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NOVEMBER 20, 2020

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

PAW

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER

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SUBJECT: PRELIMINARY FISCAL YEAR 2020 YEAR END FINANCIAL AND PERFORMANCE REPORT

ISSUE

This report summarizes Metro's preliminary FY20 performance for the year ending June 30, 2020. The audited financial report is in process and will be available by spring of 2021.

Metro has continued usage of the Comprehensive Agencywide Performance Evaluation (CAPE) tool which measures the Mission Essential Task Lists (METLs) attainment and fiscal responsibility through actual to budget variance analysis.

The report first covers Metro's performance through a progress review of the 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.

The latter half of the report covers Metro's ability to exercise fiscal discipline and accountability by reviewing the financial performance with the available resources and budget usage. During the fourth quarter, Metro implemented cost control measures in response to the financial challenges due to COVID-19. Metro will continue to monitor the financial situation through CAPE during the next fiscal year.

The Board Adopted Budget establishes the legal authorization of expenditures at fund levels. Due to timing and year-end adjustments, the actual figures stated in this report are preliminary figures pending final audit results.

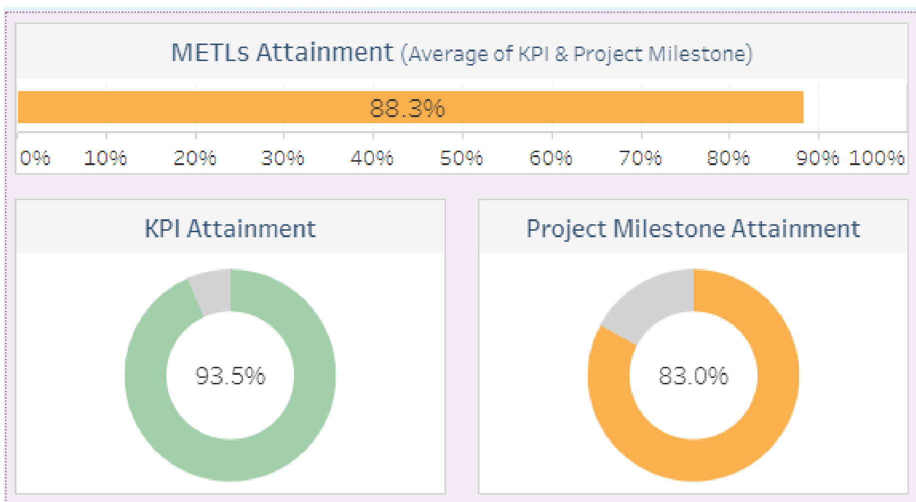
DISCUSSION

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:

Excellent	• Attainment of 90% and above
Good	• Attainment of 70 – 89.9%
Needs Improvement	• Attainment of below 70%

For the fourth quarter of FY20, Metro received a METLs Attainment score of 88.3%, as a result of the departments achieving a 93.5% KPI Attainment and 83.0% Project Milestone Attainment, illustrating the agency’s continued commitment towards the Vision 2028 goals.

The 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 that the 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.

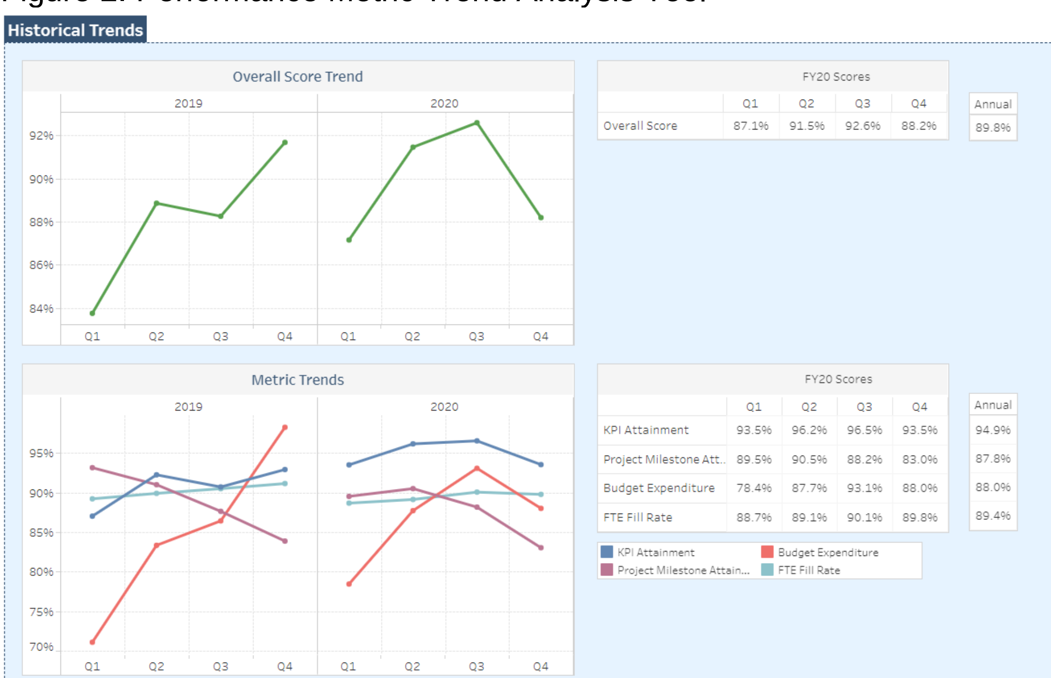
<u>KPI Attainment</u>

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 fourth quarter, KPI attainment achieved a score of 93.5% with 56 out of 65 KPIs receiving an "Excellent" score. This score is a 0.5% increase from this time last year. The KPIs reflect on-going operations and Metro's commitment to continuous improvement.

<u>Project Milestone Attainment</u>

Project Milestone Attainment achieved a score of 83.0%, 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 fourth quarter, 62 out of 115 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. The slight decline in FY20 Q4 project milestone achievement was due to the economic contraction and project schedule adjustment as a result of the COVID-19 pandemic. Metro continues, however, to keep Measure M and Measure R project delivery schedule in sight and prepare for revenue services on time.

B. Summary of Revenues and Expenses

		YTD June 30, 2020			
	Revenues/ Expenses ($ in millions)	**Budget**	**Actual**	**Variance**	**% of Budget**
1	Sales Tax and Operating Revenues	$ 4,625.8	$ 4,345.4	$ 280.4	93.9%
2	Reimbursement Revenues[1]	2,583.0	2,250.2	332.8	87.1%
3	**Total Revenues**	**7,208.8**	**6,595.6**	**613.2**	**91.5%**
4	Total Expenses/Expenditures	7,207.6	6,447.6	760.0	89.5%
5	**Revenues Over/(Under) Expenses**	**$ 1.2**	**$ 148.0**	**$ 146.8**	

[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. However, both the revenue and expenditures were negatively impacted by the economic situations created by the COVID-19 pandemic. Metro did not receive any CARES funding during this quarter. Overall, Metro collected $4,345.4 million of sales tax and operating revenues in addition to $2,250.2 million of reimbursements from grant and debt financing and expended $6,447.6 million. Sales tax and operating revenues came in lower than the budget by $280.4 million. Reimbursement revenues ended short of budget by $332.8 million due to project schedule and invoice timing. Total expenses of $6,447.6 million came in under the budgeted amount of $7,207.6 million, which resulted in a $760.0 million variance due to delays in capital project billings.

C. Summary of Revenues

		YTD June 30, 2020			
	Source ($ in millions)	**Budget**	**Actual**	**Over / (Under) Budget**	**% of Budget**
1	Sales Tax, TDA & STA Revenues				
2	Proposition A	$ 873.0	$ 824.7	$ (48.3)	94.5%
3	Proposition C	873.0	824.7	(48.3)	94.5%
4	Measure R	873.0	823.5	(49.5)	94.3%
5	Measure M	873.0	820.8	(52.2)	94.0%
6	Transportation Development Act	436.5	407.0	(29.5)	93.2%
7	Subtotal Sales Tax & TDA Revenues [1]	3,928.5	3,700.8	(227.7)	94.2%
8	State Transit Assistance Fund [2]	118.0	109.0	(9.1)	92.3%
9	SB1 State Transit Assistance Fund [2]	97.8	89.3	(8.5)	91.3%
10	SB1 State of Good Repair [3]	30.1	32.2	2.1	107.1%
11	**Subtotal Sales Tax, TDA & STA Revenues [1]**	**$ 4,174.4**	**$ 3,931.3**	**$ (243.1)**	**94.2%**
12	Operating & Other Revenues				
13	Passenger fares	$ 284.5	$ 186.7	$ (97.8)	65.6%
14	Toll Revenue	58.4	55.3	(3.1)	94.6%
15	Advertising	25.6	21.2	(4.5)	82.6%
16	Union Station	10.5	14.2	3.7	135.1%
17	Bike Revenue	2.7	0.5	(2.2)	18.1%
18	Parking Unit	3.3	2.0	(1.2)	61.6%
19	Low Carbon Fuel Standard Sales	22.7	32.9	10.2	145.1%
20	Investment Income	5.1	63.6	58.6	1260.1%
21	Other Income [4]	38.7	37.8	(0.9)	97.7%
22	**Subtotal Operating & Other Revenues**	**$ 451.4**	**$ 414.1**	**$ (37.3)**	**91.7%**
23	**Total Sales Tax & Operating Revenues**	**$ 4,625.8**	**$ 4,345.4**	**$ (280.4)**	**93.9%**
24	**Reimbursement Revenues [5]**	**$ 2,583.0**	**$ 2,250.2**	**$ (332.8)**	**87.1%**
25	**Total Revenues**	**$ 7,208.8**	**$ 6,595.6**	**$ (613.1)**	**91.5%**

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 fourth quarter.

[2] Actual for STA and SB1 STA represents amounts released by State Controller's Office through the fourth quarter.

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

[4] Includes CNG tax credits, lease revenues, vending, 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 FY20 came in $227.7 million, 5.8% below the adopted budget. The adverse variance reflects the impact of the global COVID-19 pandemic shutdown and stay-at-home order in L.A. County starting 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 FY20 is $9.1 million below the budgeted amount of $118.0 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 Q4, Metro received $89.3 million in SB1 STA formula funds, $8.5 million lower than the budget; and $32.2 million in SB1 SGR funds, $2.1 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.

- Passenger Fare Revenue

The FY20 passenger fare revenue of $186.7 million is lower than the adopted budget by $97.8 million, or 65.6% of the budget, primarily due to both the continued boarding loss prior to COVID-19 as well as the impact of stay-at-home orders due to COVID-19 beginning in March, Q3 of FY20. The annual boardings were 303.3 million, or 20.3%, below the budgeted boardings of 380.8 million. Since the stay-at-home orders in L.A. county on March 19, 2020 to slow down the COVID-19 infection curve, the March – June systemwide boardings dropped by 55.1% from the budget, which is 54.8% less than year-over-year actuals. The fare revenue in March–June decreased by 74.5% from the budget, which is 71.4% less than year-over-year actuals.

- Toll Revenue

Metro ExpressLanes toll revenue of $55.3 million was short of budget by $3.1 million, or 5.4%. The coronavirus pandemic (COVID-19) decreased the volume in ExpressLanes usage starting in March 2020, resulting in a decline in toll revenue and violation fees. The fourth quarter trips were reduced by 60.6% year-over-year. 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 $4.5 million, or 17.4%. Due to the significant impacts of COVID-19, Metro's advertising vendors experienced canceled sales, lack of sales, and drop in customer impressions - negatively affecting their ability to generate the level of revenue that is necessary to meet the minimum annual guarantee (MAG) payments to Metro. Metro staff recommended and the Board approved the temporary suspension of the minimum annual guarantee payment (MAG) obligation from each contractor, allowing each firm to pay Metro a monthly revenue of 55% share of actual revenues from May 1, 2020 to December 31, 2020. Additionally, staff requested approval to re-schedule the May 2020 payment due date from May 15, 2020 to May 30, 2020 to allow contractors additional time to remit payments to Metro.

- Union Station operating revenue was higher than budget by $3.7 million due to higher common area maintenance recovery. Union Station Operations and Management is continuing its negotiations on CAM recoveries with station transit operators and anticipates fluctuation in the recovery amounts until a new long-term agreement governing such costs between Metro, Metrolink, and Amtrak is executed.

- Bike Share revenue was short of budget by $2.2 million, or 81.9%. 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. During Q4, the KPI for ridership decreased as well with the number of passholders 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 $1.2 million primarily attributed to the coronavirus pandemic (COVID-19) shutdown. Utilization of Metro parking lots dropped below 5% with a decline of transit ridership during Safer-at-Home orders. In addition, Car Share operators cancelled and drastically reduced the number of leased spaces, contributing 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 very conservative. In FY20, Metro executed two direct sales of LCFS credit bringing in $32.9 million of revenue which was $10.2 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, operation, and maintenance of sustainability related infrastructure projects.

- Investment Income

Investment income totaled $63.6 million, exceeding the budget by $58.6 million, primarily due to higher than anticipated cash balances. These higher than expected balances were the result of slower draw-downs of planned capital projects, highway funding, call for projects, and subsidies with staff efforts to control cash flow demand to help offset COVID's impact. Metro continues to invest unused funds according to the Board approved investment policy.

- Other Income

Other income of $37.8 million came in almost on budget (by $0.9M 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 $332.8 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 FY20 expenditures totaled $6,447.6 million or 89.5% of the $7,207.6 million budget, representing an underrun of $760.0 million or 10.5% below budget. A portion of the variances in the program types: Metro Transit-Operations and Maintenance, Metro Transit-State of Good Repair, and Oversight, Administration and Benefit Accrual are offset by the FTA approved burden rate allocation for audit and reporting purposes.

		YTD June 30, 2020			
	Program Type ($s in Millions)	**Budget**	**Actual**	**Under/(Over) Budget**	**Actuals as % of Budget**
1	Transportation Infrastructure Development	$2,394.8	$1,826.6	$568.1	76.3%
2	Metro Transit - Operations	1,964.0	1,963.6	0.5	100.0%
3	Metro Transit - SGR	492.4	612.7	-120.3	124.4%
4	Subsidy Funding Programs	1,404.7	1,298.6	106.1	92.4%
5	Regional Rail	178.2	130.7	47.5	73.4%
6	Congestion Management	135.9	108.3	27.6	79.7%
7	General Planning & Programs	176.8	124.0	52.8	70.1%
8	Debt Service	547.8	528.0	19.9	96.4%
9	Oversight, Administration & Benefit Accrual	795.9	790.0	5.9	99.3%
10	FTA Approved Burden Rate Allocation	-882.9	-934.8	52.0	105.9%
11	**Grand Total**	**$7,207.6**	**$6,447.6**	**$760.0**	**89.5%**

- Transportation Infrastructure Development

The Transportation Infrastructure Development program totaled $1,826.6 million or 76.3% of the $2,394.8 million budget. $427.0 million, or 75.2% of the $568.1 variance is attributable to construction-related activities for Measure R and Measure M transit construction and planning projects. Much of the anticipated right-of-way (ROW) acquisition did not materialize on Westside Subway Extension Section 2, Section 3 and Airport Metro Connector projects in FY20. ROW acquisition efforts continue into FY21. Airport Metro Connector faced delays with demolition and “shoo fly” construction. The Regional Connector project experienced slower than anticipated construction progress and delayed lease payments for the Mangrove Yard and underground easement costs. 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. Foothill Extension 2B design-build contract re-bidding delayed the anticipated schedule for FY20. For the West Santa Ana Branch Corridor project, the program management support services were lower than anticipated, contributing to the variance for that project. Subregional highway projects experienced approximately $45 million or 7.9% of the variance due to delayed activities or invoices from partner agencies. Remaining variance lies in procurement schedule slippage and invoice timing issues for construction and Highway projects.

- Metro Transit - Operations and Maintenance

Metro Transit - Operations and Maintenance Program delivered 1.5 million actual Revenue Service Hours (RSH), 28.9% below the RSH budgeted. Actual expenditures came to 100.0% of the budget. The $.50 million underrun mainly results from $17.0 million underrun in the Bus program and $15.3 million in the TAP program offset by $31.8 million overrun in the Rail program. The underrun in the Bus program is mostly due to staff leaves. The overrun in Rail program is due to labor related expenditures such as overtime due to absenteeism as well as increased cleaning due to COVID-19. Contract services for security have contributed to the variance as well.

- Metro Transit - State of Good Repair (SGR)

The Metro Transit - State of Good Repair program finished the year at $612.7 million, or 124.4%, of the $492.4 million budget. $114.5 million of the overage is primarily due to planned efforts to deliver new buses per contract specifications for 40’ and 60’ CNG buses. A portion of the total overage is due to a variance within the Willowbrook/Rosa Parks Station Improvements Project and is the result of invoice timing issues. The balance of the variance is primarily associated with the NABI Bus Component Overhaul and New Flyer Bus Midlife projects. The NABI and New Flyer projects encountered significant one-time charges because of special tooling requirements and significant changes in specifications for major components and related subsystems.

- Subsidy Funding Programs

Subsidy programs came in at 92.4% of the budget with an underrun of $106.1 million due to invoice timing from local agencies and delays in drawdowns of regional subsidies.

- Regional Rail

The Regional Rail program is comprised of the subsidy to Metrolink and funding for Metro directed capital projects and studies. Overall, Regional Rail expended $130.7 million of a $178.2 million budget, with an underrun of $47.5 million. Total Metrolink expenditures came in at $96.7 million, an underrun of $14.6 million that is primarily attributable to delays in project delivery and invoicing in Metrolink's Transit Capital activities. Metro directed Regional Rail expenditures came in $32.8 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 $108.3 million, or 79.7%, of the $135.9 million budget. $12.2 million of the $27.6 million variance is attributed to Express Lanes Program. Express Lanes I-10 and I-110 have COVID-19 related challenges which impacted testing and software fixes in the development work for Go-Live, pushing the completion date to late 2020. Installation schedule and associated milestone payments for the Roadside Toll Collection System have been delayed due to COVID-19 and restrictions placed on travel. Caltrans maintenance activity has been temporarily reduced because of staffing availability. In addition, CHP has an invoice timing lag of 3 months and reduced service because of officer availability. Congestion Pricing Program has several documents under review by Caltrans. The other half of the variance is attributed to Freeway Service Patrol (FSP) experiencing delayed procurement of the FSP new operation system and contingency funds not being expended.

- General Planning and Programs

General Planning and Programs ended the year at $124.0 million spent, or 70.1% of the $176.8 million budget. Of the total $52.8 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 $16.4 million due to invoicing delays and schedule postponement caused by COVID-19. $5.3 million of the variance can be attributed to Union Station capital project deferments in Ticket Concourse Restaurant, Parking Lot G - Enhancements, Renovation Basement Drainage System, and Domestic & Fire Water Separate, as well as, delays in necessary City project approvals for the Union Station Master Plan and the Station-wide Tile Replacement project. $8.2 million of the variance is attributed to invoice timing of the Public-Private Partnership (P3) project studies. Sustainability projects have a variance $6.5 million as a result of project delays related to transition in consultants and revisions to task orders. The remaining variance of $16.4 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 $528.0 million at fiscal year-end, $19.9 million below the budgeted amount of $547.8 million. The underrun is a result of lower debt service from refunding the Prop A 2009 bonds, savings in from Prop C 2009-E bonds refunding, revision on amortized costs and no commercial paper being issued during the fiscal year. 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 resulted in lower than anticipated interest payments.

- Oversight, Administration and Benefit Accrual

Expenditures spent for Oversight, Administration and Benefit Accrual are $790.0 million which is 99.3% of the $795.9 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

In response to COVID-19, Metro has taken measures to reassess the activities and programs to better align with the resources available as a result of the current economic constraints. Staff will continuously monitor financial situation and report on the financial performance of FY21 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.