related revenue sources will carry over to FY03 and beyond.

Detailed discussions at the fund level are included in Attachment A. Condensed budgetary financial statements are found in Attachment B.

NEXT STEPS

- Develop the FY03 budget, including the capital plan, in light of the forecast expectations for FY02 and the Financial Standards proposed for adoption on this month's Board agenda.
- Should the projected STA shortfall be realized, operators may request an advance of FY03 Formula Allocation Program funds. Depending on the amounts, advances will be presented to the Board of Directors for approval.

ATTACHMENTS

A. FY02 Mid-Year Forecast Fund Level Discussion
B. FY01 Actual and FY02 Adopted Budget to FY02 Forecast Financial Statement

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ATTACHMENT A

FY02 MID-YEAR FORECAST FUND LEVEL DISCUSSION

INTRODUCTION

The MTA is a single, integral entity for budgeting and accounting purposes. The annual budget is developed, adopted and monitored consistent with generally accepted accounting practices for all governmental and proprietary funds. Depreciation and amortization are not budgeted. Since the legal level of control is at the fund level, the following forecast discussion is segregated by fund.

ENTERPRISE FUND

Revenues and expenses supporting bus and rail operations make up 99.1% of the Enterprise Fund. Operating revenues (primarily passenger revenue) are projected to be on budget. Consistent with the forecasted reduction in STA, operating transfers are forecast to be $3.2 million below budget. Expenses are forecast to be $12.0 million or 1.3% lower than the FY02 Budget of $890.4 million.

Bus Expenses

Bus operating expenses are projected to be $726.3 million or $10.5 million (1.4%) lower than the adopted budget. Revenue service hours to be delivered are near the adopted budget at 7.4 million or 1% below the budgeted revenue service hour target of 7.5 million. The projected bus operating cost per hour of $98.06 is $0.38 (0.4%) lower than the budgeted cost per revenue service hour of $98.44.

Labor and fringe benefits are projected to be approximately $7.5 million (1.6%) over budget. Bus operator labor accounts for $5.5 million of this variance and is the result of using full time operators to cover for part time operator vacancies, increased overtime because the operator to assignment ratio was below 1.18 for the first half of the year and the 91 additional buses added for consent decree service. Mechanic labor costs are projected to exceed the budget by $2.0 million as a result of the additional wages and overtime for the 91 consent decree buses and increased efforts related to the cleanliness program. The unfavorable labor variance will be more than offset by favorable variances in the cost of fuel ($11.1 million), services ($1.4 million), parts and supplies ($3.7 million), purchased transportation ($1.2 million), and miscellaneous other expenses ($0.6 million).

Rail Expenses

Rail operating expenses are projected to be $145.2 million or $1.5 million (1.0%) lower than the adopted budget. Lower operating costs are primarily the result of the delayed implementation of three car Blue Line and two car Green Line trains. Revenue vehicle service hours are similarly impacted by this delay and are projected to be 511,000 or 32,000 (6%) below budget. This shortfall will result in a slightly higher ($13.79 or 5.2%) than budgeted ($269.82) operating cost per vehicle service hour of $283.79.

Labor and fringe benefit variances are projected to be approximately $8.4 million (12.0%) over budget. This variance is the result of actual average operator pay rate higher than budget ($3.6 million) and higher maintenance costs ($4.8 million), primarily in support of the P2000 vehicles. The unfavorable labor variance will be offset by favorable variances in the cost of propulsion power ($3.7 million), services ($2.8 million), parts and supplies ($2.7 million), and other miscellaneous expenses ($0.7 million).

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets. Expenditures are forecast to be $431.4 million, $224.0 million (34.2%) lower than the FY02 Budget of $655.3 million.

There are currently 234 capital projects in the Capital Projects Fund. Of these, 130 projects are reported to be on budget, 96 projects are under budget by a total of $225.6 million and 8 projects are indicating potential overruns totaling $1.6 million. Project underruns are primarily due to delays in implementation. Overruns are primarily caused by acquisitions or contracts that are bid higher than the original estimate or by increased scope requirements developed after approval of the original project budget.

Capital Projects Fund revenues are impacted commensurate with changes in the expenditure forecast. Many projects are funded on a reimbursable basis; therefore, to the extent that there are delays in these projects, the forecast for Intergovernmental Revenue is impacted. The current expense forecast for Intergovernmental Revenue is $155.5 million or 34.8% lower than the adopted budget of $446.5 million. Similarly, the bond financing necessary to support Capital Project Fund activities is based on actual expenditures. The proceeds from financing are projected to be $137.5 million or 60.1% below the adopted budget of $226.7 million.

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government that are not legally required or by sound financial management to be accounted for in another fund. General Fund expenditures are forecast to be $4.9 million or 6.2% lower than the FY02 Budget of $79.1 million. Delays in the implementation of the Welfare to Work program account for $3.3 million of the forecasted variance.

General Fund revenues are forecast to be $9.4 million or 23.0% higher than budget. Proceeds from sales and leasebacks will be $10.6 million or 106.0% higher than the budget of $10.0 million. This is the result of completion of a like kind exchange ($14.4 million) that was not anticipated when the FY02 Budget was adopted. This increase will be offset by a forecast reduction of $4.0 million in revenue from sales and leasebacks related to P2000/P2020 rail cars that will not be realized until FY03. Consistent with the delay in the Welfare to Work program, the reimbursement revenue from the supporting Intergovernmental grants will be $3.3 million lower than budget.

SPECIAL REVENUE FUND

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Special Revenue Fund expenses are forecast to be $40.2 million or 5.2% lower than the FY02 Budget of $769.1 million. This forecast is based on a revised estimate for subsidies of $647.5 million or $23.8 million (3.5%) lower than the budget of $671.2. Delays in the implementation of a variety of MTA sponsored projects and programs including Freeway Service Patrol, corridor studies and HOV projects account for the remaining $16.4 million of the forecasted expense variance.

Revenues that support Special Revenue Fund activities are primarily local sales taxes. Sales tax revenues are forecast to be within 0.5% of the FY02 Budget. Prop A and Prop C, which represent 77% of the $1.414 billion in sales tax related revenues, are forecasted at their budgeted levels. Based on a revised estimate received from the State Controller in November, MTA's allocation of STA revenue, which is generated from both a sales tax and an excise tax on fuel, will be $9.2 million below budget. TDA is projected to be $2.0 million higher than budgeted.

To the extent that budgeted expenditures will not be incurred in FY02, the commensurate revenues will remain in the Special Revenue Fund increasing the end of year fund balance. Similarly, Special Revenue Fund revenues budgeted to be transferred to other MTA funds are transferred based on the budgeted appropriations to those funds. All FY02 budgeted revenues in excess of actual expenditures will remain in the Special Revenue Fund and be available in succeeding fiscal years.

DEBT SERVICE FUND

The FY02 Budget includes $288.8 million of debt and interest expenditures. As a result of low interest rates and under spending in debt-financed projects, the FY02 forecast estimates a savings of $22.5 million or 7.8% in debt and interest payments and a corresponding reductions in Operating Transfers.

The FY02 Budget assumed that $290.9 million of existing debt would be refunded. Refunding is now forecast at $73.9 million. Since the cost of retirement of an existing debt is offset by the proceeds from the new debt, this revised forecast does not affect the projected FY02 fund balance.

ATTACHMENT B

Los Angeles County Metropolitan Transportation Authority
FY01 Actual and FY02 Adopted Budget to FY02 Forecast

Combined Statements of Revenues, Expenditures and Changes in Fund Balances
For the Year Ending June 30, 2002

(Amounts in millions)

	Proprietary Funds				Governmental Funds							
	Enterprise Fund				Special Revenue Fund				Capital Funds			
	FY01	FY02			FY01	FY02			FY01	FY02		
	Actual	Adopted	△	Forecast	Actual	Adopted	△	Forecast	Actual	Adopted	△	Forecast
Total revenues	$ 227.0	$ 259.9	$ -	$ 259.9	$ 1,491.3	$ 1,480.6	$ (6.8)	$ 1,473.8	$ 356.5	$ 446.5	$ (149.2)	$ 297.3
Total operating expenses/expenditures	755.3	881.6	(12.0)	869.6	665.7	769.1	(40.2)	728.9	359.6	655.3	(224.0)	431.4
Excess (deficiency) of revenues over expenditures/ Operating income (loss)	(528.3)	(621.7)	12.0	(609.7)	825.6	711.5	33.4	744.9	(3.1)	(208.8)	74.7	(134.1)
Total non-operating revenues	58.1	114.0	-	114.0	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures/ Operating income (loss) before other sources	(470.2)	(507.7)	12.0	(495.7)	825.6	711.5	33.4	744.9	(3.1)	(208.8)	74.7	(134.1)
Total other financing and sources (uses)	482.7	507.7	(3.2)	504.5	(719.7)	(803.8)	27.8	(775.9)	23.7	207.2	(70.1)	137.2
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	12.5	-	8.8	8.8	106.0	(92.3)	61.3	(31.0)	20.6	(1.6)	4.6	3.1
Fund balances\(Deficit)-beginning of year	(75.8)	(63.3)	-	(63.3)	617.9	723.9	-	723.9	60.5	81.0	-	81.0
Residual equity transfer												
Fund balances\(Deficit)-end of year	$ (63.3)	$ (63.3)	$ 8.8	$ (54.5)	$ 723.9	$ 631.6	$ 61.3	$ 692.9	$ 81.0	$ 79.4	$ 4.6	$ 84.1

Los Angeles County Metropolitan Transportation Authority
FY01 Actual and FY02 Adopted Budget to FY02 Forecast

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ending June 30, 2002

(Amounts in millions)

		Governmental Funds								Totals			
		General Fund				Debt Service Fund				(Memorandum Only)			
		FY01	FY02			FY01	FY02			FY01	FY02		
		Actual	Adopted	Δ	Forecast	Actual	Adopted	Δ	Forecast	Actual	Adopted	Δ	Forecast
1	Total revenues	$ 30.7	$ 40.9	$ 7.5	$ 48.3	$ 19.7	$ 13.4	$ -	$ 13.4	$ 2,125.2	$ 2,241.3	$ (148.6)	$ 2,092.7
3	Total operating expenses/expenditures	62.8	79.1	(4.9)	74.2	268.7	295.4	(22.5)	272.9	2,112.0	2,680.5	(303.6)	2,377.0
5	Excess (deficiency) of revenues over expenditures/												
6	Operating income (loss)	(32.1)	(38.2)	12.4	(25.9)	(249.0)	(282.0)	22.5	(259.5)	13.2	(439.2)	155.0	(284.3)
8	Total non-operating revenues	-	-	-	-	-	-	-	-	58.1	114.0	-	114.0
10	Excess (deficiency) of revenues over expenditures/												
11	Operating income (loss) before other sources	(32.1)	(38.2)	12.4	(25.9)	(249.0)	(282.0)	22.5	(259.5)	71.3	(325.3)	155.0	(170.3)
13	Total other financing and sources (uses)	40.6	32.7	(0.0)	32.7	256.3	282.7	(22.5)	260.2	83.7	226.6	(67.9)	158.7
15	Excess (deficiency) of revenues and other financing												
16	sources over expenditures and other financing uses	8.5	(5.5)	12.3	6.9	7.3	0.7	0.0	0.7	154.9	(98.7)	87.1	(11.6)
18	Deficit/fund balances-beginning of year	99.3	107.9	-	107.9	277.8	260.5	-	260.5	979.7	1,110.0	-	1,110.0
19	Residual equity transfer					(24.6)				(24.6)			
20	Deficit/fund balances-end of year	$ 107.9	$ 102.4	$ 12.3	$ 114.8	$ 260.5	$ 261.2	$ 0.0	$ 261.2	$ 1,110.0	$ 1,011.3	$ 87.1	$ 1,098.4