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Metro

November 13, 2018

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER

SUBJECT: FISCAL YEAR 2018 – FINANCIAL REPORT

ISSUE

This report is a summary of Metro's performance for FY18; demonstrating Metro's delivery of safe and reliable transportation services within budget. 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 the report are preliminary figures pending final audit results.

DISCUSSION

A. Summary of Revenues and Expenses

		YTD June 30, 2018			
	Revenues/ Expenses ($ in millions)	Budget	Actual	Under/(Over) Budget	Actuals as % of Budget
1	Sales Tax and Operating Revenues	$ 4,161.3	$ 4,454.3	$ 293.0	107.0%
2	Reimbursement Revenues[1]	$ 2,120.4	$ 1,756.9	$ (363.5)	82.9%
3	Total Expenses/Expeditures	$ 6,281.7	$ 5,945.8	$ 335.9	94.7%
4	**Revenues Over/(Under) Expenses**	$ -	**$ 265.4**	**$ 265.4**	

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

Overall, the Agency spent $5,945.8 million, funded primarily by $4,454.3 million of sales tax and operating revenues. The remaining $1,756.9 million were reimbursements from grant and debt financing. Sales tax and operating revenues came in higher than the budget by $293.0 million, or 107.0%, while reimbursement revenues ended short of budget by $363.5 million due to project schedule and invoice timing. Total expenses of $5,945.8 million came in under the budgeted amount of $6,281.7 million, which resulted in a $335.9 million variance, or 94.7%. The net result led to $265.4 million of revenues in excess of expenses.

B. Summary of Revenues

Overall, total sales tax and operating revenues came in at $4,454.3 million which was $292.9 million higher than budget. Sales Tax, TDA & STA revenues was 5.9% higher than budget, or $117.2 million, mostly due to Sales Tax and TDA revenues. In addition, funding from State legislature, SB1 and State Transit Assistance, came in at $102.9 million which was not budgeted in FY18 by Metro. Reimbursement revenues totaled $1,756.9 million, or 82.9% of the $2,120.4 million budget, with an underrun of $363.6 million.

		YTD June 30, 2018			
	Source ($ in millions)	**Budget**	**Actual**	**Over / (Under) Budget**	**% of Budget**
1	Sales Tax, TDA & STA Revenues				
2	Proposition A	$ 816.0	$ 836.5	$ 20.5	102.5%
3	Proposition C	816.0	836.5	20.5	102.5%
4	Measure R	816.0	836.7	20.7	102.5%
5	Measure M	775.2	827.0	51.8	106.7%
6	Transportation Development Act	408.0	411.7	3.7	100.9%
7	Subtotal Sales Tax & TDA Revenues [1]	3,631.2	3,748.4	117.2	103.2%
8	State Transit Assistance Fund [2]	79.8	102.5	22.7	128.4%
9	SB1 State Transit Assistance Fund [2]	-	48.4	48.4	N/A
10	SB1 State of Good Repair [3]	-	31.8	31.8	N/A
11	**Subtotal Sales Tax, TDA & STA Revenues [1]**	**$ 3,711.0**	**$ 3,931.1**	**$ 220.1**	**105.9%**
12	Operating & Other Revenues				
13	Passenger fares	$ 302.6	$ 294.6	$ (8.0)	97.4%
14	Toll Revenue	63.0	72.9	9.9	115.6%
15	Advertising	25.1	24.7	(0.4)	98.4%
16	Union Station	12.3	14.6	2.3	118.8%
17	Bike Revenue	1.3	1.0	(0.3)	76.9%
18	Parking Unit	2.5	1.0	(1.5)	40.0%
19	Low Carbon Fuel Standard Sales	-	20.5	20.5	N/A
20	Investment Income	2.0	16.6	14.6	830.0%
21	Other Income [4]	41.6	77.4	35.8	186.1%
22	**Subtotal Operating & Other Revenues**	**$ 450.3**	**$ 523.2**	**$ 72.9**	**116.2%**
23	**Total Sales Tax & Operating Revenues**	**$ 4,161.3**	**$ 4,454.3**	**$ 292.9**	**107.0%**
24	**Reimbursement Revenues [5]**	**$ 2,120.4**	**$ 1,756.9**	**$ (363.6)**	**82.9%**
25	**Total Revenues**	**$ 6,281.7**	**$ 6,211.1**	**$ (70.6)**	**98.9%**

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) for the fourth quarter.

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

[3] Actual for SB1 SGR represents amounts released by State Controller's Office for 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 revenues, consisting of Proposition A, Proposition C, Measure R, Measure M as well as TDA revenues, for FY18 came in $117.2 million, 3.2% higher than the reforecasted budget; reflecting higher than expected economic growth for the region.

  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 and changes in fuel price. The information presented for the FY18 reflects the actuals for the year end, which translates into $22.7 million more STA revenue than budgeted.

  Excess of sales tax and STA revenues over budget will be carried over and programmed through the Board Adopted Formula Allocation Procedure (FAP) during the upcoming FY20 budget cycle for the region.

  On April 28, 2017, Governor Brown signed Senate Bill (SB) 1, also known as the Road Repair and Accountability Act of 2017. SB 1 revenues are generated by a $0.12 per gallon increase in the motor vehicle fuel (gasoline) tax, 50% of a $0.20 per gallon increase in the diesel excise tax and increases in vehicle license fees. The fuel excise tax increases began on November 1, 2017, the transportation improvement fee took effect on January 1, 2018, and the zero-emission vehicle registration fee will take effect on July 1, 2020.

  SB1 allocates **formula** funds to transit agencies for two programs: 1) State of Good Repair (SGR) and 2) State Transit Assistance (STA). In FY18, Metro did not budget the revenues for SB1 SGR and SB1 STA. Year-to-date, Metro has received revenues of $48.4 million SB1 STA and $31.8 million SB1 SGR.

- Passenger Fare Revenue

  Passenger fare revenue of $294.6 million is lower than the reforecasted budget by $8.0 million, primarily due to continued boarding loss. The FY18 boardings were 2.1 million below the reforecasted budgeted boardings of 393.0 million. The boarding decline is consistent with the experience of other Southern California Regional operators. Metro Operations staffs are aware of the situation and are working to turn around the trend in future periods by improving route efficiencies and increasing security presence on the system to enhance our customer's experience and attract/retain riders.

- Toll Revenue

  Metro ExpressLanes toll revenue of $72.9 million exceeded the budget by $9.9 million. The variance is the result of better than anticipated patronage of the Metro ExpressLanes. Account enrollment continues to increase with 93,736 new accounts from Q4 FY17 to Q4 FY18. During this time frame, ExpressLanes trip volumes increased by 4.84%. State law requires the net toll revenues generated from the 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 is close to the forecast. The new contract was effective on March 1, 2018.

- Union Station operating revenue is higher than budget by $2.3 million due to better than anticipated parking revenue from LAPD contract and special events, higher common area maintenance and other recoveries.

- Bike share program and bike locker/hub revenue came in lower than expected due to lower than expected usage. Metro staff is in the process of making changes to the program business plan in order to improve revenue generation as outlined in the May 2018 Board Report (2018-0138). Phase I of the new fare structure was rolled out in July 2018. The result will be reflected in FY19 Q1 report.

- The net revenue for parking management program was less than expected by $1.5 million primarily due to three factors: 1) implementation of Green Line locations postponed to July 2018 due to construction of tie ins connecting the Crenshaw/LAX transit project infrastructure with the Green Line. 2) In January 2018, the Board adopted a permanent parking program. It has been implemented only at 15 locations. Once the program has been fully implemented, parking revenues will be back on track. 3) In the City of Los Angeles, the pilot parking program was taxed by the City as a reversal of Metro's tax-exempt status which resulted in reduced parking revenues.

- Low Carbon Fuel Standard (LCFS) Credit Revenue

  The sale of LCFS credit is based on market conditions. In FY18, Metro executed seven direct sales of LCFS credit bringing in $20.1 million of revenue (which were unplanned/unbudgeted). These unplanned sales were timed to take advantage of market conditions favorable to Metro's interests. Starting in FY18, Metro also began to realize user fee revenues of $35 thousand generated by electric vehicle chargers installed at various parking lots/transit hubs. Revenues generated from these programs are reinvested in sustainable activities as previously approved by the Board.

- Investment Income

  Investment income of $16.6 million exceeded the budget by $14.6 million due to higher than anticipated cash balances to be invested.

- Other Income

  Other income of $77.4 million came in higher than the budget by $35.8 million, primarily due to the sale of land located at 6141 Century Boulevard. This transaction was approved by the Board in June 2017 and executed in FY18. The sale of the LACMTA owned property was made to the Los Angeles World Airports ("LAWA") as part of the Airport People Mover Project. The favorable variance is also due to Calendar Year 2017 Federal CNG credits of $17.7 million were recognized in FY18 via retro legislative action (which was after Metro's FY18 budget was adopted). These credits are programmed in the FY19 budget.

- Resources Based On Reimbursement

  The actual reimbursements of capital expenditures from grants, debt financing and prior year carryover for capital ended the year below budget by $363.6 million, or 82.9% of budget. Among the total reimbursements, federal, state and local grants in the amount of $1,026.1 million ended the year higher than the budget by $82.0 million, or 8.7% of budget. Debt financing ended the year below budget by $445.5 million, or 51.2% of budget. These resources are recognized on a reimbursement basis driven by actual capital expenditures billing process. Details of the related expenses can be found in the *"Summary of Expenditures"* section of this report.

C. Summary of Expenditures

Overall, FY18 expenditures totaled $5,945.8 million or 94.7% of the $6,281.7 million budget, representing an underrun of $335.9 million or 5.3% below budget.

		YTD June 30, 2018			
	Program Type ($s in millions)	Budget	Actual	Under/(Over) Budget	Actuals as % of Budget
1	Transportation Infrastructure Development	$1,987.7	$1,667.6	$320.1	83.9%
2	Metro Transit - Operations and Maintenance	1,308.1	1,234.1	73.9	94.3%
3	Metro Transit - SGR & Other Asset Improvements	406.8	342.3	64.5	84.1%
4	Subsidy Funding Programs	1,242.9	1,256.1	(13.2)	101.1%
5	Regional Rail	176.3	132.9	43.5	75.3%
6	Congestion Management	110.5	87.4	23.1	79.1%
7	General Planning & Programs	118.5	82.1	36.5	69.2%
8	Debt Service	383.3	600.6	(217.3)	156.7%
9	Overhead, Oversight, Admin	568.8	568.8	0.1	100.0%
10	**Grand Total**	**$6,281.7**	**$5,945.8**	**$335.9**	**94.7%**

- Transportation Infrastructure Development

The Transportation Infrastructure Development program totaled $1,667.6 million or 83.9% of the $1,987.7 million budget. $302.4 million or 94.5% of the $320.1 million variance is primarily attributable to billing and construction-related activities for Measure R and Measure M transit construction projects. Project expenditures for the Westside Purple Line Extension Section 3 were delayed pending the release of federal funding, which was anticipated for FY18. The Airport Metro Connector Construction project experienced lower than estimated property acquisition costs which contributed to the variance. Tunnel boring for the Westside Purple Line Extension Section 1, initially projected for the end of FY18, will be pushed to the beginning of FY19, resulting in lower than anticipated billings for FY18. The remaining variance is due to Measure M/Measure R planning studies which experienced changes in scope of work and the execution of funding agreements with local agencies.

- Metro Transit - Operations and Maintenance

Metro Transit - Operations and Maintenance Program spent 94.2% of the annual budget, delivering 8.1 million actual Revenue Service Hours (RSH), 2% below the RSH budgeted. Actual Expenses were 94.3% of the budget. The main drivers of the budget underrun are in the elements of System Security, Outsourced Bus Transportation, Compressed Natural Gas (CNG) fuel, Rail Propulsion Power, and Bus Operator Labor. System Security and Outsourced Bus Transportation underruns are due to late submission of vendor invoices. Once these late invoices are accrued and recorded, total expenditures are expected to be near the budgeted amounts.

- Metro Transit - State of Good Repair (SGR)

  The Metro Transit - State of Good Repair Program came in at $64.5 million under budget or 84.1% of budget spent. The variance is largely due to project timing for the following projects: the Emergency Security Operations Project, the P2000 Mid Life Overhaul and the bus replacement project: Bus 40' CNG with El Dorado.

- Subsidy Funding Programs

  Subsidy programs came in at 101.1% of the budget with an overrun of $13.2 million due to higher than estimated sales tax revenues flowing to local agencies and regional transit.

- Regional Rail

  The Regional Rail program includes subsidies to Metrolink and Metro directed capital projects and studies. Overall, Regional Rail spent $132.9 million of the $176.3 million budget with an underrun of $43.5 million. Total Metrolink expenditures came in at $105 million of the $111.9 million budget with an underrun of $7.0 million due to invoice timing for the Metrolink Transit Capital project. Metro directed Regional Rail expenditures came in $36.5 million under budget primarily due to LINK US as well as Rosecrans and Marquardt Grade experiencing project delays. Both Doran St. Grade Separations and Brighton to Roxford Double Track projects were on hold during the period as funding issues were addressed which also contributed to the variance.

- Congestion Management

  The Congestion Management Program spent $87.4 million, or 79.1%, of the $110.5 million budget. The $23.1 million variance includes $10.2 million from Express Lanes due to invoicing delays from Caltrans and from the management (O&M) contract as well as delays in transponder shipments. The Kenneth Hahn Call Box Program has a $6.1 million variance as a result of procuring the RIITs modernization contract. The remaining variance is due to Freeway Service Patrol Project experiencing less than anticipated contingency funds required for FSP Tow Service Contract and delays in awarding a contract for the FSP Operation System. Further, delays in finalizing the funding agreement with the California Highway Patrol (CHP) also added to the variance.

- General Planning and Programs

  The General Planning and Programs ended the year at $82.1 million spent which is 69.2% of the $118.5 million budget. The primary cause of the $36.5 million variance is attributed to invoice timing for Public-Private Partnership (P3) project studies. The remaining variance is due to delays and invoice timing for Parking and System Connectivity Program and Studies projects.

- Debt Service

  The debt principal and interest expenses totaled $600.6 million for the fourth quarter, $217.3 million over the budgeted amount of $383.3 million. The overrun is due to $123.7 million principal payoff of Prop A commercial paper and refunding and defeasance of Prop A 2011-B and Prop A 2008-A bonds which had not been budgeted in FY18. These payments do not have any impact on Metro's cash flow since they were paid from the bond proceeds of Prop A 2017 and Prop C 2018, issued in October 2017 and April 2018, respectively, per Board approval. Governmental Accounting requirements recognize these payments as expenses in FY18.

- Oversight and Administration

  Oversight and Administration spent $568.8 million which is 100% of the $568.8 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

Staff will continue to monitor the financial performance of the Agency in the next fiscal year and will provide quarterly financial and performance updates to the Board.