Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

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FINANCE, BUDGET AND AUDIT COMMITTEE
JULY 18, 2018

SUBJECT: FISCAL YEAR 2018 - THIRD QUARTER YEAR-TO-DATE (YTD) FINANCIAL AND PERFORMANCE REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Fiscal Year 2018 (FY18) Third Quarter Year-To-Date Financial and Performance Report.

ISSUE

This report summarizes Metro's performance for FY18 through the third quarter ending March 31, 2018, demonstrating Metro's ability to deliver safe and reliable transportation services within budget. The budgeted numbers are within the Board authorized amounts and bounded by the legally controlled fund levels.

On April 28, 2017, Governor Brown signed Senate Bill (SB) 1, also known as the Road Repair and Accountability Act of 2017, whose revenues are generated from an increase in diesel excise and sales tax, gas tax, vehicle license fees, and transportation improvement fees. This third quarter of FY18 is when Metro begins to receive SB1 revenues which will help maintain Metro's bus, rail, and technology infrastructure in a state of good repair and provide an improved customer experience.

This report will first cover Metro's financial performance and provide an update on the agency wide performance management system which links four measurements of performance including KPI attainment, expense budget spent, fulltime employee (FTE) variance and capital project milestone attainment which are correlated to the agency goals. This performance management system acts as a tool for the agency to monitor performance, strengthen fiscal discipline and ensure accountability.

DISCUSSION

A. Summary of Revenues and Expenses

		YTD March 31, 2018			
	Revenues / Expenses ($ in millions)	**Budget**	**Actual**	**Variance**	**% of Budget**
1	Sales Tax and Operating Revenues	$ 3,106.2	$ 3,156.9	$ 50.7	101.6%
2	Reimbursement Revenues [1]	1,428.8	855.6	(573.2)	59.9%
3	Total Expenses/Expenditures	4,535.0	3,991.3	543.7	88.0%
4	Revenues Over/(Under) Expenses [2]	**$ -**	**$ 21.2**	**$ 21.2**	

[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 $3,991.3 million, funded primarily by $3,156.9 million which came from sales tax and operating revenues and the remaining $855.6 million from resources based on reimbursements from grant and debt financing. Sales tax and operating revenues came in higher than the budget by $50.7 million while reimbursement revenues ended short of budget by $573.2 million. Total expenses of $3,991.3 million came in under the budgeted amount of $4,535.0 million resulting in a $543.7 million variance. The net result leads to $21.2 million of revenues in excess of expenses.

B. Summary of Revenues

Overall, the third quarter total sales tax and operating revenues came in at $3,156.9 million which is $50.7 million higher than budget. Of the $50.7 million variance, $48.0 million is from Operating and Other Revenues which are 14.2% higher than budget primarily attributed to Low Carbon Fuel Standard Sales from earlier in the year and Other Income from sale of land. Reimbursement revenues totaled $855.6 million or 59.9% of the $1,428.8 million budget, representing a variance under budget of $573.2 million.

		YTD March 31, 2018			
	Source ($ in millions)	**Budget**	**Actual**	**Over / (Under) Budget**	**% of Budget**
1	Sales Tax, TDA & STA Revenues				
2	Proposition A	$ 612.0	$ 592.5	$ (19.5)	96.8%
3	Proposition C	612.0	592.5	(19.5)	96.8%
4	Measure R	612.0	592.7	(19.3)	96.8%
5	Measure M	581.4	579.3	(2.1)	99.6%
6	Transportation Development Act	306.0	289.9	(16.1)	94.7%
7	Subtotal Sales Tax & TDA Revenues [1]	2,723.4	2,646.9	(76.5)	97.2%
8	State Transit Assistance Fund [2]	45.0	64.6	19.6	143.5%
9	SB1 State Transit Assistance Fund [2]	-	38.5	38.5	N/A
10	SB1 State of Good Repair [3]	-	21.2	21.2	N/A
11	**Subtotal Sales Tax, TDA & STA Revenues [1]**	**$ 2,768.4**	**$ 2,771.1**	**$ 2.7**	**100.1%**
12	Operating & Other Revenues				
13	Passenger fares	$ 227.0	$ 222.2	$ (4.8)	97.9%
14	Toll Revenue	47.3	53.5	6.2	113.0%
15	Advertising	18.8	20.0	1.2	106.4%
16	Union Station	9.2	10.6	1.4	115.3%
17	Bike Revenue	1.0	0.7	(0.3)	70.0%
18	Parking Unit	1.9	0.7	(1.2)	36.8%
19	Low Carbon Fuel Standard Sales	-	20.1	20.1	N/A
20	Investment Income	1.5	10.6	9.1	706.7%
21	Other Income [4]	31.2	47.5	16.3	152.2%
22	**Subtotal Operating & Other Revenues**	**$ 337.8**	**$ 385.8**	**$ 48.0**	**114.2%**
23	**Total Sales Tax & Operating Revenues**	**$ 3,106.2**	**$ 3,156.9**	**$ 50.7**	**101.6%**
24	**Reimbursement Revenues [5]**	**$ 1,428.8**	**$ 855.6**	**$ (573.2)**	**59.9%**
25	**Total Revenues**	**$ 4,535.0**	**$ 4,012.5**	**$ (522.5)**	**88.5%**

[1] Actual Proposition A, Proposition C, Measure R, Measure M and TDA Revenues represent advanced amounts released by the State Board of Equalization for the nine months and third quarter clean up amount which publishes on May 16, 2018.

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

[3] Actual for SB1 SGR represents amounts released by State Controller's Office for the third 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 the third quarter of FY18 came in $76.6 million, 2.8% lower than the reforecasted budget. The California Department of Tax and Fee Administration (CDTFA) transitioned to a new Centralized Revenue Opportunity System (CROS) and due to the CDTFA's change in tax return data processing, not all of Q3 returns were processed. The CDTFA has advised Metro there will be a revision for Q3 expected in June. This revision should bring us close to our budgeted YTD figure.

  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 and price of diesel fuel. The information presented for the FY18 third quarter year-to-date reflects the actuals for the first two quarters plus the estimate for the third quarter which is $19.6 million more STA revenue than expected.

  On April 28, 2017, Governor Brown signed Senate Bill (SB)1, also known as the Road Repair and Accountability Act of 2017. SB1 revenues are generated by a $0.12 per gallon increase in the motor vehicle fuel (gasoline) tax, a $0.20 per gallon increase in the diesel excise tax, a 4% diesel sales tax, as well as increases in vehicle license and transportation improvement fees. The diesel sales tax increases began on November 1, 2017 and the transportation improvement fee took effect on January 1, 2018 which generated SB1 revenue Metro received during Q3.

  SB1 allocates formula funds to transit agencies for two programs: 1) State of Good Repair (SGR) and 2) State Transit Assistance (STA). Due to timing of the budget adoption and the passing of SB1, Metro did not anticipate the revenues for SB1 SGR and SB1 STA in FY18. Year-to-date, Metro has received revenues of $38.5 million SB1 STA and $21.2 million SB1 SGR.

- Passenger Fare Revenue

  Passenger fare revenue of $222.2 million is lower than the reforecasted budget by $4.8 million, primarily due to continued lower than expected boardings. The third quarter boardings were half million below the reforecasted budgeted boardings of 294.8 million. The boarding decline is consistent with other Southern California Regional operators. Metro Operations Service Planning staff is aware of the situation and 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 $53.5 million exceeded the budget by $6.2 million. The variance is the result of better than anticipated patronage of the Metro ExpressLanes. Account enrollment continues to increase with 113,259 new accounts from Q3 FY 17 to Q3 FY 18. During this time frame, ExpressLanes trip volumes increased by 3.1%. 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 realized more revenue than budgeted by $1.2 million as a result of the new contract effective on March 1st, 2018.

- Union Station operating revenue is higher than budget by $1.4 million due to better than anticipated parking revenue from LAPD contract and special events, higher Common Area Maintenance (CAM) 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).

- The net revenue for parking management program was less than expected by $1.2 million primarily due to two factors:

  1) The implementation of Green Line locations are postponed to July 2018 due to construction of tie ins connecting the Crenshaw/LAX transit project infrastructure with the Green Line.

  2) The pilot parking program, adopted by the Board in January 2018, has been implemented at 11 locations. Once the program is fully implemented, revenues will be back on track.

- Low Carbon Fuel Standard (LCFS) Credit Revenue

  The sale of LCFS credit is based on market conditions. $20.1 million of revenues were generated in early FY18 through the execution of seven direct sales of LCFS credit. These unplanned sales were timed to take advantage of market conditions favorable to Metro's interests. Moreover, Metro began to realize user fee revenues of $35,000 generated by electric vehicle chargers installed at various parking lots/transit hubs. Revenues generated from these programs are reinvested in sustainable activities as approved by the Board.

- Investment Income

  Investment income of $10.6 million exceeded the budget by $9.1 million. As a result of slower than expected draw-downs of invested cash used to pay for capital projects, call for projects, and subsidies during the period, the unused funds were reinvested to generate income as per Board approved investment policy.

- Other Income

Other income of $47.5 million came in higher than the budget by $16.3 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.

- Resources Based On Reimbursement

The actual reimbursements of capital expenditures from grants, debt financing and prior year carryover for capital ended the year-to-date below budget by $573.2 million, or 59.9% of budget. These resources are recognized on a reimbursement basis driven by actual capital expenditures. Details of the related expenses can be found in the *"Summary of Expenditures"* section of this report.

C. Summary of Expenditures

Overall, the third quarter year-to-date FY18 expenditures totaled $3,991.3 million or 88% of the $4,535.0 million budget, representing an underrun of $543.7 million or 12% below budget.

		YTD March 31, 2018			
	Program Type ($s in millions)	**Budget**	**Actual**	**Under/(Over) Budget**	**Actuals as % of Budget**
1	Transportation Infrastructure Development	$1,336.9	$989.1	$347.8	74.0%
2	Metro Transit-Operations and Maintenance	1,218.0	1,100.9	117.0	90.4%
3	Metro Transit-SGR & Other Asset Improvements	364.1	273.8	90.3	75.2%
4	Subsidy Funding Programs	933.4	906.1	27.3	97.1%
5	Regional Rail	134.4	96.6	37.8	71.9%
6	Congestion Management	74.8	63.5	11.3	84.9%
7	General Planning & Programs	83.7	50.9	32.7	60.9%
8	Debt Service	289.4	423.0	(133.6)	146.2%
9	Oversight & Admin	100.4	87.3	13.1	87.0%
10	**Grand Total**	**$4,535.0**	**$3,991.3**	**$543.7**	**88.0%**

- Transportation Infrastructure Development

The Transportation Infrastructure Development program totaled $989.1 million or 74% of the $1,336.9 million budget. $289.5 million of the $347.8 million variance is primarily attributable to delays in billing for Measure R and Measure M transit construction projects. Real estate procurement is in negotiations for the Airport Metro Connector Construction project with an anticipated escrow in the next quarter. The Regional Connector project programmed light rail vehicles and construction activities ahead of schedule. Finally, the Division 20 Portal Widening Turnback project is experiencing a delay in escrow due to an updated EIR and invoice timing.

- Metro Transit - Operations and Maintenance

The Metro Transit - The Operations and Maintenance Program delivered 6.1 million actual Revenue Service Hours (RSH), 2% below the RSH budget. Expenses came to 90.4% of the budget. The $117 million overall variance is partly due to the underspending of the Bus program by $71.7 million, or 91.2% of its budget, and the underspending of the Rail program by $44.2 million, or 88.2% of its budget. For the Bus and Rail program, the primary cause is due to the high level of Bus Operator and Service Attendant vacancies, followed by the delay of invoicing for Contract Services, Professional Services, and Purchased Transportation.

- Metro Transit - State of Good Repair (SGR)

  The Metro Transit - State of Good Repair Program finished the third quarter at $90.3 million under budget or 75.2% of budget spent. The variance is due to timing differences in Q3 for the Red Line Operating Facilities Project, the Emergency Security Operations Project, the P2000 Mid Life Overhaul, the Heavy Rail Vehicle Midlife, and Willow Rosa Parks Station Improvements projects.

- Subsidy Funding Programs

  Subsidy programs came in at 97.1% of the budget with an underrun of $27.3 million due to invoice delays on federal grants and delays in drawdowns of regional subsidies.

- Regional Rail

  The Regional Rail program includes subsidies to Metrolink and Metro directed capital projects and studies. Overall, Regional Rail spent $96.6 million of the $134.4 million budget with an underrun of $37.8 million. Total Metrolink expenditures came in at $78.7 million of the $86.4 million budget with an underrun of $7.7 million due to invoice timing for the Metrolink Transit Capital project and are anticipated to balance by fiscal year end. Metro directed regional rail expenditures came in $30.0 million under their budget of $47.9 million. An increase in expenditures is expected during the 4th quarter.

- Congestion Management

  The Congestion Management Program spent $63.5 million which is 84.9% of the $74.8 million budget. The variance of the $11.3 million includes $5.8 million from the Freeway Service Patrol project experiencing delays in awarding contracts for its operation system and finalizing the funding agreement with the California Highway Patrol (CHP). The Kenneth Hahn Call Box Program has a $2.2 million variance due to contract issues with the RIITS modernization project. The remaining $3.3 million variance is primarily due to invoice timing of the management (O&M) contract and from Caltrans, in addition to various continuing congestion pricing studies and public outreach that will continue to the next quarter. Rideshare services is also experiencing invoice timing which contributes to the variance.

- General Planning and Programs

  The General Planning and Programs ended the second quarter at $50.9 million spent which is 60.9% of the $83.7 million budget. The primary cause of the variance is attributed to invoice timing for Public-Private Partnership (P3) projects which new task orders have been issued over the last six months and expenditures are expected to be caught up by the end of the fiscal year. Other variance causes include: schedule delays in Bike Share operations and construction of the Culver City Bike Hub, and invoice timing for parking refurbishment projects.

However, variances in both the Bicycle Program and Union Station Fire Life Safety (FLS) project are expected to diminish in Q4 due to the Bike Month events scheduled in May 2018 and Union Station accelerating the LED project and working on Request for Interest and Qualifications (RFIQ) evaluation for the Americans with Disabilities Act (ADA) phase, respectively.

- Debt Service

The debt principal and interest expenses totaled $423 million for the third quarter, $133.6 million over the budgeted amount of $289.4 million. The overrun is primarily due to $123.7 million principal payoff of Prop A commercial paper and $11.7 million interest payment to refund Prop A 2011-B 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-new money issued in October 2017 per Board approval. Governmental Accounting requirements recognize these payments as expenses in FY18.

- Oversight and Administration

Oversight and Administration spent $87.3 million of the $100.4 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.

D. Performance Monitoring

The performance management system is in the introductory phase and is utilized as a tool for the agency to monitor performance and fiscal accountability by linking four measurements of performance to department priorities which are related to the agency goals to deliver an efficient and effective transportation system. These four measurements are budget/fulltime employee (FTE) variance, Key Performance Indicators (KPI) target achievement, capital project delivery, as well as cost savings and new revenue generation through the risk allocation matrix (RAM). In addition, budget variance procedures and processes are enforced on a quarterly basis to ensure efficient allocation of resources to support the agency goals.

The four areas of measurement are color coded based on their performance represented in percentages. The colors are green for 90% and above which is "good", yellow for 70-89.99% which is "satisfactory" and red for below 70% which is "poor." As of Q3, as seen in Figure 1, all four areas of measurement are in yellow which is satisfactory. As part of monitoring efforts, action items detailing department plans to meet their targets have been collected for all underperforming KPIs and project milestones.

Figure 1. Summary of KPI Attainment, Expense Budget Spend, and FTE Vacancy (Non-Contract) and Capital Project Milestone Attainment.

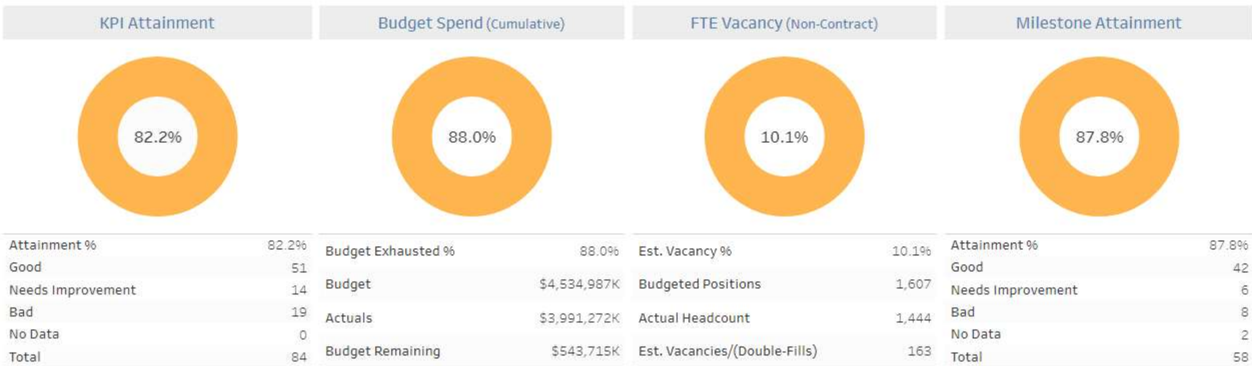
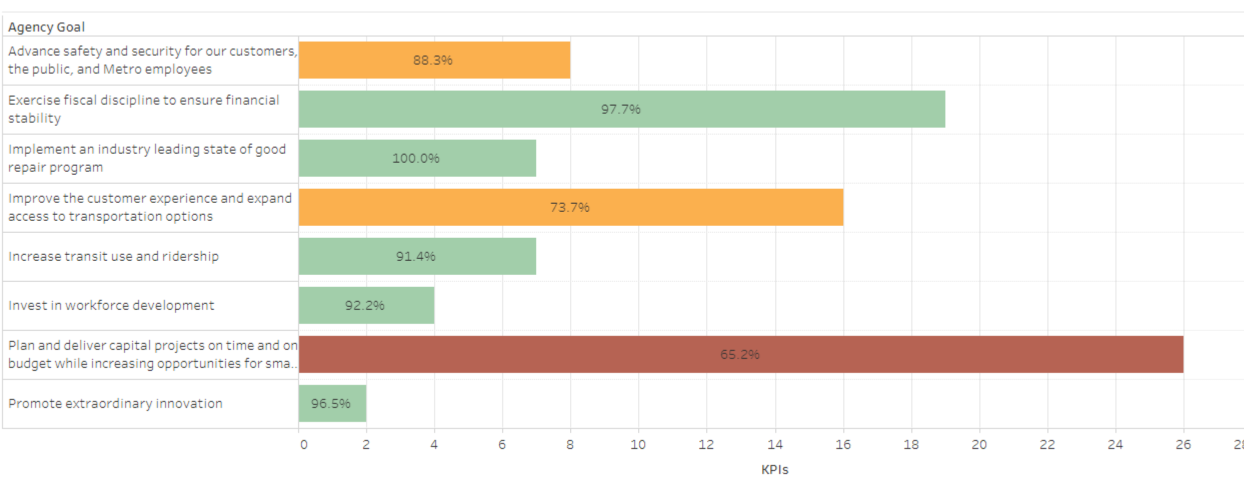


Figure 2 shows the number of KPIs associated with each of the Agency's goals and their percentage attainment. The agency goal to "plan and deliver capital projects on time and on budget while increasing opportunities for small business development and innovation" is at 65.2%, an improvement from second quarter's attainment of 51.6%. As part of an on-going effort to improve the performance management system, staff will continue to align and refine the performance metrics to budgetary variances.

Figure 2. Summary of Agency Goals.



NEXT STEPS

Staff will continue to monitor the financial performance of the agency through FY18 and will provide quarterly updates to the Board.

The performance monitoring system is in its inception and staff will look to enhance the system. In the fourth quarter, staff will be confirming the effectiveness of the action items collected this quarter thereby ensuring accountability. Department priorities will also be collected for FY19 which will further refine and better align KPIs with the agency goals.

Prepared by: Jenny Wang, Principal Transportation Planner, (213) 922-7306

Linda Wang, Senior Budget Manager, (213) 922-2464

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088

Phillip A. Washington
Chief Executive Officer